

**PASINEX RESOURCES LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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## 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 judgements 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 judgement 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)

*Steven Williams*  
CEO and Director

(signed)

*Wendy Kaufman*  
Chief Financial Officer

# Independent Auditor's Report

To the Shareholders of Pasinex Resources Limited:

## Opinion

We have audited the consolidated financial statements of Pasinex Resources Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates the Company reported a net loss of \$8,429,326 and negative cash flows from operations of \$1,006,264 during the year ended December 31, 2018 and, as of that date, the Company had a deficit in the amount of \$9,634,228 and the Company's current liabilities exceeded its current assets by \$915,466. As stated in Note 2(b), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Isabella Lee.

Mississauga, Ontario

April 30, 2019

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

**MNP**

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

	As at December 31, 2018	As at December 31, 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 218,623	\$ 741,727
Other receivables	24,358	20,199
Due from Horzum AS	97,101	-
Prepaid expenses and deposits	58,674	92,273
<b>Total current assets</b>	<b>398,756</b>	<b>854,199</b>
<b>Non-current assets</b>		
Equipment	23,854	26,134
Value added tax receivable	98,724	128,768
Investment in Horzum AS (note 5)	-	8,045,296
Exploration and evaluation assets (note 6)	1,759,459	2,568,423
<b>Total non-current assets</b>	<b>1,882,037</b>	<b>10,768,621</b>
<b>Total assets</b>	<b>\$ 2,280,793</b>	<b>\$ 11,622,820</b>
<b>Shareholders' equity and liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	\$ 476,949	\$ 207,826
Due to related parties (note 14)	88,911	27,797
Shareholder loans (notes 8 and 14)	748,362	-
<b>Total liabilities</b>	<b>1,314,222</b>	<b>235,623</b>
<b>Shareholders' equity</b>		
Share capital (note 9)	12,882,506	12,618,506
Reserves	1,730,617	1,618,697
Deficit	(9,634,228)	(1,204,902)
Accumulated other comprehensive loss	(4,012,324)	(1,645,104)
<b>Total shareholders' equity</b>	<b>966,571</b>	<b>11,387,197</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,280,793</b>	<b>\$ 11,622,820</b>

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

**Approved on behalf of the Board:**

"Steven Williams" Director

"Victor Wells" Director

# Pasinex Resources Limited

## Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (Expressed in Canadian Dollars)

	Year Ended December 31,	
	2018	2017
<b>Equity (loss) gain from Horzum AS (note 5)</b>	<b>\$ (4,098,639)</b>	<b>\$ 8,153,698</b>
<b>Expenses</b>		
Impairment charge (note 6(b))	1,686,600	-
Exploration costs	689,636	77,649
General and administration costs (note 13)	1,932,793	1,920,124
Share-based payments (notes 10 and 14)	111,920	363,980
	<b>(4,420,949)</b>	<b>(2,361,753)</b>
<b>Other income</b>		
Other income (note 8)	28,218	38,004
Foreign exchange gain	62,044	4,155
	<b>90,262</b>	<b>42,159</b>
<b>Net income (loss) for the year</b>	<b>(8,429,326)</b>	<b>5,834,104</b>
<b>Other comprehensive loss</b>		
<b>Item that will be reclassified subsequently to profit and loss:</b>		
Currency translation adjustment (note 12)	(2,367,220)	(973,628)
<b>Total comprehensive income (loss) for the year</b>	<b>\$(10,796,546)</b>	<b>\$ 4,860,476</b>
<b>Net income (loss) per share - basic (note 11)</b>	<b>\$ (0.06)</b>	<b>\$ 0.04</b>
<b>Net income (loss) per share - diluted (note 11)</b>	<b>\$ (0.06)</b>	<b>\$ 0.04</b>
<b>Weighted average number of shares outstanding - basic (note 11)</b>	<b>142,823,411</b>	<b>133,888,679</b>
<b>Weighted average number of shares outstanding - diluted (note 11)</b>	<b>142,823,411</b>	<b>135,231,058</b>

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,	
	2018	2017
<b>Operating activities</b>		
Net income (loss) for the year	\$ (8,429,326)	\$ 5,834,104
Dividend from Horzum AS	1,523,538	1,183,215
Adjustments for items not involving cash:		
Impairment charge	1,686,600	-
Share-based payments	111,920	363,980
Equity loss (gain) from Horzum AS	4,098,639	(8,153,698)
Other	8,008	7,294
Changes in non-cash working capital items:		
Prepaid expenses and deposits	25,736	(40,485)
Accounts payable and accrued liabilities	80,149	(3,424)
Due to (from) joint venture	(84,183)	(25,605)
Due to (from) related parties	(24,435)	(32,455)
Other	(2,910)	(46,608)
<b>Net cash used in operating activities</b>	<b>(1,006,264)</b>	<b>(913,682)</b>
<b>Investing activities</b>		
Exploration and evaluation assets (note 6)	(314,830)	(466,176)
Equipment acquisition	(10,146)	(19,340)
Proceeds from sale of marketable securities	-	11,068
<b>Net cash used in investing activities</b>	<b>(324,976)</b>	<b>(474,448)</b>
<b>Financing activities</b>		
Cash received from shareholder loans (note 8)	745,000	-
Issuance of shares	-	1,835,554
<b>Net cash provided by financing activities</b>	<b>745,000</b>	<b>1,835,554</b>
<b>Net change in cash</b>	<b>(586,240)</b>	<b>447,424</b>
<b>Effect of foreign currencies on cash</b>	<b>63,136</b>	<b>(17,655)</b>
<b>Cash, beginning of year</b>	<b>741,727</b>	<b>311,958</b>
<b>Cash, end of year</b>	<b>\$ 218,623</b>	<b>\$ 741,727</b>
<b>Supplemental disclosure</b>		
Shares issued for property acquisition (note 6)	\$ 264,000	\$ 544,216

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 9)	Share Capital (note 9)	Reserves	Deficit	Accumulated Other Comprehensive Loss (note 12)	Total
<b>Balance, December 31, 2016</b>	<b>121,262,250</b>	<b>\$ 10,219,119</b>	<b>\$ 1,274,334</b>	<b>\$(7,039,006)</b>	<b>\$ (671,476)</b>	<b>\$ 3,782,971</b>
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	-	-	363,980	-	-	363,980
Currency translation adjustment (note 12)	-	-	-	-	(973,628)	(973,628)
Net income for the year	-	-	-	5,834,104	-	5,834,104
<b>Balance, December 31, 2017</b>	<b>142,154,371</b>	<b>12,618,506</b>	<b>1,618,697</b>	<b>(1,204,902)</b>	<b>(1,645,104)</b>	<b>11,387,197</b>
Issuance of shares	2,200,000	264,000	-	-	-	264,000
Share-based payments	-	-	111,920	-	-	111,920
Currency translation adjustment (note 12)	-	-	-	-	(2,367,220)	(2,367,220)
Loss for the year	-	-	-	(8,429,326)	-	(8,429,326)
<b>Balance, December 31, 2018</b>	<b>144,354,371</b>	<b>\$ 12,882,506</b>	<b>\$ 1,730,617</b>	<b>\$ (9,634,228)</b>	<b>\$ (4,012,324)</b>	<b>\$ 966,571</b>

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



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# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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### 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. 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 (formerly named Gunman) high grade zinc exploration project in Nevada ("Spur Zinc Project").

These consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on April 30, 2019.

### 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, 2018, the Company has a net equity deficit of \$9,634,228 (2017 – \$1,204,902) and has a working capital deficiency position of \$915,466 (2017 – positive working capital of \$618,576), and had a net loss of \$8,429,326 (2017 – net income of \$5,834,104) and negative cash flows from operations of \$1,006,264 (2017 – \$913,682) 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 relies on dividends from Horzum AS to fund its spending. Based on the 2019 production forecast for Pinargozu and the sale of inventory on hand at January 1, 2019 the Company expects there to be adequate cash flow to fund Horzum AS as well as non-discretionary spending at Pasinex for at least the next twelve months. Drilling will continue through 2019 at Pinargozu to find a parallel oxide system in an effort to increase 2019 production. The Company is also working with Akmetal to resolve the collectability of the trade receivable owing from them to Horzum AS. At December 31, 2018 the receivable owing from Akmetal to Horzum AS was \$27 million. Although accounting principles required Pasinex to take a full impairment of the receivable (see Note 5(a)), management is vigorously attempting to find a resolution and collect the funds. Receipt of the trade receivables would provide significant cash flow to Pasinex through additional dividends.

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## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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#### 2. Basis of presentation (continued)

##### (b) Basis of measurement and going concern (continued)

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. There can be no assurance that the Company will be able to generate sufficient dividends from Horzum AS nor be able to generate funds from other sources.

Accordingly, these conditions represent a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

#### 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:

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	Location	Nature of Operation	Interest	
			2018	2017
Pasinex Arama ve Madencilik AS ("Pasinex Arama")	Turkey	Mineral exploration	100%	100%
Pasinex Resources Nevada Limited ("Pasinex Nevada") as of September 2017	United States	Mineral exploration	100%	100%

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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:

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	Location	Nature of Operation	Interest	
			2018	2017
Horzum AS	Turkey	Mining	50%	50%

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## **Pasinex Resources Limited**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2018 and 2017**

**(Expressed in Canadian Dollars, unless otherwise indicated)**

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#### **3. Significant accounting policies (continued)**

##### **(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 comprehensive income (loss) is included in the Company's consolidated statements of income (loss) and comprehensive income (loss).

##### **(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 consolidated statement of financial position 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 (loss) and comprehensive income (loss).

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.

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# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

#### (d) Revenue recognition

Revenue, included in the equity gain (loss) of the Joint Venture, includes the sale of all direct shipping ore.

On January 1, 2018 the Company adopted IFRS 15, "Revenue from Contracts with Customers", on a modified retrospective basis and concluded that there were no significant changes in the accounting for revenues as a result of the transitions to IFRS 15 and therefore no adjustment to retained earnings was required upon adoption of IFRS 15.

Revenue from contracts with customers is recognized when a customer obtains control of the promised asset and Horzum AS satisfies its performance obligation. Revenue is allocated to each performance obligation. Horzum AS considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the Company expects to be entitled to in exchange for the transferring of promised goods.

Horzum AS satisfies its performance obligations for its sales per specified contract terms which are generally upon shipment or upon delivery. Revenue from sales is recorded based upon forward market prices of the expected final sales price date or as set with the customer upon shipment or upon delivery. The sales price is 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 with the buyer.

In 2017, there was uncertainty on final pricing on certain sales contracts therefore revenue was calculated on the sale of ore based on a multiplier as described above, but using a price below LME. Variations between the price recorded on the date of initial revenue recognition and the final price received were 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.

#### (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

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

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# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

#### (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 (loss) and comprehensive income (loss) 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

Effective January 1, 2018, the Company adopted *IFRS 9, Financial Instruments* ("IFRS 9"), which supersedes IAS 39, *Financial Instruments: recognition and measurement* (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no impact to the Company's consolidated financial statements.

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

Below is a summary showing the classification and measurement bases of the Company's financial instruments as at January 1, 2018 as a result of adopting IFRS 9 (along with comparison to IAS 39).

<b>Classification</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Cash	FVTPL	FVTPL
Other receivables (excluding HST and VAT)	Loans and receivables (amortized cost)	Amortized cost
Due from Horzum AS	Loans and receivables (amortized cost)	Amortized cost
Accounts payable and accrued liabilities (excluding HST and VAT)	Other financial liabilities (amortized cost)	Amortized cost
Shareholder loans	Other financial liabilities (amortized cost)	Amortized cost
Due to related parties	Other financial liabilities (amortized cost)	Amortized cost

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# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

#### (h) Financial instruments (continued)

##### Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

- Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in the consolidated statements of income (loss) and comprehensive income (loss). The Company's cash is classified as financial assets and measured at FVTPL.

- Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest". The Company's other receivables (excluding HST and VAT) and due from Horzum AS are classified as financial assets and measured at amortized cost.

##### Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

- Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Company's accounts payable and accrued liabilities (excluding HST and VAT), shareholder loans and due from related parties do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

##### Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

##### Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the consolidated statements of income (loss) and comprehensive income (loss). Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

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## **Pasinex Resources Limited**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2018 and 2017**

**(Expressed in Canadian Dollars, unless otherwise indicated)**

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#### **3. Significant accounting policies (continued)**

##### **(h) Financial instruments (continued)**

###### **Derecognition**

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

###### **Expected credit loss impairment model**

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The expected credit loss is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive on a discounted basis. Expected credit losses are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for default events that are possible within the next 12 months. For credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure.

The Company assumes that the credit risk on a financial asset classified at amortized cost has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

Outstanding balances for related party trade receivables are un-secured and settlement occurs in cash. There have been no guarantees received for any related party receivable. An assessment of the expected credit losses relating to the related party receivable is undertaken upon initial recognition and each reporting period by examining the financial position of the related party and applying the expected credit loss impairment model.

The adoption of the expected credit loss impairment model had no impact on the Company's financial statements as at January 1, 2018.

##### **(i) Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of income (loss) and comprehensive income (loss) 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 tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in the consolidated statement of income (loss) and comprehensive income (loss) or in equity depending on the item to which the adjustment relates.

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## **Pasinex Resources Limited**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2018 and 2017**

**(Expressed in Canadian Dollars, unless otherwise indicated)**

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#### **3. Significant accounting policies (continued)**

##### **(i) Income taxes (continued)**

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.

Provisions for mine closure and restoration are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include such costs as dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted using a pre-tax rate and the accretion is included in finance costs.

Restoration activities will occur primarily upon closure of a mine but can occur from time to time throughout the life of the mine. As restoration projects are undertaken, their costs are charged against the provision as the costs are incurred.

##### **(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.

##### **(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.



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# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

#### (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 (loss) and comprehensive income (loss).

#### (p) Earnings (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.

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## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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#### 3. Significant accounting policies (continued)

##### (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 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, together with a new right-of-use asset. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company does not expect a material change to its consolidated financial statements.

#### 4. Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, 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) 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.

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# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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### 4. Critical accounting judgements and estimates (continued)

#### (a) Accounting judgement (continued)

##### (iii) Joint arrangement

Based on the terms of the Shareholders' Agreement between Pasinex Arama and 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 Company has the rights to the net assets, however other facts and circumstances may suggest the Company does not have joint control of certain assets and liabilities. As a result, Horzum AS is a joint venture.

##### (iv) Going concern

Significant judgements 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.

##### (v) 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, 2018, the Company has not recognized any deferred income tax assets.

#### (b) Use of estimates

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

##### (i) Impairment of trade receivables

Expected credit losses on trade receivables requires the use of estimates and assumptions, including amongst others, historical default rates, forecast economic conditions, assessment of customer and related party financial condition and discount rates. The estimates and assumptions are subject to risk and uncertainty; hence, the Company's assessment of expected credit loss and forecast of economic conditions may not be representative of the customer's actual default in the future, which may impact the recoverable amount of the assets.

##### (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 consolidated statements of income (loss) and comprehensive income (loss).

# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

### 4. Critical accounting judgements and estimates (continued)

#### (b) Use of estimates (continued)

##### (iii) 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.

##### (iv) 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.

### 5. 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 the Pinargozu mine in Turkey. 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.

As at December 31,	2018	2017
<b>Opening balance</b>	<b>\$ 8,045,296</b>	<b>\$ 1,901,589</b>
Equity (loss) gain from Horzum AS	(5,030,340)	8,153,698
Add back loss in excess of investment	931,701	-
Dividend received from Horzum AS	(1,523,538)	(1,183,215)
Foreign exchange difference included in other accumulated comprehensive loss	(2,423,119)	(826,776)
<b>Closing balance</b>	<b>\$ -</b>	<b>\$ 8,045,296</b>

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, of which Pasinex's share was TRY 20 million (\$5.1 million). As of December 31, 2018, the Company had received \$1,523,538 (TRY 6.0 million). The dividend receivable is a TRY based obligation and as such will be subject to variations from foreign exchange fluctuations. Due to the uncertainty of collection of the remaining dividend from Horzum AS, Pasinex has not recognized the dividend receivable as at December 31, 2018 and will recognize the dividend in the period in which it is paid. In 2017, a dividend of TRY 7.1 million (\$1,183,215) was declared and paid by Horzum AS to its shareholders, of which Pasinex received half.

# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

### 5. Investment in Horzum AS (continued)

#### 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

<i>(100% basis Canadian dollars)</i>	As at December 31, 2018	As at December 31, 2017
<b>Current assets</b>		
Cash and prepaid expenses	\$ 9,079	\$ 35,172
Loan receivable – Akmetal (note 5(a))	14,859,606	1,500,978
Trade receivables – Akmetal (note 5(a))	12,580,043	4,574,872
Less - discount and allowance on Akmetal receivables (note 5(a))	(27,439,649)	-
Trade receivables – other	538,393	8,772
Other receivables	361,101	503,817
Inventories	1,934,247	2,049,268
Other current assets	-	44,458
<b>Total current assets</b>	<b>2,842,820</b>	<b>8,717,337</b>
<b>Non-current assets</b>		
Loan receivable - Akmetal (note 5(a))	-	12,015,408
Plant and equipment	861,690	966,904
Deferred taxes	901,600	282,253
Other non-current assets	254,332	286,753
<b>Total non-current assets</b>	<b>2,017,622</b>	<b>13,551,318</b>
<b>Total assets</b>	<b>\$ 4,860,442</b>	<b>\$ 22,268,655</b>
<b>Current liabilities</b>		
Trade payable and other current liabilities (note 5(e))	\$ 6,247,953	\$ 4,102,539
Amounts due to shareholders and related parties (note 5(b))	3,970,164	152,980
Income taxes payable	3,565,426	1,825,290
<b>Total current liabilities</b>	<b>13,783,543</b>	<b>6,080,809</b>
<b>Non-current liabilities</b>		
Employee benefits and other liabilities	141,813	97,254
<b>Equity</b>		
Share capital	237,400	237,400
Surplus (deficit)	(3,559,220)	18,001,460
Foreign exchange difference	(5,743,094)	(2,148,268)
<b>Total liabilities and equity</b>	<b>\$ 4,860,442</b>	<b>\$ 22,268,655</b>
Pasinex ownership interest	50 %	50 %
Net assets (equity) from above	\$ (9,064,914)	\$ 16,090,592
Pasinex ownership interest in Horzum AS	\$ (4,532,457)	\$ 8,045,296
Unpaid dividend	3,600,756	-
Impairment in excess of equity value	931,701	-
<b>Pasinex investment in Horzum AS</b>	<b>\$ -</b>	<b>\$ 8,045,296</b>

## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

#### 5. Investment in Horzum AS (continued)

##### Statement of Operations for the year ended December 31,

<i>(100% Canadian dollars)</i>	2018	2017
Revenue	\$ 26,029,753	\$ 31,833,371
Cost of sales	(10,479,295)	(9,691,707)
Selling, marketing and other distribution	(782,038)	(932,378)
Impairment of Akmetal receivable (note 5(a))	(28,337,420)	-
General and administrative expenses	(415,395)	(432,257)
Foreign exchange gain (note 5(c))	6,653,945	-
Finance expense	(285,563)	-
Other	197,884	(371,317)
Current income tax expense (note 5(d))	(3,488,884)	(4,388,579)
Deferred income tax expense (recovery) (note 5(d))	846,333	290,264
Net income (loss)	\$ (10,060,680)	\$ 16,307,397
Pasinex ownership interest	50 %	50 %
Share of net income (loss)	\$ (5,030,340)	\$ 8,153,698
Add back impairment amount in excess of equity value	931,701	-
Equity gain (loss) for Horzum AS	\$ (4,098,639)	\$ 8,153,698

(a) Amounts due from Akmetal include a loan receivable of \$14.9 million (2017 - \$13.5 million) and trade receivables of \$12.6 million (2017 - \$4.6 million). Up until October 2018, the sale of zinc was largely sold to a subsidiary of Akmetal which in turn sold the material to third parties. The payments from Akmetal to Horzum AS have been historically slow and the trade receivable from Akmetal was growing. As a result, at the end of 2017, Horzum AS entered into an agreement with Akmetal to structure a formal repayment process, plus interest, for US\$11.4 million. This covered all balances owing up until the end of November and commitments under the repayment agreement were being met until June 2018. Throughout 2018 Horzum AS continued to sell its material through the subsidiary of Akmetal and payments from Akmetal continued to be slow resulting in a significant increase in the trade receivable. By December 31, 2018, US\$550,000 of the US\$11.4 million loan had been repaid (representing the required payments up to June 2018). Payments of US\$1.1 million were due to Horzum AS in the second half of 2018 under the terms of the loan agreement, of which none were paid by Akmetal, including no payments on the trade receivable. As of the date of these consolidated financial statements, April 30, 2019, there were still no payments received from Akmetal on either the loan or trade receivables.

In October of 2018, the sales situation was changed whereby the zinc ore material was sold and invoiced directly to third parties from Horzum AS. The cash receipts from sales starting in November have been managed and controlled by Horzum AS, which requires authorization of payments from both Akmetal and Pasinex (as joint venture partners). The trade receivable did not increase in the fourth quarter of 2018. However, because of liquidity issues and obligations to its customers, in March and April of 2019 Akmetal used approximately 6,000 tonnes of oxide from Horzum AS increasing the trade receivable accordingly. Akmetal plans to provide saleable oxide from its other zinc mines to repay this used material. It is expected the material should be replenished by August of 2019.

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## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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#### 5. Investment in Horzum AS (continued)

Since Horzum AS did not receive any payment from Akmetal on the receivables outstanding for over nine months, along with liquidity issues Akmetal was facing during this same period, the Company has acknowledged that the credit risk on the Akmetal receivables has increased significantly and there is evidence of impairment. As a result, under the requirements of IFRS 9, management underwent an exercise to calculate its expected credit losses on the Akmetal receivables. The Company is working with Akmetal on a number of alternative structures to receive payment of the receivable. This includes amongst other things, transferring other valuable mining assets to Horzum AS in return for a reduction of the receivable and sale of its share of Horzum AS. Company management believes Akmetal is slowly recovering from its liquidity shortfalls and therefore expects that the receivable should be fully recoverable and intends to rigorously pursue all means to collect the receivable, but because of Akmetal's liquidity issues, past performance of non-payment (or default) along with the additional usage of Horzum AS inventory in 2019, management has assessed the probability of credit losses to be high.

As a result, as required under IFRS 9, the Company has taken a full impairment charge of the loan and trade receivables. The Company will continue to vigorously pursue receipt of funds from Akmetal and re-assess the expected credit losses on a regular basis. Any recovery of the receivable will be recorded in the equity gain from Horzum AS.

(b) Amounts due to shareholders and related parties include the dividend payable to Pasinex Arama of \$3.7 million.

(c) The functional currency of Horzum AS is the TRY and the foreign exchange gain is a result of the revaluation of the US dollar receivables to TRY (prior to the impairment). The significant gain is a factor of the significant decline in the value of the TRY relative to the US dollar during the year.

(d) Income tax expense is recorded at a tax rate of 22% (2017 - 20%). A valuation allowance of \$3.7 million reduced the expected tax recovery in 2018.

(e) On October 16, 2018, Akmetal entered into a US\$1.2 million loan facility with one of its customers for overpayments received on advanced provisional invoice payments received earlier in 2018. Horzum AS is a guarantor to the loan facility and recorded the full amount as a current liability. Akmetal did not made payments against the loan facility in 2018.

## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars, unless otherwise indicated)

#### 6. Exploration and evaluation assets

	Horzum Properties	Golcuk Property	Spur Project	Total
<b>Balance, December 31, 2016</b>	<b>\$ 575,739</b>	<b>\$ 1,073,797</b>	<b>\$ -</b>	<b>\$ 1,649,536</b>
Additions during the year:				
Acquisition costs - cash	16,690	94,297	178,362	289,349
Acquisition costs - shares issued	-	60,216	484,000	544,216
Property exploration costs:				
Assays	17,474	7,699	-	25,173
Drilling	-	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)
<b>Balance, December 31, 2017</b>	<b>618,219</b>	<b>1,287,842</b>	<b>662,362</b>	<b>2,568,423</b>
Additions during the year:				
Acquisition costs - cash	-	-	258,960	258,960
Acquisition costs - shares issued	-	-	264,000	264,000
Property exploration costs:				
Geological and field personnel	-	2,119	-	2,119
Miscellaneous expenses	-	53,751	-	53,751
Total additions during the year	-	55,870	522,960	578,830
Foreign exchange adjustment	(44,082)	(26,579)	-	(70,661)
Impairment	-	(1,317,133)	-	(1,317,133)
<b>Balance, December 31, 2018</b>	<b>\$ 574,137</b>	<b>\$ -</b>	<b>\$ 1,185,322</b>	<b>\$ 1,759,459</b>

##### (a) Horzum Properties

The Company, through Pasinex Arama had acquired six properties in 2013 located near the Pinargozu mine. As at December 31, 2018, the Company only held the Akkaya Property with its exploration license in good standing. The Company is in the process of transferring the license for the Akkaya Property to Horzum AS. In 2018, in anticipation of the license transfer, Horzum AS incurred the costs to continue to explore Akkaya.

##### (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 and all consideration for the transaction was paid.

Under the Agreement, Pasinex will pay EMX a 2.9% net smelter royalty ("NSR") from Golcuk production. Prior to production, Pasinex is 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. In September 2017, Pasinex paid EMX an equivalent amount of advance royalty payment of 75 troy ounces of gold through issuance of 224,150 Pasinex common shares and payment of \$62,425 in cash (to be set off against the NSR once payable).



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## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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#### 6. Exploration and evaluation assets (continued)

##### Impairment charge

In May 2018, the Company met with EMX and finalized an extensive geological review including mapping, structure, mineralization and geological model/genesis and made the decision to not advance the Golcuk property. Although there is evidence of copper throughout the property the Company believes that it will be difficult to get sufficient contiguous mineralization that would underpin the Company's targets for economical tonnage. The license for the property will be relinquished to the Turkish government. The fair value of the property has been estimated at zero and costs to dispose of \$0.4 million, of which \$0.2 million remains accrued as at December 31, 2018 resulting in an impairment charge of \$1.7 million for the year ended December 31, 2018. Because of the joint decision to not advance Golcuk, the advance royalty payment due in September 2018 to EMX was not made.

##### **(c) Spur (formerly named Gunman) Zinc Project**

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 also 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 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 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 (paid)
  - ◆ 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 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.

The Company has commenced discussions with Cypress and Caliber to allow for the deferral of exploration expenditures if required.

## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

#### 7. Accounts payable and accrued liabilities

	As at December 31, 2018	As at December 31, 2017
Trade payables	\$ 135,431	\$ 176,159
Accrued liabilities (a)	341,518	31,667
<b>Total</b>	<b>\$ 476,949</b>	<b>\$ 207,826</b>

(a) Accrued liabilities include \$0.2 million related to costs to prepare the Golcuk property for relinquishment of license (note 6(b)), which are expected to be incurred in the first half of 2019.

#### 8. Shareholder loans

On August 1, 2018 the Company entered into loans with certain shareholders and directors of the Company (the "lenders") in the form of promissory notes amounting to \$400,000. 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.

On September 25, 2018 the promissory notes were amended to reflect additional funding of \$345,000 and \$3,362 of accrued and unpaid interest. The remainder of the terms were consistent with the August 1 promissory notes. In 2018, interest expense of \$12,056 was recorded in other income.

#### 9. Share capital

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

(b) Issued and outstanding common shares:

	2018		2017	
	Common Shares	Amount	Common Shares	Amount
<b>Balance, January 1,</b>	<b>142,154,371</b>	<b>\$ 12,618,506</b>	<b>121,262,250</b>	<b>\$ 10,219,119</b>
Exercise of warrants and agent warrants (c) and (d)	-	-	18,467,971	1,855,171
Advance royalty payment to EMX (note 6(b))	-	-	224,150	60,216
Payment under Option Agreement for the Spur Zinc Project (note 6(c))	2,200,000	264,000	2,200,000	484,000
<b>Balance, December 31,</b>	<b>144,354,371</b>	<b>\$ 12,882,506</b>	<b>142,154,371</b>	<b>\$ 12,618,506</b>

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## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

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#### 9. Share capital (continued)

(c) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
<b>Balance, December 31, 2016</b>	<b>18,758,571</b>	<b>\$ 0.10</b>
Exercised	(18,303,571)	0.09
Expired	(455,000)	0.18
<b>Balance, December 31, 2017 and December 31, 2018</b>	<b>-</b>	<b>\$ -</b>

(d) Agent warrants

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

	Number of Agent Warrants	Weighted Average Exercise Price
<b>Balance, December 31, 2016</b>	<b>168,400</b>	<b>\$ 0.19</b>
Exercised	(164,400)	0.19
Expired	(4,000)	0.20
<b>Balance, December 31, 2017 and December 31, 2018</b>	<b>-</b>	<b>\$ -</b>

#### 10. 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.

## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars, unless otherwise indicated)

#### 10. Stock options (continued)

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

	Number of Options	Weighted Average Exercise Price
<b>Balance, December 31, 2016</b>	<b>4,190,000</b>	<b>\$ 0.16</b>
Granted (i)(ii)	2,200,000	0.19
Expired / forfeited	(40,000)	0.14
<b>Balance, December 31, 2017</b>	<b>6,350,000</b>	<b>\$ 0.19</b>
Granted (iii)	50,000	0.20
Expired	(2,200,000)	0.19
<b>Balance, December 31, 2018</b>	<b>4,200,000</b>	<b>\$ 0.19</b>

(i) 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.

(ii) On December 4, 2017, 1,000,000 stock options were granted to an employee of the Company at a price of \$0.25 each, expiring December 4, 2022. The stock options vested as follows: 400,000 stock options vested immediately and the remaining 600,000 stock options vested 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 and \$103,220 expensed in 2018.

(iii) 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. The fair value of the stock options at the date of grant of \$8,700 was estimated using the Black Scholes valuation model with the following assumptions: a 5 year expected term; a 133% expected volatility based on historical trends; risk free interest rate of 2.05%; share price at the date of grant of \$0.20; and an expected dividend yield of 0%. The fair value was expensed in 2018.

The Company had the following stock options outstanding as of December 31, 2018:

Expiry Date	Number of Options		Exercise Price	Weighted Average Remaining Contractual Life (years)
	Outstanding	Exercisable		
March 14, 2019	550,000	550,000	\$ 0.10	0.20
December 19, 2019	1,400,000	1,400,000	\$ 0.14	0.97
August 14, 2022	1,200,000	1,200,000	\$ 0.25	3.62
December 4, 2022	1,000,000	1,000,000	\$ 0.25	3.93
January 24, 2023	50,000	50,000	\$ 0.20	4.07
	4,200,000	4,200,000	\$ 0.19	2.37

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### Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars, unless otherwise indicated)

#### 11. Net income (loss) per common share

Basic and diluted net income (loss) per share are as follows for the years presented:

	Year Ended December 31,	
	2018	2017
<b>Numerator:</b>		
Net income (loss)	\$ (8,429,326)	\$ 5,834,104
<b>Denominator</b>		
Weighted average number of common shares - basic	142,823,411	133,888,679
Effect of dilutive securities	-	1,342,379
Weighted average number of common shares - diluted	142,823,411	135,231,058
Net income (loss) per share - basic	\$ (0.06)	\$ 0.04
Net income (loss) per share - diluted	\$ (0.06)	\$ 0.04

#### 12. 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:

	As at December 31, 2018	As at December 31, 2017
Currency translation adjustment for the year ending December 31	\$ 2,367,220	\$ 973,628
Foreign exchange rate TRY to Canadian dollar at December 31	0.2576	0.3310
Foreign exchange rate TRY to Canadian dollar at the start of the year	0.3310	0.3815
Pasinex Arama net assets (in TRY) at December 31, prior to impairment	49,302,686	26,323,180
Pasinex Arama net assets (in TRY) at the start of the year	26,323,180	5,263,752

Pasinex Arama includes the 50% joint venture interest in Horzum AS. The currency translation adjustment is affected by both the net assets and the foreign exchange rate. For the year ending December 31, 2018 the currency translation increased by \$2,367,220 due to the devaluation of the TRY relative to the Canadian dollar over this same period. The currency translation adjustment calculation represents the change in currency exchange rates relative to the net assets at the start of the period and the change in net assets during the period.

## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

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#### 13. General and administration costs

General and administration costs are as follows:

	Year Ended December 31,	
	2018	2017
Advertising and promotion	\$ 152,954	\$ 193,717
Consulting fees (note 14)	259,205	586,038
Investor relations	228,794	168,515
Management fees and salaries (note 14)	657,681	405,271
Office and general	89,149	70,325
Professional fees	161,434	167,937
Transfer agent and regulatory authorities fees	35,330	37,151
Travel and meals	324,075	264,741
Other	24,171	26,429
General and administration costs	\$ 1,932,793	\$ 1,920,124

#### 14. 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.

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

	Year Ended December 31,	
	2018	2017
Management fees and salaries	\$ 585,818	\$ 211,575
Consulting fees	66,438	203,478
Share-based payments	103,220	319,780
Interest expense on shareholder loans	12,056	-
	\$ 767,532	\$ 734,833

# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars, unless otherwise indicated)

### 14. Related party balances and transactions (continued)

Amounts payable to related parties were as follows:

	As at December 31, 2018	As at December 31, 2017
<b>Due to related parties:</b>		
Steven Williams <sup>(1)</sup>	\$ 13,560	\$ -
Larry Seeley <sup>(2)</sup>	11,610	-
Sven Olsson <sup>(2)</sup>	9,563	14,297
1514341 Ontario Inc. <sup>(3)</sup>	14,232	-
Irus Consulting Ltd. <sup>(4)</sup>	7,500	7,500
Victor Wells <sup>(5)</sup>	18,000	6,000
Wendy Kaufman <sup>(6)</sup>	1,145	-
Soner Koldas <sup>(7)</sup>	13,301	-
	<b>\$ 88,911</b>	<b>\$ 27,797</b>
<b>Shareholder loans (note 8):</b>		
1514341 Ontario Inc. <sup>(3)</sup>	\$ 291,356	\$ -
Seeley Holdings Ltd. <sup>(8)</sup>	291,356	-
Sven Olsson <sup>(2)</sup>	115,453	-
Joachim Rainer <sup>(2)</sup>	50,197	-
	<b>\$ 748,362</b>	<b>\$ -</b>

(1) Steven Williams is the Chief Executive Officer of the Company.

(2) Sven Olsson, Larry Seeley and Joachim Rainer were directors of the Company at December 31, 2018 and 2017. On March 31, 2019 Sven Olsson resigned as a director of the Company.

(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, the Vice President Exploration of the Company.

(5) Victor Wells is a director and the Chairman of the Company.

(6) Wendy Kaufman is the Chief Financial Officer of the Company.

(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

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, 2018, 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
<b>Larry Seeley</b>	<b>29,728,191</b>	<b>20.59 %</b>

# Pasinex Resources Limited

## Notes to Consolidated Financial Statements

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### 15. 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, 2018	As at December 31, 2017		
<b>Non-current assets by geographic segment</b>				
Turkey	\$ 696,715	\$10,106,259		
United States	1,185,322	662,362		
	<b>\$ 1,882,037</b>	<b>\$10,768,621</b>		
	As at December 31, 2018	As at December 31, 2017		
<b>Total assets by geographic segment</b>				
Turkey	\$ 994,452	\$10,482,028		
Canada	101,019	478,430		
United States	1,185,322	662,362		
	<b>\$ 2,280,793</b>	<b>\$11,622,820</b>		
<b>Year Ended December 31, 2018</b>	<b>Canada</b>	<b>Turkey</b>	<b>United States</b>	<b>Total</b>
Equity loss from joint venture	\$ -	\$ (4,098,639)	\$ -	\$ (4,098,639)
Net income (loss)	\$ (1,347,108)	\$ (6,390,350)	\$ (691,868)	\$ (8,429,326)
<b>Year Ended December 31, 2017</b>	<b>Canada</b>	<b>Turkey</b>	<b>United States</b>	<b>Total</b>
Equity gain from joint venture	\$ -	\$ 8,153,698	\$ -	\$ 8,153,698
Net income (loss)	\$ (2,000,680)	\$ 7,914,976	\$ (80,192)	\$ 5,834,104



## Pasinex Resources Limited

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#### 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, 2018 and 2017:

	Year Ended December 31,	
	2018	2017
Income before income taxes	\$ (8,429,326)	\$ 5,834,104
Statutory tax rate	26.50 %	26.50 %
Expected income tax recovery based on statutory rate	(2,233,770)	1,546,037
Adjustment to expected income tax benefit:		
Non-deductible items	36,510	243,646
Non-taxable income	(335,180)	(1,630,740)
True up	74,890	(257,871)
Foreign tax rate difference	211,230	(508,359)
Currency translation adjustment booked through equity	(526,500)	-
Change in deferred tax assets not recognized	2,772,820	607,287
Total income tax provision (recovery)	\$ -	\$ -

#### Unrecognized deferred tax assets

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, 2018	As at December 31, 2017
Non-capital loss carry-forwards	\$ 7,436,000	\$ 8,298,310
Investment in Horzum AS	8,045,300	-
Capital losses	74,150	74,150
Equipment	18,870	16,617
Financing costs	10,330	32,034
Resource pools - mineral properties	687,000	-
	\$ 16,271,650	\$ 8,421,111

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## Pasinex Resources Limited

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#### 16. Income taxes (continued)

The Canadian non-capital loss and U.S. and Turkish net operating losses expire as noted in the table below. The capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs will be fully amortized in 2020. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

Expiry	Canada	United States	Turkey
2020	\$ -	\$ -	\$ 194,640
2021	-	-	63,900
2022	-	-	171,070
2023	-	-	76,760
2024	-	-	176,130
2025	-	-	272,390
2026	117,640	-	-
2027	132,500	-	-
2028	375,750	-	-
2029	647,940	-	-
2030	260,700	-	-
2031	528,570	-	-
2032	630,740	-	-
2033	670,810	-	-
2034	902,780	-	-
2035	763,960	-	-
2036	744,980	-	-
2037	1,650,470	80,190	-
2038	<u>2,145,290</u>	<u>691,550</u>	-
	<u>\$ 9,572,130</u>	<u>\$ 771,740</u>	<u>\$ 954,890</u>

#### 17. 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, 2018 and 2017, 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.

## Pasinex Resources Limited

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#### 17. Financial instruments and capital disclosures (continued)

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

  

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

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.

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 note 5(a)), except for Due from Horzum AS because it was repaid subsequent to December 31, 2018. 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, 2018, the Company had a cash balance of \$218,623 (2017 - \$741,727) and current liabilities of \$1,314,222 (2017 - \$235,623). 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 note 2(b) for additional discussion on going concern.

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## Pasinex Resources Limited

### Notes to Consolidated Financial Statements

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#### 17. Financial instruments and capital disclosures (continued)

##### 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, 2018, the translation of the assets and liabilities of Pasinex Arama resulted in foreign currency translation adjustments of \$2,367,220 recorded in other comprehensive loss. For the year ended December 31, 2018, 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 \$0.7 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, 2018, 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 \$1 million 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 2017. 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.