# Pasinex Resources Limited
**Management's Discussion & Analysis**
**For the Years Ended December 31, 2020 and 2019**
**Discussion dated: April 27, 2021**

## Introduction

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of Pasinex Resources Limited (the "Company" or "Pasinex") should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2020.

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

This MD&A has been prepared as of April 27, 2021.

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

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

## Cautionary Note Regarding Forward-Looking Statements

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

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

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future period.

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

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

## Description of Business

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

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

## Selected Annual Consolidated Information

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **Financial:** | | | |
| Equity gain from Horzum AS | **$ 3,298** | $ 672,139 | $ (4,098,639) |
| Adjusted equity gain from Horzum AS [1] | **$ 163,115** | $ 3,965,688 | $ 5,489,452 |
| Dividend received from investment in Horzum AS | **$ 3,298** | $ 672,139 | $ 1,523,538 |
| Consolidated net loss | **$ (1,252,426)** | $ (1,032,850) | $ (8,429,326) |
| Adjusted consolidated net income (loss) [1] | **$ (1,064,635)** | $ 2,260,699 | $ 2,845,365 |
| Basic and diluted net loss per share | **$ (0.01)** | $ (0.01) | $ (0.06) |
| Cash used in operating activities | **$ 826,390** | $ 292,330 | $ 1,006,264 |
| Weighted average shares outstanding | **144,554,371** | 144,415,192 | 142,823,411 |

| | As At December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| Total assets | **$ 2,114,081** | $ 2,165,037 | $ 2,280,793 |
| Total liabilities | **$ 3,454,502** | $ 2,232,064 | $ 1,314,222 |
| Total shareholders' deficiency | **$ (1,340,421)** | $ (67,027) | $ 966,571 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **Horzum AS operational data (100% basis):** | | | |
| Zinc product mined (wet) tonnes | **12,123** | 17,812 | 45,757 |
| Zinc product sold (wet) tonnes | **11,248** | 27,130 | 46,154 |
| Zinc product sold grade | **31%** | 32% | 33% |
| Gross margin [1] | **13%** | 34% | 57% |
| CAD cost per tonne mined [1] | **$ 313** | $ 436 | $ 229 |
| USD cash cost per pound of zinc product mined [1] | **$ 0.37** | $ 0.42 | $ 0.25 |

[1] see non-GAAP measures

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

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

## Highlights

**Financial and Operational**

- For the year ended December 31, 2020 Pasinex incurred a net loss of approximately $1.25 million, compared with a net loss of approximately $1.03 million for 2019. The primary reason for the small increase in the net loss was the decrease of $0.669 million in the equity gain in 2020 when compared with 2019. The equity gain is equal to the total of the cash dividends paid in by Horzum AS to Pasinex Arama. The reduction of the dividend received was offset by lower costs incurred in almost every category of expense.

- The adjusted consolidated net loss (see non-GAAP measures) was $1.07 million for 2020 compared with an adjusted consolidated net gain of $2.3 million in 2019. The adjusted equity gain (see non-GAAP measures) was $0.16 million in 2020 compared with $4.0 million in 2019. These non-GAAP measures reflect what the results of the Company would be without the recording of the impairment charges in 2020 and 2019.

- The operating income in Horzum AS decreased from $4.6 million in 2019 to $0.6 million in 2020. This decrease was due to lower sales in 2020 as a result of fewer tonnes having been sold and lower zinc product prices having been realized on sales. These factors also resulted in the gross margin (see non-GAAP measures) for the year ended December 31, 2020 decreasing to 13% from 34% in 2019. In addition, costs to develop the fourth adit were included in cost of goods sold although they did not provide access to any zinc product in 2020.

- During the third quarter of 2020, Horzum AS began developing a new fourth adit at the 541-metre level, approximately 84 metres below the water table level, which occurs at the 625-metre level. By the end of 2020, approximately 310 metres of the fourth adit had been completed. In March of 2021 after reaching approximately 370 metres the development of the fourth adit had to be stopped due to safety concerns after encountering large volumes of groundwater. This was expected and Horzum AS has started to dewater the area in order to be able to continue the adit development. The dewatering process has been slowed with spring rains having increased the volume of groundwater. The Company now expects this to be completed by the end of May 2021. Thereafter, it is expected, that an additional two months of development will be needed to reach the targeted zinc sulphide.

- Starting the de-watering process has enabled Horzum AS to conduct further exploratory drilling at the 625-meter level. Subsequent to the year end, zinc sulphide was encountered and Horzum AS has started to successfully mine zinc sulphide product in that area. The deep zinc sulphide product is expected to contain a grade of between 40% to 60% zinc. The ground between the 625-metre level and the 541-metre level has had little exploration to date with the potential below the 541-metre level completely unknown. The fourth adit will allow this area to be drilled from underground and will enable the depth potential to be better delineated.

- Horzum AS completed a total of 6,421 metres, in 61 drill holes of underground and surface diamond core drilling during 2020. Of the holes drilled, 57 drill holes were underground totalling 5,395 metres and 4 surface drill holes totalling 1,026 metres. Horzum AS also completed a total of 1,373 metres of exploration and development adits during 2020.

- In the third quarter of 2020, Horzum AS received an exploration license for the Mahyalar claim, an area located to the east of the Pinargozu mine in the Mahyalar district of Kozan. The claim area is approximately 18 $km^2$ in size and is located in the Pasali Fault zone. The exploration license is valid for seven years. Fieldwork conducted to date has shown elevated zinc levels from rock and soil samples. Exploration including the collection of further rock and soil samples, along with geological mapping, will be conducted over the next year.

- In the fourth quarter of 2020, the Company successfully entered into an amending agreement with Cypress and Caliber to extend the deadline for completing the minimum exploration expenditures to December 31, 2022. In addition, the deadline to acquire the additional 29% interest has been extended to December 31, 2024.

- Personnel changes during the year included the resignation of the Chief Executive Officer.

- During 2020, the Company received $905,500 from shareholders of the Company. Subsequent to the end of the year the Company received an additional $240,000 from those related parties.

**Summary of Pasinex Situation in Turkey**

- The value of the loan receivable from Akmetal and one of its subsidiaries, to Horzum AS as at December 31, 2020, is approximately $34 million compared with approximately $35 million as at December 31, 2019. Also, as at December 31, 2020, Horzum AS owes Pasinex Arama approximately $2 million that arose upon the declaration of a dividend in 2018 and invoices for management fees issued by Pasinex Arama to Horzum AS.

- Management has continued its contact with senior executives of the Kurmel Group during and subsequent to 2020, while the Kurmel Group has been working on strengthening its financial condition. Unfortunately, the Covid-19 pandemic brought to a halt the Kurmel Group's ability to sell certain of its assets in the middle of 2020. Although the Kurmel Group was able to resume this process later in 2020, it was slowed by the continuing pandemic. Pasinex continues to work toward resolving the financial issues and debts owed by Horzum AS.

- In the third quarter of 2020, the joint venture underwent certain management changes resulting from these continued discussions. Those management changes include the appointment of Pasinex AS employees in the roles of acting Managing Director of Horzum AS and acting Exploration Manager of Horzum AS.

- Horzum AS restructured its tax liabilities in December 2020 as allowed by the Turkish taxation department. Horzum AS is scheduled to make instalments of its various tax debts, with each tax debt under its own schedule of 18 equal instalments. Akmetal has paid on behalf of Horzum AS two sets of instalments during the first quarter of 2021. The first set of payments was made on March 1, 2021 with the second set on March 31, 2021. The total amount paid was approximately $720,000 (TRY 4.44 million).

**Going Concern**

The application of the going concern concept assumes that the Company will continue in operation for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of operations. At December 31, 2020, the Company has a net deficit of $11,919,504 (2019 – $10,667,078) and has a working capital deficiency position of $3,310,551 (2019 – working capital deficiency position of $2,132,494) Also, the Company had a net loss of $1,252,426 (2019 – net loss of $1,032,850) and negative cash flows from operations of $826,390 (2019 – negative cash flows from operations of – $294,298) for the year then ended and accordingly does not have enough cash on hand to fund its payables and its expected non-discretionary obligations for the next 12 months.

The Company and its wholly owned subsidiary, Pasinex Arama, rely on dividends from Horzum AS and where possible equity financing to fund their exploration and development operations. Horzum AS's financial position has been severely damaged by the continued withholding of funds, by its joint venture partner Akmetal, generated via sales of zinc product produced by the joint venture's Pinargozu mine. As at December 31, 2020, Horzum AS has a receivable owing from Akmetal of approximately $34 million.

Pasinex Arama received $3,298 in dividend payments from Horzum AS for the year ended December 31, 2020 compared with $672,139 in the year ended December 31, 2019. Horzum AS expenses including payroll, supplies, services costs, costs related to exploration and certain taxes due have been paid by Akmetal to keep the mine operation going. In addition, subsequent to the end of the year, Akmetal has paid the first two instalments required under the tax restructuring program entered into by Horzum AS in December of 2020.

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

Management expects to receive the payment of the remaining dividend and other receivables that are owing from Horzum AS to Pasinex Arama following a payment of a portion of the Akmetal receivable or through the receipt of proceeds from sales. In the absence of the receipt of dividends from Horzum AS, the Company would need to secure funding from either equity financing or additional related party loans. During the year ended December 31, 2020, the Company received net shareholder advances of $905,500. There can be no assurance that the Company will be able to generate either sufficient dividends from Horzum AS or be able to generate funds from other sources.

**Pinargozu Operations Update (100% basis)**

- Horzum AS mined 12,123 tonnes during the year ended December 31, 2020 at the Pinargozu mine versus 17,812 tonnes in the same period in 2019. Mine production has decreased in 2020, because of limited available ore and operating fewer shifts due to a reduction in available cash. Mine production was also modestly impacted by the Covid-19 pandemic in 2020 when compared to 2019. The total number of mined tonnes in 2020 was in line with previously provided guidance.

- Sales volumes decreased in 2020 compared with 2019, by a substantial amount from 27,239 tonnes in 2019 to 11,393 tonnes in 2020. This was due to a combination of having lower inventory on hand at the beginning of the year combined with fewer tonnes having been mined in 2020.

- Revenue generated from sales also declined as a result of the lower volume of tonnes sold. Total revenue in 2020 was $4.5 million versus $14.6 million in 2019. Revenue also decreased as there were fewer higher value tonnes of sulphide product having been sold in 2020 compared to 2019. Management expects this trend to reverse in 2021 with the introduction of sulphide product tonnes becoming available as a result of the development of the fourth adit. Revenues were also negatively impacted by lower zinc prices that were achieved for both zinc oxide and sulphide product.

- The average grade of the zinc oxide product sold was 30% in both 2020 and 2019. The grade of sulphide product sold increased slightly in in 2020 from 43% in 2019 to 48% in 2020.

- Cash costs per tonne mined (see non-GAAP measures) were $313 per tonne in 2020 compared with $436 in 2019. The USD cash cost per pound of zinc product mined (see non-GAAP measures) was US$0.37 per pound in 2020 compared with US$0.42 per pound in 2019.

- Gross margins (see non-GAAP measures), after accounting for all operational costs, decreased substantially from 34% in 2019 versus 13% in 2020 primarily as a result of lower sales prices.

- Production guidance for 2021 is between 7,000 and 10,000 tonnes of oxide product and between 7,000 and 9,000 tonnes of sulphide product. Oxide product mined will predominantly come from currently developed areas while the sulphide product will be mined in newly developed areas from the fourth adit.

- Mine production at the Pinargozu mine has continued on a two-shift basis throughout 2020 notwithstanding the negative impacts of the Covid-19 pandemic. Management expects that it will be able to continue on a two-shift basis in 2021.

## Review of Annual Consolidated Financial Statements

### Years Ended 2020 and 2019

The following is a summary income statement for Pasinex:

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| Equity gain from Horzum AS | **$ 3,298** | $ 672,139 |
| Recovery (Impairment) of Horzum AS receivable | **(27,974)** | (209,016) |
| Exploration costs | **(125,033)** | (179,563) |
| General and administration costs | **(991,569)** | (1,281,725) |
| Interest expense | **(94,005)** | (51,449) |
| Share-based payments | **(28,500)** | (18,000) |
| Other income | **4,405** | 23,468 |
| Foreign exchange (loss) gain | **6,952** | 11,296 |
| **Net loss** | **$ (1,252,426)** | $ (1,032,850) |

- The equity gain from Horzum AS represents the value of dividends received by Pasinex Arama from the Company's 50% owned joint venture, Horzum AS. Horzum AS is considered a joint venture for accounting purposes and as such the Company records its share of net income on one line in the income statement. Further details on the results of Horzum AS follow below – *Review of Horzum AS.*

- Pasinex Arama recorded an impairment charge of approximately $0.028 million in 2020 compared with an impairment charge of $0.209 million in 2019, to reflect the uncertainty of the collectability of the receivable from Horzum AS. Pasinex Arama received payments, totaling TRY820,000 from Horzum AS in 2020 for amounts it invoiced to Horzum AS. The total amount billed during 2020 by Pasinex Arama to Horzum AS was approximately TRY970,000. The difference of TRY150,000 (CA$0.028 million) was recorded as an impairment charge in 2020.

- Exploration costs represent consulting expenses at the Gunman Project.

- Pasinex general and administration costs include the following:

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| **General and administration costs** | | |
| Advertising and promotion | **$ 1,911** | $ 42,609 |
| Consulting fees | **235,830** | 242,823 |
| Investor relations | **8,550** | 11,311 |
| Management fees and salaries | **338,950** | 355,859 |
| Office and general | **47,059** | 77,404 |
| Professional fees | **282,859** | 222,903 |
| Transfer agent and regulatory fees | **19,650** | 50,760 |
| Travel and meals | **53,532** | 262,491 |
| Other | **3,228** | 13,597 |
| | **$ 991,569** | $ 1,279,757 |

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

- In general, Pasinex has reduced its overall spend on elective general and administrative costs during year ended December 31, 2020 compared with 2019 in order to conserve cash.
- Specifically, consulting fees for both years were largely due to costs incurred in conjunction with management of its Turkish operations. Management fees and salaries decreased as the Company moved to a part-time CEO and CFO in mid-2019 and the resignation of its Vice President of Exploration in June of 2019. The decrease in management fees and salaries was offset by a one-time lump-sum payment made to the former CEO of the Company. Professional fees increased as a result of increased legal expenses. Travel and meals decreased as Company's management visited Turkey fewer times as a result of the travel restrictions caused by the Covid-19 pandemic.

- Interest expense increased as a result of increased shareholder loans needed to fund the ongoing expenses of the Company.

- Pasinex share-based payments are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| **Share-based payments** | **$ 28,500** | $ 18,000 |

Stock options issued:

- On February 7, 2020, 1,500,000 stock options were granted to an officer of the Company at an exercise price of $0.04 per stock option, expiring February 7, 2022. The stock options vested immediately. The fair value of the stock options at the date of grant of $28,500 was estimated using the Black Scholes valuation model with the following assumptions: a two-year expected term; a 188% expected volatility based on historical trends; risk free interest rate of 1.47%; share price at the date of grant of $0.03; and an expected dividend yield of 0%. The fair value was expensed during the three months ended March 31, 2020.

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

## Review of Horzum AS

### Key Performance Indicators
(shown on a 100% basis)

| | Year Ended December 31, | | Three Months Ended | | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **Dec 2020** | **Sept 2020** | **Jun 2020** | **Mar 2020** | Dec 2019 |
| Tonnes mined (wet) | **12,123** | 17,812 | **2,426** | **3,050** | **2,850** | **3,797** | 3,516 |
| Tonnes sold (wet): | | | | | | | |
| Zinc oxide product | **10,886** | 22,774 | **2,962** | **2,424** | **3,568** | **1,932** | 15,115 |
| Zinc sulphide product | **362** | 4,356 | **55** | **307** | **-** | **-** | 457 |
| Lead product | **145** | 109 | **-** | **-** | **145** | **-** | 109 |
| | **11,393** | 27,239 | **3,017** | **2,731** | **3,713** | **1,932** | 15,681 |
| Average grades for tonnes sold: | | | | | | | |
| Zinc oxide product | **30%** | 30% | **28%** | **30%** | **30%** | **30%** | 30% |
| Zinc sulphide product | **48%** | 43% | **N/A** | **48%** | **N/A** | **N/A** | 39% |
| CAD cost per tonne mined (1) | **$ 313** | $ 436 | **$ 328** | **$ 322** | **$ 323** | **$ 306** | $ 312 |

(1) See non-GAAP measures

Operating results

- Horzum AS mined 12,123 tonnes during the year ended December 31, 2020 at the Pinargozu mine versus 17,812 tonnes in the same period in 2019. Mine production has decreased in 2020 because of limited available ore and operating fewer shifts due to a reduction in available cash. Mine production was also modestly impacted by the Covid-19 pandemic in 2020 when compared to 2019. Horzum AS was able to maintain a consistent monthly production rate of approximately 1,000 tonnes during 2020. The total number of mined tonnes in 2020 was in line with previously provided guidance.

- Sales volumes decreased in 2020 compared with 2019, by a substantial amount from 27,239 tonnes in 2019 to 11,393 tonnes in 2020. This was due to a combination of having lower inventory on hand at the beginning of the year combined with fewer tonnes having been mined in 2020. Horzum AS has been able to successful sell its production as it produces it to be able to maintain regular cash flows from sales. Mine production was primarily zinc oxide product, which translated into fewer higher value tonnes of sulphide product having been sold in 2020 compared to 2019.

- The average grade of the zinc oxide product sold was 30% in both 2020 and 2019. The grade of sulphide product sold increased slightly in in 2020 from 43% in 2019 to 48% in 2020. The Pinargozu mine has been able to maintain a grade of 30% for zinc oxide product on a consistent basis for the past two years. Zinc sulphide product grade are slightly more variable but have generally maintain a grade of around 40% of greater.

- Cash costs per tonne mined (see non-GAAP measures) were $313 per tonne in 2020 compared with $436 in 2019.

Financial results

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

Below are the statements of operation for Horzum AS for year ended December 31, 2020 and 2019 with a reconciliation to the Company's equity gain (loss) as shown on the Pasinex consolidated financial statements.

| ***(100% basis Canadian dollars)*** | **Year Ended December 31, 2020** | Year Ended December 31, 2019 |
|---|---|---|
| Revenue | **$ 4,492,849** | $ 14,641,163 |
| Cost of sales | **(3,749,925)** | (9,709,101) |
| Selling, marketing and other distribution | **(138,274)** | (350,928) |
| Operating income | **604,650** | 4,581,134 |
| | | |
| Impairment of Akmetal receivable | **(8,860,312)** | (17,327,082) |
| General and administration expenses | **(228,998)** | (479,861) |
| Foreign exchange gain on receivable | **9,154,044** | 10,385,323 |
| Finance expense | **(55,118)** | (302,276) |
| Other | **(82,503)** | (424,322) |
| | **531,763** | (3,567,084) |
| Income tax expense | **(345,267)** | (2,007,405) |
| Net gain (loss) | **$ 186,496** | $ (5,574,489) |
| Pasinex joint venture interest | **50%** | 50% |
| Share of net gain (loss) | **93,248** | (2,787,245) |
| (Decrease) Increase of prior year equity losses | **(93,248)** | 2,787,245 |
| Dividend received | **3,298** | 672,139 |
| Equity gain from Horzum AS | **$ 3,298** | $ 672,139 |

*Revenue* - The table below shows further details on revenue:

| ***(100% basis Canadian dollars)*** | **Year Ended December 31, 2020** | | **Year Ended December 31, 2019** | |
|---|---|---|---|---|
| | **Wet Tonnes** | **CAD** | **Wet Tonnes** | **CAD** |
| Zinc oxide product sales | **10,886** | **$ 4,102,341** | 22,774 | $ 12,018,642 |
| Zinc sulphide product sales | **362** | **169,176** | 4,356 | 2,936,164 |
| Lead product sales | **145** | **134,915** | 109 | 121,272 |
| Other sales | **-** | **43,139** | - | 84,027 |
| Final sales adjustments | **-** | **43,278** | - | (518,942) |
| **Total revenue** | **11,393** | **$ 4,492,849** | 27,239 | $ 14,641,163 |

- Revenue generated from sales declined as a result of lower volumes of tonnes sold. Total revenue in 2020 was approximately $4.5 million versus approximately $14.6 million in 2019. Revenue also decreased as there were fewer higher value tonnes of sulphide product sold in 2020 compared to 2019. Management expects this trend to reverse in 2021 with the introduction of sulphide product tonnes becoming available as a result of the development of the fourth adit. Revenues were also negatively impacted by lower zinc prices that were achieved for both zinc oxide and sulphide product.

- The dollar value of cost of sales decreased in 2020 compared to 2019 consistent with the decline in the number of tonnes sold. TRY based costs when translated to Canadian dollars were lower in 2020 compared with 2019 because of the weaker TRY to the Canadian dollar. The cost of sales in 2020 includes the cost incurred for the fourth adit development that was completed in 2020.

- In 2018, the Company performed an assessment resulting in the recording of an impairment of the Akmetal receivable as required by IFRS 9. For further discussion see "*Highlights – Summary of Situation in Turkey*" and "*Akmetal receivable*". The recording of the impairment does not represent the elimination of the Akmetal receivable and as such the Company continues to expect full repayment of the Akmetal receivable in due course. The impairment continued to increase during the year primarily as a result of an increase in the loan resulting from an increase in the USD:TRY exchange rate.

- The functional currency of Horzum AS is the TRY. The foreign exchange gain in both 2020 and 2019 is a result of the revaluation of a portion of the Akmetal receivable, which is denominated in US dollars. The gain is the result of the significant decline in the value of the TRY relative to the US dollar during both 2020 and 2019.

- Income tax expense

The statutory rate for income taxes in Turkey in 2020 and 2019 is a rate of 22%. Certain tax assets were not recognized due to doubt on whether there would be sufficient profit in the future to offset these amounts. The following is a reconciliation of the expected income tax expense using the statutory rate compared to the actual income tax expense:

| *(100% basis Canadian dollars)* | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| Gain (Loss) before income tax expense | **$ 531,763** | $ (3,567,084) |
| Statutory tax rate | 22% | 22% |
| Expected income tax recovery | **(116,988)** | 784,758 |
| Non deductible expenses | **(2,152)** | (111,678) |
| Tax recovery not recognized | **(226,127)** | (2,680,485) |
| **Income tax expense** | **$ (345,267)** | $ (2,007,405) |

- In the fourth quarter of 2018 an impairment of the Akmetal receivable was recorded. Since the joint venture is equity accounted and because the impairment was so large, the equity loss was capped in the fourth quarter of 2018 so that the investment would not be below zero. The unrecognized loss is to be applied against future equity gains beginning in 2019, if any. The net gain in 2020 decreased the unrecognized loss and the net loss for the 2019 increased the unrecognized loss.

- The net gain in 2020 is primarily the result of the exchange gain recognized during the year. Although a similar exchange gain was recorded in 2019, the impairment on the Akmetal receivable was far greater in 2019 compared to 2020 as the Akmetal receivable increased at a much higher rate in 2019. Management views the substantial slowing of the debt growth in 2020 as a positive advancement in its discussions with Kurmel Group management.

Financial condition

The following are summary balance sheets for Horzum AS:

| *(100% basis Canadian dollars)* | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| **Assets** | | |
| Cash and prepaid expenses | **$ 16,095** | $ 6,029 |
| Akmetal receivable | **33,862,790** | 35,123,238 |
| Less - discount and allowance on Akmetal receivables | **(33,862,790)** | (35,123,238) |
| Trade receivables | **1,140** | 15,876 |
| Other current assets | **400,192** | 67,895 |
| Inventory | **159,972** | 102,433 |
| Non current assets | **921,746** | 1,347,527 |
| **Total assets** | **$ 1,499,145** | $ 1,539,760 |
| **Liabilities** | | |
| Amounts due to shareholders and related parties | **$ 2,060,204** | $ 2,596,730 |
| Other liabilities | **9,226,203** | 11,719,155 |
| Total liabilities | **11,286,407** | 14,315,885 |
| **Equity** | **(9,787,262)** | (12,776,125) |
| **Total liabilities and equity** | **$ 1,499,145** | $ 1,539,760 |

- Akmetal Receivable

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

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

Akmetal has been facing liquidity issues since 2018. This combined with nonpayment of the Akmetal receivable led management to assess the probability of credit losses to be high. As a result, as required under IFRS 9, the Company took a full impairment charge of the receivables at December 31, 2018.

The total receivable from Akmetal is approximately $34 million as at the end of December 31, 2020 compared with $35 million at the end of December 31, 2019. The receivable consists of a number of items including joint venture sales proceeds received and withheld by Akmetal, the value of zinc product mined at the joint venture used by Akmetal, foreign currency gains on USD denominated amounts and the value of certain loan payments made to a customer on behalf of Akmetal; less the value of ongoing operating expenses paid by Akmetal. Virtually all of the current outstanding receivable arose during 2017 to 2019 with only a small increase in 2020. The Canadian dollar equivalent of the receivable decreased year over year due to the rise of the Canadian dollar relative to the Turkish Lira.

As a result of not having collected the Akmetal receivable, Horzum AS has not been able to pay its liabilities in the normal course of operations. Horzum AS currently has approximately $6.2 million in current liabilities and a working capital deficiency of approximately $5.6 million. Included within the total current liabilities are $1.2 million owed in trade payables ($2.0 million at December 31, 2019), $2.1 million owed to the Company's wholly owned subsidiary in Turkey ($2.6 million at December 31, 2019) and $2.5 million in various taxes payable ($9.0 million at December 31, 2019). Due to the tax restructuring $5.0 million of the taxes payable has been classified as non-current.

Due to Akmetal's continued liquidity issues and continued nonpayment of the receivable, management has continued to assess the probability of credit losses to be high. As a result, the receivable remains written down to zero.

- Amounts due to shareholders and related parties of $2.06 million, include the dividend payable to Pasinex Arama along with amounts owed to Pasinex Arama for services performed by Pasinex Arama.

- Other liabilities include income taxes payable and mining royalties payable. Mining royalties are payable to the government based on a formula of 2% of production value plus a zinc price escalator. The decrease in other liabilities at December 31, 2020 compared with December 31, 2019 is due to the rise of the Canadian dollar relative to the Turkish Lira.

- The decrease in deficit at December 31, 2020 compared with December 31, 2019 is primarily due to exchange differences during 2020.

*Commitments*

Akmetal entered into a loan facility with one of its customers for overpayments received on advanced provisional invoice payments received in 2018. Akmetal did not make payments against the loan facility, but Horzum AS has paid a total of approximately US$1.75 million (approximately $2.32 million using the December 31, 2020 spot rate) to this customer, as at December 31, 2020.

Expectations for 2021

| ***(100% basis)*** | **Guidance for the Year Ended December 31, 2021** | |
|---|---|---|
| | **Wet Tonnes** | **Grade** |
| Zinc oxide product mined | **7,000 to 10,000** | **28% to 32%** |
| Zinc sulphide product mined | **7,000 to 9,000** | **42% to 48%** |
| | **14,000 to 19,000** | |
| CAD cost per tonne mined | | $450 - $500 |

- Production guidance for 2021 is between 7,000 and 10,000 tonnes of oxide product and between 7,000 and 9,000 tonnes of sulphide product. Oxide product mined will predominantly come from currently developed areas while the sulphide product will be mined in newly developed areas from the fourth adit.

- Mine production at the Pinargozu mine has continued on a two-shift basis throughout 2020 notwithstanding the negative impacts of the Covid-19 pandemic. Management expects that it will be able to continue on a two-shift basis in 2021.

- During the third quarter of 2020, Horzum AS began developing a new fourth adit at the 541-metre level, approximately 84 metres below the water table level, which occurs at the 625-metre level. The initial development took place in poor ground, which required extensive ground support including steel sets, mesh and extensive grouting. By the end of 2020, approximately 310 metres of the fourth adit had been completed. In March of 2021 after reaching approximately 370 metres the development of the fourth adit had to be stopped due to safety concerns after encountering large volumes of groundwater. This was expected and Horzum AS has started to dewater the area in order to be able to continue the adit development. The dewatering process has been slowed with spring rains having increased the volume of groundwater. The Company now expects this to be completed by the end of May. Thereafter, it is expected, that an additional two months of development will be needed to reach the targeted zinc sulphide.

- Starting the de-watering process has enabled Horzum AS to conduct further exploratory drilling at the 625-meter level. Subsequent to the year end, zinc sulphide was encountered and Horzum AS has started to successfully mine zinc sulphide product in that area. The deep zinc sulphide product is expected to contain a grade of between 40% to 60% zinc. The ground between the 625-metre level and the 541-metre level has had little exploration to date with the potential below the 541-metre level completely unknown. The fourth adit will allow this area to be drilled from underground and will enable the depth potential to be better delineated.

- Horzum AS completed a total of 6,421 metres, in 61 drill holes of underground and surface diamond core drilling during 2020. Of the holes drilled, 57 drill holes were underground totalling 5,395 metres and 4 surface drill holes totalling 1,026 metres. Horzum AS uses diamond core drilling as one of its primary tools to identify additional areas to mine.

- Horzum AS also completed a total of 1,373 metres of exploration and development adits during 2020. The development of these adits provides access to additional zinc product to be mined and provides the Horzum AS the ability to safely conduct further exploratory drilling.

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

## Trends

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

Management believes that Pasinex is strongly leveraged to the zinc price and so management continuously monitors the global zinc market. The zinc price averaged US$1.03 per pound during 2020 compare with US$1.16 in 2019. Prices were depressed in the first seven months of 2020, averaging only US$0.93 per pound. Prices began to rebound in August and ended the year at a high of US$1.26 average price per pound in December. The first quarter of 2021 has seen similar pricing with an average of US$1.25 per pound.

Horzum AS sells their product in US dollars and to a lesser extent in Euros which are then converted to Turkish Lira. As such, Horzum AS's financial performance also depends on the TRY to US dollar. The USD / TRY exchange rate had a substantial move higher in the past few years. The average rate for the year ended December 31, 2020 was 7.0 compared with an average rate of 5.7 in 2019. Further, the average rate per quarter in 2020 has progressed from 6.1 in the first quarter of 2020 to 7.9 in the fourth quarter of 2020. The devaluation of the Turkish Lira is a benefit to Horzum AS as sales are denominated in US dollars or Euros, however, the devaluation has a negative impact to Pasinex on the approximately 11 million TRY dividend still owing.

## Liquidity and Financial Position

### Cash Flows

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

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| **Cash used in operating activities** | | |
| Before changes in working capital | **$ (1,101,917)** | $ (1,418,202) |
| Dividend from Horzum AS | **3,298** | 672,139 |
| Changes in working capital | **272,229** | 453,733 |
| | **(826,390)** | (292,330) |
| Cash used in investing activities | **(20,853)** | (218,409) |
| Cash received from financing activities | **945,500** | 365,000 |
| Effect of foreign currencies | **(82,863)** | (42,250) |
| **Net change in cash** | **15,394** | (187,989) |
| Opening cash balance | **30,634** | 218,623 |
| **Closing cash balance** | **$ 46,028** | $ 30,634 |

- Cash used in operating activities before changes in working capital for the year ended December 31, 2020 decreased when compared with the same period in 2019 in line with the decrease in general and administration costs. A portion of this decrease was offset by the payment made to the former CEO of the Company.

- The dividend received from Horzum AS, represents a portion of dividend declared in 2018. As at the end of December 31, 2020, $1.9 million (TRY10.9 million) remains to be collected from Horzum AS. The Canadian dollar equivalent of the amount receivable was negatively impacted by the rise of the Canadian dollar relative to the Turkish Lira.

- The change in working capital between periods is largely a function of timing of payable payments. The change from 2019 to 2020 is due to increases in accounts payable, accrued liabilities and amounts due to related parties.

- Cash used in investing activities in 2020 relates to a cash payment of US$15,000 ($19,589), made to extend the spending deadlines under the Gunman Project Agreement and miscellaneous costs incurred by Pasinex Arama at Pinargozu. In 2019, cash used relates to a cash payment of US$100,000 ($132,283), made to meet its obligation under the Gunman Project Agreement and also miscellaneous costs incurred by Pasinex Arama at Pinargozu.

- Cash received from shareholder loans
  - In 2018, the Company entered into loans with certain shareholders and directors of the Company (the "lenders") in the form of promissory notes amounting to $748,362 (includes $3,362 of accrued and unpaid interest). The promissory notes are payable on demand by the lenders and bear interest at 6% per annum, payable quarterly

in arrears commencing September 15, 2018. The promissory notes are secured by all the property and assets of the Company.

- During the year ended December 31, 2020, the Company received $905,500, from shareholders of the Company compared with net proceeds from shareholders of $365,000 in 2019. Subsequent to the year end, the Company received an additional $240,000 from a shareholder.

- On April 24, 2020, the Company applied for the Canada Emergency Business Account ("CEBA") interest-free loan. The Company received approval for up to $40,000 in interest free loans. To date the Company has drawn all $40,000 of the available amount. The loan balance must be repaid on or before December 31, 2022 in order to qualify for forgiveness of up to 25 percent of the amount drawn (up to $10,000). Interest will be charged at 5% per annum on unpaid amounts beginning on January 1, 2023.

**Commitments**

Pasinex through its wholly-owned subsidiary Pasinex Nevada, entered into an option agreement with Cypress Development Corp ("Cypress") and Caliber Minerals Inc. ("Caliber") (formerly named Silcom Systems Inc.) to earn up to an 80% interest in the Gunman Project located in White Pine County, Nevada ("Option Agreement"). The Option Agreement's total consideration to acquire an 80% interest is a combination of cash and Pasinex common shares. The Company must incur minimum exploration expenditures totalling US$2,950,000.

On September 12, 2019, the Company announced they reached an agreement with Cypress and Caliber to change the terms relating to the earn in option agreement by changing the date of the US$100,000 option payment to December 11, 2019 (paid) and deferred the 2019 exploration obligations to 2020.

On November 27, 2020, the Company entered into an additional amending agreement with Cypress and Caliber to extend the deadline for completion of the minimum exploration expenditures to December 31, 2022. Also, the deadline to acquire the additional 29% interest, as outlined below, has been extended to December 31, 2024. As part of the amending agreement the Company changed the name of the project to Gunman Project, agreed to pay US$15,000 to Cypress and is required to spend a minimum of US$200,000 by December 31, 2021 as a condition precedent for the effectiveness of the amending agreement.

The spending and associated ownership is as follows:

To acquire an initial 51% of the Gunman 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.
- In December 2019, a payment of US$100,000 cash and issuance of 200,000 Pasinex Common Shares (valued at $6,000) to Cypress.
- In addition, minimum exploration expenditures as defined in the Option Agreement must be spent as follows:
    - US$250,000 prior to December 5, 2018 (paid)
    - US$800,000 prior to December 5, 2019 (deferred to December 31, 2022 - spent US$645,000 to December 31, 2020)
    - US$800,000 prior to December 5, 2020 (deferred to December 31, 2022).

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

To acquire an additional 29% of the Gunman Project:

- Prior to December 5, 2021 (deferred to December 31, 2024) 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 underlying licenses are in good standing until September 2021.

**Financial Condition**

The application of the going concern concept assumes that the Company will continue in operation for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of operations. At December 31, 2020, the Company has a net deficit of $11,919,504 (2019 – $10,667,078) and has a working capital deficiency position of $3,310,551 (2019 – working capital deficiency position of $2,132,494), and had a net loss of $1,252,426 (2019 – net loss of $1,032,850) and negative cash flows from operations of $826,390 (2019 – negative cash flows from operations of – $294,298) for the year then ended and accordingly does not have enough cash on hand to fund its payables and its expected non-discretionary obligations for the next 12 months.

See Going Concern above for additional discussion related to the financial condition of the Company.

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

## Off-Balance Sheet Arrangements

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

## Commitments and Contingencies

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

## Share Capital

As of the date of this MD&A, the Company has 144,554,371 issued and outstanding common shares and an aggregate of 3,250,000 stock options outstanding.

## Transactions with Related Parties

### Related Party Balances and Transactions

Related parties and related party transactions impacting the accompanying consolidated financial statements are summarized below and include transactions with key management personnel, which include those persons having authority and responsibility for planning, directing and controlling the activities of the Company, as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities transacted with the Company during the 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, for similar transactions to non-key management personnel related entities on an arm's length basis.

A summary of the related party transactions are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| Management fees and salaries | **$ 331,320** | $ 311,430 |
| Consulting fees | **192,726** | 179,426 |
| Share-based payments | **28,500** | 18,000 |
| Interest expense on shareholder loans | **94,005** | 53,417 |
| | **$ 646,551** | $ 562,273 |

Amounts payable to related parties were as follows:

| | Due to Related Parties | | Shareholder Loans | |
|---|---|---|---|---|
| | As at December 31, | | As at December 31, | |
| | **2020** | 2019 | **2020** | 2019 |
| 7312067 Canada Limited [(1)] | **$ 141,384** | $ 94,620 | **$ -** | $ - |
| Larry Seeley [(2)] | **129,354** | 55,304 | **-** | - |
| Sven Olsson [(2)] | **4,877** | 4,870 | **107,739** | 101,996 |
| Joachim Rainer [(2)] | **5,000** | 5,000 | **-** | - |
| Jonathan Challis [(2)] | **14,250** | 3,515 | **-** | - |
| 1514341 Ontario Inc. [(3)] | **17,961** | 14,232 | **1,380,071** | 476,714 |
| Victor Wells [(4)] | **66,000** | 42,000 | **-** | - |
| Soner Koldas [(5)] | **97,718** | 68,187 | **-** | - |
| Seeley Holdings Ltd. [(6)] | **-** | - | **607,801** | 534,728 |
| Rainer Beteiligungsgesellschaft [(7)] | **1,905** | 1,779 | **70,673** | 53,341 |
| 2192640 Ontario Inc. [(8)] | **32,673** | 54,748 | **-** | - |
| | **$ 511,122** | $ 344,255 | **$ 2,166,284** | $ 1,166,779 |

(1) Steven Williams was the Chief Executive Officer of the Company until his resignation on August 25, 2020. 7312067 Canada Limited is controlled by Mr. Williams.
(2) Larry Seeley, Joachim Rainer and Jonathan Challis were directors of the Company at December 31, 2020 and December 31, 2019. Sven Olsson was a director of the Company until his resignation on March 31, 2019.
(3) 1514341 Ontario Inc. is a company controlled by Larry Seeley, a director of the Company.
(4) Victor Wells is a director of the Company.
(5) Soner Koldas is the General Manager of Pasinex AS and the Managing Director of Horzum AS.
(6) Seeley Holdings Ltd. is a company controlled by a family member of Larry Seeley, a director of the Company.
(7) Rainer Beteiligungsgesellschaft is owned by Joachim Rainer a director of the Company.
(8) 2192640 Ontario Inc. is a company controlled by Andrew Gottwald, the CFO of the Company.

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

To the knowledge of the directors and officers of the Company, as at December 31, 2020, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the common shares of the Company other than set out below:

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

## Review of Quarterly Consolidated Financial Statements

**Three Months Ended December 31, 2020 and 2019**

The following is a summary income statement for Pasinex:

| | Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| Equity gain from Horzum AS | **$ -** | $ - |
| Recovery (Impairment) of Horzum AS receivable | **16,066** | (209,016) |
| Exploration costs | **11,433** | (24,042) |
| General and administration costs | **(162,364)** | (232,102) |
| Interest expense | **(29,603)** | (15,356) |
| Share-based payments | **-** | - |
| Other income | **(3,623)** | 11,106 |
| Foreign exchange (loss) gain | **16,686** | 5,270 |
| **Net loss** | **$ (151,405)** | $ (464,140) |

- There were no dividends received during the fourth quarter of either 2020 or 2019 and therefore there was no equity gain reported in either of those periods.

- Pasinex Arama recorded an impairment recovery of approximately $0.016 million in the fourth quarter of 2020 compared with an impairment charge of $0.209 million in the fourth quarter of 2019. Pasinex Arama received payments, totaling TRY300,000 (approximately $0.05 million), from Horzum AS in the fourth quarter of 2020 for amounts it invoiced to Horzum AS. This amount was greater than the amounts billed to Horzum AS in the same period and as a result the Pasinex Arama recorded a recovery in the three months ended December 31, 2020.

- Exploration costs for Pasinex incurred in the fourth quarter for both 2020 and 2019 were for consulting fees for the Gunman Project.

- General and administration costs

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

| | Three Months Ended December 31, 2020 | 2019 |
|---|---|---|
| **General and administration costs** | | |
| Advertising and promotion | **$ 1,314** | $ 1,548 |
| Consulting fees | **45,832** | 42,744 |
| Investor relations | **5,034** | 246 |
| Management fees and salaries | **24,159** | 54,504 |
| Office and general | **3,357** | 19,217 |
| Professional fees | **73,892** | 62,520 |
| Transfer agent and regulatory fees | **532** | 10,005 |
| Travel and meals | **9,945** | 39,503 |
| Other | **(1,701)** | 1,815 |
| | **$ 162,364** | $ 232,102 |

- In general, Pasinex has reduced its overall spending on elective general and administrative costs during the three months ended December 31, 2020 compared with the same period in 2019 in order to conserve cash.

- The were no share-based payments in the fourth quarters of 2020 and 2019.

Below are the statements of operation for Horzum AS for the fourth quarter of 2020 and 2019 with a reconciliation to the Company's equity gain as shown above.

| *(100% basis Canadian dollars)* | Three Months Ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| Revenue | **$ 983,042** | $ 7,440,654 |
| Cost of sales | **(1,136,508)** | (7,265,192) |
| Selling, marketing and other distribution | **(51,831)** | (175,556) |
| Operating loss | **(205,297)** | (94) |
| Recovery (Impairment) of Akmetal receivable | **3,171,372** | (10,505,549) |
| General and administration expenses | **(102,231)** | (117,967) |
| Foreign exchange (loss) gain on receivable | **(1,788,031)** | 8,367,404 |
| Finance recovery (expense) | **112,600** | (274,523) |
| Other | **(83,630)** | (557,842) |
| | **1,104,783** | (3,088,571) |
| Income tax expense | **(13,429)** | (605,463) |
| Net income (loss) | **$ 1,091,354** | $ (3,694,034) |
| Pasinex joint venture interest | **50%** | 50% |
| Share of net income (loss) | **545,677** | (1,847,017) |
| (Decrease) Increase of prior year equity losses | **(545,677)** | 1,847,017 |
| Dividend received | **-** | - |
| Equity gain from Horzum AS | **$ -** | $ - |

The table below shows further details on Horzum AS revenue:

| *(100% basis Canadian dollars)* | Three Months Ended December 31, 2020 | | | Three Months Ended December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Wet Tonnes** | | **CAD** | **Wet Tonnes** | | **CAD** |
| Zinc oxide product sales | **2,962** | **$** | **1,274,381** | 15,115 | $ | 6,828,725 |
| Zinc sulphide product sales | **55** | | **46,868** | 457 | | 253,155 |
| Lead product sales | **-** | | **-** | 109 | | 121,272 |
| Other sales | **-** | | **7,480** | - | | 33,654 |
| Final sales adjustments | **-** | | **(345,687)** | - | | 203,848 |
| **Total revenue** | **3,017** | **$** | **983,042** | 15,681 | $ | 7,440,654 |

Revenues were higher in the fourth quarter of 2019 compared to the same period of 2020 as a result of higher quantities of material sold, which included a number of higher priced zinc sulphide product tonnes. There were also a number of sales that were finalized in the fourth quarter of 2019. With the lower production and almost immediate sales during 2020 there were far fewer tonnes available to be sold in the fourth quarter. In both 2019 and 2018, there were sales price adjustments that were made related to sales in a prior period.

Cost of sales at Horzum AS were higher in 2019 compared with the same quarter in 2020 primarily reflecting the related corresponding higher sales total. The cost of sales in the fourth quarter of 2020 includes a portion of the cost to develop the fourth adit. As well, cost of goods sold in the fourth quarter of 2019 includes approximately $1.6 million in final price adjustments related to prior quarters. The gross margin (see non-GAAP measures) for the fourth quarter of 2019 was 20% compared with 23% for the same period in 2020.

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

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | | **2020** | | 2019 |
| **Cash used in operating activities** | | | | |
| Before changes in working capital | **$** | **(138,851)** | $ | (238,210) |
| Dividend from Horzum AS | | **-** | | - |
| Changes in working capital | | **23,769** | | 120,121 |
| | | **(115,082)** | | (118,089) |
| Cash used in investing activities | | **(19,291)** | | (115,614) |
| Cash received from financing activities | | **120,000** | | 190,000 |
| Effect of foreign currencies | | **(81,663)** | | (41,523) |
| **Net change in cash** | | **(96,036)** | | (85,226) |
| Opening cash balance | | **142,064** | | 115,860 |
| **Closing cash balance** | **$** | **46,028** | $ | 30,634 |

As with the annual results, the cash used in operating activities before changes in working capital for the fourth quarter of 2020 decreased when compared with the same period in 2019 in line with the decrease in general and administration costs. Also as noted in the annual review of cash flows, the cash used in investing activities in the fourth quarter of 2020 relates to a cash payment of US$15,000 ($19,589) versus a payment of US$100,000 ($132,283) in 2019, both made to meet its obligation under the Gunman Project Agreement. Cash received from financing activities represent cash received from a shareholder in both the fourth quarter of 2020 and 2019.

## Selected Consolidated Quarterly Financial Data

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

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 2020 | Sept 2020 | June 2020 | March 2020 | Dec 2019 | Sept 2019 | June 2019 | March 2019 |
| Financial: | | | | | | | | |
| Equity gain (loss) from Horzum AS | $ - | $ - | $ - | $ 3,298 | $ - | $ 135,701 | $ 286,383 | $ 250,055 |
| Adjusted equity gain (loss) from Horzum AS [(1)] | $ (83,836) | $ 101,173 | $ (26,257) | $ 172,036 | $ 2,502,731 | $ 1,688,233 | $ (352,513) | $ 127,236 |
| Consolidated net loss | $ (151,405) | $ (408,615) | $ (295,958) | $ (396,448) | $ (464,140) | $ (245,251) | $ (108,609) | $ (214,850) |
| Adjusted consolidated net income (loss) [(1)] | $ (251,307) | $ (330,985) | $ (288,554) | $ (193,788) | $ 2,038,591 | $ 1,307,281 | $ (747,505) | $ (337,669) |
| Basic and diluted net loss per share | $ - | $ (0.01) | $ - | $ - | $ (0.01) | $ - | $ - | $ - |

[(1)] See non-GAAP measures.

The joint venture is equity accounted for In 2018, the net loss of the joint venture was so large after the impairment of the Akmetal receivable was recorded that the equity loss was capped so the investment would not be below zero. In 2019, the quarterly equity gains represent dividends received from Horzum AS. Equity gains reduce the remaining equity loss that was recorded in 2018 and net losses increase the unrecorded equity loss.

Quarterly adjusted equity gains add back the impairment, net of foreign exchange and income tax impacts, to arrive at the equity gains achieved by the joint venture. Quarterly consolidated net income or loss has varied primarily due to the variability of the equity gain or loss recorded from the joint venture. A general reduction in general and administrative costs along with a reduction in exploration costs has reduced the consolidated net loss during the quarters in 2020. The third quarter of 2020 included a one-time lump sum payment to the former CEO of the Company. The quarterly adjusted consolidated net income or loss variability is primarily due to the variability of the adjusted equity gain or loss as described above.

## Financial Instruments and Capital Disclosures

In accordance with IFRS, the Company shall disclose the comparison of carrying amounts and fair values of the Company's financial instruments that are carried in the consolidated financial statements. As of December 31, 2020 and 2019, the fair values of the financial assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments, except for cash and marketable securities which are measured at fair value based on price quotations at the reporting date.

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

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

| **As at December 31, 2020** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ **46,028** | $ **-** | $ **-** | $ **46,028** |

| **As at December 31, 2019** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ **30,634** | $ **-** | $ **-** | $ **30,634** |

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

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

a) Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is attributable to its cash balances, trade receivables and related party receivables. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada and in Turkey. Management believes that the credit risk with respect to trade receivables is remote because of receipt of upfront payments from most customers. The credit risk on related party receivables has been assessed as high. In addition to the credit risk of the Akmetal receivable, Pasinex Arama has a trade receivable amount owing from Horzum AS. The credit risk on this amount has assessed as high as a result of the loan receivable collectability issues Horzum AS is facing. The maximum credit risk exposure relating to financial assets is represented by their respective carrying values as at the date of the consolidated statements of financial position.

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, 2020, the Company had a cash balance of $46,028 (2019 - $30,634) and current liabilities of $3,414,502 (2019 - $2,232,064). 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 the discussion on going concern.

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, 2020, the translation of the assets and liabilities of Pasinex Arama resulted in foreign currency translation adjustments of $(49,468) (2019 - $24,748) recorded in other comprehensive loss. For the year ended December 31, 2020, 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 $33,000 higher/lower.

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

(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, 2020, if the price of zinc increased/decreased by 10% with all other variables held constant, consolidated net loss and comprehensive loss would have been approximately $nil 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 2020. To adjust or maintain the capital structure, the Company may issue new equity, incur debt, enter into joint venture arrangements, or dispose of certain assets. The Company's key policy guidelines for managing capital structure is to ensure there is enough funding to complete its commitments under option agreements and other growth initiatives while maintaining a conservative level of debt relative to total capital and earnings within the context of its financial forecasts for pricing, costs and production.

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

## Non-GAAP measures

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

Adjusted equity (loss) gain from Horzum AS

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

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Reconciliation of adjusted equity (loss) gain:** | | | | |
| Equity gain as per Pasinex statement of loss | **$ -** | $ - | **$ 3,298** | $ 672,139 |
| Add back from Horzum AS statement of operation: | | | | |
| 50% of impairment of Akmetal receivable | **(1,585,686)** | 5,252,775 | **4,430,156** | 8,663,542 |
| 50% of foreign exchange gain on receivable | **956,173** | (903,026) | **(4,360,288)** | (1,910,610) |
| Income tax effect of above add backs | **-** | - | **-** | - |
| Recognition (increase) of prior year equity losses | **545,677** | (1,847,017) | **93,248** | (2,787,244) |
| Receipt of dividend recorded as equity gain | **-** | - | **(3,298)** | (672,139) |
| **Adjusted equity (loss) gain** | **$ (83,836)** | $ 2,502,731 | **$ 163,115** | $ 3,965,688 |

Adjusted consolidated net (loss) income

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

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Reconciliation of adjusted consolidated net (loss) income:** | | | | |
| Net loss as per Pasinex statement of income | **$ (151,405)** | $ (464,140) | **$ (1,252,426)** | $ (1,032,850) |
| Add back (deduct): | | | | |
| Impairment (recovery) of Horzum AS receivable | **(16,066)** | - | **27,974** | - |
| Equity gain from Horzum AS | **-** | - | **(3,298)** | (672,139) |
| Adjusted equity (loss) gain | **(83,836)** | 2,502,731 | **163,115** | 3,965,688 |
| **Adjusted consolidated net (loss) income** | **$ (251,307)** | $ 2,038,591 | **$ (1,064,635)** | $ 2,260,698 |

Cost per tonne mined

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

| | Three Months Ended December 31, 2020 | Three Months Ended December 31, 2019 | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---|---|---|---|---|
| **Reconciliation of cost per tonne mined** | | | | |
| Cost of sales per Horzum AS income statement | **$ 1,136,508** | $ 7,265,192 | **$ 3,749,925** | $ 9,709,101 |
| Cost of sales adjustments related to a prior period | **(10,963)** | (1,633,195) | **10,527** | - |
| Cost of sales related to other items | **-** | - | **(20,589)** | - |
| Inventory change | **(155,303)** | (4,535,362) | **57,538** | (1,934,247) |
| | **$ 970,242** | $ 1,096,635 | **$ 3,797,401** | $ 7,774,854 |
| Tonnes mined | **2,954** | 3,516 | **12,123** | 17,812 |
| **CAD Cost per tonne mined** | **$ 328** | $ 312 | **$ 313** | $ 436 |

US$ cash cost per pound of zinc produced

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

| | | Three Months Ended December 31, 2020 | Three Months Ended December 31, 2019 | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---|---|---|---|---|---|
| **Reconciliation of US$ cash cost per pound of zinc product mined** | | | | | |
| Cost of sales per Horzum AS income statement adjusted for cost of sales adjustments and inventory change | | **$ 970,242** | $ 1,096,635 | **$ 3,797,401** | $ 7,774,854 |
| Less - sales of lead product | | **-** | (121,272) | **(134,915)** | (121,272) |
| | | **970,242** | 975,363 | **3,662,486** | 7,653,582 |
| Translate to US$ | A | **$ 744,622** | $ 738,912 | **$ 2,730,753** | $ 5,859,854 |
| Zinc product tonnes mined (wet) | | **2,954** | 3,516 | **12,123** | 17,812 |
| Zinc product grade mined | | **29%** | 39% | **30%** | 38% |
| Moisture loss | | **8%** | 7% | **7%** | 7% |
| Pounds of zinc product mined | B | **1,706,946** | 2,811,449 | **7,461,046** | 13,877,556 |
| US$ cash cost per pound of zinc product mined | A/B | **$ 0.44** | $ 0.26 | **$ 0.37** | $ 0.42 |

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

Gross margin

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

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Reconciliation of gross margin** | | | | |
| Operating income per Horzum AS income statement | **$ (205,297)** | $ (94) | **$ 604,650** | $ 4,581,134 |
| Add back final price adjustments for Revenue and Cost of Goods Sold related to other periods | **513,988** | 1,429,347 | **(40,328)** | 518,942 |
| Gross margin | **$ 308,691** | $ 1,429,253 | **$ 564,322** | $ 5,100,076 |
| Revenue (excluding price adjustments related to other periods and other sales) | **$ 1,329,097** | $ 7,236,806 | **$ 4,406,430** | $ 15,160,105 |
| Gross margin (gross margin / revenue) | **23%** | 20% | **13%** | 34% |

## Risks and Uncertainties

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

### Risks to Profitability

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

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

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

**Reliability of Mineral Resource Estimates**

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

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

**Exploration Risk**

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

**Commodity Markets**

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

**Market Fluctuation and Commercial Quantities**

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

**Option and Joint Venture Agreements**

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

**Property Titles**

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

**Financing Risks**

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

**Mining Risks and Insurance**

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

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

**Risks Related to Operations in a Foreign Jurisdiction**

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

**Government Regulations, Permitting and Taxation**

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

### Health, Safety and Community Relations

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

### Environmental Protection

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

### Reliance on Key Personnel

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

### Competitive Industry Environment

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

**Global Financial Conditions**

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

**Infrastructure**

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

## Use of Accounting Judgements and Estimates

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

## Disclosure of Internal Controls

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

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

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

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

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

## Additional Information

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