
Pasinex Resources Limited

Management's Discussion & Analysis

For the Three Months Ended March 31, 2019 and 2018

Discussion dated: May 28, 2019

Introduction

The following interim Management Discussion & Analysis ("Interim MD&A") of Pasinex Resources Limited (the "Company" or "Pasinex") for the three months ended March 31, 2019 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last annual management discussion & analysis, being the Management Discussion & Analysis ("Annual MD&A") for the fiscal year ended December 31, 2018. This Interim MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This Interim MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's Annual MD&A, audited annual consolidated financial statements for the years ended December 31, 2018 and 2017, together with the notes thereto, and unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. Where the Turkish Lira is reported it is referenced as TRY. The Company's unaudited condensed interim consolidated financial statements and the financial information contained in this Interim MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Accordingly, information contained herein is presented as of May 28, 2019, unless otherwise indicated.

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.

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

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

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

Description of Business

Pasinex Resources Limited ("Pasinex" or the "Company") is a publicly listed company incorporated in British Columbia. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "PSE" and on the Frankfurt Stock Exchange ("FSE") under the symbol "PNX".

Pasinex owns 50% of Horzum Maden Arama ve İşletme Anonim Şirketi ("Horzum AS") which holds the producing Pinargozu high grade zinc mine. The other 50% owner is Akmetal Madencilik Sanayi ve Ticaret A.S. ("Akmetal"), a private Turkish company. Under a direct shipping program, Horzum AS sells to zinc smelters / refiners. The Company accounts for its 50% joint venture interest as an equity accounted investment where its proportionate share of income is recorded as an equity gain in the statements of income and comprehensive income.

The Company also holds an option to acquire 80% of the Spur Zinc Project, a high-grade zinc exploration project in Nevada ("Spur Zinc Project").

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Selected Quarterly Consolidated Information

	Three Months Ended	
	March 31	
	2019	2018
Financial:		
Equity gain from Horzum AS	\$ 250,055	\$ 2,984,186
Adjusted equity gain from Horzum AS ⁽¹⁾	\$ 920,130	\$ 2,984,186
Dividend received from investment in Horzum AS	\$ 250,055	\$ 388,593
Consolidated net income (loss)	\$ (214,850)	\$ 726,021
Adjusted consolidated net income ⁽¹⁾	\$ 455,225	\$ 2,412,621
Basic net income per share	\$ 0.00	\$ 0.01
Diluted net income per share	\$ 0.00	\$ 0.01
Cash provided by (used in) operating activities	\$ 9,064	\$ (17,859)
Weighted average shares outstanding	144,354,371	142,154,370

As at:	March 31	December 31
Investment in Horzum AS	\$ -	\$ -
Total assets	\$ 2,184,370	\$ 2,280,793
Total liabilities	\$ 1,443,096	\$ 1,314,222
Equity	\$ 741,274	\$ 966,571

Horzum AS operational data (100% basis):

Zinc produced (wet) tonnes	6,787	13,037
Zinc sold (wet) tonnes	7,659	12,721
Zinc grade	30%	35%
Gross margin ⁽¹⁾	59%	75%
C\$ cost per tonne mined ⁽¹⁾	\$ 257	\$ 190
US\$ cash cost per pound of zinc produced ⁽¹⁾	\$ 0.31	\$ 0.18

⁽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 and decreases when dividends are paid.
- Horzum AS cash flow is only reflected when dividends are received from Horzum AS to Pasinex.

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Highlights

Financial Highlights

- For the three months ended March 31, 2019 Pasinex incurred a \$0.2 million loss compared to net income of \$0.7 million for the three months ended March 31, 2018. The decrease in net income is largely due to lower equity gains from Horzum AS.
- Included in the 2019 equity gain is an impairment charge on the receivable from Akmetal of \$0.5 million related to zinc material used by Akmetal. Included in 2018 consolidated net income is a \$1.7 million impairment charge on the write down of the Golcuk property. Adjusted net income, which removes the impact of the impairments, was \$0.5 million for the first quarter of 2019 and compares to \$2.4 million adjusted net income for the same period in 2018.
- The equity gain from Horzum AS for the three months ended March 31, 2019 was \$0.3 million and the adjusted equity gain from Horzum AS, which adjusts for the receivable impairment, was \$0.9 million. This compares to an equity gain of \$3.0 million for the same period in 2018. The decrease in adjusted equity gain was largely due to lower sales volumes at lower zinc prices.
- The impairments are due to the following:
 - Impairment on receivable from Akmetal – \$0.5 million impairment charge was included in equity gain from Horzum AS. The full amount of the receivable owing from Akmetal to Horzum AS was written down to zero in 2018 to reflect a significantly increased credit risk. In the first quarter of 2019, Akmetal used approximately 4,000 tonnes of zinc oxide at a cost of approximately \$1 million (100% basis). This amount was recorded as a receivable from Akmetal and then written down to zero (see further details below).
 - First quarter 2018 - Impairment on the Golcuk property – a \$1.7 million charge was recorded in consolidated net income. In 2018, the Company completed an extensive geological review of the Golcuk property and made the decision to not advance it further. The fair value has been estimated at zero and including costs to dispose of \$0.4 million, an impairment charge of \$1.7 million was recorded.
- On May 10, 2019, the Company entered into a legally binding debt repayment agreement (“Debt Agreement”) with Akmetal and Horzum AS. The debt repayments will be made by means of Akmetal's delivery of all sulphide zinc and some oxide zinc material from its wholly owned Horzum mine. Horzum AS will sell the material and proceeds from sale will be used to repay the debts owing. Akmetal will guarantee a minimum of 300 tonnes of zinc material per month. In addition, a portion of proceeds from sale of certain other of Akmetal assets will also be used to repay the debts owing. The Debt Agreement provides a legal mechanism for Horzum AS to receive payment of the debts owing but it still does not demonstrate credit worthiness from Akmetal and as a result the receivable remains written down to zero. The Company will continue to vigorously pursue receipt of funds from Akmetal and re-assess the expected credit losses on a regular basis. Any recovery of the receivable will be recorded in the equity gain from Horzum AS.

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Going Concern

- At March 31, 2019 the Company's cash balance was \$0.2 million with \$0.7 million in current payables, excluding shareholder loans payable.
- The Company relies on dividends from Horzum AS to fund its spending. The 2019 production forecast for Pinargozu is approximately 19,000 tonnes (half of 2018 production), but in combination with the sale of inventory on hand at January 1, 2019 there should be adequate cash flow to fund operations at Horzum AS as well as fund non-discretionary spending at Pasinex for the next twelve months. Drilling will continue through 2019 at Pinargozu to find a parallel oxide system in an effort to increase 2019 production.
- In May 2019, the Company entered into a Debt Agreement with Akmetal to resolve the collectability of the trade receivable owing from them to Horzum AS. The terms of the Debt Agreement include a minimum amount of repayments on a monthly basis plus the chance for additional repayments from proceeds Akmetal would receive from sale of its other assets (see *Loan Receivable – Akmetal*).
- In March and April of 2019 Akmetal used approximately 6,300 tonnes of oxide from Horzum AS to fulfill an obligation to one of its customers. The oxide used by Akmetal has been included in the Debt Agreement, but management is pursuing alternatives with Akmetal to have the material returned expeditiously. If all the material is not replaced in 2019 and only minimum payments are made under the Debt Agreement, the cash flows from Horzum AS would be significantly reduced.
- The Company will vigorously push Akmetal to swiftly return to Horzum AS the 6,300 tonnes of oxide they used and repay more significant amounts of the debts owing through 2019. If this happens, Horzum AS should be able to deliver steady dividends to its partners. In the absence of these dividends the Company would need to secure funding from either equity financing or additional related party loans. In May 2019 the Company received an additional \$100,000 from a shareholder to pay for certain overdue administration costs. There can be no assurance that the Company will be able to generate sufficient dividends from Horzum AS nor be able to generate funds from other sources.

Pinargozu Operations and Horzum AS Financial Update (100% basis)

- Pinargozu produced 6,787 tonnes of material in the first quarter of 2019 compared to 13,037 tonnes produced in the first quarter of 2018. As expected, mine production decreased in 2019 – producing almost half of what was produced in the first quarter of 2018 because of difficulties in gaining access to the available ore.
- Similar to production, sales volumes are down between years, at 7,659 tonnes in first quarter 2019 and 12,721 tonnes in the same period in 2018.
- Lower sales volumes at lower zinc prices resulted in lower gross sales between periods. Gross sales for the first quarter of 2019 were \$4.3 million compared to \$9.5 million in 2018. Zinc prices were lower in 2019 because the LME price was lower plus Horzum AS did not sell any of the higher priced sulphides in the first quarter of 2019, whereas in the first quarter of 2018 1,700 tonnes of sulphide were sold.
- The average grade of the zinc product sold in the first quarter of 2019 was 30%, representing approximately 4.7 million pounds of contained zinc metal. This compares to approximately 9.1 million pounds sold in the first quarter of 2018 at an average grade of 35%.
- Cash costs per pound of production were higher between periods mainly because of the lower production.
- Gross margins (after accounting for all operational costs) are strong at 59% in 2019 despite of the lower sales volumes and prices. This compares to 75% in 2018.

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Review of Quarterly Consolidated Financial Statements

Quarters Ended March 31, 2019 and 2018

The following is a summary income statement for Pasinex:

<i>(100% basis Canadian dollars)</i>	Three Months Ended March 31	
	2019	2018
Equity gain from Horzum AS	\$ 250,055	\$ 2,984,186
Impairment charge	-	(1,686,600)
Exploration costs	(42,803)	(41,859)
General and administration costs	(429,694)	(551,846)
Other income	7,592	22,140
Net income (loss)	\$ (214,850)	\$ 726,021

- Equity gain from Horzum AS represents the Company's 50% share of the net income of Horzum AS. Horzum AS is considered a joint venture for accounting purposes and as such the Company records its share of net income on one line in the income statement. Further details on the results of Horzum AS follows below – *Review of Horzum AS*.
- Exploration costs represent consulting at the Spur Zinc Project.
- In 2018, the Company completed an extensive geological review including mapping, structure, mineralization and geological model/genesis and took the decision to not advance the Golcuk property. Although there is evidence of copper throughout the property the Company believes that it will be difficult to get sufficient contiguous mineralization that would underpin the Company's targets for economical tonnage. The license for the property will be relinquished back to the Turkish government. The fair value has been estimated at zero which resulted in an impairment charge of \$1.7 million in 2018.

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- General and administration costs include the following:

	Three Months Ended	
	March 31	
	2019	2018
General and administration costs		
Advertising and promotion	\$ 28,166	\$ 22,509
Consulting fees	96,197	86,196
Management fees and salaries	118,866	124,546
Share-based payments	-	68,634
Investor relations	9,273	88,846
Professional fees	37,418	36,494
Travel and meals	93,818	85,687
Office costs	28,580	22,576
Other expenses	17,376	16,358
	\$ 429,694	\$ 551,846

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

- Stock options issued:
 - On December 4, 2017, 1 million stock options were granted to an employee of the Company at a price of \$0.25 each, expiring December 4, 2022. 400,000 of these stock options vested immediately and the remaining 600,000 stock options vested over a six-month period from date of grant. The fair value of the stock options at the date of grant was \$202,000 of which \$98,780 was expensed in 2017 and the balance of \$103,220 expensed in 2018 (of which \$59,934 was expensed in the first quarter of 2018).
 - On January 24, 2018, 50,000 stock options were granted to a consultant of the Company at a price of \$0.20 each, expiring January 24, 2023. The stock options vested immediately and the fair value of the stock options at the date of grant of \$8,700 was fully expensed in 2018.
- Investor relation costs decreased as a measure to reduce non-discretionary spending in 2019.

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Review of Horzum AS

Key Performance Indicators

(shown on a 100% basis)

	Three Months Ended	
	March 31	
	2019	2018
Tonnes produced (wet)	6,787	13,037
Tonnes sold (wet):		
Zinc oxide	7,659	10,904
Zinc sulphide	-	1,700
Lead	-	117
	7,659	12,721
Average grades:		
Zinc oxide	30%	34%
Zinc sulphide	-	42%
C\$ cost per tonne mined ⁽¹⁾	\$ 257	\$ 190
Equity gain (loss)	\$ 250,055	\$ 2,984,186

⁽¹⁾ See non-GAAP measures

Operating results

- Production at Pinargozu decreased in 2019 compared to 2018. As expected, difficult access to available ore resulted in lower production tonnage. The lower tonnage resulted in increased cost per tonne mined.

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Financial results

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

Below are the statements of operation for Horzum AS for the three months ended March 31, 2019 and 2018 with a reconciliation to the Company's equity gain as shown on the Pasinex consolidated financial statements.

(100% basis Canadian dollars)

	Three Months Ended March 31	
	2019	2018
Revenue	\$ 4,254,339	\$ 9,497,707
Cost of sales	(1,647,247)	(2,312,987)
Selling, marketing and other distribution	(118,123)	(47,160)
Operating income	2,488,969	7,137,560
General and administration costs	(122,244)	(185,804)
Impairment of Akmetal receivable	(1,037,741)	-
Other	(1,819)	722,696
	1,327,166	7,674,452
Income tax expense	(524,647)	(1,706,080)
Net income	\$802,519	\$ 5,968,372
Pasinex joint venture interest	50%	50%
Share of net income (loss)	401,260	2,984,186
Recognition of prior year losses	(401,260)	-
Dividend received	250,055	-
Equity gain from Horzum AS	\$ 250,055	\$ 2,984,186

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Revenue

The table below shows further details on revenue:

<i>(100% basis)</i>	Three Months Ended		Three Months Ended	
	March 31, 2019		March 31, 2018	
	<i>(wet tonnes)</i>	<i>(C\$)</i>	<i>(wet tonnes)</i>	<i>(C\$)</i>
Zinc oxide sales	7,659	\$ 4,254,339	10,904	\$ 7,417,580
Zinc sulphide sales	-	-	1,700	1,924,837
Lead sales	-	-	117	155,290
Total revenue	7,659	\$ 4,254,339	12,721	\$ 9,497,707

Revenues have decreased year over year mainly due to lower zinc prices and lower sales volumes. Lower zinc prices are a result of a lower market price for zinc in 2019 coupled with the fact that no zinc sulphide was sold yet in 2019. Sulphides demand a higher price. The average LME zinc price for the first quarter of 2019 was US\$1.23 per pound as compared to US\$1.55 per pound in the first quarter of 2018.

Costs and other income/expense

Costs have decreased in 2019. Lower production resulted in lower variable mining costs, including fuel, vehicle expenses, explosives and ground support. Drilling costs remain consistent between periods. In addition the TRY based costs when translated to Canadian dollars reduces the Canadian dollar costs because of the weaker TRY to the Canadian dollar.

Impairment of Akmetal receivable is described below, *Loan receivable - Akmetal*.

Income tax expense

The statutory rate for income taxes in 2019 and 2018 is at a rate of 22%. The following is a reconciliation of the expected income tax expense using the statutory rate compared to the actual income tax expense:

<i>(100% basis Canadian dollars)</i>	Three Months Ended March 31	
	2019	2018
Income before income tax expense	\$ 1,327,166	\$ 7,674,452
Statutory tax rate	22%	22%
Expected income tax expense	(291,977)	(1,688,379)
Non deductible expenses	(4,367)	(17,701)
Tax recovery not recognized on impairment of Akmetal receivable	(228,303)	-
Income tax expense	\$ (524,647)	\$ (1,706,080)

Recognition of prior year losses

In 2018, the equity loss from Horzum AS was greater than its investment value so the loss was capped so the investment would not be less than zero. The unrecognized loss is to be applied against future equity gains. In the three months ended March 31, 2109 the equity gain of \$401,260 reduced the carryforward losses.

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Financial condition

The following are summary balance sheets for Horzum AS:

<i>(100% basis)</i>	As at March 31 2019	As at December 31 2018
Assets		
Cash and prepaid expenses	\$ 1,119	\$ 9,079
Loan receivable - Akmetal	27,986,371	14,859,606
Trade receivables - Akmetal	-	12,580,043
Less - discount and allowance on Akmetal receivables	(27,986,371)	(27,439,649)
Trade receivables - other	672,729	538,393
Other current assets	883,346	2,295,348
Non current assets	2,268,252	2,017,622
Total assets	\$ 3,825,446	\$ 4,860,442
Liabilities		
Amounts due to shareholders and related parties	\$ 3,386,255	\$ 3,970,164
Other liabilities	7,978,461	9,955,192
	11,364,716	13,925,356
Equity	(7,539,270)	(9,064,914)
Total liabilities and equity	\$ 3,825,446	\$ 4,860,442

Loan receivable – Akmetal

On May 10, 2019, the Company entered into a legally binding debt repayment agreement (“Debt Agreement”) with Akmetal and Horzum AS. The debt owing from Akmetal to Horzum AS as at March 31, 2019 includes (i) the former loan receivable and trade receivable from Akmetal that arose when Akmetal was selling Horzum AS zinc material; (ii) the cost of approximately 4,000 tonnes of oxide material Akmetal used in March 2019; and (iii) \$1.2 million in loan payments made to a customer on behalf of Akmetal (see *Commitments* below) (the “Debt”). All of this Debt is to be consolidated in the Akmetal parent entity. The Debt repayments will be by means of Akmetal’s delivery of all sulphide zinc and some oxide zinc material from its wholly owned Horzum mine. Horzum AS will sell the material and proceeds from the sale will be used to repay the Debt. Akmetal will guarantee a minimum of 300 tonnes of zinc material per month. In addition, a portion of proceeds from sale of certain other of Akmetal assets will also be used to repay the Debt. In addition, the Debt Agreement provides other enhancements to the Joint Venture Agreement and will terminate by December 31, 2020.

By the end of April 2019, Akmetal used approximately 6,300 tonnes of Horzum AS zinc oxide material. At March 31, 2019, 4,000 tonnes were included as Debt. The Company will continue to find alternatives to resolve the replenishment of this inventory on a quicker timeline. This inventory along with 2019 sales projections are needed to ensure sufficient cash flow is available to fund the Horzum AS operations, pay dividends to Pasinex and fund Horzum’s net working capital deficit of \$9.7 million.

During the year ended December 31, 2018, since Horzum AS did not receive any payment from Akmetal on the receivables outstanding for over nine months, along with liquidity issues Akmetal was facing during this same period, the Company acknowledged that the credit risk on the Akmetal receivables had increased significantly and there was evidence of impairment. As a result, under the requirements of IFRS 9, management underwent an exercise to calculate its expected credit losses on the Akmetal receivables. Due to Akmetal’s liquidity issues, past performance of

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non-payment (or default) along with the additional usage of Horzum AS inventory in 2019, management had assessed the probability of credit losses to be high.

As a result, as required under IFRS 9, the Company took a full impairment charge of the loan and trade receivables at December 31, 2018. Entering into the legally binding Debt Agreement provides a legal mechanism for Horzum AS to receive payment of the Debt but it still does not demonstrate credit worthiness from Akmetal and as a result the receivable remains written down to zero and additions to the receivable from usage of inventory by Akmetal have been written down to zero as well. The Company will continue to vigorously pursue receipt of funds from Akmetal and re-assess the expected credit losses on a regular basis. Any recovery of the receivable will be recorded in the equity gain from Horzum AS.

Amounts due to shareholder and related parties

Amounts due to shareholders and related parties includes the dividend payable to Pasinex Arama of \$3.3 million (3.7 million at December 31, 2018).

Other liabilities

These liabilities include income taxes payable and mining royalties payable. The decrease from 2018 is a result of payments made on December liabilities net of additional taxes and royalties payable from 2019 results. Mining royalties are payable to the government based on a formula of 2% of production value plus 30% of 4% of production value.

Equity

The increase in equity from December 31, 2018 is due to net income from the first quarter of 2019.

Commitments

On October 16, 2018, Akmetal entered into a US\$1.2 million loan facility with one of its customers for overpayments received on advanced provisional invoice payments received earlier in 2018. Horzum AS is a guarantor to the loan facility and recorded the full amount as a current liability. Akmetal did not make payments against the loan facility, but Horzum AS paid US\$900,000 (\$1.2 million) to this customer.

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Expectations for 2019

(100% basis)	Original Guidance for the Year Ended December 31, 2019		Revised Guidance for the Year Ended December 31, 2019	
	(wet tonnes)	(grade)	(wet tonnes)	(grade)
Zinc oxide production	9,000 - 10,000	29% to 31%	17,000 - 18,000	29% to 31%
Zinc sulphide production	5,000 - 7,000	45% to 47%	1,000 - 2,000	45% to 47%
	14,000 - 17,000		18,000 - 20,000	
		(C\$)		(C\$)
Cost per tonne mined		\$450 - \$500		\$400 - \$450

- Revised guidance is the same as disclosed in the MD&A dated April 30, 2019.
- Horzum AS is going through a transition year in 2019. The known accessible oxide ore is depleting. As such the company is engaged in a significant mine development program to open-up sulphide mineralization known to be at depth by new access through either a spiral development or use of an additional adit. This development is underway but has encountered strong water ingress at depth. This water ingress has delayed development while the company works on a water control mitigation strategy. At this stage there is anticipated to be a production hiatus later in 2019 while development is completed for access to the deeper mineralization which may be delayed into 2020 before production can begin on the deeper sulphide mineralization.
- The production forecast for 2019 is significantly lower than 2018 production due to the transition as described above. The revised guidance reflects production of additional oxide ore that was discovered in the first quarter of 2019 and a delay in the hiatus in production required for the development until late in 2019.
- As development work is prioritized over production in 2019, the cost per tonne mined will increase because development costs are expensed against reduced production resulting in an estimated cost per tonne mined of between \$400 and \$450 per tonne. Costs incurred during the production downtime are not included in the cost per tonne mined guidance for 2019.
- Original and revised guidance assumes TL/C\$ exchange rate of 4.0. Cost per tonne mined includes underground development and drilling. Revised guidance includes actual results to date and estimates for the remainder of the year based on the mining plan.
- 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.

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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 for the first quarter of 2019 was US\$1.23 per pound compared to US\$1.55 per pound in the first quarter of 2018, but the price has been increasing steadily from the fourth quarter of 2018 where it averaged US\$1.19 per pound. The zinc price is around US\$1.21 per pound at the time of preparing this report. The fundamentals of supply and demand still demonstrate continuing strength in the zinc price and because of the low-cost structure of Horzum, gross margins would be expected to remain strong.

Horzum AS sells their product in US dollars and to a lesser extent in Euros which are then converted to Turkish Lira. As such, Horzum AS's financial performance also depends on the TRY to US Dollar (USD). The USD / TRY exchange rate has changed in 2019, from 5.3 at the end December 2018 to 5.6 at March 31, 2019. 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 TRY based 13 million dividend still owing.

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Liquidity and Financial Position

Cash Flows

A summary of the Company's cash flows is as follows:

	Three Months Ended	
	March 31	
	2019	2018
Cash provided by (used in) operating activities		
Before changes in working capital	\$(435,347)	\$(501,071)
Dividend from Horzum AS	250,055	388,593
Changes in working capital	194,356	94,619
	9,064	(17,859)
Cash used in investing activities	(50,772)	(85,784)
Effect of foreign currencies	(6,792)	(5,319)
Net change in cash	(48,500)	(108,962)
Opening cash balance	218,623	741,727
Closing cash balance	\$170,123	\$632,765

Cash provided by (used in) operating activities

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

Changes in working capital

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

Commitments

In December 2017, Pasinex through its wholly-owned subsidiary Pasinex Nevada, entered into an option agreement with Cypress and Caliber to earn up to an 80% interest in the Spur Zinc Project located in White Pine County, Nevada ("Spur Option Agreement").

The Spur Option Agreement's total consideration to acquire an 80% interest is staged over four years payable in a combination of cash and Pasinex common shares. In addition, the Company must incur minimum exploration expenditures totalling US\$2,950,000 over the same four year period. The Company can accelerate payments to acquire ownership sooner and also has no obligation to continue payments if the Company decides not to proceed in exercising the option.

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

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

- Cash payment made to Caliber of US\$125,000 (\$158,897) and issuance of 2.2 million Pasinex Common Shares (value of \$484,000) to Caliber and Cypress (made in December 2017)
- Cash payment of US\$200,000 (\$258,960) cash and issuance of 2.2 million Pasinex Common Shares to

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Caliber and Cypress (made in September 2018)

- Prior to September 11, 2019 a payment of US\$100,000 cash and issuance of 200,000 Pasinex Common Shares to Cypress
- In addition, minimal exploration expenditures as defined in the Option Agreement must be spent as follows:
 - US\$250,000 prior to December 5, 2018 (spent)
 - US\$800,000 prior to December 5, 2019
 - US\$800,000 prior to December 5, 2020.

If the 51% option is exercised, Pasinex will enter into a joint venture agreement with Cypress.

Total consideration to acquire the 51% interest includes US\$425,000 in cash payments, issuance of 4.6 million Pasinex Common Shares and minimal exploration expenditures of US\$1,850,000.

To acquire an additional 29% of the Spur Zinc Project:

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

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

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 March 31, 2019, the Company has a net equity deficit of \$9,849,078 (December 31, 2018 – \$9,634,228) and has a working capital deficiency position of \$1,173,983 (December 31, 2018 – \$915,466), and had a net loss of \$214,850 (three months ended March 31, 2018 – net income of \$726,021) and cash flows from operations of \$9,064 (three months ended March 31, 2018 – negative cash flows \$17,859) for the three months then ended and accordingly does not have enough cash on hand to fund its payables and its expected non-discretionary obligations for the next 12 months.

The Company relies on dividends from Horzum AS to fund its spending. Based on the 2019 production forecast for Pinargozu and the sale of inventory on hand at January 1, 2019 the Company expects there to be adequate cash flow to fund Horzum AS as well as non-discretionary spending at Pasinex for at least the next twelve months. Drilling will continue through 2019 at Pinargozu to find a parallel oxide system in an effort to increase 2019 production. The Company has been working with Akmetal to resolve the collectability of the trade receivable owing from them to Horzum AS. In May 2019, a legally binding debt repayment agreement was signed between Akmetal, Pasinex and Horzum AS defining the terms of debt repayment amongst other conditions (see *Loan receivable - Akmetal*). At March 31, 2019 the receivable owing from Akmetal to Horzum AS was \$28 million. Until strong credit worthiness is demonstrated by Akmetal, accounting principles have required Pasinex to maintain an expected credit loss equivalent to the full balance of the receivable (see *Loan receivable - Akmetal*). Management will ensure the terms of the debt repayment agreement are adhered to and continue to find additional solutions to expeditiously collect the funds. Receipt of the trade receivables would provide significant cash flow to Pasinex through additional dividends.

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. In May 2019 the Company received an additional \$100,000 from a shareholder to pay for certain overdue administration costs. There can be no assurance that the Company will be able to generate sufficient dividends from Horzum AS nor be able to generate funds from other sources.

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

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. 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, May 28, 2019, the Company has 144,354,371 issued and outstanding common shares and an aggregate of 3,650,000 stock options outstanding.

Transactions with Related Parties

Related Party Balances and Transactions

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

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A summary of the related party transactions are as follows:

	Three Months Ended	
	March 31	
	2019	2018
Management fees and salaries	\$ 118,866	\$ 124,546
Consulting fees	44,708	44,007
Interest expense on shareholder loans	11,072	-
Share-based payments	-	59,934
	\$ 174,646	\$ 228,487

Amounts payable to related parties were as follows:

	<u>Accrued liabilities</u>		<u>Shareholder Loans</u>	
	As at	As at	As at	As at
	March 31 2019	December 31 2018	March 31 2019	December 31 2018
Steven Williams ⁽¹⁾	\$ 42,757	\$ 13,560	\$ -	\$ -
Larry Seeley ⁽²⁾	11,610	11,610	-	-
Sven Olsson ⁽²⁾	-	9,563	115,453	115,453
Jonathan Challis ⁽²⁾	2,726	-	-	-
1514341 Ontario Inc. ⁽³⁾	14,232	14,232	291,356	291,356
Irus Consulting Ltd. ⁽⁴⁾	25,122	7,500	-	-
Victor Wells ⁽⁵⁾	24,000	18,000	-	-
Wendy Kaufman ⁽⁶⁾	38,811	1,145	-	-
Sonar Koldas ⁽⁷⁾	26,058	13,301	-	-
Seeley Holdings Ltd. ⁽⁸⁾	-	-	291,356	291,356
Joachim Rainer ⁽²⁾	5,000	-	50,197	50,197
	\$ 190,316	\$ 88,911	\$ 748,362	\$ 748,362

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

(2) Larry Seeley, Jonathan Challis and Joachim Rainer were directors of the Company at December 31, 2018 and March 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) Irus Consulting Ltd. is a company controlled by John Barry, Vice President Exploration of the Company.

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

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

(7) Soner Koldas is the Country Director in Turkey.

(8) Seeley Holdings Ltd. Is a company controlled by a family member of Larry Seeley, a director of the Company.

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

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To the knowledge of the directors and officers of the Company, as at December 31, 2018, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the common shares of the Company other than set out below:

	Number of Common Shares	Percentage of Outstanding Common Shares
Larry Seeley	29,728,191	20.91%

Selected Consolidated Quarterly Financial Data

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

	Three Months Ended							
	March 2019	Dec 2018	Sept 2018	June 2018	March 2018	Dec 2017	Sept 2017	June 2017
Financial:								
Equity gain (loss) from Horzum AS	\$ 250,055	\$ (9,410,185)	\$ 521,675	\$ 1,805,685	\$ 2,984,186	\$ 3,355,358	\$ 2,698,696	\$ 931,355
Adjusted equity gain from Horzum AS ⁽¹⁾	\$ 920,130	\$ 519,503	\$ 521,675	\$ 1,805,685	\$ 2,984,186	\$ 3,355,358	\$ 2,698,696	\$ 931,355
Consolidated net income (loss)	\$ (214,850)	\$ (9,890,542)	\$ (194,998)	\$ 930,193	\$ 726,021	\$ 2,682,150	\$ 1,838,461	\$ 450,463
Adjusted consolidated net income (loss) ⁽¹⁾	\$ 455,225	\$ 39,146	\$ (194,998)	\$ 930,193	\$ 726,021	\$ 2,682,150	\$ 1,838,461	\$ 450,463
Basic net income (loss) per share	\$ -	\$ (0.07)	\$ -	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01	\$ -
Diluted net income (loss) per share	\$ -	\$ (0.07)	\$ -	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01	\$ -

⁽¹⁾ See non-gaap measures.

The quarterly adjusted consolidated net income for Pasinex is highly correlated to results from its 50% owned investment in Horzum AS. The adjusted equity gain changes are a result of tonnes produced and sold as well as the zinc price. The equity gain for the three months ended September 2018 include negative sales price adjustments of \$1.4 million related to sales from the first half of 2018. The equity gain for the three months ended December 2017 include approximately \$2 million in positive sales price adjustments related to sales from the second and third quarters of 2017. Consolidated net income also includes the Company's general and administration costs and exploration expenditures related to the Spur Zinc Project, both of which had been increasing in line with the Company's growth plans.

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Non-GAAP measures

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

Adjusted equity gain from Horzum AS

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

	Three Months Ended March 31 2019	
Reconciliation of adjusted equity gain:		
Equity gain as per Pasinex statement of loss	\$	250,055
Add back from Horzum AS statement of operation:		
50% of impairment of Akmetal receivable		518,871
Recognition of prior year equity losses		401,260
Receipt of dividend recorded as equity gain		(250,055)
Adjusted equity gain	\$	920,130

Adjusted consolidated net income

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

	Three Months Ended March 31 2019		Three Months Ended March 31 2018	
Reconciliation of adjusted net income:				
Income (loss) as per Pasinex statement of income (loss)	\$	(214,850)	\$	726,021
Add back:				
Impairment charge		-		1,686,600
Equity gain from Horzum AS		(250,055)		-
Adjusted equity gain		920,130		-
Adjusted net income	\$	455,225	\$	2,412,621

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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 March 31	
	2019	2018
Reconciliation of cost per tonne mined		
Cost of sales per Horzum income statement	\$ 1,647,247	\$ 2,312,987
Inventory change	96,967	158,672
	1,744,213	2,471,659
Tonnes produced	6,787	13,037
Cost per tonne mined	\$ 257	\$ 190

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 March 31	
	2019	2018
Reconciliation of US\$ cash cost per pound of zinc produced		
Cost of sales per Horzum income statement adjusted for inventory change	\$ 1,744,213	\$ 2,471,659
Less - sales of lead	-	(155,290)
	1,744,213	2,316,369
Translate to US\$ A	\$ 1,312,228	\$ 1,830,833
Zinc tonnes produced (wet)	6,787	13,037
Zinc grade	30%	35%
Moisture loss	7%	7%
Pounds of zinc produced B	4,174,609	10,009,302
US\$ cash cost per pound of zinc produced A/B	\$ 0.31	\$ 0.18

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

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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 March 31	
	2019	2018
Reconciliation of gross margin		
Operating income per Horzum income statement	\$ 2,488,969	\$ 7,137,560
Revenue	4,254,339	9,497,707
Gross margin (gross margin / revenue)	59%	75%

Risks and Uncertainties

The Company's business contains significant risk due to the nature of mining, exploration and development activities. 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. The Company is also exploring and developing other opportunities and is subject to risks and challenges similar to companies in a comparable stage. These risks include, but are not limited to, the challenges of securing adequate capital in view of exploration, development and operational risks inherent in the mining industry as well as global economic and base mineral price volatility.

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 that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risks and Uncertainties" in the Company's Annual MD&A for the fiscal year ended December 31, 2018, available on SEDAR at www.sedar.com

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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.