KAIZEN DISCOVERY

Consolidated Financial Statements of

Kaizen Discovery Inc.

December 31, 2016

Kaizen Discovery Inc.
Consolidated Financial Statements

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Independent Auditor's Report

To the Shareholders of
Kaizen Discovery Inc.

We have audited the accompanying consolidated financial statements of Kaizen Discovery Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaizen Discovery Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $10.74 million for the year ended December 31, 2016 and has incurred cumulative losses from inception in the amount of $39.77 million at December 31, 2016. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Kaizen Discovery Inc.'s ability to continue as a going concern.

/s/ Deloitte LLP

Chartered Professional Accountants
March 29, 2017
Vancouver, British Columbia

Kaizen Discovery Inc.

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

	Notes		**December 31, 2016**		December 31, 2015
Assets					
Current assets					
Cash and cash equivalents		**$**	**281**	$	912
Receivables	6,22		**371**		329
Prepaid expenses and deposits	6,22		**495**		466
Total current assets			**1,147**		1,707
Non-current assets					
Mineral properties	7		**3,665**		3,585
Joint venture interest	8		**503**		4,040
Property, plant and equipment	9		**70**		70
Marketable securities	10		**60**		95
Other assets	13		**114**		1,400
Total assets		**$**	**5,559**	$	10,897
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	22	**$**	**890**	$	677
Loan facility	11		**-**		700
Option liability	12		**250**		250
Total current liabilities			**1,140**		1,627
Non-current liabilities					
Provision	13		**1,274**		1,260
Total liabilities		**$**	**2,414**	$	2,887
Equity					
Share capital	14	**$**	**39,010**	$	33,963
Share-based payment reserve	17		**3,334**		3,161
Other reserves			**521**		-
Accumulated other comprehensive income (loss)			**8**		(17)
Accumulated deficit			**(39,767)**		(29,097)
Equity attributable to owners of Kaizen Discovery Inc.			**3,106**		8,010
Non-controlling interest			**39**		-
Total equity		**$**	**3,145**	$	8,010
Total liabilities and equity		**$**	**5,559**	$	10,897

Description of business and going concern (Note 1)
Subsequent events (Notes 7, 11, 12 and 23)

Approved and authorized for issue on behalf of the Board on March 29, 2017

/s/ Terry Krepiakevich	/s/ David Huberman
Terry Krepiakevich, Director	David Huberman, Director

See accompanying notes to the consolidated financial statements.

Kaizen Discovery Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Stated in thousands of Canadian dollars, except for share and per share amounts)

		Year ended December 31,			
	Notes		**2016**		2015
Operating expenses					
Exploration expenses	15	**$**	**(2,540)**	$	(3,958)
Administrative expenses	16		**(3,445)**		(3,965)
Impairment of mineral properties	7		**-**		(5,461)
Share of losses from joint venture	8		**(3,537)**		(878)
Loss from operations			**(9,522)**		(14,262)
Other income (expenses)					
Management fees	22		**105**		254
Gain on foreign exchange			**7**		130
Interest income			**13**		37
Interest expense			**(73)**		-
Write-down of other assets	13		**(1,214)**		-
Write-down of marketable securities	10		**-**		(552)
Loss on disposal of marketable securities	10		**(3)**		-
Other (expense) income			**(52)**		80
Loss before income taxes			**(10,739)**		(14,313)
Income taxes			**-**		-
Net loss for the year			**(10,739)**		(14,313)
Other comprehensive (loss) income					
Items that have been or may be reclassified subsequently to profit or loss:					
Unrealized loss on marketable securities			**(15)**		(554)
Currency translation adjustment			**41**		24
Realized loss on disposal of marketable securities reclassified to statement of loss	10		**3**		-
Impairment loss on marketable securities reclassified to statement of loss	10		**-**		552
Total other comprehensive income for the year		**$**	**29**	$	22
Total comprehensive loss for the year		**$**	**(10,710)**	$	(14,291)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		**$**	**(10,670)**	$	(14,313)
Non-controlling interest			**(69)**		-
Net loss for the year		**$**	**(10,739)**	$	(14,313)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		**$**	**(10,645)**	$	(14,291)
Non-controlling interest			**(65)**		-
Total comprehensive loss for the year		**$**	**(10,710)**	$	(14,291)
Loss per share (basic and diluted)		**$**	**(0.06)**	$	(0.09)
Weighted average number of basic and diluted shares outstanding			**184,165,189**		161,171,051

See accompanying notes to the consolidated financial statements.

Kaizen Discovery Inc.

Consolidated Statements of Changes in Equity

(Stated in thousands of Canadian dollars, except for share amounts)

	Number of shares	Share capital (Note 14)	Share-based payment reserve	Other reserves	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to owners of Kaizen Discovery Inc.	Non-controlling interest	Total equity
Balance at December 31, 2014	157,979,902	$ 31,809	$ 2,192	$ -	$ (39)	$ (14,784)	$ 19,178	$ -	$ 19,178
Net loss for the year	-	-	-	-	-	(14,313)	(14,313)	-	(14,313)
Other comprehensive income	-	-	-	-	22	-	22	-	22
Share-based compensation	-	-	969	-	-	-	969	-	969
Shares issued on acquisition of mineral property interest	17,384,615	2,154	-	-	-	-	2,154	-	2,154
Balance at December 31, 2015	**175,364,517**	**$ 33,963**	**$ 3,161**	**$ -**	**$ (17)**	**$ (29,097)**	**$ 8,010**	**$ -**	**$ 8,010**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**(10,670)**	**(10,670)**	**(69)**	**(10,739)**
Other comprehensive income	**-**	**-**	**-**	**-**	**25**	**-**	**25**	**4**	**29**
Share-based compensation	**-**	**-**	**173**	**-**	**-**	**-**	**173**	**-**	**173**
Non-controlling interest's investment in subsidiary (Note 7(a))	**-**	**-**	**-**	**521**	**-**	**-**	**521**	**104**	**625**
Shares issued on settlement of debt (Note 11), net of share issue costs of $26	**32,210,460**	**5,047**	**-**	**-**	**-**	**-**	**5,047**	**-**	**5,047**
Balance at December 31, 2016	**207,574,977**	**$ 39,010**	**$ 3,334**	**$ 521**	**$ 8**	**$ (39,767)**	**$ 3,106**	**$ 39**	**$ 3,145**

See accompanying notes to the consolidated financial statements.

Kaizen Discovery Inc.

Consolidated Statements of Cash Flows

(Stated in thousands of Canadian dollars)

	Notes		Year ended December 31, 2016		2015
Operating activities					
Net loss for the year		**$**	**(10,739)**	$	(14,313)
Adjustments for non-cash items:					
Share-based compensation			**173**		969
Impairment of mineral properties			**-**		5,461
Share of losses from joint venture			**3,537**		878
Gain on unrealized foreign exchange			**(42)**		(169)
Interest expense			**73**		-
Write-down of other assets			**1,214**		-
Write-down of marketable securities			**-**		552
Loss on disposal of marketable securities			**3**		-
Other expense			**64**		-
Changes in non-cash working capital items:					
Receivables			**(43)**		(146)
Prepaid expenses and deposits			**(29)**		116
Accounts payable and accrued liabilities			**154**		(309)
Cash used in operating activities		**$**	**(5,635)**	$	(6,961)
Investing activities					
Redemption (acquisition) of other assets		**$**	**84**	$	(74)
Acquisition of mineral property			**-**		(1,434)
Purchase of equipment			**-**		(70)
Sale of marketable securities	10		**20**		-
Cash from (used in) investing activities		**$**	**104**	$	(1,578)
Financing activities					
Non-controlling interest's investment in subsidiary	7	**$**	**625**	$	-
Drawings under loan facility	11		**4,300**		700
Receipt of option payment			**-**		250
Share issue costs	14		**(26)**		-
Cash from financing activities		**$**	**4,899**	$	950
Effect of foreign exchange rate changes on cash		**$**	**1**	$	193
Decrease in cash and cash equivalents			**(631)**		(7,396)
Cash and cash equivalents, beginning of year			**912**		8,308
Cash and cash equivalents, end of year		**$**	**281**	$	912

Supplemental cash flow information (Note 21)

See accompanying notes to the consolidated financial statements.

1. Description of business and going concern

(a) Kaizen Discovery Inc. (the "Company") is a publicly listed company incorporated under the laws of British Columbia, Canada. Its shares are listed on the TSX Venture Exchange under the symbol KZD. The Company's head office and registered office are both located at Suite 654 – 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

At December 31, 2016, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2015 – 60.7%) of the Company's issued and outstanding common shares. The ultimate controlling entity is Ivanhoe Industries LLC, a privately owned company.

The Company, together with its subsidiaries and joint venture interest, is a mineral exploration group focused on projects located in Peru and Canada.

(b) The Company's consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and satisfaction of liabilities in the normal course of business.

For the year ended December 31, 2016, the Company had no operating revenues and incurred a loss of $10.74 million. At December 31, 2016, the Company had consolidated cash and cash equivalents of $0.3 million (December 31, 2015 - $0.9 million), excluding cash of $0.5 million (December 31, 2015 – $0.8 million) held by KZD Aspen Grove Holding Ltd., the joint venture interest that holds the Aspen Grove project.

At December 31, 2016, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on a combination of its cash position, the proceeds from the rights offering that closed in January 2017 (Note 23), the completion of ITOCHU Corporation of Japan's ("ITOCHU") second Pinaya Project funding payment in February 2017 (Note 7(a)), and the ability to pursue additional sources of financing, including equity placements.

The Company currently has no source of operating cash flow, and has no assurance that additional funding will be available to it for additional exploration programs at its properties, or to enable the Company to fulfill its obligations under any applicable agreements. The Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore and evaluate its mineral properties and, ultimately, to achieve profitable operations. As such, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, effective as of December 31, 2016.

3. Significant accounting policies

(a) *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in these accounting policies.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

3. Significant accounting policies (continued)

(b) Functional and presentation currency

The Company's consolidated financial statements are presented in Canadian dollars which is also the parent company's functional currency. Each subsidiary determines its functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

References to "$" refer to Canadian currency.

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where the Company's interest in a subsidiary is less than 100%, the interest attributable to non-controlling shareholders is recognized as non-controlling interests.

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the Company and is presented as a separate component of equity. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interests for the non-controlling interests' share of changes to the subsidiary's equity. Losses within a subsidiary continue to be attributed to non-controlling interests even if that results in a deficit balance. Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amounts of the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those of the Company.

At December 31, 2016 and 2015, the Company's significant subsidiaries are as follows:

Name of significant subsidiaries	Place of incorporation or registration	Method of accounting	Effective ownership interest at December 31, 2016	2015
Kaizen Discovery Peru S.A.C.	Peru	Consolidation	95%	100%
Tundra Copper Corp.	British Columbia	Consolidation	100%	100%
West Cirque Resources Ltd.	British Columbia	Consolidation	100%	100%
Kaizen Fairholme Pty Ltd.	Australia	Consolidation	100%	100%
Ebende Resources Ltd.	British Virgin Islands	Consolidation	100%	100%

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

(d) Equity-accounted investees

These consolidated financial statements also include the KZD Aspen Grove Holding Ltd. joint venture that is accounted for using the equity method.

3. Significant accounting policies (continued)

(d) Equity-accounted investees (continued)

Name of joint venture	Place of incorporation or registration	Method of accounting	Effective ownership interest at December 31, 2016	2015
KZD Aspen Grove Holding Ltd.	British Columbia	Equity	60%	60%

A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method and are recognized initially at cost. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees until the date on which significant influence or joint control ceases. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee.

(e) Business combinations

Acquisitions of subsidiaries which represent business combinations are accounted for using the acquisition method. The consideration transferred is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities that meet the conditions for recognition are recognized at their fair values at the acquisition date, except for certain assets and liabilities which are recognized and measured in accordance with the applicable IFRS guidance.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets and liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

(f) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated into the functional currency at the

3. Significant accounting policies (continued)

(f) Foreign currency (continued)

(i) Foreign currency transactions (continued)

exchange rate on the date when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates at the date of the statement of financial position. The income and expenses of foreign operations are translated into Canadian dollars at the exchange rates prevailing on the transaction dates.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest. When a foreign operation is sold, such exchange differences are recognized in net income as part of the gain or loss on sale.

(g) Cash and cash equivalents

Cash and cash equivalents comprise deposits held with banks and other short-term highly liquid investments with maturities from the date of acquisition of three months or less that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

(h) Financial instruments

Financial assets and financial liabilities are recognized on the Company’s statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company's financial assets and financial liabilities are categorized as i) loans and receivables, ii) available-for-sale financial assets and iii) financial liabilities.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company’s cash and cash equivalents and receivables are classified as loans and receivables and are initially measured at fair value and subsequently measured at amortized cost less any impairment, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost less any impairment.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset category. The Company’s marketable securities are classified as available-for-sale and are carried at fair value with changes in fair value recognized in equity. Where there is a realized loss on disposal or where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is reclassified from equity to profit or loss.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

(iii) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The accounting policy adopted for specific financial liabilities is set out below.

The Company's trade payables and accrued liabilities are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(i) Exploration and evaluation costs

Direct costs for acquisition of mineral exploration rights are capitalized and recorded initially at cost as mineral properties.

Other direct exploration and evaluation costs are charged to profit or loss in the period incurred until such time it has been determined that the associated mineral property has economically viable reserves and the decision to proceed with development has been approved, in which case subsequent exploration and evaluation costs are capitalized as mineral properties. Other direct exploration and evaluation costs include topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource, as well as value-added taxes in relation to these direct exploration and evaluation costs incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

Mineral properties are amortized using the estimated units-of-production method upon commencement of exploitation of the mineral properties.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount.

(j) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation is charged so as to write-off the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or units-of-production method over its estimated useful life. The useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(k) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment reviews for non-financial assets are

3. Significant accounting policies (continued)

(k) Impairment of non-financial assets (continued)

carried out on a project-by-project basis, with each project representing a potential single cash generating unit ("CGU").
The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(l) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(m) Share-based payments

The Company issues equity-settled share-based payments to certain directors, officers, and employees. For a grant of share options, the share-based payment arrangement is finally settled when the options are exercised, forfeited (e.g. upon cessation of employment) or lapsed (e.g. at the end of the option's life). The board of directors grants such options for periods up to 10 years, with vesting periods determined at its sole discretion and at prices that are not less than the closing price of the Company's shares traded on the stock exchange on the date preceding the grant, less any discount permitted by the stock exchange.

The fair value of the options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured the share-based payment is measured, at the date of grant, at the fair value of the equity instruments using the Black-Scholes option pricing model.

The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as an expense is adjusted to reflect the number of share options expected to vest.

3. Significant accounting policies (continued)

(n) Operating segments

The Company has one operating segment, a mineral exploration group focused on projects located in Peru and Canada.

(o) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive.

(p) Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred tax assets and liabilities expected to be recovered or settled are measured using enacted or substantively enacted tax rates and are recorded in the financial statements if realization is considered probable. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date.

4. Adoption of new and revised accounting standards and interpretations

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2016 and have not been applied in preparing these consolidated financial statements. The following standards may have a potential effect on the consolidated financial statements of the Company:

(a) IFRS 9, *Financial Instruments*, replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.

(b) IFRS 15, *Revenue from Contracts with Customers*, establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.

(c) IFRS 16, *Leases*, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. Other areas of the lease accounting model have been impacted, including the definition of a lease. Management is currently assessing the potential impact of this standard.

5. Critical accounting estimates and judgments

In the process of applying the Company's accounting policies, which are described in Note 3 to the consolidated financial statements, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The most significant areas of judgments made by management are as follows:

(a) Impairment of mineral properties and property, plant and equipment

Assets or CGU's are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's property, plant and equipment and mineral properties. External sources of information considered are changes in the Company's economic, legal and regulatory environment that it does not control but affect the recoverability of its mining assets. Internal sources of information the Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

If any indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or CGU is measured at the higher of fair value less costs to sell and value in use.

(b) Determination of functional currency

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company is the Canadian dollar (Note 3(b)).

(c) Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year as they fall due, involves judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances (Note 1(b)).

The most significant estimate made by management is as follows:

(a) Share-based payments

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity settled awards, the fair value is charged to the consolidated statement of comprehensive loss and credited to the related reserve account, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest.

The fair value of the equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility and expected life of the options (Note 17). Changes in these assumptions can materially affect the fair value estimate, so the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

6. Receivables

		December 31, 2016		December 31, 2015
Related parties (Note 22)	**$**	**1**	$	12
Value-added tax		**344**		174
Other		**26**		143
	$	**371**	$	329

Deposits of $450,000 at December 31, 2015 have been reclassified from receivables to prepaid expenses and deposits in the statement of financial position to conform with the current year's presentation.

7. Mineral properties

Mineral properties are summarized as follows:

	Peru		Canada				
	Pinaya (a)		Coppermine (b)	Tanzilla (b)	Pliny (b)	Castle (b)	Total
Balance at December 31, 2014	$ -		$ 3,094	$ 1,565	$ 560	$ 239	$ 5,458
Additions	3,585		3	-	-	-	3,588
Impairments	-		(3,097)	(1,565)	(560)	(239)	(5,461)
Balance at December 31, 2015	$ 3,585		$ -	$ -	$ -	$ -	$ 3,585
Currency translation adjustment	80		-	-	-	-	80
Balance at December 31, 2016	**$ 3,665**		**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,665**

(a) The Pinaya Copper-Gold Project ("Pinaya Project") was acquired from AM Gold Inc. on October 26, 2015. It covers 192 square kilometres and includes 28 kilometres of strike length within the Andahuaylas – Yauri Porphyry Belt in southeastern Peru.

On April 18, 2016, the Company closed a strategic financing agreement with ITOCHU to advance exploration efforts at the Pinaya Project. Under the terms of the agreement, ITOCHU will provide the Company with up to $2.5 million in initial exploration funding for Pinaya, in exchange for an indirect 20% stake in the project. The financing agreement calls for ITOCHU to pay the $2.5 million to the Company in three payments.

- The first payment of $625,000 was made upon closing of the transaction. This payment gave ITOCHU an initial 5% interest in the Company's subsidiary, Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings"), the indirect holder of the Pinaya Project. The Company retained the remaining 95%.

- On February 10, 2017, the Company received ITOCHU's second payment of $625,000, for another 5% interest in Kaizen Peru Holdings. This payment was conditional on the Company obtaining local community approvals for the lease and surface rights for the Pinaya Project and obtaining all necessary approvals to establish and operate the exploration camp.

- The third payment of ITOCHU's investment is conditional on the Company obtaining the necessary environmental, archaeological and water authorizations required to conduct exploration drilling on the Pinaya Project within two years of the initial payment. Subject to fulfillment of this condition, ITOCHU will pay the Company $1.25 million to bring its aggregate interest in Kaizen Peru Holdings to 20%.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

7. Mineral properties (continued)

(a) (continued)

ITOCHU has the right to sell all, but not less than all, of its common shares in Kaizen Peru Holdings to the Company for $10.00 plus the amount of ITOCHU's $2.5 million of funding commitment that remains unspent and uncommitted, pro rata to ITOCHU's ownership percentage in Kaizen Peru Holdings on the date that ITOCHU exercises its right. The strategic financing agreement terminates upon ITOCHU exercising this right. At December 31, 2016, the right's estimated redemption amount was nominal.

The Company has agreed to match ITOCHU's exploration funding, which will bring total funding to $5.0 million for the planned first phase of exploration at Pinaya. The Company expects that the $5.0 million will cover approximately two years of exploration work at the project.

The initial $1.25 million of the Company's $2.5 million funding commitment is due on or before the earlier of (i) April 18, 2017, one year after the date of ITOCHU's initial $625,000 investment; or (ii) completion of ITOCHU's third-tranche payment. The Company's second funding commitment of $1.25 million is due on or before April 18, 2018, two years after the date of completion of ITOCHU's initial $625,000 investment. Following the completion of the Company's $2.5 million funding commitment, both the Company and ITOCHU become subject to customary cash call obligations and dilution should a party not fund its then pro rata amount of any future funding.

(b) At December 31, 2015, since substantive expenditure on further exploration at the Coppermine, Tanzilla, Pliny and Castle properties was neither budgeted nor planned, the Company assessed the carrying amounts of those mineral properties and concluded they were impaired. Impairment losses of $3.1 million, $1.6 million, $0.6 million and $0.2 million respectively were recognized in the year ended December 31, 2015.

8. Joint venture interest

KZD Aspen Grove Holding Ltd. ("KZD Aspen Grove") holds the Aspen Grove Project, a porphyry copper exploration project with claims comprising 11,237 hectares located halfway between Merritt and Princeton in southern British Columbia.

The Company and ITOCHU have share ownership interests in KZD Aspen Grove of 60% and 40%, respectively. Under the Unanimous Shareholders Agreement, unanimous shareholder approval is required for certain key strategic, operating, investing and financing decisions. Accordingly, the Company's 60% interest is treated as a joint venture investment, which is accounted for using the equity method. There are no publicly quoted market prices for KZD Aspen Grove's common shares.

The following is a summary of the Company's 60% investment in KZD Aspen Grove at December 31, 2016:

	December 31, 2016	December 31, 2015
Beginning of year	**$ 4,040**	$ 4,918
Share of losses from joint venture during the year	**(3,537)**	(878)
End of year	**$ 503**	$ 4,040

On December 21, 2016, the Company announced that KZD Aspen Grove does not intend to continue its exploration program at the Aspen Grove Project. KZD Aspen Grove will instead assess various options for the Aspen Grove Project, including a possible sale to, or joint venture with, a third party. As substantive expenditure on further exploration was neither budgeted nor planned, KZD Aspen Grove assessed the $5.43 million carrying amount of the Aspen Grove mineral property and concluded it was

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

8. Joint venture interest (continued)

impaired. The Company has recognized its share of KZD Aspen Grove's impairment loss in the year ended December 31, 2016.

The summarized financial information at December 31, 2016 of KZD Aspen Grove on a 100% basis and reflecting the Company's 60% interest is as follows:

		December 31, 2016		December 31, 2015
Assets				
Current assets				
Cash	**$**	**530**	$	789
Receivables		**303**		931
Prepaids		**4**		-
Non-current assets				
Mineral property		**-**		5,426
Other assets		**21**		21
Total assets		**858**		7,167
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**19**		51
Net assets		**839**		7,116
Company's share of joint venture's net assets	**$**	**503**	$	4,270

9. Property, plant and equipment

Field equipment, the only property, plant and equipment category, is summarized as follows:

		Cost		Accumulated depreciation		Carrying amount
Balance at December 31, 2014	$	-	$	-	$	-
Additions		70		-		70
Balance at December 31, 2015	$	70		-	$	70
Balance at December 31, 2016	**$**	**70**	**$**	**-**	**$**	**70**

10. Marketable securities

The following is a summary of marketable securities:

		December 31, 2016								December 31, 2015						
	Number of shares	**Cost Basis**		**Impairment**		**Unrealized loss**		**Fair Value**		Cost Basis		Impairment		Unrealized loss		Fair Value
Alecto Minerals plc (i)	54,996,857	**$ 631**	**$**	**(552)**	**$**	**(19)**	**$**	**60**	$	631	$	(552)	$	-	$	79
Other (ii)		**-**		**-**		**-**		**-**		23		-		(7)		16
		$ 631	**$**	**(552)**	**$**	**(19)**	**$**	**60**	$	654	$	(552)	$	(7)	$	95

10. Marketable securities (continued)

(i) As a result of the significant decrease in the value of Alecto Minerals plc's common shares in 2015, an impairment loss of approximately $552,000 was recognized in the statement of loss in the year ended December 31, 2015.

(ii) In the three months ended December 31, 2016, the Company sold all marketable securities classified as other in the table above for total proceeds of approximately $20,000. These dispositions resulted in a realized aggregate loss of approximately $3,000.

11. Loan facility

Under the terms of the Inter-Corporate Loan Agreement between HPX and the Company dated December 4, 2013, HPX made available to the Company an unsecured, revolving loan facility of up to $5.0 million ("Loan Facility").

In December 2015, the Company made an initial draw of $0.7 million on the Loan Facility. The remaining $4.3 million was fully drawn down by May 6, 2016.

On September 15, 2016, the Company and HPX agreed to settle the full amount of principal and interest owing on the Loan Facility, totaling approximately $5.07 million, by issuing 32,210,460 common shares of the Company to HPX at a price of $0.1575 per share, representing a 25% discount to the Company's closing share price of $0.21 on September 15, 2016. Upon the transaction's completion on September 23, 2016, the $5.07 million carrying amount of the Loan Facility was credited to share capital.

Interest expense, charged at 3% per annum, compounded monthly, of approximately $73,000 (2015 - $Nil) was accrued on the Loan Facility for the year ended December 31, 2016.

On January 12, 2017, the Company announced that it had closed a rights offering, raising gross proceeds of approximately $7.3 million. In accordance with the key terms of the rights offering, which are disclosed in Note 23, the Loan Facility was terminated upon fulfillment of the standby commitment by HPX and completion of the rights offering.

12. Option liability

On July 31, 2015, for consideration of $250,000, the Company, through its wholly owned subsidiary West Cirque, granted ITOCHU an option to acquire an indirect 15% interest in the Tanzilla project, located in northwest British Columbia, for no additional consideration. ITOCHU was also granted a subsequent option to acquire up to a further indirect 10% interest at fair market value. Upon being notified that Freeport had terminated its earn-in option on the Tanzilla project on December 30, 2015, ITOCHU had 30 days to exercise the option to acquire the 15% interest. Following a series of extensions to this exercise period, the latest of which was executed in February 2017, ITOCHU has until February 28, 2018 to exercise the option.

Upon ITOCHU exercising the option to acquire an indirect 15% interest in the Tanzilla project, West Cirque's interest in the project must be transferred to a newly-incorporated wholly-owned subsidiary, and a sufficient number of this subsidiary's common shares would then be issued to ITOCHU such that ITOCHU holds an indirect 15% interest in the project. The fair value of the option liability to issue common shares, which do not yet exist, cannot be reliably measured as the asset underlying these shares is an early stage exploration project, so the option liability is measured at cost.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

13. Provision

In 2015, the Company recognized a provision for potential obligations related to the Pinaya Copper-Gold Project, which was acquired on October 26, 2015 (Note 7(a)). At December 31, 2016, the provision's carrying amount was $1.27 million (December 31, 2015 - $1.26 million).

Due to the recourse available to the Company should it be required to settle the potential obligations, an asset was recognized at the same time as the provision and classified as other assets in the statement of financial position. On June 30, 2016, the Company filed a notice of civil claim which has been contested by the counterparty. Under the applicable accounting rules, it was appropriate to record a $1.21 million write down of the asset at June 30, 2016, reducing the carrying amount to nil.

14. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At December 31, 2016, the Company had 207,574,977 common shares issued and outstanding (December 31, 2015 – 175,364,517).

Shares issued and fully paid up at December 31, 2016 and 2015 are as follows:

	Number of common shares		Amount
Balance at December 31, 2014	157,979,902	$	31,809
Shares issued during the year:			
Acquisition of Kaizen Discovery Peru S.A.C. (ii)	17,384,615		2,154
Balance at December 31, 2015	175,364,517		33,963
Shares issued during the year:			
Settlement of debt, net of share issue costs of $26 (i)	32,210,460		5,047
Balance at December 31, 2016	**207,574,977**	**$**	**39,010**

(i) On September 23, 2016, the Company issued 32,210,460 common shares at a price of $0.1575 per share to HPX to settle the full amount of principal and interest, totaling approximately $5.07 million, owing on the Loan Facility (Note 11).

(ii) On October 26, 2015, the Company issued 17.4 million shares as part of the consideration paid to acquire Kaizen Discovery Peru S.A.C. (Note 7(a)).

A total of 60.2 million shares were released from escrow in 2016 (2015 – 27.4 million). No shares were remaining in escrow at December 31, 2016.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

15. Exploration expenses

Exploration expenses are summarized as follows:

	Year ended December 31, 2016	2015
Wages and consultants	**$ 928**	$ 1,446
Drilling	**-**	445
Assay	**-**	130
Share-based compensation	**67**	212
Fees and taxes	**559**	360
Geophysics	**-**	(33)
Camp	**119**	278
Travel	**54**	68
Aircraft	**-**	868
Professional fees	**213**	99
Demobilization	**248**	-
Environmental	**131**	-
Other	**221**	85
	$ 2,540	$ 3,958

Exploration expenses were allocated to the following projects:

	Year ended December 31, 2016	2015
Pinaya	**$ 1,724**	$ 254
Coppermine	**469**	2,327
Fairholme	**18**	508
Ebende	**8**	327
Other exploration	**321**	542
	$ 2,540	$ 3,958

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

16. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Year ended December 31, 2016	2015
Wages and benefits	**$ 2,253**	$ 1,671
Share-based compensation	**106**	757
Professional fees	**422**	594
Office	**326**	457
Travel	**67**	190
Fees and taxes	**127**	69
Investor relations	**27**	127
Insurance	**64**	73
Other	**53**	27
	$ 3,445	$ 3,965

17. Share-based payments

Stock option plan

The Company's stock option plan for employees and directors permits the Board to grant options to acquire common shares of the Company at an exercise price not less than the closing price of the Company's shares on the day preceding the date of grant, less any discount permitted by the TSX Venture Exchange, over a maximum term of ten years. Pursuant to the plan, the Company is authorized to issue stock options for a maximum of 10% of the common shares of the Company outstanding from time to time. The general terms of stock options that have been granted under the plan include a maximum term of five years and vesting periods ranging from immediately to four years after the date of grant.

Details of share option transactions during the year are as follows:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number of stock options	**Weighted average exercise price ($ per share)**	Number of stock options	Weighted average exercise price ($ per share)
Outstanding, beginning of year	**13,071,000**	**$ 0.55**	11,589,700	$ 0.67
Granted	**1,050,000**	**0.24**	3,830,000	0.28
Expired	**(425,000)**	**0.90**	(620,000)	0.96
Forfeited	**(3,792,000)**	**0.56**	(1,728,700)	0.64
Outstanding, end of year	**9,904,000**	**$ 0.49**	13,071,000	$ 0.55
Exercisable, end of year	**5,404,000**	**$ 0.52**	5,151,000	$ 0.60

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

17. Share-based payments (continued)

Stock options outstanding and exercisable at December 31, 2016 are as follows:

	Options outstanding		Options exercisable	
Exercise price ($ per share)	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.155	475,000	3.9	237,500	3.9
0.24	1,050,000	4.7	350,000	4.7
0.30	2,185,000	2.1	1,092,500	2.1
0.51	175,000	2.6	105,000	2.6
0.63	5,675,000	1.3	3,405,000	1.3
0.66	325,000	2.1	195,000	2.1
1.57	19,000	0.1	19,000	0.1
	9,904,000	2.0	5,404,000	1.8

The weighted average fair value of stock options granted during the year ended December 31, 2016 was estimated at $0.18 (December 31, 2015 - $0.13) using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	For the year ended December 31,	
	2016	2015
Exercise price	**$0.24**	$0.28
Risk free rate	**0.61%**	0.96%
Expected life (years)	**3.50**	4.0
Annualized volatility	**103%**	73%
Dividend rate	**0%**	0%
Forfeiture rate	**0%**	0%

18. Income taxes

(a) Reconciliation of income taxes calculated at the statutory rate to the actual tax provision

Income tax differs from the amount that would result from applying the combined Canadian federal and provincial income tax rates to the Company's loss before tax due to the following:

	Year ended December 31,	
	2016	2015
Loss before income tax	**$ (10,739)**	$ (14,313)
Canadian statutory income tax rate	**26%**	26%
Income tax recovery at statutory rate	**(2,792)**	(3,721)
Reconciling items:		
Difference between statutory and foreign tax rates	**(28)**	58
Non-deductible expenses	**479**	265
Tax effect of tax losses and temporary differences not recognized	**2,341**	3,398
Total income taxes	**$ -**	$ -

18. Income taxes (continued)

(b) Deferred tax assets not recognized

As the Company's operations comprise early stage exploration projects, deferred income tax assets have not been recognized as it is not probable that the tax benefits will be realized.

At December 31, 2016, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in Canada of approximately $ 11.57 million. These losses can be carried forward against future taxable income and expire between 2030 and 2036.

At December 31, 2016, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in other jurisdictions of approximately $1.91 million that can be carried forward against future taxable income. Approximately $1.89 million of these losses do not expire.

19. Capital risk management

The Company's objectives when managing its capital is to ensure it will be able to continue as a going concern in order to pursue the exploration of mineral properties, fund future growth opportunities and maximize the return to shareholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets in an effort to meet its objectives given the current outlook of the business and industry in general.

The capital structure of the Company comprises shareholders' equity. In order to maintain or adjust the capital structure, the Company may attempt to issue new shares or seek additional debt financing.

To effectively manage the entity's capital requirements, the Company prepares annual expenditure budgets which are approved by the Board of Directors.

During the years ended December 31, 2016 and 2015, there were no significant changes in the process used by the Company or in the Company's objectives and policies for managing its capital. The Company is not exposed to externally imposed capital requirements.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

20. Financial instruments

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of loss, or comprehensive loss.

The Company's financial assets and financial liabilities are classified as follows:

		December 31, 2016		December 31, 2015
Financial assets				
Loans and receivables				
Cash and cash equivalents	**$**	**281**	$	912
Receivables		**27**		155
Deposits		**477**		450
Other assets		**114**		1,400
Available-for-sale				
Marketable securities		**60**		95
Total financial assets	**$**	**959**	$	3,012
Financial liabilities				
Accounts payable and accrued liabilities	**$**	**890**	$	677
Loan facility		**-**		700
Option liability		**250**		250
Total financial liabilities	**$**	**1,140**	$	1,627

The carrying values of cash and cash equivalents; receivables; deposits; other assets; accounts payable and accrued liabilities; and the Loan Facility approximate their fair values. The option liability is measured at cost.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The Company's marketable securities are measured at fair value using level 1 inputs.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents, receivables, deposits and other assets.

Cash is deposited with high credit quality financial institutions as determined by a primary ratings agency.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

20. Financial instruments (continued)

(b) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its bank deposits, which is insignificant due to their short-term nature. The Company was not exposed to interest rate cash flow risk on the Loan Facility as its rate was fixed at 3% per annum, compounded monthly.

The Company has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors interest rate exposure closely.

(c) Currency risk

The Company reports its financial results in Canadian dollars but undertakes transactions in various foreign currencies, mainly the U.S. dollar. As the exchange rates between the Canadian dollar and these foreign currencies fluctuate, the Company experiences foreign exchange gains and losses. The Company has cash and cash equivalents; receivables; deposits; other assets; accounts payable and accrued liabilities; and a provision denominated in foreign currencies which are subject to currency risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the respective statement of financial position dates are as follows:

	Assets		Liabilities	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
U.S. dollar	**32**	20	**(206)**	(68)
Peruvian sol	**6**	-	**(1,318)**	(1,303)
Australian dollar	**68**	218	**-**	(5)
Other	**17**	18	**(65)**	(8)

As at December 31, 2016, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $147,000 decrease or increase in the Company's net loss (December 31, 2015 - $113,000). A 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would also result in an approximate $131,000 increase or decrease in the Company's other comprehensive income.

The Company does not enter into any financial instruments to hedge currency risk, but the Company monitors its foreign exchange exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due.

As the Company is an exploration stage company, the ability of the Company to manage its liquidity risk and continue to operate and fund its cash flow requirements is dependent on its ability to continue to obtain funding, including financing through equity placements, debt and joint venture agreements. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration of the Company's properties and the possible loss of title to such properties.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

20. Financial instruments (continued)

(d) Liquidity risk (continued)

The Company believes that based on a combination of its cash position, the proceeds from the rights offering that closed in January 2017 (Note 23), the completion of ITOCHU's second Pinaya Project funding payment in February 2017 (Note 7(a)) and the ability to pursue additional sources of financing, including equity placements, it has adequate resources as at December 31, 2016 to maintain its minimum obligations, including general corporate activities, through to December 31, 2017.

21. Supplemental cash flow information

		December 31, 2016		December 31, 2015
Cash and cash equivalents				
Cash	**$**	**206**	$	912
Guaranteed investment certificate		**75**		-
Total cash and cash equivalents	**$**	**281**	$	912

The non-cash financing activities not already disclosed in the consolidated statements of cash flows were as follows:

		Year ended December 31,		
		2016		2015
Financing activities				
Shares issued on settlement of debt (Note 11)	**$**	**(5,073)**	$	-
Shares issued on acquisition of Pinaya Project (Note 7)		**-**		(2,154)

22. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

(a) Expenses, receivables, deposits and accounts payable

The Company incurred the following exploration and administrative expenses with related parties:

		Year ended December 31,		
		2016		2015
Salaries and benefits	**$**	**2,949**	$	2,898
Corporate administration		**449**		562
Exploration and geophysical activities		**122**		4
Total related party expenses	**$**	**3,520**	$	3,464

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

22. Related party transactions (continued)

(a) Expenses, receivables, deposits and accounts payable (continued)

The breakdown of the expenses by related party is as follows:

	Year ended December 31, 2016	2015
GMM	**$ 3,375**	$ 3,460
HPX	**145**	4
Total related party expenses	**$ 3,520**	$ 3,464

The transactions with Global Mining Management Corporation ("GMM") noted above for the year ended December 31, 2016 include approximately $323,000 (2015 - $468,000) of expenses incurred by KZD Aspen Grove (Note 8), and the Company's share of losses from that joint venture includes 60% of these expenses.

The breakdown of receivables and deposits by related party is as follows:

	December 31, 2016	December 31, 2015
Receivables		
KZD Aspen Grove	**$ 1**	$ 12
Deposits		
GMM	**450**	450
Total related party receivables and deposits	**$ 451**	$ 462

The breakdown of accounts payable by related party is as follows:

	December 31, 2016	December 31, 2015
Accounts payable		
GMM	**$ 169**	$ 236
HPX	**149**	18
Total related party payables	**$ 318**	$ 254

(i) GMM is a private company based in Vancouver owned equally by eight companies, one of which is the Company, and has an officer in common with the Company. GMM provides administration, accounting, and other office services to the Company on a cost-recovery basis.

(ii) HPX is the Company's privately owned parent, holding 66.8% of the Company's common shares at December 31, 2016 (December 31, 2015 – 60.7%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

(iv) The Company is the operator of the Aspen Grove project, and the receivable balance represents unpaid reimbursements for expenses paid by the Company on behalf of KZD Aspen Grove and management fees. For the year ended December 31, 2016, management fees of $105,000 (2015 – $206,000) were earned by the Company as the project's operator.

(Stated in Canadian dollars unless otherwise noted; tabular amounts in thousands)

22. Related party transactions (continued)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management is as follows:

		Year ended December 31, **2016**		2015
Salaries and benefits	**$**	**1,594**	$	1,326
Share-based compensation		**55**		637
Total remuneration	**$**	**1,649**	$	1,963

Salaries and benefits for key management personnel include separation payments totalling $627,000 that were recognized in the three months ended March 31, 2016.

The remuneration of directors and key executives is determined by the Board having regard to the performance of individuals and market trends.

23. Subsequent events

(a) Rights offering

On November 10, 2016, the Company announced that it was conducting a rights offering to raise gross proceeds of approximately $7.3 million. Pursuant to the rights offering, eligible shareholders of record on November 18, 2016 were issued rights on the basis of one right for each common share held. Three rights entitled the holder to subscribe for one common share of the Company upon payment of the subscription price of $0.105 per share. The rights traded on the TSX Venture Exchange from November 16, 2016 to January 11, 2017.

On January 12, 2017, the Company announced the closing of the rights offering and confirmed the offering generated approximately $7.3 million in aggregate gross proceeds. Upon the closing of the offering, the Company issued a total of 69,191,659 new common shares, which represents 100% of the maximum number of common shares that were available under the rights offering. The Company now has 276,766,636 shares issued and outstanding.

In connection with the rights offering, the Company entered into a standby commitment agreement (the “Standby Commitment Agreement”) with majority shareholder HPX, who agreed, subject to the satisfaction of certain conditions, to fully exercise its basic subscription privilege to purchase its pro rata share of the common shares offered in the rights offering and to acquire all other common shares not acquired on the exercise of rights in the rights offering. The rights offering was oversubscribed and, consequently, HPX did not acquire any new shares under its standby commitment. As a result of exercising its basic subscription privilege to acquire 46,233,153 new shares, HPX's stake in the Company remained at 66.8%.

In accordance with the terms of the Standby Commitment Agreement, with the completion of the rights offering and fulfillment of the standby commitment by HPX, the Company issued 2,100,000 non-transferable warrants to HPX and the Loan Facility was terminated (Note 11). Each warrant entitles HPX to acquire one common share of the Company at an exercise price per common share of $0.155 at any time on or before January 11, 2022. No cash fees or commissions were paid to HPX or any other subscriber in connection with the rights offering.

23. Subsequent events (continued)

(b) Deconsolidation of Pinaya Project

On February 10, 2017, ITOCHU's share ownership interest in Kaizen Peru Holdings Ltd. ("Kaizen Peru"), the company which indirectly holds the Pinaya Project, reached 10% (Note 7(a)). Under the Shareholders Agreement, certain key strategic, operating, investing and financing decisions require the approval of all shareholders holding 10% or more of the common shares of Kaizen Peru. Consequently, on February 10, 2017, the Company will derecognize the assets and liabilities of Kaizen Peru from its consolidated statement of financial position and recognize its 90% interest as a joint venture investment, which is accounted for using the equity method.

(c) Sale of Castle gold-silver-copper property

In February 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property, located in northern British Columbia, to Colorado Resources Ltd. ("Colorado"). Under the terms of the purchase and sale agreement, Kaizen received 1,000,000 units of Colorado, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles Kaizen to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months.

KAIZEN DISCOVERY

Management's Discussion and Analysis

December 31, 2016

As at March 29, 2017

Introduction

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide readers with management's overview of the past performance of, and future outlook for, Kaizen Discovery Inc. (the "Company" or "Kaizen"). The report also provides information to enhance readers' understanding of the Company's financial statements and highlights important business trends and risks affecting the Company's financial performance. It should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the "financial statements").

All information contained in this MD&A is current as of March 29, 2017 unless otherwise stated.

All financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information on the Company is available on SEDAR and on the Company's website, www.kaizendiscovery.com.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict", "foresee" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect Kaizen's current expectations regarding future events, performance and results, and is accurate only at the time of this MD&A, and may be superseded by more current information. These include, but are not limited to, statements regarding: (i) the use of proceeds from the Rights Offering, including using the net proceeds of the Rights Offering to fund commitments to advance the Pinaya Project; (ii) Kaizen's plans to commence a drilling program at the Pinaya Project once the remaining requirements needed to commence drilling activities have been fulfilled, including receiving a permission to initiate activities and a water-use permit; (iii) the expectation that the remaining requirements to commence drilling will be received well before the planned start of the drilling program in May or June, 2017; (iv) the receipt of the third payment by ITOCHU in respect of its funding of the Pinaya Project; (v) Kaizen providing matching funding of up to $2.5 million for the Pinaya Project; (vi) the expectation that the $5.0 million will pay for approximately two years of planned exploration work at the Pinaya Project; (vii) statements regarding Kaizen's and ITOCHU's options for the Aspen Grove Project, including a possible sale to, or joint venture with, a third party; and (viii) the expectation that the uncertainty regarding the finalization of the draft Nunavut Land Use Plan will impact Kaizen's ability to continue its exploration activities at the Coppermine Project.

Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Kaizen or its mineral projects to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information.

In making such statements, Kaizen has made assumptions regarding, among other things: general business and economic conditions; the availability of additional exploration and mineral project financing; the supply and demand for, inventories of, and the level and volatility of the prices of metals; ongoing relationships with strategic partners; the timing and receipt of governmental permits and approvals; changes in regulations; political factors; the accuracy of the Company's interpretation of drill results; the geology, grade and continuity of the Company's mineral deposits; the availability of equipment, skilled labour and services needed for the exploration and development of mineral properties; and currency fluctuations.

This MD&A also contains references to estimates of Mineral Resources. The estimation of Mineral Resources is inherently uncertain and involves subjective judgements about many relevant factors. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgements used in engineering and geological interpretation, which may prove to be unreliable and depend, to a certain extent, upon the analysis of drilling results and statistical inferences that ultimately may prove to be inaccurate. Mineral Resource estimates may have to be re-estimated based on: (i) fluctuations in mineral prices; (ii) results of drilling; (iii) metallurgical testing and other studies; (iv) proposed and completed mining exploration programs; (v) the evaluation of exploration and drilling plans subsequent to the date of any estimates; and (vi) the possible failure to receive required permits, approvals and licenses.

Although the forward-looking statements or information contained in this MD&A are based upon what management of Kaizen believes are reasonable assumptions, Kaizen cannot assure investors that actual results will be consistent with these forward-looking statements. They should not be read as guarantees of future performance or results. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: the factors discussed below and under "Risk Factors"; unanticipated changes in general business and economic conditions or conditions in the financial markets; fluctuations in the price of metals; stock market volatility; decisions made by Kaizen's strategic partners; the availability of exploration capital and financing generally; changes in national and local government legislation; changes in interest or currency exchange rates; loss of key personnel; inaccurate geological assumptions; legal disputes or unanticipated outcomes of legal proceedings; social unrest; competition; unavailability of materials and equipment, government action or delays in the receipt of permits or government approvals; industrial disturbances or other job action; and unanticipated events related to health, safety and environmental matters.

Forward-looking information is designed to help readers understand management's current views of the Company's near and longer term prospects, and it may not be appropriate for other purposes. Kaizen will not update any forward-looking statements or forward-looking information unless required to by applicable securities laws.

The forward looking statements contained herein are based on information available and are made as of March 29, 2017.

Overview of the Business

Kaizen is a publicly listed mineral exploration company incorporated under the laws of British Columbia, Canada. The Company's shares are listed on the TSX Venture Exchange under the symbol KZD. The Company's head office and registered office are located at Suite 654 – 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

Kaizen's current mineral property portfolio consists of exploration-stage projects in Peru and Canada.

To date, Kaizen has not generated any revenues from its operations and is considered to be in the exploration stage.

Outlook

During 2016, there was a noticeable improvement in investors' sentiment toward the commodity sector and mining shares, marking a dramatic reversal of the bearish trend for commodities and commodity-related shares that had persisted since the second half of 2011. After a challenging 2015, investors showed renewed enthusiasm for commodities and mining shares beginning in mid-January 2016. This improved outlook was a contributing factor in Kaizen's successful, over-subscribed rights offering announced in late-2016 and completed in January 2017 that raised $7.3 million in gross proceeds. With the funds from the rights offering and the funding commitment from ITOCHU Corporation ("ITOCHU") for the first phase exploration program at the Pinaya Copper-Gold Project in Peru, the Company has sufficient funds to finance its current exploration commitments for 2017.

In 2016, the Company took steps to streamline its exploration portfolio to concentrate its exploration expenditures on the Pinaya Project – the Company's most promising exploration project. The Company continues to seek additional strategic project opportunities, primarily in South America, the costs of which are undetermined. As such, management will continue to assess the cost of exploration programs at the Pinaya Project and may revise the scope of planned programs.

Overall Performance

Corporate Activities

Over-Subscribed Rights Offering Raises Gross Proceeds of $7.3 Million

On November 10, 2016, the Company announced that it was conducting a rights offering to raise gross proceeds of approximately $7.3 million. Pursuant to the rights offering, eligible shareholders of record on November 18, 2016 were issued rights on the basis of one right for each common share held. Three rights entitled the holder to subscribe for one common share of the Company upon payment of the subscription price of $0.105 per share. The rights traded on the TSX Venture Exchange from November 16, 2016 to January 11, 2017.

On January 12, 2017, the Company announced the closing of the rights offering and confirmed the offering generated approximately $7.3 million in aggregate gross proceeds. Upon the closing of the offering, the Company issued a total of 69,191,659 new common shares, which represents 100% of the maximum number of common shares that were available under the rights offering. The Company now has 276,766,636 shares issued and outstanding.

In connection with the rights offering, the Company entered into a standby commitment agreement (the "Standby Commitment Agreement") with majority shareholder HPX TechCo Inc. ("HPX"), who agreed, subject to the satisfaction of certain conditions, to fully exercise its basic subscription privilege to purchase its pro rata share of the common shares offered in the rights offering and to acquire all other common shares not acquired on the exercise of rights in the rights offering. The rights offering was oversubscribed and, consequently, HPX did not acquire any new shares under its standby commitment. As a result of exercising its basic subscription privilege to acquire 46,233,153 new shares, HPX's stake in the Company remained at 66.8%.

In accordance with the terms of the Standby Commitment Agreement, with the completion of the rights offering and fulfillment of the standby commitment by HPX, the Company issued 2,100,000 non-transferable warrants to HPX and the Inter-Corporate Loan Agreement between the Company and HPX dated December 4, 2013, which made available to the Company a $5.0 million unsecured, revolving loan facility ("Loan Agreement"), was terminated. Each warrant entitles HPX to acquire one common share of the Company at an exercise price per common share of $0.155 at any time on or before January 11, 2022. No cash fees or commissions were paid to HPX or any other subscriber in connection with the rights offering.

Collaboration Agreement with ITOCHU Corporation

On November 2, 2016, the Company announced that it had entered into a new agreement with ITOCHU through which ITOCHU could continue to be a joint-venture partner or financier with Kaizen on selected, high-quality, international mineral projects. The new agreement, which replaced the January 2014 framework agreement, established a process by which ITOCHU could seek to invest and work together with Kaizen on future exploration and development projects. The agreement also allowed Kaizen the flexibility to seek joint-venture partners or financiers other than ITOCHU.

Upon closing the Company's rights offering in January 2017, ITOCHU's holding of the Company's common shares fell below the 3% threshold, on a fully diluted basis, stipulated in the new agreement's termination provisions. Consequently, the new agreement automatically terminated on that date. Negotiations with ITOCHU to replace the agreement are ongoing. There can be no assurances that these negotiations will be successful and result in a new collaboration agreement with ITOCHU.

Changes to Board of Directors and Management

On January 4, 2017, Kaizen announced the appointment of Tom Peregoodoff as President and Chief Executive Officer ("CEO"), replacing Eric Finlayson as the Company's CEO. Mr. Finlayson had held the CEO position on an interim basis since March 31, 2016.

On June 30, 2016, Kaizen announced that Eric Finlayson, Richard Cohen, David Boehm, David Korbin and Ignacio Rosado were elected to the board of directors for the first time at the Company's annual general and special meeting, while David Huberman and Terry Krepiakevich were re-elected to the board. Peter Meredith, Ali Zamani, Akiko Levinson and Dr. Kuang Ine Lu did not stand for re-election.

On May 2, 2016, Kaizen announced the appointments of Charlie Forster as Vice President, Exploration; Mark Gibson as Chief Operating Officer; and Sam Riggall as Commercial Advisor. These appointments followed the resignations of Dr. David Broughton, Executive Vice President, Exploration and Anthony Abbenante, Vice President, on April 30, 2016.

On April 1, 2016, Kaizen announced the appointment of Eric Finlayson as CEO, on an interim basis, following the resignation of B. Matthew Hornor as CEO, President and a member of the Board of Directors on March 31, 2016.

Steve Vanry resigned from his role of Executive Vice President of Corporate Development on March 31, 2016.

Exploration Activities

Pinaya Copper-Gold Project, Peru

The Pinaya Copper-Gold Project covers 192 km^2 and includes 28 kilometres of strike length within the Andahuaylas-Yauri Porphyry Belt in southeastern Peru. This belt hosts numerous productive and world-scale porphyry and skarn systems, including Las Bambas, Tintaya, Constancia and Haquira.

Kaizen acquired a 100% interest in the Pinaya Project from AM Gold in October 2015. Details of the acquisition agreement are contained in Kaizen's news release of October 26, 2015.

An updated National Instrument 43-101 ("NI 43-101") technical report for the Pinaya Project, prepared jointly by Brian Cole, P.Geo and GeoSim Services Inc., with an effective date of April 26, 2016, was filed on the SEDAR website under Kaizen's profile at www.sedar.com and on the Kaizen website at www.kaizendiscovery.com. The technical report includes a revised resource estimate.

The Pinaya Project contains Mineral Resources within three contiguous zones over a 1.7-kilometre strike in the central part of the property. The project's estimated Measured Resource totals 8.2 million tonnes grading 0.33% copper and 0.60 grams per tonne (g/t) of gold, for contained metal of 27,000 tonnes of copper and 158,000 ounces of gold. The project's estimated Indicated Resource totals 33.5 million tonnes grading 0.32% copper and 0.46 g/t gold, for contained metal of 108,000 tonnes of copper and 497,000 ounces of gold. The project also has an Inferred Resource of 40.2 million tonnes grading 0.36% copper and 0.30 g/t gold, containing 145,000 tonnes of copper and 388,000 ounces of gold.

Previous exploration on the property was focused mainly on defining the current Mineral Resources and much less on systematic regional exploration. Kaizen has reviewed existing geochemical and geophysical surveys and has identified multiple untested targets along and across the strike of the current Mineral Resources (Figure 2).

Kaizen has signed land access agreements with the community of Pinaya and individual private landholders that provide Kaizen with access rights to conduct its planned exploration program at the Pinaya Project for a two-year period. Kaizen also signed two separate agreements with the community outlining social development and employment commitments.

On November 2, 2016, Kaizen received its water-use authorization for the Pinaya Project's exploration camp.

In late 2016, Kaizen engaged consulting geologist Nadia Caira, P.Geo., to conduct an extensive review of the core drilled at the project by previous operators. This review has provided Kaizen with new and valuable insights into the distribution of the mineralization within the different deposit types in the resource area and their relation to the regional structural setting. Further work, including preliminary prospect mapping and resource drilling review, was recently completed by consulting geologist Gustavo Zulliger, whose insights have been critical to finalizing the 2017 resource and target testing drilling.

On February 14, 2017, Kaizen received approval of its Declaration for Environmental Impact ("DIA") for the Pinaya Project. The DIA allows Kaizen to use up to 20 drilling platforms and to drill as many as 55 holes totalling up to 17,200 metres. Kaizen plans to drill approximately 4,000 metres at the Pinaya Project in 2017. The DIA also enables Kaizen to excavate 95 trenches. In addition, the Certificate of Non-Existence of Archaeological Remains has been received which is also a precondition to commencing drilling.

The remaining requirements needed to commence drilling activities include receipt of a permission to initiate activities and a water-use permit, both of which are expected to be received well before the planned start of the drilling program in May or June of 2017.

Figure 1: Location of the Pinaya Copper-Gold Project in Peru.

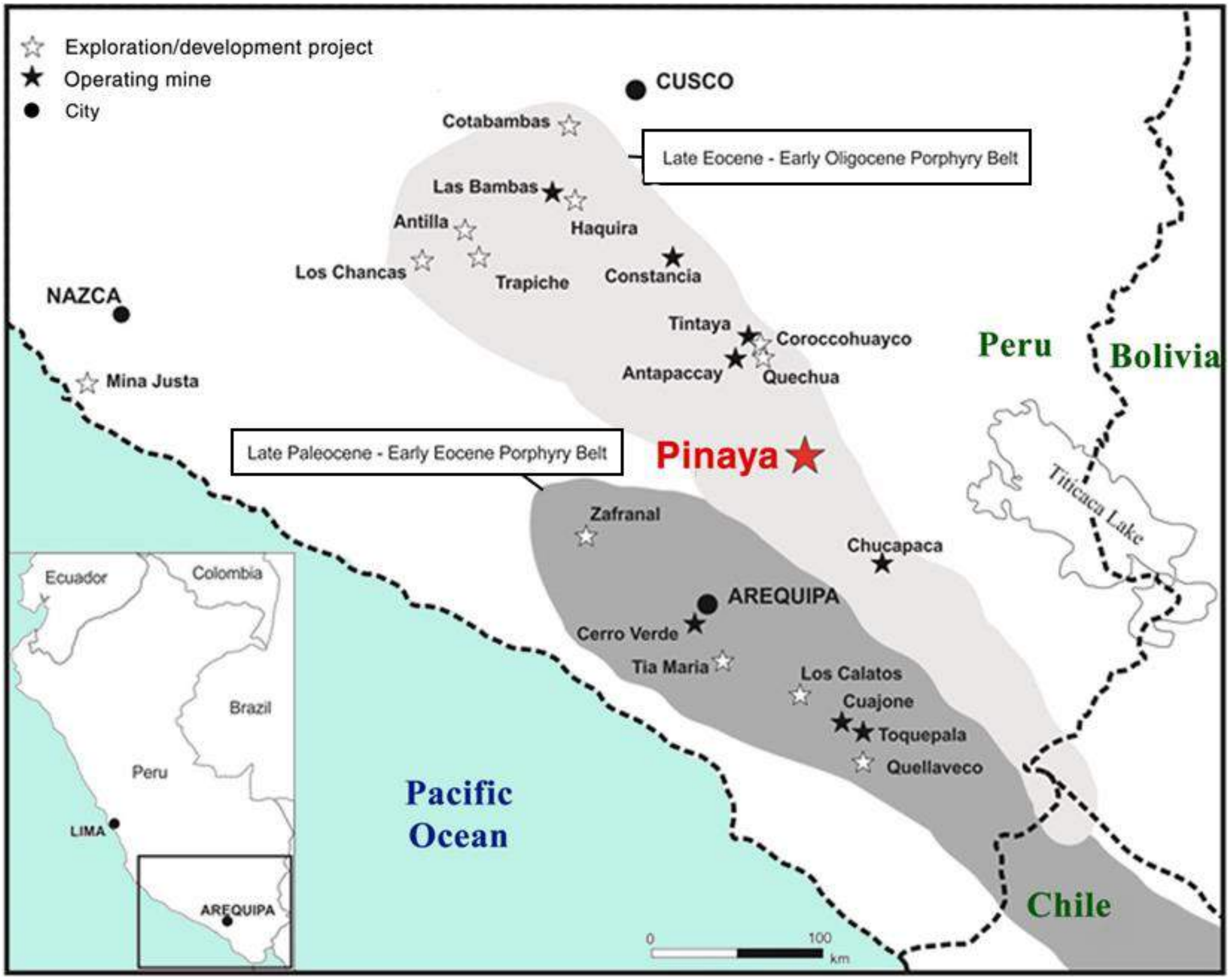


Figure 2: Satellite image with regional targets within Pinaya Copper-Gold Project in Peru.

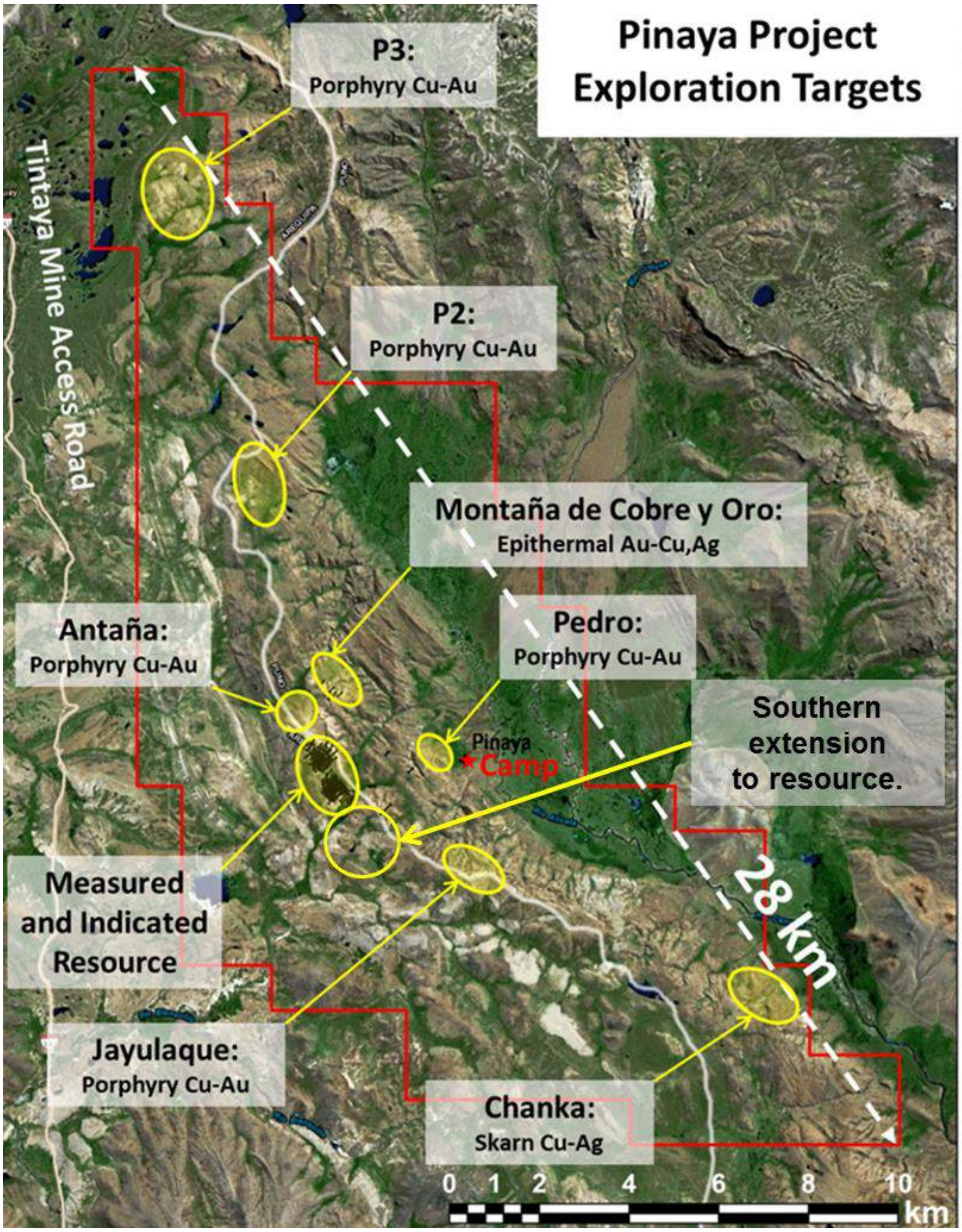


Figure 3: Pinaya Copper-Gold Project's camp facilities May 6, 2016.

Figure 4: Kaizen team inspecting an undrilled prospect at Pinaya, May 6, 2016.

Strategic Financing Agreement with ITOCHU for Pinaya Copper-Gold Project

On April 18, 2016, Kaizen closed a strategic financing agreement with ITOCHU to advance Kaizen's exploration efforts at the Pinaya Copper-Gold Project. Under the terms of the agreement, ITOCHU will provide Kaizen with up to $2.5 million in initial exploration funding for Pinaya, in exchange for an indirect stake in the project of up to 20%.

The financing agreement calls for ITOCHU to pay the $2.5 million to Kaizen in three payments.

- The first payment of $625,000 was made upon closing of the transaction. This payment gave ITOCHU an initial 5% interest in Kaizen's subsidiary, Kaizen Peru Holdings, the indirect holder of the Pinaya Project. Kaizen retained the remaining 95%.
- On February 10, 2017, Kaizen received ITOCHU's second payment of $625,000, for another 5% interest in Kaizen Peru Holdings, raising ITOCHU's interest in Kaizen Peru Holdings to 10% . This payment was conditional on Kaizen obtaining, within two years of the first payment of $625,000, local community approvals for the lease and surface rights for the Pinaya Project and obtaining all necessary approvals to establish and operate the exploration camp.
- A third payment of $1.25 million, for an additional 10% interest, which would bring ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, is conditional on Kaizen obtaining, within two years of the first payment of $625,000, the necessary environmental, archaeological and water authorizations required to conduct exploration drilling on the Pinaya Project.

ITOCHU has the right to sell all, but not less than all, of its common shares in Kaizen Peru Holdings to Kaizen for $10.00 plus the amount of ITOCHU's $2.5 million of funding commitment that remains unspent and uncommitted, pro rata to ITOCHU's ownership percentage in Kaizen Peru Holdings on the date that ITOCHU exercises its right. The strategic financing agreement terminates upon ITOCHU exercising this right.

Kaizen has agreed to match ITOCHU's exploration funding, bringing the total aggregate funding to $5.0 million for the planned first phase of exploration at Pinaya. Kaizen expects that the $5.0 million will pay for approximately two years of planned exploration work at the project.

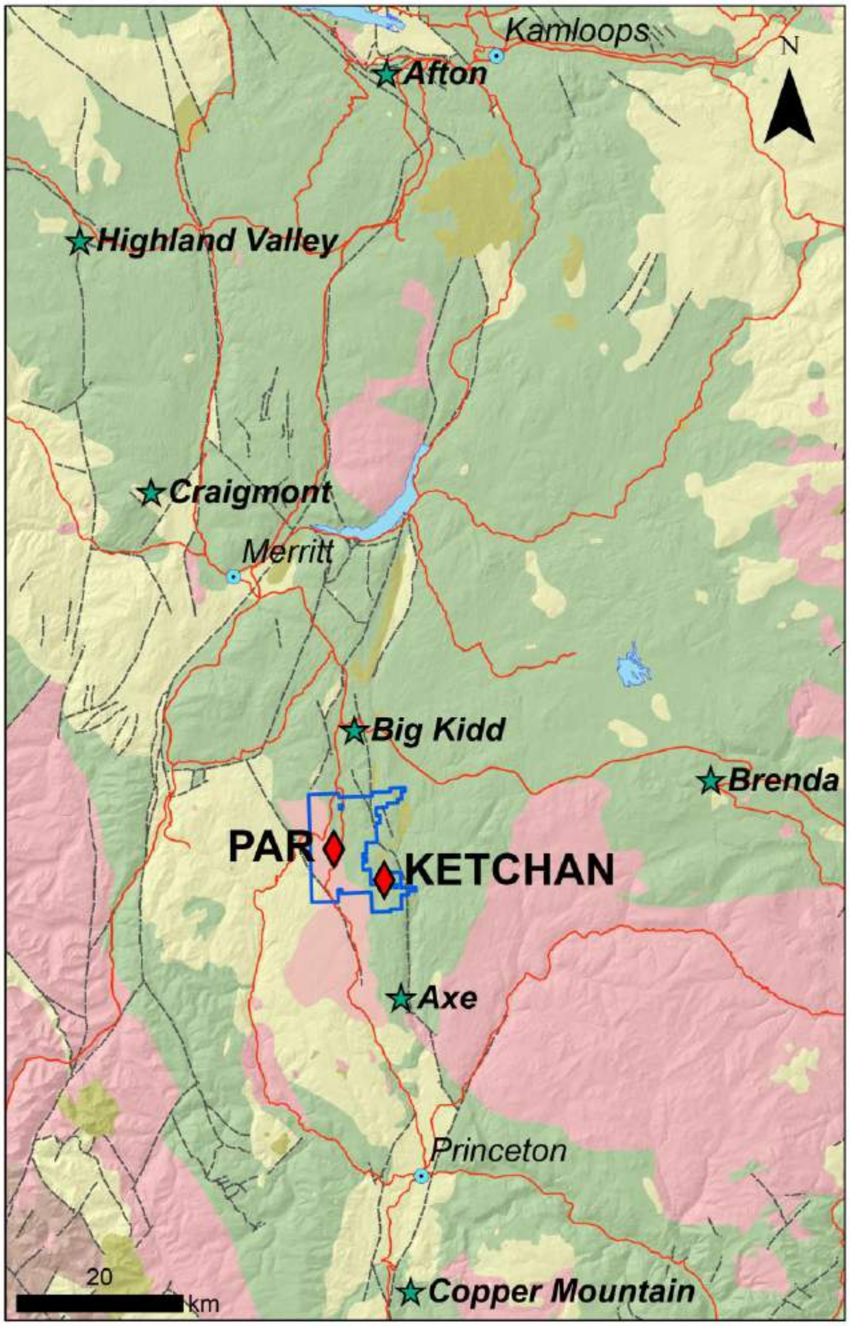
The initial $1.25 million of Kaizen's $2.5 million funding commitment is due on or before the earlier of (i) April 18, 2017, one year after the date of ITOCHU's initial $625,000 investment; or (ii) completion of ITOCHU's third-tranche payment. Kaizen's second funding commitment of $1.25 million is due on or before April 18, 2018, two years after the date of completion of ITOCHU's initial $625,000 investment. Following the completion of Kaizen's $2.5 million funding commitment, both Kaizen and ITOCHU become subject to customary cash call obligations and dilution should either party not fund its pro rata amount of any future funding.

Aspen Grove Project, British Columbia, Canada

The Aspen Grove Project is located in southern British Columbia, near the city of Merritt. The project comprises approximately 112 km^2 (11,237 ha) and covers part of an extensive belt of porphyry copper-gold mineralization hosted by Early Triassic Nicola Group volcanic rocks and Late Triassic to Early Jurassic intrusions.

Title to the Aspen Grove property is held by KZD Aspen Grove Holding Ltd. ("KZD Aspen Grove"), a subsidiary owned 60% by Kaizen and 40% by ITOCHU. Three claims (13.75 km^2) are subject to a 2% net smelter return royalty, 1% of which can be purchased at any time for $3.0 million.

Figure 5: Location of the Ketchan and Par prospects at Kaizen's Aspen Grove Project.



2015 and 2016 Exploration Programs

Exploration by Kaizen in 2015 and 2016 focused on the Ketchan alkalic copper-gold porphyry system, hosted by the Ketchan Stock, a dioritic to monzonitic intrusion at least 1,800 metres by 500 metres in size. All but one drill hole in the 2015 program, spanning the known length of the intrusion, intersected significant intervals of copper mineralization, often accompanied by gold mineralization. Drilling in 2015 revealed the presence of a complex zone of magnetically destructive alteration following an interpreted northwest-southeast structure within the Ketchan Stock. This zone is variably, in some places strongly, mineralized on its margin and may be an important control for the mineralizing system. It appears to divide the stock into two lobes, southwestern and northeastern.

The 2016 drilling program was completed in late September 2016 for a total of 4,009-metres within the Ketchan prospect. The purpose of the program was to expand known zones of mineralization and test undrilled areas within the Ketchan Stock. All holes intersected potassic or calc-potassic alteration and all but one returned intervals of copper and gold mineralization.

Jim Logan, P.Geo., an independent geological consultant with extensive alkalic porphyry experience, and formerly with the British Columbia Geological Survey, was retained by Kaizen to construct a geological model for the Ketchan prospect. Mr. Logan's work included re-logging of drill core, lithogeochemical sampling and thin section petrographic study and highlighted new controls to copper-gold mineralization on the Ketchan prospect.

Following a review of the Aspen Grove Project, it was determined the project no longer meets the exploration criteria originally set out. As a result, Kaizen and ITOCHU do not intend to continue the exploration program. Other options for the project will be assessed instead, including a possible sale to, or joint venture with, a third party.

Table 1: Drill hole intercepts from 2016 Aspen Grove exploration drilling program.

DDH	From (m)	To (m)	Width* (m)	Copper (%)	Gold (g/t)	Copper Eq** (%)
K16-01	23	37	14	0.44	0.18	0.61
K16-01	257	293	36	0.32	0.24	0.53
K16-01	315	337	22	0.34	0.05	0.38
incl.	331	337	6	1.04	0.09	1.11
K16-02	None significant					
K16-03	334	348	14	0.24	0.34	0.55
incl.	338	340	2	0.94	1.75	2.53
K16-03	406	478	72	0.11	0.42	0.48
K16-04	5	53	48	0.11	0.14	0.24
K16-05A	299	335	36	0.43	0.21	0.62
incl.	299	307	8	0.68	0.45	1.08
K16-06	347	409	62	0.46	0.10	0.55
incl.	367	395	28	0.90	0.17	1.05
K16-07	121	129	8	1.29	0.84	2.05
K16-07	278	338	60	0.36	0.15	0.50
K16-08	9	37	28	0.34	0.09	0.42
K16-08	151	167	16	0.35	0.13	0.47

* Width refers to drill-hole intercept. True widths have not been determined.

** Copper equivalent is used to express the combined value of copper and gold as a percentage of copper, for illustrative purposes. No allowances have been made for recovery losses that would occur in a mining scenario. Calculated on the basis of US$2.15 per pound of copper and US$1,330 per troy ounce of gold, using the formula copper eq =
[(%copper)(22.0462)($lbcopper)+(gptgold)(1/31.1035)($ozgold)]/[(22.0462)($lbcopper)]

Figure 6: Interpreted geological features of the Ketchan Stock, with 2016 and 2015 drill holes indicated.

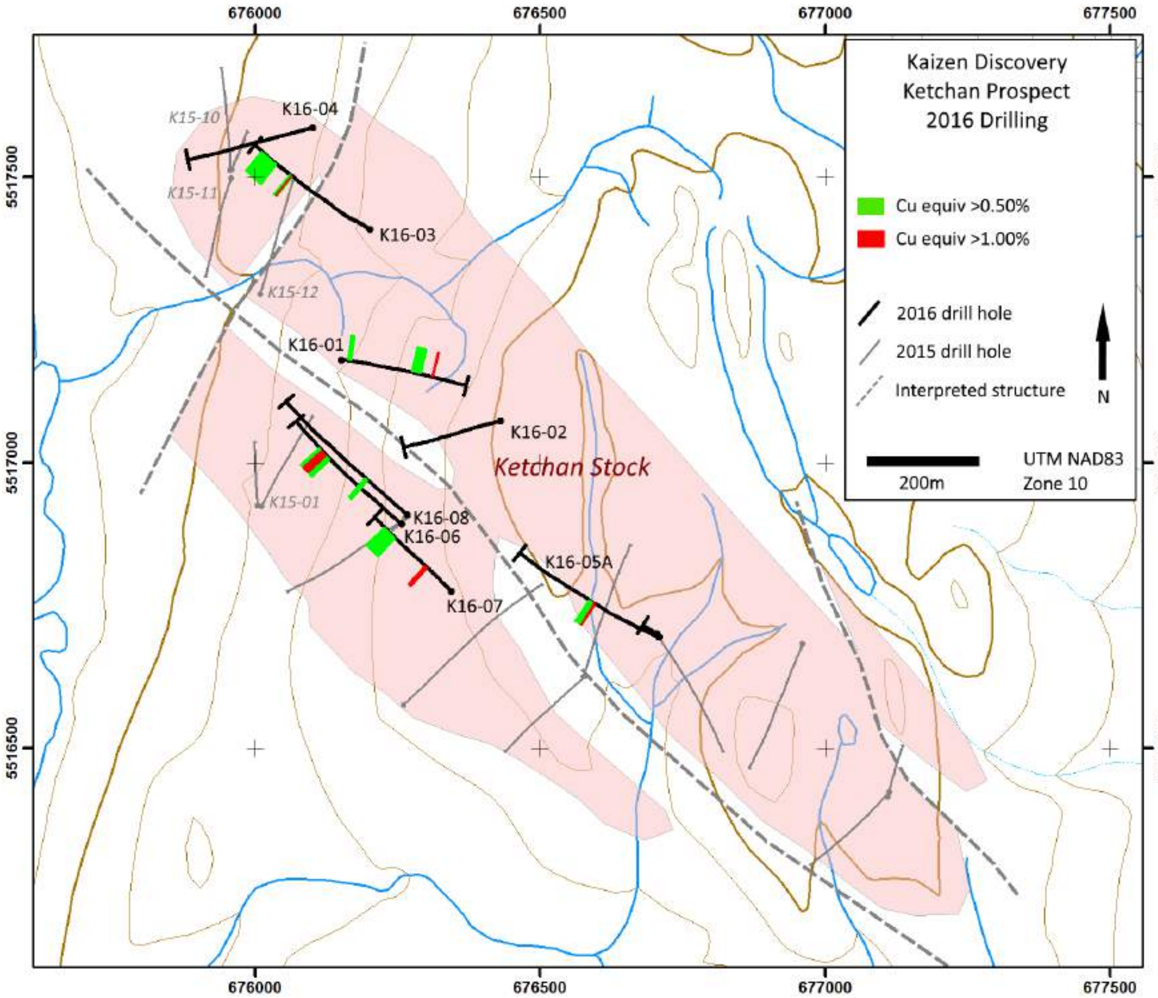


Table 2. Collar details of drill holes from 2016 program.

DDH	Azimuth	Dip	Easting	Northing	Total Depth (m)
K16-01	090	-60	676151	5517180	459.33
K16-02	250	-60	676430	5517073	380.09
K16-03	300	-60	676201	5517409	511.15
K16-04	260	-60	676101	5517586	459.33
K16-05	305	-60	676704	5516701	57.00
K16-05A	295	-65	676708	5516695	715.37
K16-06	310	-60	676257	5516893	544.68
K16-07	310	-60	676344	5516775	386.18
K16-08	310	-50	676267	5516909	495.91

Coordinates: UTM NAD83 zone 10N

Coppermine Project, Nunavut, Canada

The Coppermine Project constitutes a district-scale, greenfield exploration prospect, covering approximately 115 kilometres of strike of an easterly-trending belt of Mesoproterozoic continental flood basalts (the

Coppermine River Group) and unconformably overlying marine sedimentary rocks of Neoproterozoic age (the Rae Group). The belt has numerous mineral showings that demonstrate prospectivity for two distinct deposit types: sediment-hosted stratiform copper-silver; and structurally-controlled volcanic-hosted copper-silver.

Licences

Kaizen, through its wholly owned subsidiary Tundra Copper Corp., holds 153 Crown Land mineral claims totalling 1,657 km^2 as well as eleven prospecting permits totalling 1,877 km^2.

On September 13, 2016, Kaizen received notice from the Mining Recorder for the Territory that its Section 51 application under the Mining Regulations of Nunavut had been registered and recorded. Under Section 51 of the Regulations, if a claim holder is unable to do the required assessment work because the holder is, for reasons beyond the claim holder's control, waiting for a public authority to give an authorization or decision without which the work cannot proceed, the claim holder may request a one-year suspension of the work requirements.

The Company's Section 51 application pertains to the draft Nunavut Land Use Plan ("DNLUP"). In the DNLUP, the Kaizen mineral claims and prospecting permits are overlain by areas with proposed prohibitions and/or limitations on mining and exploration. Uncertainty regarding these designations will impact Kaizen's ability to continue its exploration activities at the Coppermine Project until the DNLUP is finalized.

Other Exploration Projects

On March 21, 2016, Kaizen provided its notice of withdrawal from the two exploration licences which comprise the Fairholme Project in Australia, due to a lack of encouraging exploration results. Currently, one exploration licence remains to be fully processed and returned to the joint venture partner.

Also on March 21, 2016, Kaizen submitted renunciation notices to relinquish exploration licences for the Ebende project, located in the Democratic Republic of Congo. The Decrees acknowledging renunciation of the licences were received on May 25, 2016.

In February 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property, located in northern British Columbia, to Colorado Resources Ltd. ("Colorado"). Under the terms of the purchase and sale agreement, Kaizen received 1,000,000 units of Colorado, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles Kaizen to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months from the date of sale.

Exploration Expenses

(Tabular amounts are expressed in thousands of Canadian dollars)

Exploration expenses are summarized by project as follows:

	Year ended December 31, 2016					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	$	$	$	$	$	$
Wages and consultants	530	143	14	2	239	928
Drilling	-	-	-	-	-	-
Assay	-	-	-	-	-	-
Share-based compensation	-	-	-	-	67	67
Fees and taxes	492	65	2	-	-	559
Geophysics	-	-	-	-	-	-
Camp	103	7	3	-	6	119
Travel	48	-	-	-	6	54
Aircraft	-	-	-	-	-	-
Professional fees	207	-	-	6	-	213
Demobilization	-	248	-	-	-	248
Environmental	131	-	-	-	-	131
Other	213	6	(1)	-	3	221
	1,724	469	18	8	321	2,540

	Year ended December 31, 2015					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	$	$	$	$	$	$
Wages and consultants	152	819	166	10	299	1,446
Drilling	-	282	163	-	-	445
Assay	-	25	105	-	-	130
Share-based compensation	-	-	-	-	212	212
Fees and taxes	-	49	50	261	-	360
Geophysics	-	-	(51)	18	-	(33)
Camp	11	229	35	-	3	278
Travel	19	34	5	-	10	68
Aircraft	-	868	-	-	-	868
Professional fees	61	-	-	38	-	99
Demobilization	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Other	11	21	35	-	18	85
	254	2,327	508	327	542	3,958

Selected Annual Information

(Tabular amounts are expressed in thousands of Canadian dollars)

	December 31, 2016	December 31, 2015	December 31, 2014
	$	$	$
Total revenue	-	-	-
Net loss for the year	10,739	14,313	8,996
Total comprehensive loss for the year	10,710	14,291	9,032
Total assets	5,559	10,897	20,157
Total non-current liabilities	1,274	1,260	-
Dividends paid	-	-	-

The Company is a mineral exploration company and therefore does not earn any revenue. The Company's current mineral property portfolio consists of exploration-stage projects in Peru and Canada.

Summary of Quarterly Results

(Tabular amounts are expressed in thousands of Canadian dollars, except for per share amounts)

	Quarter Ended			
	Dec-31 2016	Sep-30 2016	Jun-30 2016	Mar-31 2016
	$	$	$	$
Exploration expenses	619	484	773	664
Administrative expenses	443	707	912	1,383
Impairment of mineral properties	-	-	-	-
Share of losses (income) from joint venture	3,042	316	159	20
Loss (gain) on foreign exchange	37	(28)	10	(26)
Write-down of other assets	-	-	1,214	-
Write-down of marketable securities	-	-	-	-
Other expense (income)	9	(3)	(44)	48
Net loss for the period	4,150	1,476	3,024	2,089
Net loss attributable to owners of Kaizen Discovery Inc.	4,124	1,460	2,997	2,089
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.02	0.01	0.02	0.01

	Quarter Ended			
	Dec-31 2015	Sep-30 2015	Jun-30 2015	Mar-31 2015
	$	$	$	$
Exploration expenses	354	1,742	1,014	848
Administrative expenses	976	810	1,026	1,153
Impairment of mineral properties	5,461	-	-	-
Share of losses (income) from joint venture	(424)	734	521	47
Loss (gain) on foreign exchange	36	(73)	56	(149)
Write-down of other assets	-	-	-	-
Write-down of marketable securities	83	-	19	450
Other expense (income)	(94)	(159)	(96)	(22)
Net loss for the period	6,392	3,054	2,540	2,327
Net loss attributable to owners of Kaizen Discovery Inc.	6,392	3,054	2,540	2,327
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.04	0.02	0.02	0.01

The changes in the Company's financial results on a quarter-by-quarter basis are due primarily to fluctuations in the level of activity of Company's exploration programs, project acquisitions and administration. The Company is a mineral exploration company and does not earn any revenue. The Company's current mineral property portfolio consists of exploration-stage mineral projects in Peru and Canada.

In Q4 2015, the Company recorded an impairment loss totalling $5.46 million related to the write-downs of the Coppermine, Tanzilla, Pliny and Castle mineral properties.

In Q4 2016, the Company recognized its share of KZD Aspen Grove's impairment loss related to the write-down of the Aspen Grove mineral property.

Results of Operations

Annual Results – Year ended December 31, 2016 compared to year ended December 31, 2015

The loss for the year ended December 31, 2016 totalled $10.74 million compared to the loss of $14.31 million for the year ended December 31, 2015.

Exploration expenses were $2.54 million for 2016 compared to $3.96 million for 2015. Exploration activity in 2016 primarily related to the Pinaya Project, whereas the Coppermine and Fairholme projects were the focus in 2015. In March 2016, Kaizen provided its notice of withdrawal from the Fairholme Project in Australia, due to a lack of encouraging exploration results, and submitted notices to relinquish its exploration licences for the Ebende project, which were acknowledged in May 2016. The Coppermine Project was inactive in 2016, a consequence of the Section 51 application under the Mining Regulations of Nunavut.

Administration expenses of $3.45 million in 2016 were fairly consistent with $3.97 million in 2015. Wages and benefits were higher in 2016, mainly due to separation payments totaling $0.71 million related to certain changes made to the Company's management and geological teams. This increase in wages and benefits was offset by lower non-cash share-based compensation, lower professional fees, and reduced travel and investor relations costs.

The Company recorded $5.46 million of impairment losses on mineral properties in 2015. At December 31, 2015, since substantive expenditure on further exploration in the Coppermine, Tanzilla, Pliny and Castle project areas was neither budgeted nor planned, the Company assessed the carrying amounts of those mineral properties and concluded they were fully impaired. No such impairment losses were recognized in 2016.

Share of losses from joint venture of $3.54 million in 2016 (2015 - $0.88 million) includes the Company's share of KZD Aspen Grove's impairment loss. At December 31, 2016, since substantive expenditure on further exploration in the Aspen Grove Project area was neither budgeted nor planned, KZD Aspen Grove assessed the $5.43 million carrying amount of the Aspen Grove mineral property and concluded it was fully impaired.

In 2016, the Company recorded a $1.21 million (2015 - $Nil) write-down of other assets. Due to the recourse available to the Company should it be required to settle potential obligations related to the Pinaya Project, an asset was recognized at the same time as the provision for these potential obligations and classified as other assets in the statement of financial position. On June 30, 2016, the Company filed a notice of civil claim which has been contested by the counterparty. Under the applicable accounting rules, it is appropriate to record a $1.21 million write-down of the asset, reducing the carrying amount to nil.

In 2015, the Company recorded an impairment loss on marketable securities of $0.55 million. The market value of Alecto Minerals plc's common shares declined in 2015, which negatively impacted the carrying value of the approximate 55 million shares held by the Company. No such impairment loss was recorded in 2016.

Fourth Quarter Results – Three months ended December 31, 2016 ("Q4 2016") compared to three months ended December 31, 2015 ("Q4 2015")

The loss for Q4 2016 totalled $4.15 million compared to the loss of $6.39 million for Q4 2015.

Exploration expenses were $0.62 million in Q4 2016 compared to $0.35 million in Q4 2015. Q4 2016's exploration activity primarily related to the Pinaya Project, which was acquired in October 2015.

Administration expenses decreased from $0.98 million in Q4 2015 to $0.44 million in Q4 2016, mainly due to a $0.40 million decrease in non-cash share-based compensation combined with lower wages and benefits, lower professional fees and reduced office costs.

The Company recorded $5.46 million of impairment losses on mineral properties in Q4 2015. At December 31, 2015, since substantive expenditure on further exploration in the Coppermine, Tanzilla, Pliny and Castle project areas was neither budgeted nor planned, the Company assessed the carrying amounts of those mineral properties and concluded they were fully impaired. No such impairment losses were recognized in Q4 2016.

Share of losses from joint venture of $3.04 million in Q4 2016 (Q4 2015 - $0.42 million share of income) includes the Company's share of KZD Aspen Grove's impairment loss. At December 31, 2016, since substantive expenditure on further exploration in the Aspen Grove Project area was neither budgeted nor planned, KZD Aspen Grove assessed the $5.43 million carrying amount of the Aspen Grove mineral property and concluded it was fully impaired.

Liquidity and Capital Resources

At December 31, 2016, the Company had consolidated cash and cash equivalents of $0.28 million (December 31, 2015 - $0.91 million), excluding cash of $0.53 million (December 31, 2015 - $0.79 million) held by KZD Aspen Grove, the joint venture interest that holds the Aspen Grove project. The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary use of cash during the year ended December 31, 2016 was funding operating activities of $5.64 million (2015 – $6.96 million). During the same period, cash provided by financing activities comprised draws totalling approximately $4.30 million on the unsecured, revolving loan facility with majority shareholder HPX and the receipt of $625,000 from ITOCHU as the first payment under the strategic financing agreement for the Pinaya Project.

Under the terms of the Loan Agreement with HPX, HPX made available to the Company an unsecured, revolving loan facility of up to $5.0 million ("Loan Facility"). On September 15, 2016, the Company and HPX agreed to settle the full amount of principal and interest owing on the Loan Facility, totaling approximately $5.07 million, by issuing 32,210,460 common shares of the Company to HPX at a price of $0.1575 per share, representing a 25% discount to the Company's closing share price of $0.21 on September 15, 2016. The transaction was completed on September 23, 2016.

On January 12, 2017, Kaizen announced the closing of its rights offering and confirmed the offering generated approximately $7.3 million in aggregate gross proceeds. The key terms of the rights offering are disclosed in the "Corporate Activities" section of this MD&A, including the termination of the Loan Agreement that occurred upon fulfillment of the standby commitment by HPX and completion of the rights offering.

At December 31, 2016, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on a combination of its cash position, the proceeds from the rights offering that closed in January 2017, the completion of ITOCHU's second $625,000 Pinaya Project funding payment in February 2017, and the ability to pursue additional sources of financing, including equity placements.

The Company currently has no source of operating cash flow, and has no assurance that additional funding will be available to it for additional exploration programs at its properties, or to enable the Company to fulfill its obligations under any applicable agreements. The ability of the Company to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore and evaluate its mineral properties and, ultimately, to achieve profitable operations. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration of the Company's properties and the possible loss of title to such properties. As such, there is material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Off-Balance Sheet Arrangements

During the year ended December 31, 2016, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

Related Party Transactions

(Tabular amounts are expressed in thousands of Canadian dollars)

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this section of the MD&A. Details of transactions between the Company and other related parties are disclosed below.

Expenses, receivables, deposits and accounts payable

The Company incurred the following exploration and administrative expenses with related parties:

	Year ended December 31,	
	2016	2015
	$	$
Salaries and benefits	2,949	2,898
Corporate administration	449	562
Exploration and geophysical activities	122	4
Total related party expenses	3,520	3,464

The breakdown of expenses by related party is as follows:

	Year ended December 31,	
	2016	2015
	$	$
GMM	3,375	3,460
HPX	145	4
Total related party expenses	3,520	3,464

The transactions with Global Mining Management Corporation ("GMM") noted above for the year ended December 31, 2016 include approximately $323,000 (2015 - $468,000) of expenses incurred by KZD Aspen Grove, and the Company's share of losses from that joint venture includes 60% of these expenses.

The breakdown of receivables and deposits by related party is as follows:

	December 31, 2016	December 31, 2015
	$	$
Receivables		
KZD Aspen Grove	1	12
Deposits		
GMM	450	450
Total related party receivables and deposits	451	462

The breakdown of accounts payable by related party is as follows:

Accounts payable	December 31, 2016 $	December 31, 2015 $
GMM	169	236
HPX	149	18
Total related party payables	318	254

(i) GMM is a private company based in Vancouver owned equally by eight companies, one of which is the Company, and has an officer in common with the Company. GMM provides administration, accounting, and other office services to the Company on a cost-recovery basis.

(ii) HPX is the Company's privately-owned parent, holding 66.8% of the Company's common shares at December 31, 2016 (December 31, 2015 – 60.7%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

(iii) The Company is the operator of the Aspen Grove Project, and the receivable balance represents unpaid reimbursements for expenses paid by the Company on behalf of KZD Aspen Grove and management fees. For the year ended December 31, 2016, management fees of approximately $105,000 (2015 - $206,000) were earned by the Company as the project's operator.

Compensation of key management personnel

The remuneration of directors and other members of key management is as follows**:**

	Year ended December 31,	
	2016	2015
	$	$
Salaries and benefits	1,594	1,326
Share-based compensation	55	637
Total remuneration	1,649	1,963

Salaries and benefits for key management personnel include separation payments totaling approximately $627,000 that were recognized in the three months ended March 31, 2016.

The remuneration of directors and key executives is determined by the Board having regard to the performance of individuals and market trends.

Outstanding Share Data

At March 29, 2017, the Company had a total of 276,766,636 common shares issued and outstanding. There were also 12,195,000 stock options outstanding with a weighted average exercise price of $0.44 per share. Each stock option is exercisable to purchase a common share of the Company at prices ranging from $0.155 to $0.66 per common share.

Changes in Accounting Policies Including Initial Adoption

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2016, and have not been applied in preparing the consolidated financial statements for the year ended December 31, 2016. The following standards may have a potential effect on the consolidated financial statements of the Company.

a) IFRS 9, *Financial Instruments*, replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.

b) IFRS 15, *Revenue from Contracts with Customers*, establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.

c) IFRS 16, *Leases*, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. Other areas of the lease accounting model have been impacted, including the definition of a lease. Management is currently assessing the potential impact of this standard.

Financial Instruments

(Tabular amounts are expressed in thousands of Canadian dollars)

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying values of cash and cash equivalents; receivables; deposits; other assets; accounts payable and accrued liabilities; and the Loan Facility approximate their fair values. Marketable securities are measured at fair value using level 1 inputs. The option liability is measured at cost.

The Company's financial assets and financial liabilities are classified as follows:

	December 31, 2016	December 31, 2015
	$	$
Financial assets		
Loans and receivables		
Cash and cash equivalents	281	912
Receivables	27	155
Deposits	477	450
Other assets	114	1,400
Available-for-sale		
Marketable securities	60	95
Total financial assets	959	3,012
Financial liabilities		
Accounts payable and accrued liabilities	890	677
Loan facility	-	700
Option liability	250	250
Total financial liabilities	1,140	1,627

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents, receivables, deposits and other assets.

Cash is deposited with high credit quality financial institutions as determined by a primary ratings agency.

Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its bank deposits, which is insignificant due to their short-term nature. The Company was not exposed to interest rate cash flow risk on the Loan Facility as its rate was fixed at 3% per annum, compounded monthly.

The Company has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors interest rate exposure closely.

Currency risk

The Company reports its financial results in Canadian dollars but undertakes transactions in various foreign currencies, mainly the U.S. dollar. As the exchange rates between the Canadian dollar and these foreign currencies fluctuate, the Company experiences foreign exchange gains and losses. The Company has cash and cash equivalents; receivables; deposits; other assets; accounts payable and accrued liabilities; and a provision denominated in foreign currencies which are subject to currency risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the respective statement of financial position dates are as follows:

	Assets		Liabilities	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	$	$	$	$
U.S. dollar	32	20	(206)	(68)
Peruvian sol	6	-	(1,318)	(1,303)
Australian dollar	68	218	-	(5)
Other	17	18	(65)	(8)

As at December 31, 2016, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $147,000 decrease or increase in the Company's net loss (December 31, 2015 - $113,000). A 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would also result in an approximate $131,000 increase or decrease in the Company's other comprehensive income.

The Company does not enter into any financial instruments to hedge currency risk, but the Company monitors its foreign exchange exposure.

Risk Factors

The Company is engaged in mineral exploration and development activities which, by their very nature, are speculative. Due to the high-risk nature of the Company's business and the present stage of the Company's various projects, an investment in the Company's common shares should be considered a highly speculative investment that involves significant financial risks including the risk of total loss of the investment, and prospective investors should carefully consider all of the information disclosed in this MD&A and the Company's other public disclosures, including the risks described below, prior to making any investment in the Company's common shares.

The risks noted below do not necessarily comprise all of the risks faced by the Company. Additional risks not currently known to the Company, or that the Company currently considers immaterial, may also adversely impact the Company's business, results of operations, financial results and prospects.

1. *The Company cannot guarantee that its mineral projects will become commercially viable, or that it will discover any commercially viable mineral deposits.*

   Mineral exploration and development are highly speculative and are characterized by a number of significant inherent risks, which may result in the inability to successfully develop a project for commercial, technical, political, regulatory or financial reasons, or if successfully developed, may not remain economically viable for their mine life owing to any of the foregoing reasons.

   Kaizen's ability to identify mineral resources in sufficient quantity and quality to justify development activities and/or its ability to commence and complete development work and/or commence and/or sustain commercial mining operations at any of its Projects will depend upon numerous factors, many of which are beyond its control, including exploration success, the obtaining of funding for all phases of exploration, development and commercial mining, the adequacy of infrastructure, geological characteristics, metallurgical characteristics of any deposit, the availability of processing and smelting capacity, the availability of storage capacity, the supply of and demand for copper, gold and other metals, the availability of equipment and facilities necessary to commence and complete development, the cost of consumables and mining and processing equipment, technological and engineering problems, accidents or acts of sabotage or terrorism, civil unrest and protests, currency fluctuations, changes in regulations, the availability of water, the availability and productivity of skilled labour, the receipt of necessary consents, permits and licenses (including mining licences), political factors including unexpected changes in governments or governmental policies towards exploration, development and commercial mining activities, and the compliance of joint venture partners with various contractual obligations and commitments, as well as the ongoing support of joint venture partners in proceeding with exploration and/or development activities (including through funding provided by joint venture partners).

Furthermore, cost over-runs or unexpected changes in commodity prices in any future development could make the Projects uneconomic, even if previously determined to be economic under feasibility studies. Accordingly, notwithstanding the positive results of one or more feasibility studies on the Projects, there is a risk that the Company would be unable to complete development and commence commercial mining operations at one or more of the Projects which would have a material adverse effect on Kaizen's business, financial condition, results of operations or prospects.

2. *The Company will need substantial additional financing in the future and cannot assure that such financing will be available.*

   The Company will need to make substantial investments in the exploration and development of its Projects before any will be able to host commercial mining activities, and it will need additional financing to do so. The Company has: (i) sustained operating losses since incorporation; (ii) limited and finite financial resources; (iii) not earned any revenue; and (iv) no source of operating cash flow to fund such investments. The Company will need to raise further funds to finance its exploration activities and fund project development. The Company may, therefore, seek to raise further funds through equity or debt financing, the sale of an interest in one or more of its Projects, entering into joint ventures or seeking other means to meet its financing requirements.

   There is no assurance, however, that additional funding will be available to the Company for further exploration and development of the Projects or that its joint venture partners will continue to provide financing to Kaizen's Projects and/or not withdraw its participation from such projects, or that the Company will ever be profitable or develop operating cash flow sufficient to sustain its business activities. Failure to obtain additional financing would result in delay or indefinite postponement of further exploration and development of the Projects and the possible loss of mineral title interests. If the Company is unable to obtain additional financing, it would have a material adverse effect on Kaizen's ability to explore for and develop commercially viable mineral deposits, its financial condition, business and prospects.

3. *Currency fluctuations may affect the costs that Kaizen incurs.*

   The Company's reporting currency is the Canadian dollar. Exploration activities in Peru are mainly incurred in U.S. dollars and Peruvian soles, and exploration and administrative activities in Canada are mainly incurred in Canadian dollars. Exchange rate fluctuations in these currencies are beyond the Company's control and such fluctuations could have an adverse effect on the Company's exploration and development activities, financial condition, results of operations, business and prospects.

   From time to time, the Company may borrow funds, issue equity or incur expenditures that are denominated in a non-Canadian currency. In addition, in the event that Kaizen successfully develops an operating mine, the Company expects to sell some or all of its products to foreign markets. Metals are sold throughout the world, based principally on a U.S. dollar price, but as stated, certain of Kaizen's operating expenses are incurred in non-U.S. dollar currencies. The appreciation of the U.S. dollar or Peruvian sol against the Canadian dollar would increase the costs of operations, which could have a material adverse effect on Kaizen's business, financial condition, results of operations or prospects.

4. *Kaizen's Mineral Resources are estimates only and are subject to change due to a variety of factors.*

   There is no certainty that the Mineral Resources attributable to the Pinaya Project or to Kaizen will be realized. There is a degree of uncertainty in the estimation of Mineral Resources. Until Mineral Resources are actually mined and processed, the quantity of Mineral Resources and related grades must be considered as estimates only.

   Estimation of Mineral Resources is a subjective process that relies on the judgement of the persons preparing the estimates. The process relies on, among other things, the quantity and quality of available data and is based on knowledge, mining experience, analysis of drilling results and industry practice. Valid estimates made at a given time may change significantly in the future when new information becomes available. By their nature Mineral Resource estimates are imprecise and depend, to a certain extent, upon the analysis of drilling results and statistical inferences that may ultimately prove to be inaccurate. Inferred Mineral Resources, in particular, have a degree of uncertainty as there is a limited ability to assess geological continuity. There is a risk that any estimate of Inferred Mineral Resources will not be capable of upgrading to Mineral Resources with sufficient continuity to allow them to be used in connection with the estimation of Mineral Reserves. In addition, estimates of Mineral Resources may have to be recalculated based on fluctuations in copper and gold or other metal prices, results of drilling, metallurgical testing and production, including dilution, and the evaluation of mine plans subsequent to the date of any estimates. Any material change in the quantity of Mineral Resources or the related grades may affect the economic viability of the Projects at which a Mineral Resource has been identified and could have a material adverse effect on Kaizen's business, financial condition, results of operations or prospects.

5. *Limited infrastructure and mining supplies could adversely affect exploration and development activities.*

   Exploration activities as well as mining, processing and development depend on adequate infrastructure and the ability to access such infrastructure. Reliable roads, airstrips, power sources and transmission, and water supply are important determinants that affect capital and operating costs. An inability to create or access such infrastructure due to unusual weather phenomena, sabotage, terrorism, government regulations or other interference in the provision or maintenance of such infrastructure, or, limited availability of such infrastructure due to underdevelopment or poor maintenance, would likely have a material adverse effect on Kaizen's business, financial condition, results of operations or prospects, including through increased costs associated with limited infrastructure or the requirement for Kaizen to fund the development of such infrastructure in order to efficiently proceed with its exploration, development or commercial mining activities.

6. *The Company's exploration licenses may be terminated, revoked or expire and not be renewed, and if they are renewed may be subject to a reduction in the license area.*

   Kaizen's principal activities currently are exploration in nature, requiring exploration permits or licenses in each jurisdiction where it is conducting exploration. The maintenance of exploration licenses and permits is a very detailed and time-consuming process. Depending on the jurisdiction, exploration licenses, once received, are commonly renewable for various time intervals, after which the tenements may be subject to reductions ranging up to 50%. Exploration permits or licenses may also require Kaizen to incur certain fees and/or meet minimum work commitments, in order to keep such permits or licenses in good standing. Failure to do any of the foregoing could result in a permit or license previously held by Kaizen ceasing to be in good standing making such permit or license subject to revocation, termination or forfeiture, which would have a material adverse effect on Kaizen's business and prospects.

   Although the titles to the properties in which the Company holds an interest were reviewed by or on behalf of the Company, and title opinions were obtained by the Company with regard to its properties upon their acquisition, there still may be undetected title defects affecting such properties.

In addition, prior to commencing significant development work in conducting commercial mining activities on its projects, the Company will require approvals, licenses and permits from various governmental authorities in Canada and Peru. These approvals, licenses and permits relate to, among others, the following (i) mining and exploitation rights; (ii) water use rights; (iii) maintenance of title; (iv) employees; (v) health and safety; and (vi) repatriation of capital and exchange controls. Kaizen can provide no assurance that it would ultimately be able to obtain such approvals, licenses and permits.

7. *The Company is substantially dependent on the Pinaya Project.*

   The Company's only material mineral project and the only project that hosts Mineral Resources is the Pinaya Project in Peru. Substantially all of the Company's current exploration activities are conducted on the Pinaya Project. Unless the Company acquires additional property interests, any adverse developments affecting the Pinaya Project would have a material adverse effect upon the Company and would materially and adversely affect Kaizen's business, financial condition, results of operations or prospects.

8. *Foreign investments and operations are subject to numerous risks associated with operating in foreign jurisdictions.*

   The Company currently conducts its exploration activities principally in Peru. Although Peru has a stable political system and has a receptive attitude towards mining and foreign investment, there is always the potential for changes in mining policies or shifts in political or community attitude towards foreign investment in natural resources. Changes, even if minor in nature, may adversely affect Kaizen's activities in the country. Further, Kaizen's Peruvian mining investments are subject to the risks normally associated with the conduct of business in Peru. The occurrence of one or more of these risks could have a material and adverse effect on Kaizen's business, financial condition, results of operations or prospects. These risks and uncertainties vary from time to time and include, but are not limited to: social unrest, labour disputes, invalidation of governmental orders and permits, uncertain political and economic environments, high risk of inflation, sovereign risk, war (including in neighbouring states), military repression, civil disturbances and terrorist actions, arbitrary changes in laws, the failure of foreign parties or governments to honour contractual relations, consents, rejections or waivers granted, corruption, arbitrary foreign taxation, delays in obtaining or the inability to obtain necessary governmental permits (including export and/or customs approvals), opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold or other metals exports, difficulty obtaining key equipment and components for equipment and inadequate infrastructure. These risks may limit or disrupt Kaizen's exploration and development activities, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation.

9. *The Company expects to incur losses for the foreseeable future.*

   The Company expects to incur losses unless and until such time as its mineral projects generate sufficient revenues to fund continuing operations. The Company cannot provide assurance that it will ever achieve profitability.

10. *The Company may become subject to litigation.*

    All industries, including the mining industry, may be made subject to legal claims, with and without merit. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material adverse effect on the Company's business, results of operations, financial condition (including its cash position) and prospects.

11. *Fluctuations in the price of consumables used in exploration and development activities may adversely impact the cost of exploration, development and future mining activities.*

Fluctuations in the prices and availability of consumables used in connection with exploration, development and mining, such as natural gas, diesel, oil, electricity and reagents can significantly impact the operating cost of exploration and mining activities. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on operating costs, the costs of exploration, or the timing and future costs of undeveloped projects.

12. *The Company is subject to strong competition in the mineral industry.*

The mining and mineral exploration industry and in particular, the international mineral industry, is competitive in all of its phases. The Company faces strong competition from other mining and exploration companies in connection with the acquisition of properties producing, or capable of producing, minerals. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel. Many of these companies also have mineral projects in production. As a result of this competition, the Company may be unable to acquire additional attractive mining or exploration properties on terms it considers acceptable or at all. Consequently, the Company's business, results of operation, financial conditions and prospects could be adversely affected.

13. *The Company has a controlling shareholder.*

Kaizen's principal shareholder, HPX, is the beneficial owner of 66.8% of the currently outstanding common shares. As a result, the principal shareholder has the ability to control the outcome of certain matters requiring shareholder approval by ordinary resolution and will have the power to, among other things, elect all directors. The principal shareholder's ownership interest could adversely affect investors' perception of the Company's corporate governance.

Qualified Person

Disclosure of a scientific or technical nature in this MD&A with respect to the following projects has been reviewed and approved by a Qualified Person, as that term is defined in NI 43-101:

a) Pinaya Project – The scientific and technical information in this MD&A related to the Pinaya Project has been reviewed and verified by Charles Forster, P.Geo., Kaizen's Vice President, Exploration, a Qualified Person under the terms of NI 43-101. Mr. Forster is not independent of Kaizen.

   The Mineral Resources disclosed in this MD&A for the Pinaya project are reported in the NI 43-101 Technical Report dated April 26, 2016, "Pinaya Gold-Copper Project Technical Report" (the "Technical Report") prepared jointly by Brian Cole, P.Geo. and Ronald G. Simpson, P.Geo. (Geosim Services Inc.). Both Mr. Cole and Mr. Simpson are independent of Kaizen.

b) Aspen Grove Project – The scientific and technical information in this MD&A for the Aspen Grove Project has been reviewed and approved by Nils Peterson, M.Sc., P.Geo., a geological consultant for Kaizen. Mr. Peterson is not independent of Kaizen.