KAIZEN DISCOVERY

Consolidated Financial Statements of

Kaizen Discovery Inc.

December 31, 2017

Kaizen Discovery Inc.
Consolidated Financial Statements

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Deloitte LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 778-374-0496
www.deloitte.ca

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, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity and the 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $5.0 million for the year ended December 31, 2017 and has incurred cumulative losses from inception in the amount of $44.8 million at December 31, 2017. 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
April 25, 2018
Vancouver, Canada

Kaizen Discovery Inc.

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

	Notes		**December 31, 2017**		December 31, 2016
Assets					
Current assets					
Cash and cash equivalents		**$**	**4,090**	$	281
Receivables	6		**44**		371
Prepaid expenses and deposits	22(a)		**474**		495
Total current assets			**4,608**		1,147
Non-current assets					
Mineral properties	7		**-**		3,665
Joint venture interests	8(a)		**550**		503
Advances to joint venture	8(a)		**1,261**		-
Financial assets	9		**144**		60
Property, plant and equipment	10		**-**		70
Other assets			**78**		114
Total assets		**$**	**6,641**	$	5,559
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	22(a)	**$**	**451**	$	890
Provision			**465**		-
Option liability	11		**250**		250
Total current liabilities			**1,166**		1,140
Non-current liabilities					
Provision	12		**-**		1,274
Total liabilities		**$**	**1,166**	$	2,414
Equity					
Share capital	13	**$**	**45,987**	$	39,010
Share-based payment reserve			**3,727**		3,334
Other reserves			**452**		521
Share purchase warrants	13		**177**		-
Accumulated other comprehensive (loss) income			**(107)**		8
Accumulated deficit			**(44,761)**		(39,767)
Equity attributable to owners of Kaizen Discovery Inc.			**5,475**		3,106
Non-controlling interest			**-**		39
Total equity		**$**	**5,475**	$	3,145
Total liabilities and equity		**$**	**6,641**	$	5,559

Description of business and going concern (Note 1)
Subsequent events (Notes 8(a) and 11)

Approved and authorized for issue on behalf of the Board on April 25, 2018:

/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)

	Notes		Year ended December 31, 2017		2016
Operating expenses					
Exploration expenses	14	**$**	**(767)**	$	(2,540)
Administrative expenses	15		**(2,548)**		(3,445)
Share of losses from joint ventures	8		**(1,925)**		(3,537)
Loss from operations			**(5,240)**		(9,522)
Other income (expenses)					
Gain on sale of mineral property	7(b)		**518**		-
Dilution gain	8(a)		**439**		-
Management fees			**6**		105
Interest income			**67**		13
(Loss) gain on foreign exchange			**(45)**		7
Write-down of property, plant and equipment	10		**(70)**		-
Interest expense			**(465)**		(73)
Write-down of other assets			**-**		(1,214)
Write-down of marketable securities	9(a)		**(17)**		-
Loss on disposal of marketable securities	9(a)		**(12)**		(3)
Other expense			**(180)**		(52)
Loss before income taxes			**(4,999)**		(10,739)
Income taxes			**-**		-
Net loss for the year			**(4,999)**		(10,739)
Other comprehensive (loss) income					
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustment			**(72)**		41
Share of other comprehensive loss of joint venture	8(a)		**(75)**		-
Unrealized loss on marketable securities	9(a)		**(48)**		(15)
Items that have been reclassified to profit or loss:					
Impairment loss on marketable securities	9(a)		**17**		-
Realized loss on disposal of marketable securities	9(a)		**10**		3
Cumulative exchange losses relating to partially disposed and liquidated foreign subsidiaries	8(a)		**48**		-
Total other comprehensive (loss) income for the year		**$**	**(120)**	$	29
Total comprehensive loss for the year		**$**	**(5,119)**	$	(10,710)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		**$**	**(4,994)**	$	(10,670)
Non-controlling interest			**(5)**		(69)
Net loss for the year		**$**	**(4,999)**	$	(10,739)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		**$**	**(5,109)**	$	(10,645)
Non-controlling interest			**(10)**		(65)
Total comprehensive loss for the year		**$**	**(5,119)**	$	(10,710)
Loss per share (basic and diluted)		**$**	**(0.02)**	$	(0.05)
Weighted average number of basic and diluted shares outstanding	3(o)		**275,332,081**		199,097,502

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		Share-based payment reserve		Other reserves		Share purchase warrants		Accumulated other comprehensive (loss) / income		Accumulated deficit		Equity attributable to owners of Kaizen Discovery Inc.		Non-controlling interest		Total
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	-		-		-		521		-		-		-		521		104		625
Shares issued on settlement of debt	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**	**$**	**3,145**
Balance at December 31, 2016	**207,574,977**	**$**	**39,010**	**$**	**3,334**	**$**	**521**	**$**	**-**	**$**	**8**	**$**	**(39,767)**	**$**	**3,106**	**$**	**39**	**$**	**3,145**
Net loss for the year	**-**		**-**		**-**		**-**		**-**		**-**		**(4,994)**		**(4,994)**		**(5)**		**(4,999)**
Other comprehensive loss	**-**		**-**		**-**		**-**		**-**		**(115)**		**-**		**(115)**		**(5)**		**(120)**
Share-based compensation	**-**		**-**		**393**		**-**		**-**		**-**		**-**		**393**		**-**		**393**
Shares and share purchase warrants issued pursuant to rights offering (Note 13), net of share issue costs of $112	**69,191,659**		**6,977**		**-**		**-**		**177**		**-**		**-**		**7,154**		**-**		**7,154**
Other changes in non-controlling interest	**-**		**-**		**-**		**(69)**		**-**		**-**		**-**		**(69)**		**69**		**-**
Deconsolidation of subsidiary (Note 8(a))	**-**		**-**		**-**		**-**		**-**		**-**		**-**		**-**		**(98)**		**(98)**
Balance at December 31, 2017	**276,766,636**	**$**	**45,987**	**$**	**3,727**	**$**	**452**	**$**	**177**	**$**	**(107)**	**$**	**(44,761)**	**$**	**5,475**	**$**	**-**	**$**	**5,475**

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, 2017	2016
Operating activities			
Net loss for the year		**$ (4,999)**	$ (10,739)
Adjustments for non-cash items:			
Share-based compensation		**393**	173
Share of losses from joint ventures		**1,925**	3,537
Gain on sale of mineral property		**(518)**	-
Dilution gain		**(439)**	-
Loss (gain) on unrealized foreign exchange		**35**	(42)
Interest expense		**465**	73
Write-down of property, plant and equipment		**70**	-
Write-down of other assets		**-**	1,214
Write-down of marketable securities		**17**	-
Other expense		**214**	64
Loss on disposal of marketable securities		**12**	3
Changes in non-cash working capital items:			
Receivables		**323**	(43)
Prepaid expenses and deposits		**25**	(29)
Accounts payable and accrued liabilities		**(302)**	154
Cash used in operating activities		**$ (2,779)**	$ (5,635)
Investing activities			
Reduction of cash from deconsolidation of subsidiary	8(a)	**$ (71)**	$ -
Advances to joint venture	8(a)	**(1,168)**	-
Step acquisition of subsidiary	19	**(293)**	-
Recognition of cash from consolidation of subsidiary	19	**756**	-
Redemption of other assets		**-**	84
Proceeds from sale of marketable securities	9(a)	**211**	20
Cash (used in) from investing activities		**$ (565)**	$ 104
Financing activities			
Proceeds from rights offering		**$ 7,154**	$ -
Non-controlling interest's investment in subsidiary		**-**	625
Drawings under loan facility		**-**	4,300
Share issue costs on settlement of debt		**-**	(26)
Cash from financing activities		**$ 7,154**	$ 4,899
Effect of foreign exchange rate changes on cash		**$ (1)**	$ 1
Increase (decrease) in cash and cash equivalents		**3,809**	(631)
Cash and cash equivalents, beginning of year		**281**	912
Cash and cash equivalents, end of year		**$ 4,090**	$ 281

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, 2017, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2016 – 66.8%) 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) These 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, 2017, the Company had no operating revenues and incurred a loss of $5.0 million. At December 31, 2017, the Company had consolidated cash and cash equivalents of $4.1 million (December 31, 2016 - $0.3 million).

At December 31, 2017, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and 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.

These 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, 2017.

3. Significant accounting policies

(a) *Basis of measurement*

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

(b) *Functional and presentation currency*

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

References to "$" are to Canadian dollars.

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

3. Significant accounting policies (continued)

(c) *Basis of consolidation*

These 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, 2017 and 2016, 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,	
			2017	**2016**
KZD Aspen Grove Holding Ltd.	British Columbia	Consolidation (Note 19)	100%	60%
Tundra Copper Corp.	British Columbia	Consolidation	100%	100%
West Cirque Resources Ltd.	British Columbia	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 Kaizen Peru Holdings Ltd. joint venture that is accounted for using the equity method.

Name of joint venture	Place of incorporation or registration	Method of accounting	Effective ownership interest at December 31,	
			2017	**2016**
Kaizen Peru Holdings Ltd.	Canada	Equity (Note 8(a))	90%	95%

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.

3. Significant accounting policies (continued)

(d) Equity-accounted investees (continued)

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 exchange rate on the date when the fair value was measured. 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.

3. Significant accounting policies (continued)

(f) Foreign currency (continued)

(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 other reserves within equity, except to the extent that the translation difference is allocated to non-controlling interests. On the disposal of a foreign operation, such exchange differences are reclassified from other reserves to profit or loss.

(g) Cash and cash equivalents

Cash and cash equivalents comprise demand deposits held with banks and short-term highly liquid investments that are readily convertible into known amounts of cash with original terms of three months or less.

(h) Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. 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. 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. Marketable securities are classified as available-for-sale and 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.

(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.

Accounts payable and accrued liabilities are initially measured at fair value and 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.

3. Significant accounting policies (continued)

(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.

Upon disposal or retirement, the carrying amount of an item of property, plant and equipment is derecognized, and the difference between its carrying value and net sales proceeds, if any, is recognized as a gain or loss 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 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.

3. Significant accounting policies (continued)

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

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 stock 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 of 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 TSX Venture Exchange on the date preceding the grant, less any discount permitted by the exchange.

The fair value of stock options granted to employees is measured at grant date using the Black-Scholes option pricing model. The fair value of share-based payments to non-employees is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If it is determined that the fair value of the goods or services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments granted using the Black-Scholes option pricing model at grant date.

The fair value of the number of stock options expected to vest is recognized as share-based compensation expense over the vesting period of the stock options with a corresponding increase in equity. The amount recognized as share-based compensation expense is adjusted prospectively to reflect any changes in the number of stock options expected to vest.

(n) Operating segments

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

3. Significant accounting policies (continued)

(o) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to the Company's 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 is increased to include additional shares for the assumed exercise of stock options and warrants if dilutive.

On January 12, 2017, the Company announced the closing of its rights offering, which was open to all shareholders (Note 13). Since the subscription price was less than the fair value of a common share of the Company, the rights offering contained a bonus element. In order to provide a comparable basis for the current year, the basic and diluted loss per share for all years prior to the rights offering have been adjusted retroactively for the bonus element contained in the rights offering. Specifically, the weighted average number of common shares outstanding used to compute basic and diluted loss per share for the ended December 31, 2016, has been multiplied by a factor of 1.08.

(p) Income taxes

Income tax expense for the year comprises current and deferred tax. Current and deferred tax are recognized in the consolidated statement of loss and comprehensive loss except to the extent they relate to items recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at the reporting date.

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. Deferred tax assets are only recognized to the extent that it is probable that a deferred tax asset will be recovered. 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, 2017 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. The application of IFRS 9 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statement, except for the effect of designating investments in equity instruments as measured at fair value through other comprehensive income.

At January 1, 2018, the Company's investments in equity instruments, comprising marketable securities, have been designated as measured at fair value through other comprehensive income. In accordance with IFRS 9's transitional provisions, this classification will be applied retrospectively. Consequently, accumulated deficit at December 31, 2017, will be reduced by approximately $579,000 with a corresponding increase in accumulated other comprehensive loss.

4. Adoption of new and revised accounting standards and interpretations (continued)

(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. As the Company, together with its subsidiaries and joint venture interest, currently has no source of revenue, the application of IFRS 15 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

(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. Both internal and external sources of information are considered when making the assessment of whether there are indications of impairment for mineral properties and property, plant and equipment. 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 assets. Internal sources of information considered include the manner in which mineral properties and property, plant and equipment are being used or are expected to be used and indications of economic performance of those 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*, the Company has determined that its functional currency 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)).

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

5. Critical accounting estimates and judgments (continued)

(d) Determination of control of subsidiaries and joint arrangements

Judgement is required to determine when the Company has control of subsidiaries or joint control of joint arrangements. This requires an assessment of the relevant activities of the investee, being those that significantly affect the investee's returns, including operating and capital expenditure decision-making, financing of the investee, and the appointment, remuneration and termination of key management personnel; and when the decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Judgement is also required when determining the classification of a joint arrangement as a joint venture or a joint operation through an evaluation of the rights and obligations arising from the arrangement. Changes to the Company's access to those rights and obligations may change the classification of that joint arrangement.

On February 10, 2017, the Company's interest in Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings") was classified as a joint venture. The assessment of the relevant facts and circumstances leading to that conclusion is disclosed in Note 8(a).

The most significant estimate made by management is as follows:

(a) Valuation of share-based payments, derivative assets and share purchase warrants

The Company applies the Black-Scholes option pricing model to determine the fair value of equity-settled share-based payments, derivative assets and share purchase warrants. Option pricing models require the input of highly subjective assumptions, including the expected share price volatility and expected life of the options (Notes 9(b), 13 and 16). 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, which may impact the company's net loss and equity reserves.

6. Receivables

	December 31, 2017	December 31, 2016
Value-added tax	**$ 43**	$ 344
Other	**1**	27
	$ 44	$ 371

7. Mineral properties

(a) Pinaya copper-gold project

On February 10, 2017, the $3.57 million (December 31, 2016 - $3.67 million) carrying amount of the Pinaya Copper-Gold Project mineral property was derecognized as the Company lost control of Kaizen Peru Holdings Ltd. (Note 8(a)).

(b) 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 ("Castle Property"), located in northern British Columbia, to Colorado Resources Ltd. ("Colorado"). Under the terms of the purchase and sale agreement, the Company received 1,000,000 units of Colorado, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the Company to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months. On the transaction date, the common shares and warrants received were recognized at their fair values of $340,000 (Note 9(a)) and $178,000 (Note 9(b)) respectively, resulting in a realized gain on sale of $518,000.

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

8. Joint venture interest

		December 31, 2017		December 31, 2016
Kaizen Peru Holdings Ltd. (a)	**$**	**550**	$	-
KZD Aspen Grove Holding Ltd. (b)		**-**		503
	$	**550**	$	503

(a) Kaizen Peru Holdings Ltd.

Kaizen Peru Holdings indirectly holds the Pinaya Copper-Gold Project ("Pinaya Project"), which covers 192 square kilometres and includes 28 kilometres of strike length within the Andahuaylas – Yauri Porphyry Belt in southeastern Peru.

On February 10, 2017, ITOCHU Corporation ("ITOCHU") completed its second payment under the strategic financing agreement to advance exploration efforts at the Pinaya Project, increasing its share ownership interest in Kaizen Peru Holdings to 10% while decreasing the Company's stake to 90%. Under the Shareholders Agreement, which governs Kaizen Peru Holdings' decision making, 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 Holdings. Therefore, the Company lost control of Kaizen Peru Holdings as a result of this joint control arrangement. Consequently, on February 10, 2017, the Company derecognized the assets and liabilities of Kaizen Peru Holdings and the associated non-controlling interest from its consolidated statement of financial position. Additionally, the $14,000 cumulative amount of historical exchange losses relating to the translation of Kaizen Peru Holdings' Peruvian subsidiary was reclassified to loss. The retained 90% joint venture interest was recognized at cost and is accounted for using the equity method.

On February 10, 2017, the following amounts were derecognized from the consolidated statement of financial position:

Cash	$	71
Receivables		4
Mineral properties		3,568
Accounts payable and accrued liabilities		(86)
Provision		(1,297)
Due to Kaizen Discovery Inc.		(1,343)
Net assets deconsolidated	$	917
Non-controlling interest		(98)
Equity investment in Kaizen Peru Holdings	$	819

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

8. Joint venture interest (continued)

(a) *Kaizen Peru Holdings Ltd. (continued)*

The following is a summary of the Company's 90% investment in Kaizen Peru Holdings at December 31, 2017:

		December 31, 2017
Beginning of year	$	-
Initial recognition on loss of control		819
Dilution gain on loss of control		439
Equity contribution *(i)*		1,250
Share of losses from joint venture *(ii)*		(1,883)
Share of other comprehensive loss from joint venture *(ii)*		(75)
Total equity investment, end of year	$	550
Advances *(i)*		1,261
Total investment, end of year	$	1,811

(i) The amounts advanced to Kaizen Peru Holdings are non-interest bearing and will be applied towards the Company's $2.5 million funding commitment, under the strategic financing agreement described below, by way of equity contributions to Kaizen Peru Holdings.

In August 2017, the Company used $1.25 million of such advances to subscribe for additional common shares of Kaizen Peru Holdings. Contemporaneously, in accordance with the Shareholders Agreement, Kaizen Peru Holdings issued to ITOCHU, for a nominal aggregate subscription price, a number of additional common shares sufficient to maintain ITOCHU's 10% joint venture interest.

(ii) Share of losses from joint venture and share of other comprehensive loss from joint venture include the Company's share of those amounts from February 10, 2017, onwards. Share of losses from joint venture also includes the $125,000 excess of the Company's $1.25 million equity contribution, which was made in August 2017, over its 90% share of that contribution.

The summarized financial information for Kaizen Peru Holdings, reflecting the Company's interest, is as follows:

		December 31, 2017
Current assets (including cash of $19)	$	21
Non-current assets		3,088
Current liabilities		(1,184)
Non-current liabilities		(1,375)
Net assets	$	550

		February 10, 2017 to December 31, 2017
Loss	$	(1,758)
Other comprehensive loss		(75)
Total comprehensive loss	$	(1,833)

8. Joint venture interest (continued)

(a) Kaizen Peru Holdings Ltd. (continued)

Strategic financing agreement

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 up to $2.5 million in initial exploration funding for the Pinaya Project, 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 Peru Holdings in three payments.

- The first payment of $625,000 was made upon the closing of the transaction. This payment gave ITOCHU an initial 5% interest in Kaizen Peru Holdings. The Company retained the remaining 95%.

- On February 10, 2017, ITOCHU made its second payment of $625,000, for another 5% interest in Kaizen Peru Holdings, raising ITOCHU's interest to 10%. This payment was conditional on 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 have increased ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, was conditional on obtaining, within two years of the first payment of $625,000, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project. As of April 18, 2018, the second anniversary of the first payment, the required authorizations had not been issued. As a result, ITOCHU is now no longer formally required to make the third payment. However, both the Company and ITOCHU have commenced discussions regarding the terms and conditions of a retroactive extension of the two year period in order for ITOCHU to make the third investment.

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, 2017, the right's estimated redemption amount was nominal.

The Company 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 the Pinaya Project.

The initial $1.25 million of the Company's $2.5 million funding commitment has been satisfied via an additional equity contribution. In February 2018, the Company's second funding commitment of $1.25 million, which was due on or before April 18, 2018, was completed through its advances to Kaizen Peru Holdings for an additional equity contribution.

(b) KZD Aspen Grove Holding Ltd.

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.

On September 12, 2017, the Company and ITOCHU closed a sale-and-purchase agreement that provided the Company with 100% ownership of KZD Aspen Grove (Note 19). Previously, the Company and ITOCHU had share ownership interests in KZD Aspen Grove of 60% and 40% respectively.

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

8. Joint venture interest (continued)

(b) KZD Aspen Grove Holding Ltd. (continued)

Under the Unanimous Shareholders Agreement, which governed KZD Aspen Grove's decision making, unanimous shareholder approval was required for certain key strategic, operating, investing and financing decisions. Accordingly, the Company's 60% interest was treated as a joint venture investment, which was accounted for using the equity method.

On September 12, 2017, the joint venture investment in KZD Aspen Grove was derecognized, and the step acquisition was accounted for as an asset acquisition (Note 19).

The following is a summary of the Company's joint venture interest in KZD Aspen Grove at September 12, 2017:

	January 1, 2017 to September 12, 2017	Year ended December 31, 2016
Beginning of period	**$ 503**	$ 4,040
Share of losses from joint venture	**(42)**	(3,537)
Derecognition of joint venture interest (Note 19)	**(461)**	-
End of period	**$ -**	$ 503

9. Financial assets

	December 31, 2017	December 31, 2016
Marketable securities (a)	**$ 129**	$ 60
Derivative asset (b)	**15**	-
	$ 144	$ 60

(a) Marketable securities

		December 31, 2017				December 31, 2016			
	Number of shares	**Cost Basis**	**Impairment**	**Unrealized loss**	**Fair Value**	Cost Basis	Impairment	Unrealized loss	Fair Value
Cradle Arc plc (i)	183,322	**$ 631**	**$ (569)**	**$ -**	**$ 62**	$ 631	$ (552)	$ (19)	$ 60
Colorado Resources Ltd. (ii)	344,000	**117**	**-**	**(50)**	**67**	-	-	-	-
		$ 748	**$ (569)**	**$ (50)**	**$ 129**	$ 631	$ (552)	$ (19)	$ 60

(i) On December 21, 2016, upon being suspended from trading on AIM pending the publication of an admission document in respect of a proposed transaction, Cradle Arc plc's ("Cradle") (formerly Alecto Minerals plc) shares closed at approximately $0.001. Due to the delay in publishing the admission document, the trading of Cradle's shares was cancelled on July 11, 2017. Cradle subsequently executed a 1 for 300 share consolidation.

As there was no quoted price in an active market for Cradle's shares as at December 31, 2017, the fair value of the Company's stake was estimated to be $62,000, based on the subscription prices of private placements that occurred throughout 2017. As a result of the prolonged decrease in the value of Cradle's shares, an impairment loss of approximately $17,000 was recognized in the consolidated statement of loss and comprehensive loss in the year ended December 31, 2017 (2016 - $Nil).

On January 24, 2018, trading of Cradle's shares commenced on AIM.

(ii) In February 2017, the Company received 1,000,000 common shares of Colorado as partial consideration for the sale of the Castle Property to Colorado (Note 7(b)). In the year ended December 31, 2017, 656,000 of these shares were sold for net proceeds of approximately $211,000, resulting in a realized loss of approximately $12,000.

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

9. Financial assets (continued)

(b) Derivative asset

In February 2017, the Company received 1,000,000 share purchase warrants as partial consideration for the sale of the Castle Property to Colorado (Note 7(b)). Each share purchase warrant entitles the Company to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months. The fair value of each share purchase warrant was estimated to be $0.18 on initial recognition and $0.02 on December 31, 2017, using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2017	Initial Recognition
Exercise price	**$0.60**	$0.60
Risk free interest rate	**1.66%**	0.80%
Expected life (years)	**1.12**	2.00
Annualized volatility	**85%**	127%
Dividend rate	**0%**	0%

10. Property, plant and equipment

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

		Cost		Accumulated depreciation and impairment		Carrying amount
Balance at December 31, 2015	$	70	$	-	$	70
Balance at December 31, 2016	$	70	$	-	$	70
Write-down of property, plant and equipment		-		(70)		(70)
Balance at December 31, 2017	**$**	**70**	**$**	**(70)**	**$**	**-**

11. 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, ITOCHU had until February 28, 2018, to exercise the option. On February 28, 2018, the option expired unexercised without further extension. The agreement governing both options was then terminated.

If ITOCHU exercised the option to acquire an indirect 15% interest in the Tanzilla project, West Cirque's interest in the project would have been 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 held an indirect 15% interest in the project. The fair value of the option liability to issue common shares, which do not 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.

12. Provision

In 2015, Kaizen Peru Holdings recognized a provision for potential obligations related to the Pinaya Project, which was acquired on October 26, 2015. The provision's carrying amount of $1.30 million (December 31, 2016 - $1.27 million) was derecognized on February 10, 2017, as a result of the Company's loss of control of Kaizen Peru Holdings (Note 8(a)).

13. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At December 31, 2017, the Company had 276,766,636 common shares issued and outstanding (December 31, 2016 – 207,574,977).

Rights offering

On January 12, 2017, the Company announced the closing of its rights offering that raised gross proceeds of approximately $7.3 million. Upon the closing of the rights 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 offering.

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.

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 unsecured, revolving loan facility of up to $5.0 million made available to the Company by HPX, under the terms of the Inter-Corporate Loan Agreement between HPX and the Company dated December 4, 2013, was terminated.

Each non-transferable 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. The fair value of each warrant was estimated to be $0.08 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.09%, expected life of 5 years, annualized volatility of 98.5% and dividend yield of 0%. The aggregate fair value of $177,000 was debited to share capital as a cost of conducting the rights offering.

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

14. Exploration expenses

Exploration expenses are summarized as follows:

	Year ended December 31, 2017	2016
Salaries and consultants	**$ 429**	$ 928
Assay	**10**	-
Share-based compensation	**84**	67
Fees and taxes	**1**	559
Camp	**20**	119
Travel	**69**	54
Professional fees	**3**	213
Demobilization	**97**	248
Environmental	**-**	131
Other	**54**	221
	$ 767	$ 2,540

Exploration expenses were allocated to the following projects:

	Year ended December 31, 2017	2016
Pinaya (i)	**$ 110**	$ 1,724
Coppermine	**131**	469
Other exploration	**526**	347
	$ 767	$ 2,540

(i) From February 10, 2017 onwards, the Company's share of the Pinaya Project's exploration expenses is included in share of losses from joint ventures (Note 8(a)).

15. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Year ended December 31, 2017	2016
Salaries and benefits	**$ 1,435**	$ 2,253
Share-based compensation	**309**	106
Professional fees	**324**	422
Office	**261**	326
Travel	**20**	67
Fees and taxes	**62**	127
Investor relations	**41**	27
Insurance	**72**	64
Other	**24**	53
	$ 2,548	$ 3,445

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

16. Share-based payments

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 stock option transactions during the year are as follows:

	Year ended December 31, 2017			Year ended December 31, 2016		
	Number of stock options		**Weighted average exercise price ($ per share)**	Number of stock options		Weighted average exercise price ($ per share)
Outstanding, beginning of year	**9,904,000**	**$**	**0.49**	13,071,000	$	0.55
Granted	**2,560,000**		**0.21**	1,050,000		0.24
Expired	**(19,000)**		**1.57**	(425,000)		0.90
Forfeited	**(3,585,000)**		**0.55**	(3,792,000)		0.56
Outstanding, end of year	**8,860,000**	**$**	**0.39**	9,904,000	$	0.49
Exercisable, end of year	**6,543,328**	**$**	**0.40**	5,404,000	$	0.52

Stock options outstanding and exercisable at December 31, 2017 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	425,000	2.9	318,750	2.9
0.20	1,550,000	4.1	1,033,333	4.1
0.215	250,000	4.3	83,333	4.3
0.235	725,000	4.2	241,662	4.2
0.24	1,050,000	3.7	1,050,000	3.7
0.30	1,435,000	2.1	1,076,250	2.1
0.51	175,000	1.6	140,000	1.6
0.63	3,100,000	1.0	2,480,000	1.0
0.66	150,000	1.1	120,000	1.1
	8,860,000	2.5	6,543,328	2.4

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

16. Share-based payments (continued)

The weighted average fair value of stock options granted during the year ended December 31, 2017, was estimated at $0.12 (December 31, 2016 - $0.18) 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,	
	2017	2016
Exercise price	**$0.21**	$0.24
Risk free interest rate	**0.79%**	0.61%
Expected life (years)	**2.18**	3.50
Annualized volatility	**107%**	103%
Dividend rate	**0%**	0%

17. 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,			
		2017		2016
Loss before income tax	**$**	**(4,999)**	$	(10,739)
Canadian statutory income tax rate		**26%**		26%
Income tax recovery at statutory rate		**(1,300)**		(2,792)
Reconciling items:				
Difference between statutory and foreign tax rates		**167**		(28)
Non-deductible expenses		**294**		479
Non-taxable income		**(1,196)**		-
Tax effect of tax losses and temporary differences not recognized		**2,035**		2,341
Total income taxes	**$**	**-**	$	-

(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, 2017, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in Canada of approximately $14.04 million. These losses can be carried forward against future taxable income and expire between 2030 and 2037.

At December 31, 2017, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in other jurisdictions of approximately $0.05 million that can be carried forward against future taxable income.

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

18. Capital 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 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, 2017, and 2016, 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.

19. Step acquisition of KZD Aspen Grove Holding Ltd.

On September 12, 2017, the Company and ITOCHU closed a sale-and-purchase agreement that provided the Company with 100% ownership of KZD Aspen Grove. The Company's ownership of KZD Aspen Grove increased from 60% to 100%, and ITOCHU received $293,200 in exchange for relinquishing its 40% interest. The step acquisition was accounted for as an asset acquisition as the activities of KZD Aspen Grove did not meet the definition of a business under IFRS 3, *Business Combinations*.

The cost of the step acquisition was determined as follows:

Cash consideration	$	293
Joint venture interest derecognized (Note 8(b))		461
	$	754

The assets acquired and liabilities assumed were recognized as follows:

Cash	$	756
Prepaid expenses		4
Other assets		21
Accounts payable		(13)
Net assets acquired	$	768

Since ITOCHU's 40% interest in KZD Aspen Grove's working capital and other assets at the time of close exceeded the cash consideration paid to ITOCHU, there was a $14,000 difference between the cost of the step acquisition and the recognition of the assets acquired and liabilities assumed. This difference was recorded as other income in the consolidated statement of loss and comprehensive loss.

(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 loss or other comprehensive loss.

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

		December 31, 2017		December 31, 2016
Financial assets				
Loans and receivables				
Cash and cash equivalents	**$**	**4,090**	$	281
Receivables		**1**		27
Deposits		**450**		477
Other assets		**78**		114
Available-for-sale				
Marketable securities		**129**		60
Fair value through profit or loss				
Derivative asset		**15**		-
Total financial assets	**$**	**4,763**	$	959
Financial liabilities				
Accounts payable and accrued liabilities	**$**	**451**	$	890
Option liability		**250**		250
Total financial liabilities	**$**	**701**	$	1,140

The carrying values of cash and cash equivalents; receivables; deposits; other assets; and accounts payable and accrued liabilities 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.

Marketable securities are measured at fair value using level 1 inputs, except for the Cradle common shares which are measured at fair value using level 2 inputs. The derivative asset is measured at fair value using level 2 inputs.

The risks associated with 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 and cash equivalents are 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 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 also 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; and accounts payable and accrued liabilities 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, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
U.S. dollar	**1**	32	**(93)**	(206)
Peruvian sol	**-**	6	**-**	(1,318)
Australian dollar	**3**	68	**(2)**	-
Other	**11**	17	**(1)**	(65)

As at December 31, 2017, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $146,000 decrease or increase in the Company's comprehensive loss (December 31, 2016 - $147,000).

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.

The Company believes that based on a combination of its cash position and the ability to pursue additional sources of financing, including equity placements, it has adequate resources as at December 31, 2017, to maintain its minimum obligations, including general corporate activities, through to December 31, 2018.

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

21. Supplemental cash flow information

		December 31, 2017		December 31, 2016
Cash and cash equivalents				
Cash	$	4,090	$	206
Guaranteed investment certificate		-		75
Total cash and cash equivalents	$	4,090	$	281

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

		Year ended December 31, 2017		2016
Investing activities				
Consideration received on sale of Castle Property (Note 7(b))	$	518	$	-
Equity contribution to joint venture interest (Note 8(a))		1,250		-
Financing activities				
Share purchase warrants issued pursuant to rights offering (Note 13)	$	(177)	$	-
Shares issued on settlement of debt		-		5,073
Settlement of debt		-		(5,073)

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, deposits and accounts payable

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

		Year ended December 31, 2017		2016
Salaries and benefits	$	2,023	$	2,949
Corporate administration		340		449
Exploration and geophysical activities		155		122
Total related party expenses	$	2,518	$	3,520

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

22. Related party transactions (continued)

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

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

	Year ended December 31, **2017**	2016
GMM	**$ 2,452**	$ 3,375
HPX	**66**	145
Total related party expenses	**$ 2,518**	$ 3,520

The expenses with Global Mining Management Corporation ("GMM") noted above for the year ended December 31, 2017, include approximately $417,000 (2016 - $283,000) incurred by Kaizen Peru Holdings (Note 8(a)), the Company's equity-accounted investee. Upon recognizing the equity-method investment in Kaizen Peru Holdings on February 10, 2017, the Company's share of that investee's transactions with GMM commenced being included in share of losses from joint ventures, rather than in exploration or administrative expenses (Note 8(a)).

The expenses with GMM noted above for the year ended December 31, 2017, include approximately $35,000 (2016 - $323,000) incurred by KZD Aspen Grove. Upon consolidating KZD Aspen Grove on September 14, 2017, its transactions with GMM commenced being included in exploration or administrative expenses, rather than the Company's share being recognized as share of losses from joint ventures (Notes 8(b) and 19).

At December 31, 2017, the Company had a deposit of $450,000 (December 31, 2016 – $450,000) held with GMM.

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

	December 31, 2017	December 31, 2016
Accounts payable		
GMM	**$ 194**	$ 169
HPX	**42**	149
Key management personnel and officers	**5**	-
Total related party payables	**$ 241**	$ 318

(i) GMM, a private company based in Vancouver, provides administration, accounting, and other office services to the Company on a cost-recovery basis. The Company held 8.3% of GMM's common shares at December 31, 2017, (December 31, 2016 – 12.5%) and has an officer in common with GMM.

(ii) HPX is the Company's privately owned parent, holding 66.8% of the Company's common shares at December 31, 2017, (December 31, 2016 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

(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, **2017**	2016
Salaries and benefits	**$ 1,202**	$ 1,594
Share-based compensation	**326**	55
Total remuneration	**$ 1,528**	$ 1,649

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

(ii) The salaries and benefits for key management personnel noted above for the year ended December 31, 2017, include approximately $143,000 (2016 - $63,000) incurred by Kaizen Peru Holdings and approximately $3,000 (2016 - $21,000) incurred by KZD Aspen Grove.

KAIZEN DISCOVERY

Management's Discussion and Analysis

December 31, 2017

As at April 25, 2018

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, 2017 (the "financial statements").

All information contained in this MD&A is current as of April 25, 2018 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) Kaizen's plans to commence a drilling program at the Pinaya Project once the Consulta Previa is complete and the Authorization to Commence Activities has been received; (ii) amending the DIA to include Pedro 2000 in the Pinaya Project's work program; (iii) potential amendments to the planned Pinaya Project work program to account for the time it takes for the DGM to issue the Authorization to Commence Activities and other factors, including local weather conditions; (iv) the receipt of the third payment by ITOCHU in respect of its funding of the Pinaya Project; (v) the expectation that the $5.0 million will pay for the planned first phase of exploration at the Pinaya Project; (vi) Kaizen's options for the Aspen Grove Project, which may include drill testing of some or all of the remaining targets; (vii) Kaizen's options for the Coppermine Project, including a possible sale to, or joint venture with, a third party; (viii) the expectation that the draft Nunavut Land Use Plan's designations, among other strategic issues, will impact Kaizen's ability to continue to choose to invest in its exploration activities at the Coppermine Project until the DNLUP is finalized; and (ix) Kaizen's options for the Tanzilla and Pliny copper-gold porphyry projects, including a possible sale to, or joint venture with, a third party.

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 April 25, 2018.

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 mineral 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

Kaizen's management is optimistic that the improvement in investors' sentiment toward the commodity sector in general and shares of mining companies that began in early 2016 will continue for some time to come. Global urbanization, and the resultant increase in air pollution, is one of the greatest economic and social phenomenons in our history, with profound implication for metals markets, miners and stakeholders. The Company's exploration focus will continue to be primarily on copper, which many analysts predict will be one of the best performing metals over the next three to five years, due to increased demand for copper resulting from the global shift away from the internal combustion engines to electric and fuel cell vehicles. Goldman Sachs is forecasting a copper deficit of some 169,000 tonnes this year and 132,000 tonnes in 2019. According to a recent report by leading consultancy group IDTechEx, copper demand for electric cars, trains and buses is set to rise nine-fold by 2027, from 185,000 tonnes in 2017 to 1.74 million tonnes in 2027.

With the funds from Kaizen's successful, over-subscribed rights offering, which raised approximately $7.3 million in gross proceeds in January 2017, the Company has sufficient funds to finance its share of the current planned exploration drilling program at the Pinaya Copper-Gold Project ("Pinaya Project") and to support business development initiatives.

In 2016 and early 2017, 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.

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 it generated approximately $7.3 million in aggregate gross proceeds. Upon the closing of the rights 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 Interim CEO. Mr. Finlayson had held the CEO position on an interim basis since March 31, 2016.

On April 3, 2017, Kaizen announced the appointment of Gustavo Zulliger as Vice President, Exploration, replacing Charles Forster as the Company's Vice President, Exploration. Mr. Forster remains with the Company in a technical advisory role.

On June 28, 2017, Kaizen announced that the seven director nominees listed in Kaizen's management proxy circular, dated May 12, 2017, were re-elected as directors of the Company by shareholders at Kaizen's Annual General and Special Meeting. Kaizen's Board of Directors is comprised of David Boehm, Richard Cohen, Eric Finlayson, David Huberman, David Korbin, Terry Krepiakevich and Ignacio Rosado.

On April 2, 2018, Kaizen announced the appointment of Greg Shenton as Chief Financial Officer ("CFO"), effective April 16, 2018, replacing David Garratt as the Company's CFO. Mr. Garratt will remain with the Company to assist with the handover until the end of April 2018.

Business Development Activities

The Company continues to review and seek additional strategic project opportunities, primarily in South America. During the second half of 2017, project reviews, primarily focused on copper, were undertaken in Chile, Peru, Argentina and western United States. Discussions with third parties are underway. There can be no assurances that these discussions will result in an acquisition of a new project for the Company.

Exploration Activities

Pinaya Copper-Gold Project, Peru (90% owned)

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.

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.

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

On September 8, 2017, Kaizen Peru Holdings Ltd.'s ("Kaizen Peru Holdings") Peruvian subsidiary, which holds the Pinaya Project, received notification from the Peruvian General Directorate of Mining ("DGM") that it had entered the final stage of review – a "Consulta Previa" or "prior consultation" review – prior to the DGM issuing the Authorization to Commence Activities for the Company's planned drill program at the Pinaya Project. The Pinaya Project's Consulta Previa review involves consultation with the community of Pinaya and the neighboring community of Atecata, which may be indirectly affected by the planned exploration activities.

Under Peruvian law, the government-led prior consultation process verifies that the considerations of any local peoples that could represent an indigenous population have been recognized. This process is designed to ensure that, as the project advances, future community stakeholder relations are managed in a transparent and comprehensive manner.

In February 2018, the Ministry of Energy and Mines ("MINEM") held preparatory meetings with the communities of Pinaya and Atecata in relation to the Consulta Previa. Details of the Consulta Previa process and the timing for the remaining stages are available on MINEM's website at:
http://www.minem.gob.pe/minem/archivos/Exploracion%20Pinaya(6).pdf

On September 19, 2017, the land access agreements with individual private landholders that provide Kaizen with access rights to conduct its planned exploration program at the Pinaya Project were extended by a year.

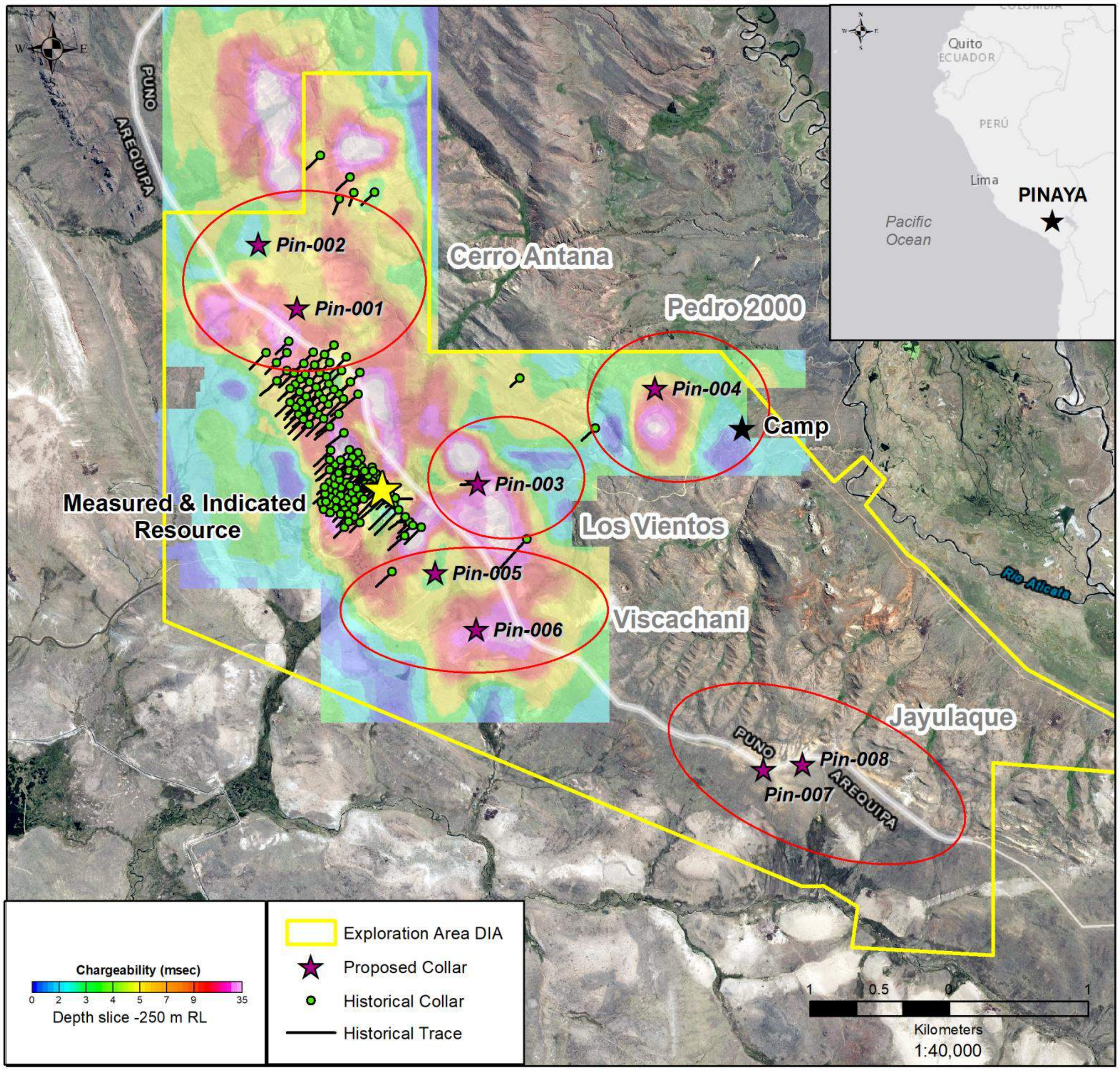
The Company is currently waiting for the completion of the Consulta Previa and the eventual issuance of the Authorization to Commence Activities. The Company is assessing its options and the possible implications for its planned Pinaya exploration program.

The current, planned first phase of exploration at Pinaya includes approximately 4,000 metres of drilling. Of this total, approximately 3,000 metres is planned to focus on the expansion of the Mineral Resource area, where re-logging of core drilled by previous operators has identified compelling resource expansion opportunities along strike to the north (the Cerro Antaña target area) and south of the defined Mineral Resource area. An additional 1,000 metres is planned to test new targets to the east of the current resource, including the new Pedro 2000 target.

The Pedro 2000 target was identified by the Company's geologists as an outcropping potassic-altered quartz diorite porphyry carrying chalcopyrite-bearing, early-stage "A" type veining, which coincides with anomalous values of copper and gold in soils as well as ground magnetic and chargeability anomalies. Since Pedro 2000 is a new target and was not included in the original DIA application, the DIA will be amended to include Pedro 2000 in the work program subsequent to receipt of the permission to initiate activities. The Pedro 2000 target has never been drill tested.

The final program design may be amended upon receipt of the Authorization to Commence Activities to take into account feedback from the Consulta Previa process.

Figure 1: Chargeability plot with planned drill targets within the Pinaya Copper-Gold Project.



Strategic Financing Agreement with ITOCHU for Pinaya Copper-Gold Project

On April 18, 2016, Kaizen closed a strategic financing agreement with ITOCHU to advance exploration efforts at the Pinaya Project. Under the terms of the agreement, ITOCHU will provide up to $2.5 million in initial exploration funding for the Pinaya Project, 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 Peru Holdings, the indirect holder of the Pinaya Project, in three payments.

- The first payment of $625,000 was made upon the closing of the transaction. This payment gave ITOCHU an initial 5% interest in Kaizen Peru Holdings. Kaizen retained the remaining 95%.
- On February 10, 2017, ITOCHU made its second payment of $625,000, for another 5% interest in Kaizen Peru Holdings, raising ITOCHU's interest to 10%. This payment was conditional on 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 have increased ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, was conditional on obtaining, within two years of the first payment of $625,000, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project. As of April 18, 2018, the second anniversary of the first payment, the required authorizations had not been issued. As a result, ITOCHU is now no longer formally required to make the third payment. However, both Kaizen and ITOCHU have commenced discussions regarding the terms and conditions of a retroactive extension of the two year period in order for Itochu to make the third investment.

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 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 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. In February 2018, Kaizen completed its $2.5 million funding commitment.

Aspen Grove Project, British Columbia, Canada (100% owned)

On September 12, 2017, Kaizen and ITOCHU closed a sale-and-purchase agreement that provided Kaizen with 100% ownership of the Aspen Grove Project, located in southern British Columbia. Under the provisions of the agreement, Kaizen's ownership of KZD Aspen Grove Holding Ltd. ("KZD Aspen Grove"), which holds title to the Aspen Grove property, increased from 60% to 100%, and ITOCHU received C$293,200 in exchange for relinquishing its 40% stake.

The project is located in southern British Columbia, near the city of Merritt. It 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.

The project encompasses a number of historical copper prospects: Zig, Thalia, Boss, Par and Ketchan. Of these five target areas, only the Par and Ketchan areas have had preliminary drill testing. A total of 2,537 metres in five holes was completed at Par and a further 21 holes totaling 10,032 metres have been completed at Ketchan.

A recently completed technical review has highlighted a number of additional, untested targets. The Company is reviewing options for Aspen Grove, which may include drill testing of some or all of the remaining targets.

Claims

Kaizen, through its wholly owned subsidiary KZD Aspen Grove, holds 29 claims totaling approximately 112 km^2 (11,237 ha), which will all remain valid through to 2027. Three of the 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.

Coppermine Project, Nunavut, Canada (100% owned)

The Coppermine Project is a non-core asset for which options are being assessed, including a possible sale to, or joint venture with, a third party. The project constitutes a district-scale, greenfield exploration prospect, discontinuously 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.

Claims and Permits

Kaizen, through its wholly owned subsidiary Tundra Copper Corp., holds 153 Crown Land mineral claims totalling 1,657 km^2 as well as 11 prospecting permits totalling 1,877 km^2.

All of the claims and permits are currently under Section 51 of the Mining Regulations of Nunavut. Under Section 51 of the Mining 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 is based on 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, among other strategic issues, will impact Kaizen's ability to continue to choose to invest in its exploration activities at the Coppermine Project until the DNLUP is finalized.

On February 8, 2018, the annual renewal for the Section 51 one-year suspension of work requirements was approved by Indigenous and Northern Affairs Canada.

Other Exploration Projects

In February 2017, Kaizen 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.

On June 30, 2017, Kaizen elected not to renew two small satellite projects that were held by Kaizen Discovery Peru S.A.C. (formerly Canper Exploraciones S.A.C.), the Peruvian subsidiary that was acquired from AM Gold Inc. in October 2015. The La Mamita and Minas Lucho projects were located in the Corongo and San Roman Provinces respectively and covered a total of 34 km^2. No work had been carried out on these projects since their acquisition.

On February 28, 2018, the option granted to ITOCHU in 2015, for consideration of $250,000, to acquire an effective indirect 15% interest in the Tanzilla project, for no additional consideration, expired unexercised without further extension. The agreement governing that option and a subsequent option to acquire up to a further effective indirect 10% interest in the project was then terminated.

Kaizen continues to assess its options for the Tanzilla and Pliny copper-gold porphyry projects, located in the Stikine terrane of northwestern British Columbia, including the possible sale of those projects to, or joint ventures with, third parties.

Selected Annual Information

(Tabular amounts are expressed in thousands of Canadian dollars)

	December 31, 2017	December 31, 2016	December 31, 2015
	$	$	$
Total revenue	-	-	-
Net loss for the year	4,999	10,739	14,313
Total comprehensive loss for the year	5,119	10,710	14,291
Total assets	6,641	5,559	10,897
Total non-current liabilities	-	1,274	1,260
Dividends paid	-	-	-

The Company is a mineral exploration company with no source of operating revenues.

Summary of Quarterly Results

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

	Quarter Ended			
	Dec-31 2017	Sep-30 2017	Jun-30 2017	Mar-31 2017
	$	$	$	$
Exploration expenses	270	143	160	194
Administrative expenses	607	576	668	697
Share of losses from joint ventures	276	522	863	264
Gain on sale of mineral property	-	-	-	(518)
Dilution gain	-	-	-	(439)
Loss (gain) on foreign exchange	(1)	2	5	39
Write-down of other assets	-	-	-	-
Write-down of marketable securities	17	-	-	-
Other expense (income)	618	(26)	1	61
Net loss for the period	1,787	1,217	1,697	298
Net loss attributable to owners of Kaizen Discovery Inc.	1,787	1,217	1,697	293
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.01	-	0.01	-

	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
Share of losses from joint ventures	3,042	316	159	20
Gain on sale of mineral property	-	-	-	-
Dilution gain	-	-	-	-
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

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 the 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 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, 2017 ("2017") compared to year ended December 31, 2016 ("2016")

The loss for 2017 totalled $5.00 million, compared to the loss of $10.74 million for 2016.

Exploration expenses were $0.77 million for 2017 compared to $2.54 million for 2016. While the Company continued to concentrate its exploration activities on the Pinaya Project throughout 2017, exploration expenses recognized for that project were $1.61 million lower due to the deconsolidation of the joint venture interest that holds it. When that joint venture interest was deconsolidated on February 10, 2017, the Company's share of the Pinaya Project's exploration activities commenced being recognized as share of losses from joint venture, rather than as exploration expenses. Additionally, exploration expenses for the Coppermine Project decreased by $0.34 million as it was inactive throughout 2017.

Administration expenses decreased from $3.45 million in 2016 to $2.55 million in 2017. 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.

Share of losses from joint ventures of $1.93 million in 2017 (2016 – $3.54 million) includes the Company's $1.88 million (2016 – $Nil) share of Kaizen Peru Holdings' loss. On February 10, 2017, Kaizen Peru Holdings, the joint venture interest that holds the Pinaya Project, was deconsolidated and the Company commenced recognizing its share of that joint venture's loss under the equity method. Share of losses from joint venture in 2016 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 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property to Colorado Resources Ltd. ("Colorado"). On the transaction date, the common shares and warrants received from Colorado were recognized at their fair values of $0.34 million and $0.18 million respectively, resulting in a realized gain on sale of mineral property of $0.52 million (2016 – $Nil).

On February 10, 2017, ITOCHU completed its second payment of $625,000 under the strategic financing agreement to advance exploration efforts at the Pinaya Project, increasing its share ownership interest in Kaizen Peru Holdings to 10% while decreasing the Company's stake to 90%. This transaction resulted in a dilution gain of $0.44 million (2016 – $Nil).

In 2016, the Company recorded a $1.21 million write-down of other assets (2017 – $Nil). 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 consolidated statement of financial position. On June 30, 2016, the Company filed a notice of civil claim which was contested by the counterparty. Under the applicable accounting rules, it was appropriate to record a $1.21 million write-down of the asset, reducing its carrying amount to nil.

Fourth Quarter Results – Three months ended December 31, 2017 ("Q4 2017") compared to three months ended December 31, 2016 ("Q4 2016")

The loss for Q4 2017 totalled $1.79 million compared to the loss of $4.15 million for Q4 2016.

Exploration expenses were $0.27 million for Q4 2017 compared to $0.62 million for Q4 2016. The decrease primarily results from not recognizing any exploration expenses for the Pinaya Project in Q4 2017, whereas $0.42 million was recognized in Q4 2016. When the joint venture interest that holds the Pinaya Project was deconsolidated on February 10, 2017, the Company's share of that project's exploration activities commenced being recognized as share of losses from joint venture, rather than as exploration expenses.

Administration expenses increased from $0.44 million in Q4 2016 to $0.61 million in Q4 2017 primarily due to a $0.23 million increase in non-cash share-based compensation expense.

Share of losses from joint ventures of $0.28 million in Q4 2017 (Q4 2016 - $3.04 million) comprises the Company's share of Kaizen Peru Holdings' loss. Share of losses from joint venture in Q4 2016 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, 2017, the Company had consolidated cash and cash equivalents of $4.09 million (December 31, 2016 - $0.28 million). The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary uses of cash during the year ended December 31, 2017 were funding operating activities of $2.78 million (2016 – $5.64 million) and advancing $1.17 million to the Kaizen Peru Holdings joint venture. The step acquisition of KZD Aspen Grove resulted in a net cash addition of $0.47 million, comprising the $0.76 million recognized upon consolidating KZD Aspen Grove and the $0.29 million paid to acquire ITOCHU's 40% stake. Cash provided by financing activities comprised $7.15 million of net proceeds from the rights offering that closed in January 2017.

At December 31, 2017, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and 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, 2017, 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, deposits and accounts payable

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

	Year ended December 31,	
	2017	**2016**
	$	$
Salaries and benefits	2,023	2,949
Corporate administration	340	449
Exploration and geophysical activities	155	122
Total related party expenses	2,518	3,520

The breakdown of expenses by related party is as follows:

	Year ended December 31,	
	2017	**2016**
	$	$
GMM	2,452	3,375
HPX	66	145
Total related party expenses	2,518	3,520

The expenses with Global Mining Management Corporation ("GMM") noted above for the year ended December 31, 2017, include approximately $417,000 (2016 - $283,000) incurred by Kaizen Peru Holdings, the Company's equity-accounted investee. Upon recognizing the equity-method investment in Kaizen Peru Holdings on February 10, 2017, the Company's share of that investee's transactions with GMM commenced being included in share of losses from joint ventures, rather than in exploration or administrative expenses.

The expenses with GMM noted above for the year ended December 31, 2017, include approximately $35,000 (2016 - $323,000) incurred by KZD Aspen Grove. Upon consolidating KZD Aspen Grove on September 14, 2017, its transactions with GMM commenced being included in exploration or administrative expenses, rather than the Company's share being recognized as share of losses from joint ventures.

At December 31, 2017, the Company had a deposit of $450,000 (December 31, 2016 – $450,000) held with GMM.

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

	December 31, 2017	**December 31, 2016**
	$	$
GMM	194	169
HPX	42	149
Key management personnel and officers	5	-
Total related party payables	241	318

(i) GMM, a private company based in Vancouver, provides administration, accounting, and other office services to the Company on a cost-recovery basis. The Company held 8.3% of GMM's common shares at December 31, 2017 (December 31, 2016 – 12.5%) and has an officer in common with GMM.

(ii) HPX is the Company's privately-owned parent, holding 66.8% of the Company's common shares at December 31, 2017 (December 31, 2016 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

Compensation of key management personnel

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

	Year ended December 31,	
	2017	2016
	$	$
Salaries and benefits	1,202	1,594
Share-based compensation	326	55
Total remuneration	1,528	1,649

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

(ii) The salaries and benefits for key management personnel noted above for the year ended December 31, 2017, include approximately $143,000 (2016 - $63,000) incurred by Kaizen Peru Holdings and approximately $3,000 (2016 - $21,000) incurred by KZD Aspen Grove.

Outstanding Share Data

At April 25, 2018, the Company had the following issued and outstanding:

- 276,766,636 common shares.
- 8,856,667 stock options with a weighted average exercise price of $0.39 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.
- 2,100,000 non-transferable warrants held by HPX. Each non-transferable 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.

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, 2017, and have not been applied in preparing the consolidated financial statements for the year ended December 31, 2017. 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. The application of IFRS 9 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements, except for the effect of designating investments in equity instruments as measured at fair value through other comprehensive income.

   At January 1, 2018, the Company's investments in equity instruments, comprising marketable securities, have been designated as measured at fair value through other comprehensive income. In accordance with IFRS 9's transitional provisions, this classification will be applied retrospectively. Consequently, accumulated deficit at December 31, 2017, will be reduced by approximately $579,000 with a corresponding increase in accumulated other comprehensive loss.

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. As the Company, together with its subsidiaries and joint venture interest, currently has no source of revenue, the application of IFRS 15 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

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; and accounts payable and accrued liabilities approximate their fair values. Marketable securities are measured at fair value using level 1 inputs, except for the Cradle Arc plc common shares which are measured at fair value using level 2 inputs. The derivative asset is measured at fair value using level 2 inputs. The option liability is measured at cost.

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

	December 31, 2017	December 31, 2016
	$	$
Financial assets		
Loans and receivables		
Cash and cash equivalents	4,090	281
Receivables	1	27
Deposits	450	477
Other assets	78	114
Available-for-sale		
Marketable securities	129	60
Fair value through profit or loss		
Derivative asset	15	-
Total financial assets	4,763	959
Financial liabilities		
Accounts payable and accrued liabilities	451	890
Option liability	250	250
Total financial liabilities	701	1,140

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 and cash equivalents are 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 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; and accounts payable and accrued liabilities 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, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	$	$	$	$
U.S. dollar	1	32	(93)	(206)
Peruvian sol	-	6	-	(1,318)
Australian dollar	3	68	(2)	-
Other	11	17	(1)	(65)

As at December 31, 2017, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $146,000 decrease or increase in the Company's comprehensive loss (December 31, 2016 - $147,000).

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 reduction. 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 requires approvals, licences and permits that it currently does not have in order to commence and continue exploration activities, and if deemed viable in the future, to commence and continue development activities and mining operations.*

   Prior to commencing drilling activities at the Pinaya Project, among other things, the Ministry of Energy and Mines ("MINEM") must complete a seven-stage review process with the community of Pinaya and the neighbouring community of Atecata. This seven-stage process is the final stage of government review prior to MINEM issuing to Kaizen the Authorization to Commence Activities for its planned drilling program at the Pinaya Project, which if not received, would prevent Kaizen from undertaking its proposed drilling activities at the Pinaya Project, which would adversely affect Kaizen's ability to advance such project and its prospects.

   In addition, Kaizen may from time to time require other approvals, licences and permits from various governmental authorities. These approvals, licences and permits may relate to, among others, the following: (i) exploration, mining and exploitation rights; (ii) water use rights; (iii) maintenance of title; (iv) employees;

(v) health and safety; and (vi) drilling. To the extent such rights, approvals, licences and permits are required and not obtained or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with the planned exploration, development or operation of its projects which could have a material adverse effect on its business, financial condition, results of operations or prospects.

10. *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.

11. *The Company may become subject to litigation and the outcome of pending litigation is uncertain.*

All industries, including the mining industry, may be made subject to legal claims and proceedings, with and without merit. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Kaizen may also in the future become the subject of a legal claim or proceeding at any time based on known or unknown facts and without advance notice of the commencement of the proceeding. To the extent Kaizen becomes subject to any such claim or proceeding, it may materially impact management's time and the Company's financial resources to defend, even if it is without merit. As well, due to the inherent uncertainty of the litigation process, the resolution of any particular legal claim or proceeding could have a material adverse effect on the Company's business, results of operations, financial condition (including its cash position) and prospects. In addition, Kaizen is currently subject to pending litigation which Kaizen has assessed and determined at this date to be without merit and will not reasonably be expected to result in any material liability owing by Kaizen. However, the course of litigation and legal proceedings is uncertain and Kaizen's assessment of the merits of pending litigation and any liability resulting from it may ultimately turn out to be incorrect, which could have a material adverse effect on the Company's business, results of operations, financial condition (including its cash position) and prospects.

12. *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.

13. *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.

14. 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

The scientific and technical information in this MD&A related to the Pinaya Project has been reviewed and verified by Mark Gibson, PrNatSci, Chief Operating Officer of the Company, a Qualified Person under the terms of NI 43-101. Mr. Gibson 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.