KAIZEN DISCOVERY

Consolidated Financial Statements of

Kaizen Discovery Inc.

December 31, 2018

Kaizen Discovery Inc.
Consolidated Financial Statements

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Independent Auditor's Report

To the Shareholders of Kaizen Discovery Inc.

Opinion

We have audited the consolidated financial statements of Kaizen Discovery Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $3.6 million for the year ended December 31, 2018 and has incurred cumulative losses from inception in the amount of $47.8 million at December 31, 2018. 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. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, BC

March 12, 2019

Kaizen Discovery Inc.

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

	Notes		**December 31, 2018**		December 31, 2017
Assets					
Current assets					
Cash		**$**	**355**	$	4,090
Receivables			**32**		44
Prepaid expenses and deposits	20		**475**		474
Total current assets			**862**		4,608
Non-current assets					
Mineral properties	6		**3,444**		-
Joint venture interest	7		**-**		550
Advances to joint venture	7		**-**		1,261
Financial assets	8		**21**		144
Property, plant and equipment			**30**		-
Other assets			**78**		78
Total assets		**$**	**4,435**	$	6,641
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	20	**$**	**238**	$	451
Provision			**677**		465
Option liability	9		**-**		250
Total current liabilities			**915**		1,166
Non-current liabilities					
Non-current provision	10		**1,579**		-
Total liabilities		**$**	**2,494**	$	1,166
Equity					
Share capital	11	**$**	**45,987**	$	45,987
Share-based payment reserve	14		**3,749**		3,727
Other reserves			**452**		452
Share purchase warrants	11		**177**		177
Accumulated other comprehensive loss	3(c)		**(599)**		(107)
Accumulated deficit	3(c)		**(47,825)**		(44,761)
Total equity		**$**	**1,941**	$	5,475
Total liabilities and equity		**$**	**4,435**	$	6,641

Description of business and going concern (Note 1)
Subsequent event (Note 8(b), 21)
Approved and authorized for issue on behalf of the Board on March 12, 2019:

/s/ Terry Krepiakevich
Terry Krepiakevich, Director

/s/ Eric Finlayson
Eric Finlayson, 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, 2018		2017
Operating expenses					
Exploration expenses	12	**$**	**(697)**	$	(767)
Administrative expenses	13		**(2,106)**		(2,548)
Share of losses from joint ventures	7		**(829)**		(1,925)
Loss from operations			**(3,632)**		(5,240)
Other income (expenses)					
Gain on expiry of option liability	9		**250**		-
Interest income			**39**		67
Gain on sale of mineral property			**-**		518
Dilution gain			**-**		439
Management fees			**-**		6
Gain (loss) on foreign exchange			**23**		(45)
Write-down of property, plant and equipment			**-**		(70)
Interest expense			**(212)**		(465)
Write-down of marketable securities			**-**		(17)
Loss on disposal of marketable securities			**-**		(12)
Depreciation expense			**(2)**		-
Other expense			**(99)**		(180)
Loss before income taxes			**(3,633)**		(4,999)
Income taxes			**-**		-
Net loss for the year			**(3,633)**		(4,999)
Other comprehensive income (loss)					
Items that will not be reclassified subsequently to profit or loss:					
Change in fair value of marketable securities	8(a)		**(108)**		-
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustment			**109**		(72)
Share of other comprehensive income (loss) of joint venture	7		**38**		(75)
Unrealized loss on marketable securities	8(a)		**-**		(48)
Items that have been reclassified to profit or loss:					
Cumulative exchange losses relating to acquisition of foreign subsidiary	17		**37**		-
Cumulative exchange losses relating to partially disposed and liquidated foreign subsidiaries			**1**		48
Impairment loss on marketable securities			**-**		17
Realized loss on disposal of marketable securities			**-**		10
Total other comprehensive income (loss) for the year		**$**	**77**	$	(120)
Total comprehensive loss for the year		**$**	**(3,556)**	$	(5,119)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		**$**	**(3,633)**	$	(4,994)
Non-controlling interest			**-**		(5)
Net loss for the year		**$**	**(3,633)**	$	(4,999)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		**$**	**(3,556)**	$	(5,109)
Non-controlling interest			**-**		(10)
Total comprehensive loss for the year		**$**	**(3,556)**	$	(5,119)
Loss per share (basic and diluted)		**$**	**(0.01)**	$	(0.02)
Weighted average number of basic and diluted shares outstanding			**276,766,636**		275,332,081

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 income (loss)	Accumulated deficit	Equity attributable to owners of Kaizen Discovery Inc.	Non-controlling interest	Total
Balance at January 1, 2017	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, net of share issue costs of $112	69,191,659	6,977	-	-	177	-	-	7,154	-	7,154
Other changes in non-controlling interest	-	-	-	(69)	-	-	-	(69)	69	-
Deconsolidation of subsidiary	-	-	-	-	-	-	-	-	(98)	(98)
Balance at December 31, 2017	**276,766,636**	**$ 45,987**	**$ 3,727**	**$ 452**	**$ 177**	**$ (107)**	**$ (44,761)**	**$ 5,475**	**$ -**	**$ 5,475**
Balance at January 1, 2018 (as reported)	**276,766,636**	**$ 45,987**	**$ 3,727**	**$ 452**	**$ 177**	**$ (107)**	**$ (44,761)**	**$ 5,475**	**$ -**	**$ 5,475**
Impact of adopting IFRS 9 on January 1, 2018 (Note 3(c))	-	-	-	-	-	**(569)**	**569**	-	-	-
Balance at January 1, 2018 (restated)	**276,766,636**	**$ 45,987**	**$ 3,727**	**$ 452**	**$ 177**	**$ (676)**	**$ (44,192)**	**$ 5,475**	**$ -**	**$ 5,475**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(3,633)**	**(3,633)**	**-**	**(3,633)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**77**	**-**	**77**	**-**	**77**
Share-based compensation	**-**	**-**	**22**	**-**	**-**	**-**	**-**	**22**	**-**	**22**
Balance at December 31, 2018	**276,766,636**	**$ 45,987**	**$ 3,749**	**$ 452**	**$ 177**	**$ (599)**	**$ (47,825)**	**$ 1,941**	**$ -**	**$ 1,941**

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, 2018		2017
Operating activities					
Net loss for the year		$	**(3,633)**	$	(4,999)
Adjustments for non-cash items:					
Share-based compensation			**22**		393
Share of losses from joint ventures	7		**829**		1,925
Gain on expiry of option liability	9		**(250)**		-
Gain on sale of mineral property			**-**		(518)
Dilution gain			**-**		(439)
(Gain) loss on unrealized foreign exchange			**(30)**		35
Interest expense			**212**		465
Write-down of property, plant and equipment			**-**		70
Write-down of marketable securities			**-**		17
Other expense			**91**		214
Loss on disposal of marketable securities			**-**		12
Depreciation			**2**		-
Changes in non-cash working capital items:					
Receivables			**13**		323
Prepaid expenses and deposits			**(1)**		25
Accounts payable and accrued liabilities			**(265)**		(302)
Cash used in operating activities		$	**(3,010)**	$	(2,779)
Investing activities					
Advances to joint venture	7,17	$	**(760)**	$	(1,168)
Reduction of cash from deconsolidation of subsidiary			**-**		(71)
Step acquisition of subsidiary			**-**		(293)
Recognition of cash from consolidation of subsidiary	17		**35**		756
Proceeds from sale of marketable securities			**-**		211
Cash used in investing activities		$	**(725)**	$	(565)
Financing activities					
Proceeds from rights offering		$	**-**	$	7,154
Cash from financing activities		$	**-**	$	7,154
Effect of foreign exchange rate changes on cash		$	**-**	$	(1)
(Decrease) increase in cash and cash equivalents		$	**(3,735)**	$	3,809
Cash and cash equivalents, beginning of year			**4,090**		281
Cash, end of year		$	**355**	$	4,090

Supplemental cash flow information (Note 19)

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, 2018, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2017 – 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, 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, 2018, the Company had no operating revenues and incurred net losses of $3.6 million. At December 31, 2018, the Company had consolidated cash of $0.4 million (December 31, 2017 - $4.1 million).

At December 31, 2018, 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, 2018.

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.

3. Significant accounting policies (continued)

(c) Change in accounting policy

Effective January 1, 2018, the Company adopted IFRS 9 retrospectively, without restatement of prior year financial statements. IFRS 9 replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value.

The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The application of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities except for equity securities as described below. There was also no impact to the carrying value of any of the Company's financial assets or liabilities on the transition date.

The application of IFRS 9 resulted in a change to how the Company designates its investments in equity securities that were previously classified as available-for-sale. Since the marketable securities are not held-for-trading and are held for strategic reasons, the Company has made an irrevocable election to account for its equity securities, comprising marketable securities, as financial assets at fair value through other comprehensive income ("FVTOCI"). The equity securities will be recorded initially at fair value, and any subsequent changes in the fair value will be recognized in other comprehensive income only, and will not be transferred into net loss upon disposition.

In accordance with IFRS 9's transitional provisions, the classification was applied retrospectively on January 1, 2018, the date of initial application. Consequently, the opening accumulated deficit on January 1, 2018, has been reduced by approximately $569,000 with a corresponding increase in opening accumulated other comprehensive loss. The realized and unrealized losses relating to the Company's equity securities are now presented as an item that will not be reclassified subsequently to net loss.

(d) 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.

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

3. Significant accounting policies (continued)

(d) Basis of consolidation (continued)

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

At December 31, 2018 and 2017, the Company's significant subsidiaries are as follows:

Name of significant subsidiaries	Place of incorporation or registration	Method of accounting at December 31, 2018	Method of accounting at December 31, 2017	Effective ownership interest at December 31, 2018	Effective ownership interest at December 31, 2017
Kaizen Peru Holdings Ltd.	British Columbia	Consolidation	Equity	100%	90%
KZD Aspen Grove Holding Ltd.	British Columbia	Consolidation	Consolidation	100%	100%
Tundra Copper Corp.	British Columbia	Consolidation	Consolidation	100%	100%
West Cirque Resources Ltd.	British Columbia	Consolidation	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.

(e) Equity-accounted investees

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

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

(f) 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.

3. Significant accounting policies (continued)

(f) Business combinations (continued)

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.

(g) 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.

(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.

(h) 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.

(i) 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. On initial recognition, all financial assets and financial liabilities are measured at fair value, net of directly attributable transaction costs, except for financial assets and liabilities classified as fair value through profit or loss (“FVTPL”), where transaction costs are expensed in the period in which they are incurred. The classification of financial assets and liabilities is generally based on the business model in which the financial asset and liability is managed, and its contractual cash flow characteristics.

Financial assets are subsequently classified and measured at: (i) amortized cost; (ii) FVTOCI; or (iii) FVTPL.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(i) Amortized Cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

The Company's cash, receivables, deposits, and other assets are measured at amortized cost in the consolidated statement of financial position, and subsequent changes in fair value are recorded in the consolidated statement of loss.

(ii) Fair value through other comprehensive income

A financial asset shall be measured at FVTOCI if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of each instrument, the Company is permitted to make an irrevocable election to designate its investments in equity instruments as FVTOCI, as long as the equity investments are not held-for-trading, and not recognized as contingent consideration by an acquirer in a business combination. The investments in equity instruments at FVTOCI are initially measured at fair value plus transactions costs and any subsequent changes in the fair value are recognized in other comprehensive income only, and not be transferred to net loss upon disposition. On initial application of IFRS 9, the Company has designated all investments in equity instruments, comprising marketable securities, as FVTOCI (Note 3(c)).

(iii) Fair value through profit and loss

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured subsequently at FVTPL, and any fair value gains or losses are recognized in profit or loss. The Company's derivative asset is the sole financial asset measured at FVTPL.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

The Company recognizes an impairment loss for expected credit losses on its financial assets. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

Financial liabilities are subsequently classified and measured at: (i) amortized cost or; (ii) FVTPL. All financial liabilities that are not recognized as contingent consideration of an acquirer in a business combination, not held-for-trading, or designated as FVTPL, are measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities are measured at amortized cost in the consolidated statement of financial position.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

(j) 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.

(k) 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 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.

3. Significant accounting policies (continued)

(l) 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.

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.

(m) 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.

(n) 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.

3. Significant accounting policies (continued)

(n) Share-based payments (continued)

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.

(o) Operating segments

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

(p) 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.

(q) 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

IFRS 16*, Leases*, is not yet effective for the year ending December 31, 2018, and has not been applied in preparing these consolidated financial statements.

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 has assessed the standard and has determined that the application of IFRS 16 is not expected to have a material impact on amounts recorded in the Company’s consolidated financial statements.

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)).

(d) Determination of control of subsidiaries and joint arrangements

Judgment 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. Judgment 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 September 25, 2018, the Company acquired control of Kaizen Peru Holdings Ltd. ("KPH"), and KPH is no longer classified as a joint venture. The assessment of the relevant facts and circumstances leading to that conclusion is disclosed in Note 7.

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

5. Critical accounting estimates and judgments (continued)

The most significant estimate made by management is as follows:

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 8(b), 11 and 14). 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. Mineral properties

On September 25, 2018, a carrying amount of $3.26 million for the Pinaya Copper-Gold Project (the "Pinaya Project") mineral property was recognized as the Company acquired control of KPH (Notes 7 and 17). The carrying amount as at December 31, 2018 was $3.44 million (December 31, 2017 - $Nil). The increase in the carrying amount since September 25, 2018 is due to the currency translation adjustment. The Pinaya Project covers 192 square kilometres and includes 28 kilometres of strike length within the Andahuaylas – Yauri Porphyry Belt in southeastern Peru.

7. Joint venture interest

KPH indirectly holds the Pinaya Project. On September 25, 2018, the Company acquired a 10% interest in KPH from ITOCHU Corporation ("ITOCHU"), increasing the Company's ownership interest to 100% (Note 17). As a result, the Company acquired control and consolidated KPH, and the former joint venture interest was derecognized. Under the former Shareholders Agreement with ITOCHU ("Shareholders Agreement"), which governed KPH's decision making, certain key strategic, operating, investing and financing decisions required the approval of all shareholders holding 10% or more of the common shares of KPH. Accordingly, ITOCHU held defacto joint control of KPH which resulted in the Company accounting for its 90% joint venture interest in KPH using the equity method.

Under the Shareholders Agreement, ITOCHU had the right to sell all of its common shares of KPH to the Company for $10.00. On September 25, 2018, ITOCHU exercised this right, selling all of its common shares in KPH to the Company. The Shareholders Agreement terminated upon ITOCHU exercising this right.

The following is a summary of the Company's joint venture interest in KPH:

		December 31, 2018		December 31, 2017
Beginning of year	**$**	**550**	$	-
Initial recognition on loss of control on February 10, 2017		**-**		819
Dilution gain on loss of control		**-**		439
Equity contribution *(i)*		**1,250**		1,250
Share of losses from joint venture *(ii)*		**(829)**		(1,883)
Share of other comprehensive income (loss) from joint venture		**38**		(75)
Derecognition of joint venture interest on September 25, 2018 (Note 17)		**(1,009)**		-
Total equity investment, end of year	**$**	**-**	$	550
Advances to joint venture *(i)*		**-**		1,261
Total investment, end of year	**$**	**-**	$	1,811

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

7. Joint venture interest (continued)

(i) The amounts advanced to KPH are non-interest bearing and were applied towards the Company's $2.5 million funding commitment (under a former strategic financing agreement with ITOCHU) by way of equity contributions to KPH.

(ii) Share of losses from joint venture for the period of January 1, 2018 to September 25, 2018, includes $125,000 excess of the Company's second $1.25 million equity contribution over its 90% share of that contribution.

Share of losses from joint ventures for the year ended December 31, 2017, also includes $42,000 of losses relating to the Company's joint venture interest in KZD Aspen Grove Holding Ltd., which was derecognized and accounted for on a consolidated basis beginning on September 12, 2017.

8. Financial assets

	December 31, 2018	December 31, 2017
Marketable securities (a)	**$ 21**	$ 129
Derivative asset (b)	**-**	15
	$ 21	$ 144

(a) Marketable securities

		December 31, 2018			December 31, 2017			
	Number of shares	**Cost basis**	**Fair value adjustments**	**Fair value**	Cost basis	Impairment	Unrealized loss	Fair value
Cradle Arc plc	183,322	**$ 631**	**$ (629)**	**$ 2**	$ 631	$ (569)	$ -	$ 62
Colorado Resources Ltd.	344,000	**117**	**(98)**	**19**	117	-	(50)	67
		$ 748	**$ (727)**	**$ 21**	$ 748	$ (569)	$ (50)	$ 129

Upon the initial application of IFRS 9, the Company elected to classify its marketable securities as subsequently measured at FVTOCI (Note 3(c)). Subsequent changes in fair value will be recognized in other comprehensive income / (loss) only and will not be reclassified to net loss. The new classification has been applied retrospectively, resulting in a $569,000 reduction of opening accumulated deficit on January 1, 2018, and a corresponding increase in opening accumulated other comprehensive loss, relating to prior years' impairment losses.

(b) Derivative asset

In February 2017, the Company received 1,000,000 share purchase warrants of Colorado Resources Ltd. ("Colorado"). 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. Changes in the fair value of the warrants are measured at fair value through profit or loss ("FVTPL"). At December 31, 2018 the fair value of each share purchase warrant was estimated to be $Nil (December 31, 2017 - $0.02), using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2018	December 31, 2017
Exercise price	**$0.60**	$0.60
Risk free interest rate	**1.85%**	1.66%
Expected life (years)	**0.12**	1.12
Annualized volatility	**83%**	85%
Dividend rate	**0%**	0%

In February 2019, the share purchase warrants of Colorado expired unexercised.

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

9. Option liability

On July 31, 2015, for consideration of $250,000, the Company, through its wholly owned subsidiary West Cirque Resources Ltd., 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 and the agreement governing both options was then terminated. As a result, the option liability of approximately $250,000, was derecognized and recorded as a gain on expiry of option liability.

10. Non-current provision

On September 25, 2018, a provision with a carrying amount of $1.49 million relating to the Pinaya Project was recognized as the Company acquired control of KPH (Notes 7 and 17). The provision's carrying amount at December 31, 2018 was $1.58 million (December 31, 2017 - $Nil).

11. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At December 31, 2018, the Company had 276,766,636 common shares issued and outstanding (December 31, 2017 – 276,766,636).

At December 31, 2018, there were 2,100,000 non-transferable warrants outstanding. All of these warrants are held by HPX, and 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.

12. Exploration expenses

Exploration expenses are summarized as follows:

	Year ended December 31,			
		2018		2017
Salaries and consultants	**$**	**511**	$	429
Assay		**-**		10
Share-based compensation		**17**		84
Fees and taxes		**12**		1
Camp		**26**		20
Travel		**61**		69
Professional fees		**25**		3
Demobilization		**-**		97
Environmental		**4**		-
Other		**41**		54
	$	**697**	$	767

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

12. Exploration expenses (continued)

Exploration expenses were allocated to the following projects:

	Year ended December 31,	
	2018	2017
Pinaya (i)	**$ 144**	$ 110
Coppermine	**4**	131
General project evaluation	**520**	442
Other	**29**	84
	$ 697	$ 767

(i) For the period of February 10, 2017 to September 25, 2018, the Company's share of the Pinaya Project's exploration expenses is included in share of losses from joint ventures (Notes 7 and 17).

13. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Year ended December 31,	
	2018	2017
Salaries and benefits	**$ 963**	$ 1,435
Share-based compensation	**5**	309
Professional fees	**692**	324
Office	**218**	261
Travel	**38**	20
Fees and taxes	**32**	62
Investor relations	**21**	41
Insurance	**110**	72
Other	**27**	24
	$ 2,106	$ 2,548

14. 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:

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

14. Share-based payments (continued)

	Year ended December 31, 2018			Year ended December 31, 2017		
	Number of stock options		**Weighted average exercise price ($ per share)**	Number of stock options		Weighted average exercise price ($ per share)
Outstanding, beginning of year	**8,860,000**	**$**	**0.39**	9,904,000	$	0.49
Granted	**-**		**-**	2,560,000		0.21
Expired	**-**		**-**	(19,000)		1.57
Forfeited	**(2,485,000)**		**0.43**	(3,585,000)		0.55
Outstanding, end of year	**6,375,000**	**$**	**0.37**	8,860,000	$	0.39
Exercisable, end of year	**6,291,666**	**$**	**0.37**	6,543,328	$	0.40

Stock options outstanding and exercisable at December 31, 2018 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	100,000	1.92	100,000	1.92
0.20	1,400,000	2.78	1,400,000	2.78
0.215	250,000	3.25	166,666	3.25
0.235	440,000	3.16	440,000	3.16
0.24	900,000	2.25	900,000	2.25
0.30	1,085,000	0.96	1,085,000	0.96
0.51	175,000	0.01	175,000	0.01
0.63	1,950,000	0.01	1,950,000	0.01
0.66	75,000	0.09	75,000	0.09
	6,375,000	1.47	6,291,666	1.45

15. 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,			
		2018		2017
Loss before income tax	**$**	**(3,633)**	$	(4,999)
Canadian statutory income tax rate		**27%**		26%
Income tax recovery at statutory rate		**(981)**		(1,300)
Reconciling items:				
Difference between statutory and foreign tax rates		**(1,090)**		167
Non-deductible expenses		**61**		294
Non-taxable income		**(3,850)**		(1,196)
Tax effect of tax losses and temporary differences not recognized		**5,893**		2,035
Other		**(33)**		-
Total income taxes	**$**	**-**	$	-

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

15. Income taxes (continued)

(b) Deferred tax assets not recognized

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

At December 31, 2018, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in Canada of approximately $17.1 million. These losses can be carried forward against future taxable income and expire between 2030 and 2038.

At December 31, 2018, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in other jurisdictions of approximately $30,000 that can be carried forward against future taxable income.

16. 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, 2018, and 2017, 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.

17. Acquisition of Kaizen Peru Holdings Ltd.

On September 25, 2018, ITOCHU, in accordance with the terms of the Shareholders Agreement, exercised its right to sell all of its common shares in KPH to the Company for $10.00 plus the amount of ITOCHU's $2.5 million of funding commitment that remained unspent and uncommitted, pro rata to ITOCHU's ownership percentage in KPH on that date. On September 25, 2018, none of ITOCHU's funding commitment remained unspent and uncommitted, and ITOCHU exercised this right, selling all of its common shares in KPH to the Company for $10.00, which increased the Company's ownership of KPH from 90% to 100%. The acquisition was accounted for as an asset acquisition as the activities of KPH 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	$	-
Joint venture interest derecognized (Note 7)		1,009
	$	1,009

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

17. Acquisition of Kaizen Peru Holdings Ltd. (continued)

The fair value of the net assets acquired was allocated as follows:

Cash	$	35
Receivables		1
Property, plant & equipment		31
Mineral properties		3,258
Accounts payable and accrued liabilities		(53)
Provision		(1,492)
Due to Kaizen Discovery Inc.		(771)
Net assets acquired	$	1,009

Additionally, the $37,000 cumulative amount of exchange losses relating to the translation of KPH's Peruvian subsidiary was reclassified to loss.

18. Financial instruments

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value on a recurring basis, 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, 2018		December 31, 2017
Financial assets				
Financial assets measured at amortized cost				
Cash	**$**	**355**	$	4,090
Receivables		**10**		1
Deposits		**450**		450
Other assets		**78**		78
Financial assets measured at FVTOCI				
Marketable securities		**21**		129
Financial assets measured at FVTPL				
Derivative asset		**-**		15
Total financial assets	**$**	**914**	$	4,763
Financial liabilities measured at amortized cost				
Accounts payable and accrued liabilities	**$**	**238**	$	451
Option liability		**-**		250
Total financial liabilities	**$**	**238**	$	701

The carrying values of cash; receivables; deposits; other assets; and accounts payable and accrued liabilities approximate their fair values due to their short term nature.

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:

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

18. Financial instruments (continued)

- 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. Certain marketable securities were transferred from level 2 to level 1 during the year ended December 31, 2018. The derivative asset is measured at fair value using level 2 inputs (Note 8(b)).

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, receivables, deposits and other assets, and its maximum exposure to credit risk is the carrying value of these assets at December 31, 2018.

Cash and other assets are deposited with high credit quality financial institutions as determined by a primary ratings agency.

Deposits are held by a related company and management expects them to meet their obligations (Note 20(a)).

(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; receivables; accounts payable and accrued liabilities; and a non-current provision denominated in foreign currencies, which are subject to currency risk.

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

	Assets		Liabilities	
	December 31, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
U.S. dollar	**18**	1	**(35)**	(93)
Peruvian sol	**5**	-	**(1,604)**	-
Other	**2**	14	**-**	(3)

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

18. Financial instruments (continued)

(c) Currency risk (continued)

As at December 31, 2018, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $161,000 decrease or increase in the Company's comprehensive loss (December 31, 2017 - $146,000).

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, 2018, to maintain its minimum obligations, including general corporate activities, through to December 31, 2019.

19. Supplemental cash flow information

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

	Year ended December 31, 2018	2017
Investing activities		
Equity contribution to joint venture interest (Note 7)	**$ 1,250**	$ 1,250
Consideration received on sale of mineral property	**-**	518
Financing activities		
Share purchase warrants issued pursuant to rights offering	**$ -**	$ (177)

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

20. 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,	
	2018	2017
Salaries and benefits	**$ 1,404**	$ 2,023
Corporate administration	**295**	340
Exploration and geophysical activities	**46**	155
Total related party expenses	**$ 1,745**	$ 2,518

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

	Year ended December 31,	
	2018	2017
GMM	**$ 1,733**	$ 2,452
HPX	**12**	66
Total related party expenses	**$ 1,745**	$ 2,518

(i) Global Mining Management Corporation ("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, 2018, (December 31, 2017 – 8.3%) 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, 2018, (December 31, 2017 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

The expenses with GMM noted above for the year ended December 31, 2018, include approximately $59,000 (2017 - $417,000), incurred by KPH. The Company's share of KPH's transactions with GMM were included in share of losses from joint ventures, rather than in exploration or administrative expenses, for the period of February 10, 2017 to September 25, 2018 (Notes 7 and 17).

At December 31, 2018, the Company had a deposit of $450,000 (December 31, 2017 – $450,000) held by GMM. This deposit is recorded in prepaid expenses and deposits.

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

20. Related party transactions (continued)

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

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

		December 31, 2018		December 31, 2017
GMM	**$**	**126**	$	194
HPX		**3**		42
Key management personnel and officers		**-**		5
Total related party payables	**$**	**129**	$	241

(b) Compensation of key management personnel

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

		Year ended December 31, 2018		2017
Salaries and benefits	**$**	**834**	$	1,202
Share-based compensation		**11**		326
Total remuneration	**$**	**845**	$	1,528

(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, 2018, include approximately $13,000 (2017 - $143,000), which were incurred by KPH. The Company's share of KPH's transactions with GMM were included in share of losses from joint ventures, rather than in exploration or administrative expenses, for the period of February 10, 2017 to September 25, 2018 (Notes 7 and 17).

21. Subsequent Event

On February 4, 2019, the Company announced that it had drawn down US$750,000 under an unsecured promissory note provided by HPX. The unsecured loan facility has a maturity date of June 30, 2019, and has an interest rate of 10% per annum, with interest accruing daily and all interest compounding only at maturity. The interest rate will increase to 12% per annum in the event that the Company does not repay the amount owing upon the maturity date.

KAIZEN DISCOVERY

Management's Discussion and Analysis

December 31, 2018

As at March 12, 2019

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, 2018 (the "financial statements").

All information contained in this MD&A is current as of March 12, 2019, 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 all required financing has been received; (ii) potential amendments to the planned Pinaya Project work program to account for the time it took to issue the Authorization to Commence Activities and other factors, including successfully renegotiating community and landowner access agreements and local weather conditions; (iii) the expectation that future financing will pay for the planned first phase of exploration at the Pinaya Project; (iv) Kaizen's options for the Aspen Grove Project, which may include drill testing of some or all of the remaining targets; (v) Kaizen's options for the Coppermine Project, including a possible sale to, or joint venture with, a third party; (vi) 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 draft Nunavut Land Use Plan is finalized; and (vii) Kaizen's options for the Tanzilla and Pliny copper-gold porphyry projects, including a possible sale to, or joint venture with, a third party.

This list of items is not exhaustive of the items that may affect Kaizen's forward-looking statements. Such statements also 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; relationships with strategic partners; the timing and receipt of governmental permits and approvals; the timing and receipt of community and landowner 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 judgments 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 judgments 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 licences.

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; the availability of exploration capital and financing generally; changes in national and local government legislation; changes to taxation; 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; community member disturbances; industrial disturbances or other job action; and unanticipated events related to health, safety and environmental matters.

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

The forward looking statements contained herein are based on information available and are made as of March 12, 2019.

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

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 five to ten years. Increased demand for copper resulting from (among other things) the global shift away from the internal combustion engines to electric and fuel cell vehicles is expected to result in future copper deficits.

In 2016 and early 2017, the Company took steps to streamline its exploration portfolio to concentrate its exploration expenditures on the Pinaya Copper-Gold Project ("Pinaya Project"). The Company continues to seek additional strategic project opportunities, primarily in the America's, 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.

Delays to planned programs at the Pinaya Project due to regulatory requirements during 2017 and 2018 resulted in the expiry of the ITOCHU Corporation ("ITOCHU") obligation to provide partnered funding to this project. On September 25, 2018, the Company acquired ITOCHU's 10% interest in Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings"), the subsidiary that indirectly holds the Pinaya Project, increasing the Company's ownership interest to 100%. Both of these issues are discussed below in 'Exploration Activities'. Kaizen's current treasury is insufficient to finance the current planned exploration drilling program at the Pinaya Project. Kaizen will need to obtain additional sources of financing in order to further explore and evaluate its mineral properties.

Corporate Activities

Changes to Officers and Directors

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.

On May 31, 2018, Kaizen announced the resignation of Nakaba Chimura, the Company's Executive Vice President, Asia Finance.

On September 17, 2018, Kaizen announced the resignation of David Huberman, the Company's Chairman.

On December 13, 2018, Kaizen announced the retirement of David Korbin from its Board of Directors.

Business Development Activities

The Company continues to review and seek additional strategic project opportunities, primarily in North, South and Central America. During the year ended December 31, 2018, project reviews, primarily focused on copper, were undertaken in Chile and Peru.

Exploration Activities

Pinaya Copper-Gold Project, Peru (100% 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.

The community agreement and the agreements with the private landholders that provide Kaizen with access rights to conduct its planned exploration program at the Pinaya Project were extended to March 31, 2019 and re-negotiation of these agreements has commenced.

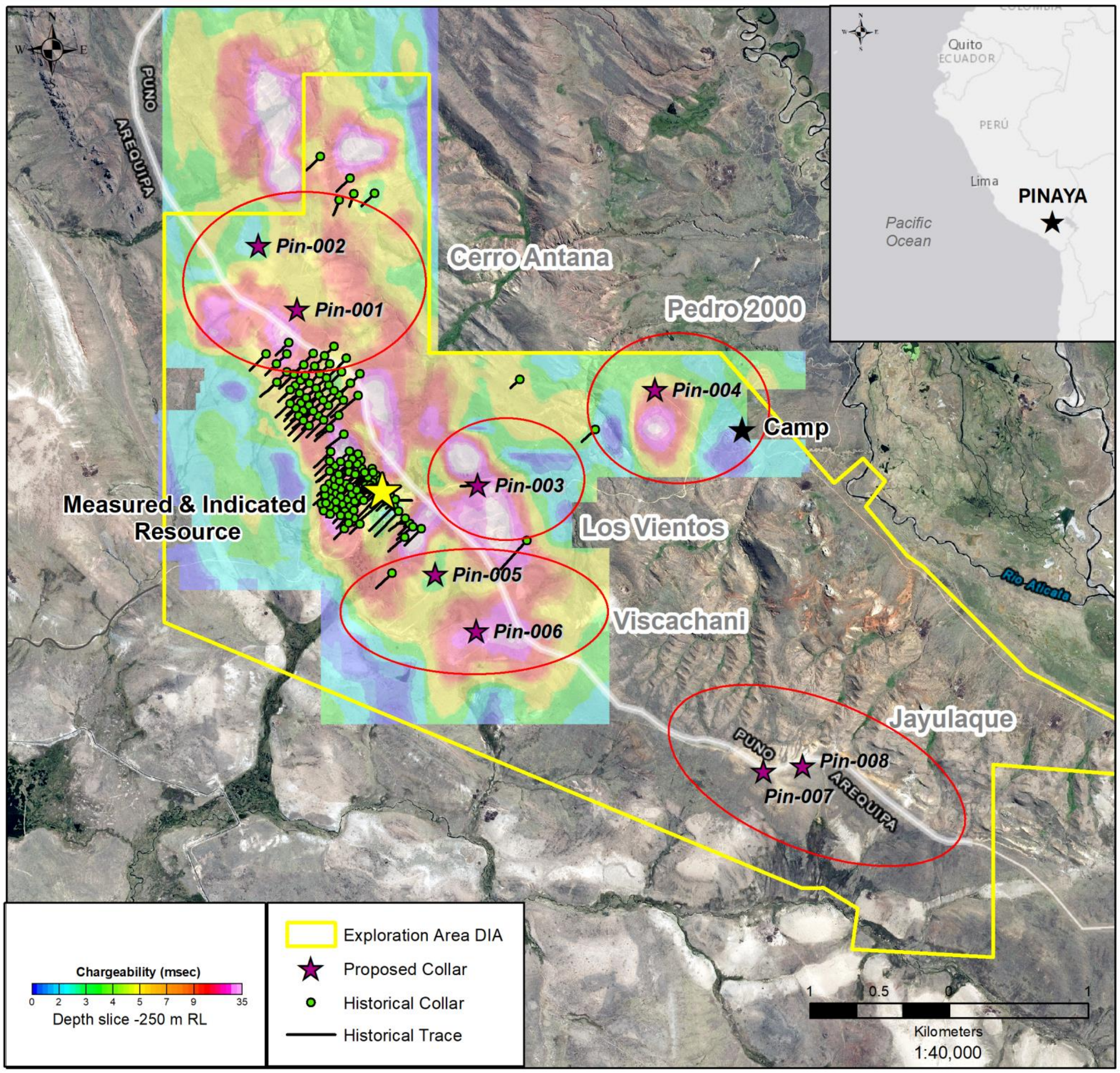
On July 9, 2018, the Company announced that the Consulta Previa review had been successfully completed and Kaizen Peru Holdings' Peruvian subsidiary had been issued with the Authorization to Commence Activities for its planned drilling program at the Pinaya Project. Under Peruvian law, the government-led Consulta Previa (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. The Pinaya Project's Consulta Previa review involved consultation with the community of Pinaya and the neighboring community of Atecata, which may be indirectly affected by the planned exploration activities. In February 2018, the Ministry of Energy and Mines ("MINEM") held these preparatory meetings with the communities of Pinaya and Atecata.

In February 2019, the Company received its water use permit from the Peru National Water Authority, which eliminated need for the Company to transport water in support of its planned drill program. The Company is currently assessing its financial options and, assuming the availability of financing, plans to commence drilling activities in the second quarter of 2019, when weather permits.

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. Pedro 2000 is a new target and was not included in the original DIA application, however the DIA has now been amended to include the Pedro 2000 target in the work program. The Pedro 2000 target has never been drill tested.

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 March 31, 2016, Kaizen entered into a strategic financing agreement ("Investment Agreement") and a Shareholders Agreement ("Shareholders Agreement") with ITOCHU. These agreements governed the affairs of Kaizen Peru Holdings, the beneficial owner of the Pinaya Project, and provided the framework to advance joint exploration efforts at the Pinaya Project. Kaizen agreed to match ITOCHU's exploration funding, for a total aggregate funding commitment of $5.0 million for the planned first phase of exploration at the Pinaya Project. Kaizen completed its $2.5 million funding commitment in February 2018.

Under the terms of the Investment Agreement, ITOCHU acquired a 10% interest in the Pinaya Project by making aggregate payments of $1.25 million to Kaizen. The obligation to make a further 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 by April 18, 2018, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project. Certain of these authorizations were not received until after April 2018, and ITOCHU elected to decline from making any further payments.

On September 25, 2018, ITOCHU, in accordance with the terms of the Shareholders Agreement, exercised its right to sell all of its common shares in Kaizen Peru Holdings to the Company for $10.00, which increased the Company's ownership of Kaizen Peru Holdings from 90% to 100%.The Investment Agreement and Shareholders Agreement terminated upon ITOCHU exercising this right.

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

The Aspen Grove Project is located in southern British Columbia, near the city of Merritt and is 100% owned by Kaizen. 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 technical review 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 km2 (11,237 ha), which will all remain valid through to 2027. Three of the claims (13.75 km2) 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 January, 9, 2019, the annual renewal for the Section 51 one-year suspension of work requirements was submitted to Indigenous and Northern Affairs Canada.

Other Exploration Projects

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, 2018	December 31, 2017	December 31, 2016
	$	$	$
Total revenue	-	-	-
Net loss for the year	3,633	4,999	10,739
Total comprehensive loss for the year	3,556	5,119	10,710
Total assets	4,435	6,641	5,559
Total non-current liabilities	1,579	-	1,274
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 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018
	$	$	$	$
Exploration expenses	242	117	146	192
Administrative expenses	530	540	549	487
Share of losses from joint ventures	-	144	396	289
Gain on expiry of option liability	-	-	-	(250)
Gain on sale of mineral property	-	-	-	-
Dilution gain	-	-	-	-
(Gain) loss on foreign exchange	(24)	(2)	3	-
Write-down of marketable securities	-	-	-	-
Other expense (income)	76	92	55	51
Net loss for the period	824	891	1,149	769
Net loss attributable to owners of Kaizen Discovery Inc.	824	891	1,149	769
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	-	-	-	-

	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 expiry of option liability	-	-	-	-
Gain on sale of mineral property	-	-	-	(518)
Dilution gain	-	-	-	(439)
(Gain) loss on foreign exchange	(1)	2	5	39
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	-

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 Q1 2018, the option, which permitted ITOCHU to acquire an indirect interest in the Tanzilla project, expired unexercised. As a result, the option liability of $250,000, was derecognized and recorded as a gain on expiry of option liability in the consolidated statements of loss and comprehensive loss.

In Q3 2018, the Company acquired ITOCHU's 10% interest in Kaizen Peru Holdings, the subsidiary that indirectly holds the Pinaya Project, increasing the Company's ownership interest to 100%. For the period of February 10, 2017 to September 25, 2018, the Company's share of the Pinaya Project's exploration expenses is included in share of losses from joint venture.

Results of Operations

Annual Results – Year ended December 31, 2018 ("2018") compared to year ended December 31, 2017 ("2017")

The loss for 2018 totalled $3.63 million, compared to the loss of $5.00 million for 2017.

Exploration expenses were $697,000 for 2018 compared to $767,000 for 2017. The 2017 amount includes exploration expenses on the Pinaya Project incurred prior to the deconsolidation of the joint venture interest on February 10, 2017, at which time the Company's share of the Pinaya Project's exploration expenses were recognized as a share of losses from joint venture. On September 25, 2018 the Company re-acquired control of the Pinaya Project, and exploration expenses incurred subsequent to this date are once again recognized as exploration expense. In both 2017 and 2018 exploration expenses focused primarily on corporate development opportunities. The 2017 exploration expense also includes expenditures of $131,000 for the Coppermine Project related to demobilization expenses compared to only $4,000 of exploration expenditures in 2018.

Administration expenses decreased from $2.55 million in 2017 to $2.11 million in 2018 primarily due to a $472,000 decrease in salaries and benefits and a $304,000 decrease in non-cash share-based compensation expense. Salaries and benefits decreased from 2017 due to lower staff levels, and the board waiving its' fees beginning in the third quarter of 2018. These reductions were partially offset by a $368,000 increase in professional fees.

Share of losses from joint ventures of $829,000 in 2018 (2017 – $1.93 million) consists of the Company's share of Kaizen Peru Holdings' loss. Share of losses from joint venture in 2017 includes the Company's share of KZD Aspen Grove's loss and the Company's share of Kaizen Peru Holdings' loss subsequent to February 10, 2017. The decrease in 2018 relates to reduced activity at the Pinaya Project due to permitting delays, and the availability of financing.

In 2018, the Company recognized a $250,000 gain on the expiration of an option issued by West Cirque Resources Ltd. ("West Cirque"), a wholly owned subsidiary of the Company. On July 31, 2015, West Cirque had granted ITOCHU an option to acquire an indirect 15% interest in the Tanzilla project in exchange for a payment by ITOCHU of $250,000. This option expired unexercised on February 28, 2018.

Fourth Quarter Results – Three months ended December 31, 2018 ("Q4 2018") compared to three months ended December 31, 2017 ("Q4 2017")

The loss for Q4 2018 totalled $824,000 compared to the loss of $1.79 million for Q4 2017.

Exploration expenses of $242,000 for Q4 2018 decreased from the $270,000 incurred during Q4 2017. Exploration expenses in Q4 2018 relate primarily to the Pinaya Project and corporate development opportunities. As of September 25, 2018, the Company increased its ownership interest in the Pinaya Project to 100% and, accordingly, Pinaya Project exploration expenses which were previously recognized as a share of losses from joint venture are now recognized in exploration expense. In Q4 2017, exploration expenditures related primarily to corporate development opportunities and the Coppermine project.

Administration expenses decreased from $607,000 in Q4 2017 to $530,000 in Q4 2018 primarily due to a $136,000 decrease in salaries and benefits and a $32,000 decrease in non-cash share-based compensation expense. Salaries and benefits decreased due to lower staff levels, and the board waiving its' fees beginning in the third quarter of 2018.These reductions were partially offset by an $82,000 increase in professional fees.

Share of losses from joint ventures was $Nil in Q4 2018 compared to $276,000 in Q4 2017. On September 25, 2018, the Company increased its ownership interest in Kaizen Peru Holdings to 100%. As a result, the Company acquired control and consolidated Kaizen Peru Holdings, and the former joint venture interest was derecognized.

Liquidity and Capital Resources

At December 31, 2018, the Company had consolidated cash of $355,000 (December 31, 2017 - $4.09 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, 2018, were funding operating activities of $3.01 million (2017 – $2.78 million) and advancing $760,000 (2017 - $1.17 million) to the Kaizen Peru Holdings' joint venture.

On February 4, 2019, the Company received loan financing of USD $750,000 (CAD $994,000) under an unsecured promissory note provided by High Power Exploration Inc., an affiliate of its majority shareholder HPX TechCo Inc.("HPX"). The note has a maturity date of June 30, 2019, and has an interest rate of 10% per annum, with interest accruing daily and all interest compounding only at maturity. The interest rate will increase to 12% per annum in the event Kaizen does not repay the amount owing upon the maturity date.

At December 31, 2018, 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, 2018, 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,	
	2018	**2017**
	$	$
Salaries and benefits	1,404	2,023
Corporate administration	295	340
Exploration and geophysical activities	46	155
Total related party expenses	1,745	2,518

The breakdown of expenses by related party is as follows:

	Year ended December 31,	
	2018	**2017**
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GMM	1,733	2,452
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Total related party expenses	1,745	2,518

(i) Global Mining Management Corporation ("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, 2018 (December 31, 2017 – 8.3%) and has an officer in common with GMM.

(ii) HPX is Kaizen's privately-owned parent, holding 66.8% of the Company's common shares at December 31, 2018 (December 31, 2017 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

The expenses with GMM noted above for the year ended December 31, 2018 include approximately $59,000 (2017 - $417,000), incurred by Kaizen Peru Holdings. The Company's share of Kaizen Peru Holdings' transactions with GMM were included in share of losses from joint ventures rather than in exploration or administrative expenses, for the period of February 10, 2017 to September 25, 2018.

At December 31, 2018, the Company had a deposit of $450,000 (December 31, 2017 – $450,000) held by GMM. This deposit is recorded in prepaid expenses and deposits.

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

	December 31, 2018	December 31, 2017
	$	$
GMM	126	194
HPX	3	42
Key management personnel and officers	-	5
Total related party payables	129	241

Compensation of key management personnel

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

	Year ended December 31,	
	2018	2017
	$	$
Salaries and benefits	834	1,202
Share-based compensation	11	326
Total remuneration	845	1,528

(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, 2018, include approximately $13,000 (2017 - $143,000) which were incurred by Kaizen Peru Holdings. The Company's share of Kaizen Peru Holdings' transactions with GMM were included in share of losses from joint ventures, rather than in exploration or administrative expenses, for the period of February 10, 2017 to September 25, 2018.

Outstanding Share Data

At March 12, 2019, the Company had the following issued and outstanding:

- 276,766,636 common shares.
- 4,075,000 stock options with a weighted average exercise price of $0.24 per share. Each stock option is exercisable to purchase one common share of the Company at prices ranging from $0.155 to $0.30 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

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") retrospectively, without restatement of prior year financial statements. IFRS 9 replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The application of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities except for equity securities as described below. There was also no impact to the carrying value of any of the Company's financial assets or liabilities on the transition date.

The application of IFRS 9 resulted in a change to how the Company designates its investments in equity securities that were previously classified as available-for-sale. Since the marketable securities are not held-for-trading and are held for strategic reasons, the Company has made an irrevocable election to account for its equity securities, comprising marketable securities, as financial assets at fair value through other comprehensive income ("FVTOCI"). The equity securities will be recorded initially at fair value, and any subsequent changes in the fair value will be recognized in other comprehensive income only, and will not be transferred into net loss upon disposition.

In accordance with IFRS 9's transitional provisions, the classification was applied retrospectively on January 1, 2018, the date of initial application. Consequently, the opening accumulated deficit on January 1, 2018, has been reduced by approximately $569,000 with a corresponding increase in opening accumulated other comprehensive loss. The realized and unrealized losses relating to the Company's equity securities are now presented as an item that will not be reclassified subsequently to net loss.

The following new standard is not yet effective for the year ending December 31, 2018, and has not been applied in preparing the consolidated financial statements for the year ended December 31, 2018.

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 has assessed the standard and determined that the application of IFRS 16 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

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; receivables; deposits; other assets; and accounts payable and accrued liabilities approximate their fair values due to their short term nature. Marketable securities are measured at fair value using level 1 inputs. Certain marketable securities were transferred from level 2 to level 1 during the year ended December 31, 2018. The derivative asset is measured at fair value through profit or loss ("FVTPL"), using level 2 inputs.

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

	December 31, 2018	December 31, 2017
	$	$
Financial assets		
Financial assets measured at amortized cost		
Cash	355	4,090
Receivables	10	1
Deposits	450	450
Other assets	78	78
Financial assets measured at FVTOCI		
Marketable securities	21	129
Financial assets measured at FVTPL		
Derivative asset	-	15
Total financial assets	914	4,763
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	238	451
Option liability	-	250
Total financial liabilities	238	701

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, receivables, deposits and other assets, and its maximum exposure to credit risk is the carrying value of these assets at December 31, 2018.

Cash and other assets are deposited with high credit quality financial institutions as determined by a primary ratings agency.

Deposits are held by GMM, a related company, and management expects them to meet their obligations.

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 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;

receivables; accounts payable and accrued liabilities; and a non-current provision denominated in foreign currencies which are subject to currency risk.

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

	Assets		Liabilities	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	$	$	$	$
U.S. dollar	18	1	(35)	(93)
Peruvian sol	5	-	(1,604)	-
Other	2	14	-	(3)

As at December 31, 2018, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $161,000 decrease or increase in the Company's comprehensive loss (December 31, 2017 - $146,000).

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 licences (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 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 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 judgment 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 licences may be terminated, revoked or expire and not be renewed, and if they are renewed may be subject to a reduction in the licence area.*

   Kaizen's principal activities currently are exploration in nature, requiring exploration permits or licences in each jurisdiction where it is conducting exploration. The maintenance of exploration licences and permits is a very detailed and time-consuming process. Depending on the jurisdiction, exploration licences, once received, are commonly renewable for various time intervals, after which the tenements may be subject to reduction. Exploration permits or licences may also require Kaizen to incur certain fees and/or meet minimum work commitments, in order to keep such permits or licences in good standing. Failure to do any of the foregoing could result in a permit or licence previously held by Kaizen ceasing to be in good standing making such permit or licence 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, licences and permits from various governmental authorities in Canada and Peru. These approvals, licences 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, licences 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.*

   Kaizen may, from time to time, require 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.