KAIZEN DISCOVERY

Consolidated Financial Statements of

Kaizen Discovery Inc.

December 31, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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.

Material Uncertainty related to Going Concern
We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $2.8 million during the year ended December 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company'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 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, British Columbia

March 16, 2020

Kaizen Discovery Inc.

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

	Notes		**December 31, 2019**		December 31, 2018
Assets					
Current assets					
Cash		**$**	**2,395**	$	355
Receivables			**25**		32
Prepaid expenses and deposits	19		**534**		475
Total current assets			**2,954**		862
Non-current assets					
Mineral properties	6		**3,267**		3,444
Financial assets	7		**17**		21
Property, plant and equipment			**26**		30
Other assets			**70**		78
Total assets		**$**	**6,334**	$	4,435
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	19	**$**	**249**	$	238
Provision	8		**498**		677
Promissory note	9,19		**2,802**		-
Total current liabilities			**3,549**		915
Non-current liabilities					
Non-current provision	10		**1,669**		1,579
Total liabilities		**$**	**5,218**	$	2,494
Equity					
Share capital	11	**$**	**47,722**	$	45,987
Share-based payment reserve	14		**3,773**		3,749
Other reserves			**452**		452
Share purchase warrants	11		**448**		177
Accumulated other comprehensive loss			**(698)**		(599)
Accumulated deficit			**(50,581)**		(47,825)
Total equity		**$**	**1,116**	$	1,941
Total liabilities and equity		**$**	**6,334**	$	4,435

Description of business and going concern (Note 1)
Approved and authorized for issue on behalf of the Board on March 16, 2020:

/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)

			Year ended December 31,		
	Notes		**2019**		2018
Operating expenses					
Exploration expenses	12	**$**	**(1,118)**	$	(697)
Administrative expenses	13		**(1,585)**		(2,106)
Share of losses from joint ventures			**-**		(829)
Loss from operations			**(2,703)**		(3,632)
Other (expenses) income					
Gain on expiry of option liability			**-**		250
Interest income			**15**		39
(Loss) gain on foreign exchange			**(21)**		23
Interest expense	8,9		**(56)**		(212)
Depreciation expense			**(3)**		(2)
Other income (expense)	8		**12**		(99)
Loss before income taxes			**(2,756)**		(3,633)
Income taxes	15		**-**		-
Net loss for the year			**(2,756)**		(3,633)
Other comprehensive (loss) income					
Items that will not be reclassified subsequently to loss:					
Change in fair value of marketable securities	7(a)		**(4)**		(108)
Items that may be reclassified subsequently to loss:					
Currency translation adjustment			**(97)**		109
Share of other comprehensive income of joint venture			**-**		38
Items that have been reclassified to loss:					
Cumulative exchange losses relating to acquisition of foreign subsidiary			**-**		37
Cumulative exchange loss relating to liquidated foreign subsidiaries			**2**		1
Total other comprehensive (loss) income for the year		**$**	**(99)**	$	77
Total comprehensive loss for the year		**$**	**(2,855)**	$	(3,556)
Loss per share (basic and diluted)		**$**	**(0.01)**	$	(0.01)
Weighted average number of basic and diluted shares outstanding			**295,674,929**		276,766,636

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)

	Notes	Number of shares		Share capital		Share-based payment reserve		Other reserves		Share purchase warrants		Accumulated other comprehensive (loss) income		Accumulated deficit		Total
Balance at January 1, 2018 (as reported)		276,766,636	$	45,987	$	3,727	$	452	$	177	$	(107)	$	(44,761)	$	5,475
Impact of adopting IFRS 9 on January 1, 2018		-		-		-		-		-		(569)		569		-
Balance at January 1, 2018 (restated)		276,766,636	$	45,987	$	3,727	$	452	$	177	$	(676)	$	(44,192)	$	5,475
Net loss for the year		-		-		-		-		-		-		(3,633)		(3,633)
Other comprehensive income		-		-		-		-		-		77		-		77
Share-based payments		-		-		22		-		-		-		-		22
Balance at December 31, 2018		**276,766,636**	**$**	**45,987**	**$**	**3,749**	**$**	**452**	**$**	**177**	**$**	**(599)**	**$**	**(47,825)**	**$**	**1,941**
Balance at January 1, 2019		**276,766,636**	**$**	**45,987**	**$**	**3,749**	**$**	**452**	**$**	**177**	**$**	**(599)**	**$**	**(47,825)**	**$**	**1,941**
Net loss for the year		**-**		**-**		**-**		**-**		**-**		**-**		**(2,756)**		**(2,756)**
Shares issued pursuant to conversion of Promissory Note	9,11	**20,488,185**		**1,024**		**-**		**-**		**-**		**-**		**-**		**1,024**
Shares and share purchase warrants issued pursuant to Private Placement, net of share issue costs	11	**20,000,000**		**711**		**-**		**-**		**271**		**-**		**-**		**982**
Other comprehensive loss		**-**		**-**		**-**		**-**		**-**		**(99)**		**-**		**(99)**
Share-based payments		**-**		**-**		**24**		**-**		**-**		**-**		**-**		**24**
Balance at December 31, 2019		**317,254,821**	**$**	**47,722**	**$**	**3,773**	**$**	**452**	**$**	**448**	**$**	**(698)**	**$**	**(50,581)**	**$**	**1,116**

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, 2019		2018
Operating activities					
Net loss for the year		**$**	**(2,756)**	$	(3,633)
Adjustments for non-cash items:					
Share-based payments			**24**		22
Share of losses from joint ventures			**-**		829
Gain on expiry of option liability			**-**		(250)
Loss (gain) on unrealized foreign exchange			**2**		(30)
Interest expense			**56**		212
Other (income) expense			**(12)**		91
Depreciation			**3**		2
Changes in non-cash working capital items:					
Receivables			**(20)**		13
Prepaid expenses and deposits			**(59)**		(1)
Accounts payable and accrued liabilities			**18**		(265)
Cash used in operating activities		**$**	**(2,744)**	$	(3,010)
Investing activities					
Redemption of other assets		**$**	**8**	$	-
Recognition of cash from consolidation of subsidiary			**-**		35
Advances to joint venture			**-**		(760)
Cash from (used in) investing activities		**$**	**8**	$	(725)
Financing activities					
Proceeds from promissory note	9	**$**	**3,813**	$	-
Proceeds from private placement	11		**1,000**		-
Share issue costs			**(18)**		-
Cash from financing activities		**$**	**4,795**	$	-
Effect of foreign exchange rate changes on cash		**$**	**(19)**	$	-
Increase (decrease) in cash		**$**	**2,040**	$	(3,735)
Cash, beginning of year			**355**		4,090
Cash, end of year		**$**	**2,395**	$	355

Supplemental cash flow information (Note 18)

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. The Company's shares are listed on the TSX Venture Exchange under the symbol KZD and its head office and registered office are both located at Suite 654 – 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

At December 31, 2019, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 71.0% (December 31, 2018 – 66.8%) of the Company's issued and outstanding common shares. The ultimate controlling entity is I-Pulse Inc., 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, 2019, the Company had no operating revenues and incurred a net loss of $2.8 million (December 31, 2018 – $3.6 million). At December 31, 2019, the Company had consolidated cash of $2.4 million (December 31, 2018 - $355,000).

At December 31, 2019, 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. Significant reliance is placed on HPX, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of HPX to provide or participate in financing, or the inability of HPX to provide or participate in financing, would likely result in difficulty for the Company to attract separate third party investment. 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, 2019.

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

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

3. Significant accounting policies (continued)

(b) Functional and presentation currency (continued)

currency, and items included in the financial statements of each subsidiary are measured using that functional currency.

References to "$" are to Canadian dollars.

(c) Change in accounting policy

Effective January 1, 2019, the Company adopted IFRS 16, *Leases ("IFRS 16"),* using the modified retrospective application method, without restatement of prior year financial statements. IFRS 16 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. Other areas of the lease accounting model have been impacted, including the definition of a lease. On transition, the application of IFRS 16 did not impact the Company's consolidated financial statements.

(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 interest.

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

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

At December 31, 2019 and 2018, the Company's significant subsidiaries are as follows:

Name of significant subsidiaries	Place of incorporation or registration	Method of accounting at December 31, 2018 and 2019	Effective ownership interest at December 31, 2018 and 2019
Kaizen Peru Holdings Ltd.	British Columbia	Consolidation	100%
Kaizen Discovery Peru S.A.C.	Peru	Consolidation	100%
West Cirque Resources Ltd.	British Columbia	Consolidation	100%
KZD Aspen Grove Holding Ltd.	British Columbia	Consolidation	100%
Tundra Copper Corp.	British Columbia	Consolidation	100%

3. Significant accounting policies (continued)

(d) Basis of consolidation (continued)

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.

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

3. Significant accounting policies (continued)

(g) Foreign currency (continued)

(i) Foreign currency transactions (continued)

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 statements 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) fair value through other comprehensive income ("FVTOCI"); or (iii) FVTPL.

(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

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(i) Amortized cost (continued)

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 transferred to net loss upon disposition. On initial application of IFRS 9, *Financial Instruments*, the Company designated all investments in equity instruments, comprising marketable securities, as FVTOCI.

(iii) Fair value through profit or 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 (Note 7(b)).

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 and promissory note are measured at amortized cost in the consolidated statements 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.

3. Significant accounting policies (continued)

(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 the consolidated statement of loss and comprehensive loss.

(l) Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if the Company has the right to direct the use of the asset.

The Company recognizes a right-of-use asset (“ROU asset”) and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease, with the following exceptions: (i) the Company has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months, or (ii) for leases of low value. The payments for such leases are recognized in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the remaining lease payments that have not been paid at the commencement date, discounted by using the rate implicit in the

3. Significant accounting policies (continued)

(l) Leases (continued)

lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate.

The ROU asset is initially measured based on the present value of lease payments, lease payments made at or before the commencement day, and any initial direct costs. They are subsequently measured at cost less accumulated amortization and impairment losses. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment, which are reviewed at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

ROU assets would be included in property, plant and equipment, and the lease liability would be presented as a separate line in the consolidated statements of financial position.

The Company has not recognized any lease liabilities or ROU assets during the year ended December 31, 2019. However, the Company has recognized approximately $26,000 related to short-term leases within exploration expenses during the year ended December 31, 2019.

(m) 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.

(n) 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.

3. Significant accounting policies (continued)

(o) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price for a stated number of common shares in the Company. The fair value of the components of the units sold are measured using the relative fair value approach, based on the calculated fair value of the stand-alone shares through reference to the quoted market price at the completion of the financing and the fair value of the stand-alone warrant, using the Black-Scholes option pricing model.

(p) Share-based payments

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

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

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

(q) Operating segments

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

(r) 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.

3. Significant accounting policies (continued)

(s) Income taxes

Income tax expense for the year comprises current and deferred tax. Current and deferred tax are recognized in the consolidated statements 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

There are no other new or revised IFRS standards and interpretations, not yet effective, that would be expected to have a material impact on the Company.

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)).

5. Critical accounting estimates and judgments (continued)

(b) Determination of functional currency (continued)

The functional currency of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates and the Company has determined that the functional currency of its Peruvian entity is the US dollar.

Determination of functional currency may involve certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions, which determined the primary economic environment.

(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.

(e) Determining whether a contract contains a lease

In accordance with IFRS 16, the Company has to assess whether or not a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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 subjective assumptions, including the expected share price volatility and expected life of the options (Notes 7(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

Mineral properties comprises the $3.27 million (December 31, 2018 - $3.44 million) carrying amount of the Pinaya Copper-Gold Project (the "Pinaya Project" or "Pinaya"). The decrease in the carrying amount in the year ended December 31, 2019 is due to a 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.

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

7. Financial assets

(a) Marketable securities

	December 31, 2019			December 31, 2018		
	Cost basis	Fair value adjustments	Fair value	Cost basis	Fair value adjustments	Fair value
Cradle Arc plc	$ 631	$ (631)	$ -	$ 631	$ (629)	$ 2
Colorado Resources Ltd.	117	(100)	17	117	(98)	19
	$ 748	$ (731)	$ 17	$ 748	$ (727)	$ 21

On March 27, 2019, Cradle Arc plc shares were cancelled from trading on AIM and the Company adjusted the fair value of its investment in Cradle Arc plc to $Nil.

(b) Derivative asset

In February 2017, the Company received 1,000,000 share purchase warrants of Colorado Resources Ltd. (“Colorado”). Each share purchase warrant entitled 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 were recorded in the consolidated statements of loss and comprehensive loss. In February 2019, the share purchase warrants of Colorado expired unexercised with a fair value of $Nil (December 2018 - $Nil).

8. Provision

The current provision has been adjusted to reflect the revised estimate at December 31, 2019. The change in the estimate includes a credit of approximately $156,000 to other income in the consolidated statements of loss and comprehensive loss.

9. Promissory note

Under the terms of an Unsecured Promissory Note Agreement between HPX and the Company (“Promissory Note”), on February 4, 2019, the Company drew down a total of US$750,000 ($983,000). The Promissory Note had a maturity date of June 30, 2019, and an interest rate of 10% per annum, with interest accruing daily and all interest compounding only at maturity. The interest rate increased to 12% per annum effective July 1, 2019, as the Company did not repay the amount owing upon the maturity date. On July 18, 2019, the Company converted the US$782,000 ($1.02 million) owing under the Promissory Note into 20,488,185 shares of the Company at a price of $0.05 per share (Note 11(a)).

On December 23, 2019 the Company announced the arrangement of an additional short-term loan of US$2.15 million ($2.83 million) from HPX, under the same terms of the Promissory Note, with the exception of the maturity date which is June 30, 2020.

At December 31, 2019, the carrying value of the promissory note was US$2.16 million ($2.80 million), comprising of both principal and accrued interest. Aggregate interest expense on the promissory note of approximately $52,000 was recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

10. Non-current provision

The non-current provision with a carrying amount of $1.67 million at December 31, 2019 (December 31, 2018 - $1.58 million) is related to potential obligations associated with the Pinaya Project.

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

11. Share capital

(a) Common shares

The Company is authorized to issue an unlimited number of common shares with no par value. At December 31, 2019, the Company had 317,254,821 common shares issued and outstanding (December 31, 2018 – 276,766,636).

On July 11, 2019, the Company closed a non-brokered private placement with HPX consisting of 20 million units at a price of $0.05 per unit for gross proceeds of $1.0 million (the “HPX Placement”). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles HPX to purchase one common share of the Company at $0.12 per share any time on or before July 11, 2021. The net proceeds from the HPX Placement have been bifurcated using the relative fair value method, resulting in $711,000 recorded as share capital and $271,000 recorded as share purchase warrants; these amount are net of share issue costs of approximately $18,000.

On July 18, 2019, upon receiving approval from the TSX Venture Exchange, the Company converted the US$782,000 ($1.02 million) owing under the Promissory Note into 20,488,185 shares at $0.05 per share (Note 9).

(b) Share purchase warrants

	Expiry Date	Number of warrants	Weighted average exercise price ($ per warrant)	Weighted average remaining contractual life (years)
Outstanding at December 31, 2018	January 11, 2022	2,100,000	$ 0.155	2.03
Granted	July 11, 2021	20,000,000	0.12	1.53
Outstanding at December 31, 2019		**22,100,000**	**$ 0.12**	**1.58**

The fair value of each warrant granted on July 11, 2019 was estimated to be $0.02 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.6%, expected life of 2 years, annualized volatility of 111% and dividend yield of 0%.

12. Exploration expenses

Exploration expenses are summarized as follows:

	Year ended December 31, 2019	2018
Salaries and consultants	**$ 595**	$ 511
Share-based payments	**3**	17
Fees and taxes	**275**	12
Camp	**62**	26
Travel	**19**	61
Professional fees	**85**	25
Environmental	**18**	4
Other	**61**	41
Total exploration expenses	**$ 1,118**	$ 697

(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,	
	2019	2018
Pinaya *(i)*	**$ 836**	$ 144
Coppermine	**4**	4
General project evaluation	**272**	520
Other	**6**	29
Total exploration expenses	**$ 1,118**	$ 697

(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.

13. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Year ended December 31,	
	2019	2018
Salaries and benefits	**$ 616**	$ 963
Share-based payments	**21**	5
Professional fees	**630**	692
Office	**113**	218
Travel	**18**	38
Fees and taxes	**50**	32
Investor relations	**10**	21
Insurance	**97**	110
Other	**30**	27
Total administrative expenses	**$ 1,585**	$ 2,106

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.

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

14. Share-based payments (continued)

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

	Year ended December 31,2019			Year ended December 31, 2018		
	Number of stock options		**Weighted average exercise price ($ per share)**	Number of stock options		Weighted average exercise price ($ per share)
Outstanding, beginning of year	**6,375,000**	**$**	**0.37**	8,860,000	$	0.39
Granted *(i)*	**1,600,000**		**0.05**	-		-
Expired	**(2,025,000)**		**0.63**	-		-
Forfeited	**(1,175,000)**		**0.27**	(2,485,000)		0.43
Outstanding, end of year	**4,775,000**	**$**	**0.18**	6,375,000	$	0.37
Exercisable, end of year	**3,175,000**	**$**	**0.24**	6,291,666	$	0.37

(i) The weighted average fair value of stock options granted during the year ended December 31, 2019, was estimated at $0.03 (December 31, 2018 - $Nil) using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.33%, expected life of 3.17 years, annualized volatility of 110% and dividend yield of 0%.

Stock options outstanding and exercisable at December 31, 2019 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)
$	0.050	1,600,000	4.66	-	-
	0.155	100,000	0.92	100,000	0.92
	0.20	950,000	1.07	950,000	1.07
	0.215	250,000	2.25	250,000	2.25
	0.235	440,000	2.16	440,000	2.16
	0.24	450,000	1.66	450,000	1.66
	0.30	985,000	0.05	985,000	0.05
		4,775,000	2.28	3,175,000	1.08

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

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, 2019	2018
Loss before income tax	**$ (2,756)**	$ (3,633)
Canadian statutory income tax rate	**27%**	27%
Income tax recovery at statutory rate	**(744)**	(981)
Reconciling items:		
Difference between statutory and foreign tax rates	**(23)**	(1,090)
Non-deductible expenses	**38**	61
Non-taxable income	**(41)**	(3,850)
Tax effect of tax losses and temporary differences not recognized	**770**	5,893
Other	**-**	(33)
Total income taxes	**$ -**	$ -

(b) Deferred tax assets not recognized

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

At December 31, 2019, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in Canada of approximately $19.1 million. These losses can be carried forward against future taxable income and expire between 2030 and 2039.

At December 31, 2019, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in other jurisdictions of approximately $42,000 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, 2019, and 2018, there were no significant changes in the process used by the Company or in the Company's objectives and policies for managing its capital. The Company is not exposed to externally imposed capital requirements.

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

17. 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 at FVTPL or FVTOCI. The Company's financial assets and financial liabilities are classified as follows:

		December 31, 2019		December 31, 2018
Financial assets				
Financial assets measured at amortized cost				
Cash	**$**	**2,395**	$	355
Receivables		**11**		10
Deposits		**495**		450
Other assets		**70**		78
Financial assets measured at FVTOCI				
Marketable securities		**17**		21
Total financial assets	**$**	**2,988**	$	914
Financial liabilities measured at amortized cost				
Accounts payable and accrued liabilities	**$**	**249**	$	238
Promissory note		**2,802**		-
Total financial liabilities	**$**	**3,051**	$	238

The carrying values of cash, receivables, deposits, other assets, accounts payable and accrued liabilities and the promissory note 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:

- 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.

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, 2019.

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

Deposits are held by a related company (Note 19(a)) and an external third party and management expects them to meet their obligations.

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

17. Financial instruments (continued)

(b) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its bank deposits, which is insignificant due to their short-term nature.

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

(c) Currency risk

The Company reports its financial results in Canadian dollars but also undertakes transactions in various foreign currencies, mainly the US 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, promissory note, 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, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
US dollar	**2,349**	18	**(2,890)**	(35)
Peruvian sol	**5**	5	**(1,706)**	(1,604)
Other	**-**	2	**-**	-

As at December 31, 2019, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $224,000 decrease or increase in the Company's comprehensive loss (December 31, 2018 - $161,000).

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, 2019, to maintain its minimum obligations, including general corporate activities, through to December 31, 2020 (Note 1(b)).

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

18. Supplemental cash flow information

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

	Notes		Year ended December 31, **2019**		2018
Investing activities					
Equity contribution to joint venture interest		**$**	**-**	$	1,250
Financing activities					
Shares issued on settlement of Promissory Note	9,11	**$**	**1,024**	$	-
Settlement of interest owing on Promissory Note	9,11		**(43)**		-
Settlement of principal owing on Promissory Note	9,11		**(981)**		-

19. 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, with the exception of the Promissory Note and HPX Placement, which are disclosed in Note 9 and Note 11, respectively.

(a) *Expenses, deposits and accounts payable*

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

		Year ended December 31, **2019**		2018
Salaries and benefits	**$**	**956**	$	1,404
Corporate administration		**191**		295
Exploration and geophysical activities		**7**		46
Total related party expenses	**$**	**1,154**	$	1,745

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

		Year ended December 31, **2019**		2018
GMM	**$**	**1,144**	$	1,733
HPX		**10**		12
Total related party expenses	**$**	**1,154**	$	1,745

(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 9.1% of GMM's common shares at December 31, 2019, (December 31, 2018 – 8.3%) and had an officer in common with GMM until November 7, 2019. The investment in GMM is held a $Nil on the consolidated statements of financial position.

(ii) HPX holds 71.0% of the Company's common shares at December 31, 2019, (December 31, 2018 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

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

19. Related party transactions (continued)

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

At December 31, 2019, the Company had a deposit of $450,000 (December 31, 2018 – $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, 2019	December 31, 2018
GMM	**$ 109**	$ 126
HPX	**13**	3
Total related party payables	**$ 122**	$ 129

(b) *Compensation of key management personnel*

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

	Year ended December 31, 2019	2018
Salaries and benefits	**$ 647**	$ 834
Share-based compensation	**24**	11
Total remuneration	**$ 671**	$ 845

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

KAIZEN DISCOVERY

Management's Discussion and Analysis

December 31, 2019

As at March 16, 2020

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, 2019 (the "financial statements").

All information contained in this MD&A is current as of March 16, 2020, 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

This MD&A includes "forward-looking statements" and "forward-looking information" within the meaning of Canadian securities legislation. All statements included in this MD&A, other than statements of historical fact, are forward-looking statements. When used in this MD&A, words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict", "foresee" and other similar terminology, or sentences/statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance. 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.

Forward-looking 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; 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 including the impact of epidemics.

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 16, 2020.

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 phenomena in our history, with profound implications 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 internal combustion engines to electric and fuel cell vehicles is expected to result in future copper deficits.

Kaizen continues to focus its activities on exploring the Pinaya Copper-Gold Project ("Pinaya") in Peru. As announced on January 13, 2020, a 1,500 metre diamond drill program has commenced at Pinaya to test three new porphyry/skarn prospects located adjacent to the existing Pinaya Mineral Resource.

The Company's remaining portfolio of exploration properties, all of which are located in Canada, remain inactive at this time.

The Company continues to seek additional project opportunities, primarily in the Americas, the entry costs to which are as-yet undetermined. As such, management will continue to assess the cost of exploration programs at Pinaya and may revise the scope of planned programs. Although funding for the current drill program at Pinaya has been provided by HPX TechCo Inc. ("HPX") (see financing agreement with HPX below), future planned exploration drilling programs at Pinaya are dependent on completion of equity financings or loans.

The Company is currently evaluating the impact of the COVID-19 virus, which could create significant uncertainty for the Company and its operations. Countries around the world are imposing lockdowns, curfews and asking people to self-isolate or practice social distancing to try to control the spread of the virus. These measures will have an impact on the Company's operations and its employees.

Corporate Activities

Private placement

On July 8, 2019, the Company announced a non-brokered private placement of up to $2.5 million. The Company offered up to 50,000,000 units at a price of $0.05 per unit, with each unit consisting of one common share and one common share purchase warrant of the Company. Each warrant entitled the holder to purchase one common share of the Company at $0.12 per share for a period of 24 months following the closing date of the private placement.

The first tranche of this private placement closed on July 11, 2019, with HPX, Kaizen's majority shareholder, subscribing for 20 million units for a total investment of $1.0 million. The Company was unsuccessful in closing the balance of the private placement.

Financing agreement with HPX

On February 4, 2019, the Company received loan financing of US$750,000 ($983,000) under an unsecured promissory note (the "Promissory Note") provided by HPX. The note had a maturity date of June 30, 2019, and an interest rate of 10% per annum, with interest accruing daily and all interest compounding only at maturity. The interest rate increased to 12% per annum effective July 1, 2019, as Kaizen did not repay the amount owing upon the maturity date. The purpose of the Promissory Note was to enable the Company to maintain uninterrupted business operations while it pursued longer term business development and financing opportunities.

On July 18, 2019, the Company converted the principal and interest owing on the Promissory Note, which totalled approximately US$782,000 ($1.02 million) into 20,488,185 common shares of Kaizen at a price of $0.05 per share.

On December 23, 2019 the Company announced an additional short-term loan of US$2.15 million ($2.83 million) from HPX, under the same terms of the Promissory Note, with the exception of the maturity date which is June 30, 2020.

Changes to Officers and Directors

On April 1, 2019, Kaizen announced the resignation of Ignacio Rosado from its Board of Directors.

On June 28, 2019, Richard Cohen did not stand for re-election as a Director at the Annual and Special Meeting of Shareholders.

On November 12, 2019, Kaizen announced the resignation of Tom Peregoodoff, the Company's President and Chief Executive Officer ("CEO"), effective November 30, 2019. Eric Finlayson, Kaizen's Interim Chairman, assumed the President and CEO positions, on an interim basis, on December 1, 2019.

Business Development Activities

The Company continues to review and seek additional project opportunities, primarily in the Americas. During the year ended December 31, 2019, project reviews, primarily focused on copper, were undertaken in the United States, Chile and Peru.

Exploration Activities

Pinaya Copper-Gold Project, Peru (100% owned)

Overview

The Pinaya Copper-Gold Project covers 192 km^2 and includes more than 25 kilometres of underexplored strike length within the Andahuaylas-Yauri Porphyry-Skarn Belt in southeastern Peru (Figure 1). This Eocene-Oligocene aged belt hosts numerous productive copper-gold porphyry and skarn systems, including Las Bambas, Tintaya, Constancia, Haquira and Antapaccay.

An updated National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") technical report for Pinaya, titled "Pinaya Gold-Copper Project Technical Report" 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 an updated Mineral Resource estimate.

Pinaya contains a Mineral Resource within three contiguous zones over 1.7-kilometre of strike in the central part of the property. The project's Measured Mineral 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 Indicated Mineral 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 Mineral 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.

Licences and Permits

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

On July 9, 2018, the Company announced that the Consulta Previa review had been successfully completed and its Peruvian subsidiary had been issued with the Authorization to Commence Activities for its planned drilling program at Pinaya. 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.

In February 2019, the Company received its water use permit from the Peru National Water Authority, which eliminated the need for the Company to transport water in support of its planned drill program.

On June 30, 2019, the Company renewed its mineral titles over the resource area, interpreted extensions to the resource area, and other prospective areas. Other titles outside of these areas were relinquished.

The community agreement and the agreements with the private landholders that provide Kaizen with access rights to conduct its planned exploration program at Pinaya expired on March 31, 2019. In April 2019, the agreements with the private landholders were re-signed, providing Kaizen with access rights to conduct its planned exploration program until June 2020. On July 1, 2019, the Company signed three contracts with the community of Pinaya. The contracts comprise an Usufruct Agreement for the Mina Pata parcel; a Social Support Agreement; and a Collaboration Framework Agreement.

Figure 1: The Pinaya concessions include over 25 km of underexplored strike length in the heart of the Andahuaylas-Yauri Porphyry-Skarn Belt

Planned Work Programs

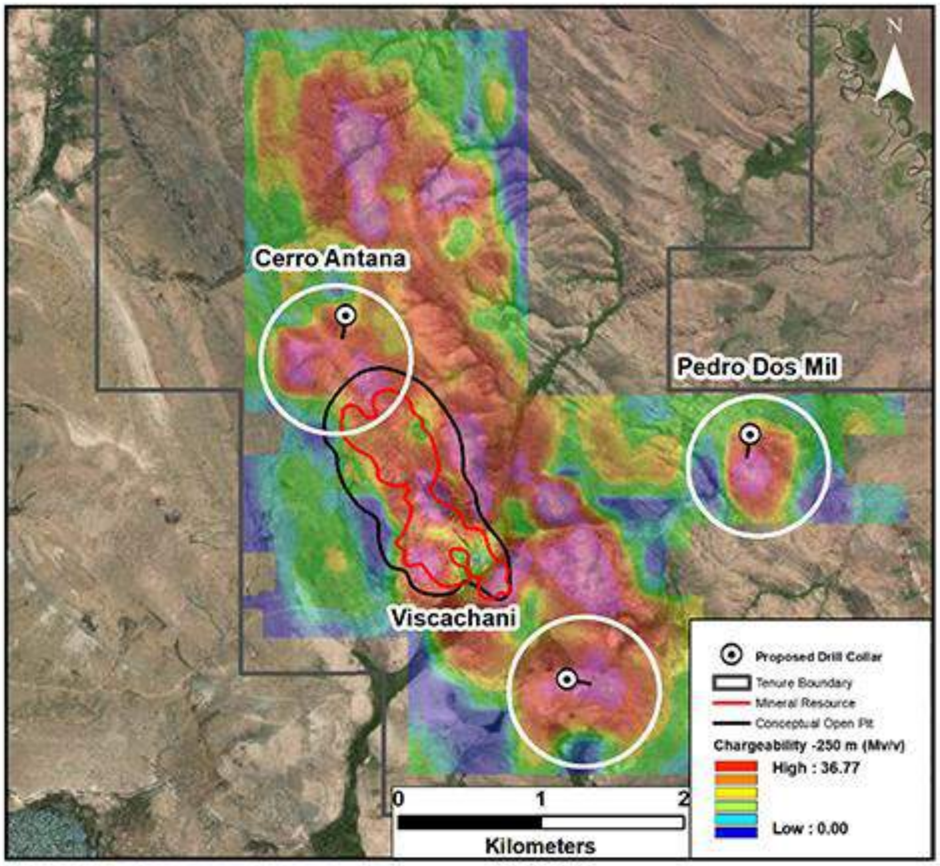
Previous exploration on the property was focused mainly on defining the current Mineral Resource and much less on systematic regional exploration. Kaizen has reviewed existing geochemical and geophysical surveys and has identified multiple untested targets along and across the strike of the current Mineral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

On January 13, 2020, the Company announced the commencement of a 1,500-metre exploration drilling program at Pinaya to test three priority targets. The first 500 metres of the 2020 diamond drill program will target the previously-untested Pedro Dos Mil prospect, located just over 2 kilometres due east of the current Mineral Resource (Figure 2). Pedro Dos Mil is defined by an outcropping suite of granodiorite to quartz-diorite porphyries and associated breccias with potassic alteration; mineralized "A" - type porphyry veins with copper oxides after chalcopyrite; prominent soil copper and gold anomalies; as well as a ground-magnetic high and a chargeability anomaly. The next 1,000 metres of diamond drilling will focus on the Cerro Antaña and Viscachani targets, identified following detailed surface mapping and re-logging of core drilled by previous operators. The Cerro Antaña target is a conceptual unroofed porphyry below an outcropping advanced argillic lithocap. The partially-covered Viscachani target is defined by chargeability and magnetic anomalies potentially associated with a potassic-altered intrusive centre.

This drill program is underway and results are expected in the quarter ended June 30, 2020. Based on the results received, Kaizen may look to expand the drilling program.

The timing of the results and the future drill programs may however be impacted by COVID-19. The Peruvian government declared a national state of emergency on March 15, 2020. Under the state of emergency, Peru is enacting 15 days of mandatory quarantine, starting at midnight on March 16, 2020. Quarantine exemptions will include movement to obtain food and medical care. All borders (land, air, and maritime) will be closed as of 11:59 PM on March 16, 2020. This could have a material adverse effect on the Company, results from operations, financial condition and the ability of the Company to raise financing.

Figure 2: Three priority areas (Pedro Dos Mil, Cerro Ataña, and Viscachani) targeted in Kaizen's 2020 Pinaya drill program



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 through its wholly-owned subsidiary KZD Aspen Grove Holding Ltd. It comprises 29 claims totaling approximately 112 km^2 which will remain valid through to 2027, 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. Three of the claims (13.75km^2) are subject to a 2% net smelter return royalty, 1% of which can be purchased at any time for $3.0 million.

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 the drill testing of some or all of the remaining targets.

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 length 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.

Kaizen, through its wholly-owned subsidiary Tundra Copper Corp., holds 153 Crown Land mineral claims totalling 1,657 km^2.

All of the claims are currently under Section 51 of the Mining Regulations of Nunavut. Under Section 51, 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") classification for the land on which the project lies. In the DNLUP, the Company's mineral claims 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 exploration at the Coppermine Project until the land use plans for Nunavut are finalized.

Other Exploration Projects

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

Exploration Expenses

(Tabular amounts are expressed in thousands of Canadian dollars)

Exploration expenses are summarized by project as follows:

	Year Ended December 31, 2019			
	Pinaya	**Coppermine**	**Other**	**Total**
	$	$	$	$
Salaries and consultants	330	4	261	595
Share-based payments	-	-	3	3
Fees and taxes	275	-	-	275
Camp	62	-	-	62
Travel	11	-	8	19
Professional fees	85	-	-	85
Environmental	18	-	-	18
Other	55	-	6	61
Total exploration expenses	836	4	278	1,118

	Year Ended December 31, 2018			
	Pinaya [1]	Coppermine	Other	Total
	$	$	$	$
Salaries and consultants	68	3	440	511
Share-based payments	-	-	17	17
Fees and taxes	11	1	-	12
Camp	14	-	12	26
Travel	2	-	59	61
Professional fees	25	-	-	25
Environmental	4	-	-	4
Other	20	-	21	41
Total exploration expenses	144	4	549	697

[1] For the period of February 10, 2017 to September 25, 2018, the Company's share of the Pinaya's exploration expenses is included in share of losses from joint ventures.

Selected Annual Information

(Tabular amounts are expressed in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018	December 31, 2017
	$	$	$
Total revenue	-	-	-
Net loss for the year	2,756	3,633	4,999
Total comprehensive loss for the year	2,855	3,556	5,119
Total assets	6,334	4,435	6,641
Total non-current liabilities	1,669	1,579	-
Dividends paid	-	-	-

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

Net loss and comprehensive loss for the year ended December 31, 2019 decreased compared to the year ended December 31, 2018, as the Company reduced expenditures while pursuing additional financing.

Total assets increased in the year ended December 31, 2019 compared to the year ended December 31, 2018 due to increased cash at the end of 2019, as the Company received US$2.15 million ($2.83 million) in cash from the Promissory Note with HPX.

Summary of Quarterly Results

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

	Quarter Ended			
	Dec-31 2019	Sep-30 2019	Jun-30 2019	Mar-31 2019
	$	$	$	$
Revenue	-	-	-	-
Exploration expenses	223	210	483	202
Administrative expenses	337	626	277	345
Share of losses from joint ventures	-	-	-	-
Gain on expiry of option liability	-	-	-	-
Loss (gain) on foreign exchange	28	(36)	3	26
Other (income) expense	(109)	34	60	47
Net loss for the period	479	834	823	620
Loss per share (basic and diluted)	-	-	-	-

	Quarter Ended			
	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018
	$	$	$	$
Revenue	-	-	-	-
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)
Loss (gain) on foreign exchange	(24)	(2)	3	-
Other (income) expense	76	92	55	51
Net loss for the period	824	891	1,149	769
Loss per share (basic and diluted)	-	-	-	-

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 the quarter ended March 31, 2018, an option which permitted ITOCHU Corporation ("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 the quarter ended September 30, 2018, the Company acquired ITOCHU's 10% interest in Kaizen Peru Holdings Ltd., the subsidiary that indirectly holds Pinaya, increasing the Company's ownership interest to 100%. For the period of February 10, 2017 to September 25, 2018, the Company's share of Pinaya's exploration expenses is included in share of losses from joint venture.

In the quarter ended September 30, 2019, administration expenses increased compared to previous quarters due to timing differences in the consumption of professional fees.

In the quarter ended December 31, 2019, the Company recognized other income due to an adjustment to reflect the revised estimate of the current provision at December 31, 2019.

Results of Operations

Fourth Quarter Results – The three months ended December 31, 2019 ("Q4 2019") compared to the three months ended December 31, 2018 ("Q4 2018")

The loss for Q4 2019 totaled $479,000 compared to the loss of $824,000 in Q4 2018.

Exploration expenses were $223,000 for Q4 2019 compared to $242,000 for Q4 2018. Expenditures at Pinaya in Q4 2019 were $185,000 compared to $137,000 in Q4 2018, and were comprised primarily of general camp standby costs, salaries, and consultants. The slight increase in Q4 2019 at Pinaya related to additional work performed while preparing for the commencement of the 2020 drilling program. All other exploration focused primarily on care and maintenance at Kaizen's other properties, as well as other corporate development opportunities.

Administration expenses decreased from $530,000 in Q4 2018 to $337,000 in Q4 2019 primarily due to a $91,000 decrease in salaries and benefits due to reduced staff levels, which also resulted in a $42,000 decrease in office overhead.

Other income of $109,000 was recorded in Q4 2019 compared to other expense of $76,000 in Q4 2018, and the difference related primarily to an adjustment resulting from a revised estimate of Kaizen's current provision on December 31, 2019.

Annual Results – The year ended December 31, 2019 ("YTD 2019") compared to the year ended December 31, 2018 ("YTD 2018")

The loss for YTD 2019 totaled $2.76 million, compared to the loss of $3.63 million for YTD 2018.

Exploration expenses were $1.12 million for YTD 2019 compared to $697,000 for YTD 2018. The YTD 2019 amount includes exploration expenses of $836,000 related to Pinaya. The Company incurred $272,000 in exploration expenditures relating to general project evaluation, while in YTD 2018, general project evaluation was $520,000. This decrease was primarily due to the availability of cash, and the allocation of Kaizen's limited financial resources. In YTD 2018, exploration expenses related to Pinaya incurred prior to September 25, 2018 were recognized as share of losses from joint venture, rather than as exploration expenses. On September 25, 2018 the Company re-acquired control of Pinaya, and exploration expenses incurred subsequent to this date are recognized as exploration expense. Thus, YTD 2018 only includes $144,000 of exploration expenditures at Pinaya. The share of losses from joint ventures was $Nil in YTD 2019 compared to $829,000 in YTD 2018. In YTD 2019, exploration expenses at Pinaya were comprised of general camp standby costs, plus payments relating to mining licence concession fees. All other exploration focused primarily on other corporate development opportunities.

Expenditures (including both exploration expenses and exploration expenses included within losses from joint venture) related to Pinaya in YTD 2019 were consistent with YTD 2018. In YTD 2019 there was a decrease in mineral concession renewal costs, as the Company relinquished certain titles that were determined to be outside of the resource area, interpreted extensions to the resource area, and other prospective areas. However, this was offset by increased salary costs in YTD 2019 as the Company prepared for the 2020 drill program.

Administration expenses decreased from $2.11 million in YTD 2018 to $1.59 in YTD 2019, primarily due to a $347,000 decrease in salaries and benefits. Salaries and benefits in YTD 2019 decreased compared to YTD 2018 due to reduced staff levels, voluntary salary reductions by certain officers and the waiver of fees by the board. As a result, these reductions resulted in lower office overhead allocations, leading to a $105,000 decrease in office costs in YTD 2019 when compared to YTD 2018.

Other income of $12,000 was recorded in YTD 2019 compared to other expense of $99,000 in YTD 2018. The difference primarily relates to an adjustment resulting from a revised estimate of Kaizen's current provision on December 31, 2019.

In YTD 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.

Liquidity and Capital Resources

At December 31, 2019, the Company had consolidated cash of $2.40 million (December 31, 2018 - $355,000). The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary use of cash during the year ended December 31, 2019, was funding operating activities of $2.74 million (2018 - $3.01 million).

On February 4, 2019, the Company received loan financing from HPX of US$750,000 ($983,000) under the Promissory Note. On July 18, 2019, the Company converted the principal and interest owing on the Promissory Note, which totalled approximately US$782,000 ($1.02 million) into 20,488,185 shares of Kaizen at a price of $0.05 per share.

On July 8, 2019, the Company announced a non-brokered private placement of up to $2.5 million. The Company offered up to 50,000,000 units at a price of $0.05 per unit, with each unit consisting of one common share and one common share purchase warrant of the Company. Each warrant entitled the holder to purchase one common share of the Company at $0.12 per share for a period of 24 months following the closing date of the private placement.

The first tranche of this private placement closed on July 11, 2019, with HPX subscribing for 20 million units for a total investment of $1.0 million. The Company was unsuccessful in closing the balance of the private placement.

On December 23, 2019 the Company announced an additional short-term loan of US$2.15 million ($2.83 million) from HPX, under the same terms of the Promissory Note, with the exception of the maturity date which is June 30, 2020.

At December 31, 2019, the Company believes that it has adequate near-term resources to maintain its minimum obligations, including general corporate activities, based on its current cash position and ability to pursue additional sources of financing, including further 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. Significant reliance is placed on HPX, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of HPX to provide or participate in future financings, or the inability of HPX to provide or participate in future financings, would likely result in difficulty for the Company to attract separate third-party investment. In addition, the spread of COVID-19 is having a negative impact on the financial markets which will affect the Company's ability to obtain additional financing. As such, there is material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

Off-Balance Sheet Arrangements

During the year ended December 31, 2019, 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.

Proposed Transactions

There are no proposed transactions that have not been disclosed herein.

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, with the exception of the Promissory Note and private placement, which are disclosed under the heading "Corporate Activities".

Expenses, deposits and accounts payable

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

	Year ended December 31,	
	2019	2018
	$	$
Salaries and benefits	956	1,404
Corporate administration	191	295
Exploration and geophysical activities	7	46
Total related party expenses	1,154	1,745

The breakdown of expenses by related party is as follows:

	Year ended December 31,	
	2019	2018
	$	$
GMM	1,144	1,733
HPX	10	12
Total related party expenses	1,154	1,745

(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 9.1% of GMM's common shares at December 31, 2019 (December 31, 2018 - 8.3%) and had an officer in common with GMM until November 7, 2019. The investment in GMM is held at $Nil on the consolidated statements of financial position.

(ii) HPX holds 71.0% of the Company's common shares at December 31, 2019 (December 31, 2018 - 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

At December 31, 2019, the Company had a deposit of $450,000 (December 31, 2018 - $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, 2019	December 31, 2018
	$	$
GMM	109	126
HPX	13	3
Total related party payables	122	129

Compensation of key management personnel

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

	Year ended December 31,	
	2019	2018
	$	$
Salaries and benefits	647	834
Share-based compensation	24	11
Total remuneration [1]	671	845

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

Outstanding Share Data

At March 16, 2020, the Company had the following issued and outstanding:

- 317,254,821 common shares.
- 3,290,000 stock options with a weighted average exercise price of $0.14 per share. Each stock option is exercisable to purchase one common share of the Company at prices ranging from $0.05 to $0.24 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.
- 20,000,000 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 $0.12 at any time on or before July 11, 2021.

Changes in Accounting Policies Including Initial Adoption

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* ("IFRS 16"*),* using the modified retrospective application method, without restatement of prior year financial statements. IFRS 16 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. Other areas of the lease accounting model have been impacted, including the definition of a lease. The application of IFRS 16 did not result in the recognition of any lease liabilities 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, accounts payable and accrued liabilities and the promissory note approximate their fair values due to their short-term nature. Marketable securities are measured at fair value using level 1 inputs and changes in fair value are recognized at fair value through other comprehensive income (“FVTOCI”).

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

	December 31, 2019	**December 31, 2018**
	$	$
Financial assets		
Financial assets measured at amortized cost		
Cash	2,395	355
Receivables	11	10
Deposits	495	450
Other assets	70	78
Financial assets measured at FVTOCI		
Marketable securities	17	21
Total financial assets	2,988	914
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	249	238
Promissory note	2,802	-
Total financial liabilities	3,051	238

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, 2019.

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

Deposits are held by GMM, a related company and an external third party, 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 US 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, promissory note 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, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
	$	$	$	$
US dollar	2,349	18	(2,890)	(35)
Peruvian sol	5	5	(1,706)	(1,604)
Other	-	2	-	-

As at December 31, 2019, a 10% depreciation or appreciation of applicable foreign currencies against the Canadian dollar would result in an approximate $224,000 decrease or increase in the Company's comprehensive loss (December 31, 2018 - $161,000).

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 and 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.

Significant reliance is placed on HPX, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of HPX to provide or participate in future financings, or the inability of HPX to provide or participate in future financings, would likely result in difficulty for the Company to attract separate third-party investment. Should this occur, there would be significant doubt as to the Company's ability to continue as a going concern.

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 US 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 US dollar price, but as stated, certain of Kaizen's operating expenses are incurred in non-US dollar currencies. The appreciation of the US dollar or Peruvian sol against the Canadian dollar would increase the costs of operations, which could have an adverse effect on Kaizen's business, financial condition, results of operations and 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 and 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 could 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 and 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 an 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, differences in interpretation or application of tax laws and regulations or accounting policies and rules, 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 in order to 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 and 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, and 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. Climatic conditions or changes in climate over time can affect exploration, development and future mining activities.

The potential physical impacts of climate change on the Company's exploration projects is highly uncertain and are particular to the geographic circumstances. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. Exploration programs at Pinaya require water and a lack of necessary water could disrupt exploration programs and adversely impact future development and mining activities. Climate change is an international concern and as a result poses the risk of changes in government policy including introducing climate change legislation and treaties at all levels of government that could result in increased costs. The trend towards more stringent regulations and carbon-pricing mechanisms aimed at reducing the effects of climate change could impact the Company's decision to pursue future opportunities, or maintain existing exploration programs, which could have an adverse effect on Kaizen's business.

15. The Company has a controlling shareholder.

Kaizen's principal shareholder, HPX, is the beneficial owner of 71% 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.

16. Impact of Epidemics

All of Kaizen's operations are subject to the risk of emerging infectious diseases or the threat of viruses or other contagions or epidemic diseases, including COVID-19. Any outbreak or threat of an outbreak of a virus or other contagions or epidemic disease could have a material adverse effect on the Company's business, results of operations and financial condition.

Qualified Person

The scientific and technical information in this MD&A related to Pinaya has been reviewed, approved and verified by Mark Gibson, Pr.Sci.Nat., 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 Resource disclosed in this MD&A for Pinaya are reported in the NI 43-101 technical report with an effective date of April 26, 2016 and titled "Pinaya Gold-Copper Project 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 "Qualified Persons" under NI 43-101 and are independent of Kaizen.