Consolidated Financial Statements of

Kaizen Discovery Inc.

December 31, 2015

Kaizen Discovery Inc.
Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Kaizen Discovery Inc.

We have audited the accompanying consolidated financial statements of Kaizen Discovery Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaizen Discovery Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $14.3 million for the year ended December 31, 2015 and had consolidated cash of $0.9 million at December 31, 2015. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Kaizen Discovery Inc.'s ability to continue as a going concern.

/s/ Deloitte LLP

Chartered Professional Accountants
April 29, 2016
Vancouver, British Columbia

Kaizen Discovery Inc.

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

	Notes		**December 31, 2015**		December 31, 2014
Assets					
Current assets					
Cash		**$**	**912**	$	8,308
Receivables	6		**779**		626
Prepaid expenses and deposits			**16**		132
Total current assets			**1,707**		9,066
Non-current assets					
Mineral properties	7		**3,585**		5,458
Joint venture interest	8		**4,040**		4,918
Property, plant and equipment	9		**70**		-
Marketable securities	10		**95**		649
Other assets	12		**1,400**		66
Total assets		**$**	**10,897**	$	20,157
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**677**	$	979
Loan facility	11		**700**		-
Option liability	7(c)(i)		**250**		-
Total current liabilities			**1,627**		979
Non-current liabilities					
Provision	12		**1,260**		-
Total liabilities		**$**	**2,887**	$	979
Equity					
Share capital	13	**$**	**33,963**	$	31,809
Share-based payment reserve	16		**3,161**		2,192
Accumulated other comprehensive loss			**(17)**		(39)
Accumulated deficit			**(29,097)**		(14,784)
Total equity		**$**	**8,010**	$	19,178
Total liabilities and equity		**$**	**10,897**	$	20,157

Description of business and going concern (Note 1)
Commitments (Note 22)
Subsequent events (Notes 7, 11 and 23)

Approved and authorized for issue on behalf of the Board on April 29, 2016

/s/ Terry Krepiakevich
Terry Krepiakevich

/s/ Peter Meredith
Peter Meredith

See accompanying notes to the consolidated financial statements.

Kaizen Discovery Inc.

Consolidated Statements of Loss and Comprehensive Loss

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

	Notes	Year ended December 31, 2015	2014
Operating expenses			
Exploration expenses	14	**$ (3,958)**	$ (3,939)
Administrative expenses	15	**(3,965)**	(5,432)
Impairment of mineral properties	7	**(5,461)**	-
Share of losses from joint venture	8	**(878)**	(508)
Loss from operations		**(14,262)**	(9,879)
Other income / (expenses)			
Write down of marketable securities	10	**(552)**	-
Management fees	7(c)(i), 21(a)(iv)	**254**	130
Gain on foreign exchange		**130**	145
Gain on sale of project		**-**	494
Interest income		**37**	114
Other income		**80**	-
Loss before income taxes		**(14,313)**	(8,996)
Income taxes	17	**-**	-
Net loss for the year		**(14,313)**	(8,996)
Other comprehensive income (loss)			
Items that have been or may subsequently be reclassified to profit or loss:			
Unrealized loss on marketable securities	10	**(554)**	-
Currency translation adjustment		**24**	(36)
Impairment loss on marketable securities reclassified to statement of loss	10	**552**	-
Total comprehensive loss for the year		**$ (14,291)**	$ (9,032)
Attributable to equity holders of the Company		**$ (14,291)**	$ (9,032)
Loss per share (basic and diluted)		**$ (0.09)**	$ (0.06)
Weighted average number of basic and diluted shares outstanding		161,171,051	141,684,876

See accompanying notes to the consolidated financial statements.

Kaizen Discovery Inc.

Consolidated Statements of Changes in Equity

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

	Number of shares (Note 13)	Share capital	Share-based payment reserve	Accumulated other comprehensive (loss) / income	Accumulated deficit	Total
Balance at December 31, 2013	125,281,177	$ 15,204	$ 37	$ (3)	$ (5,788)	$ 9,450
Shares issued on private placement	11,318,000	6,160	-	-	-	6,160
Shares issued on acquisition of mineral property interests	21,251,225	10,364	-	-	-	10,364
Stock options exercised	129,500	81	(6)	-	-	75
Recognition of share-based payments	-	-	2,161	-	-	2,161
Other comprehensive loss	-	-	-	(36)	-	(36)
Net loss for the year	-	-	-	-	(8,996)	(8,996)
Balance at December 31, 2014	**157,979,902**	**$ 31,809**	**$ 2,192**	**$ (39)**	**$ (14,784)**	**$ 19,178**
Shares issued on acquisition of mineral property interests	**17,384,615**	**2,154**	**-**	**-**	**-**	**2,154**
Recognition of share-based payments	**-**	**-**	**969**	**-**	**-**	**969**
Other comprehensive income	**-**	**-**	**-**	**22**	**-**	**22**
Net loss for the year	**-**	**-**	**-**	**-**	**(14,313)**	**(14,313)**
Balance at December 31, 2015	**175,364,517**	**$ 33,963**	**$ 3,161**	**$ (17)**	**$ (29,097)**	**$ 8,010**

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, 2015		2014
Operating activities					
Net loss		**$**	**(14,313)**	$	(8,996)
Adjustments for non-cash items:					
Impairment of mineral properties			**5,461**		-
Recognition of equity-settled share-based payments			**969**		1,958
Share of losses from joint venture			**878**		508
Gain on disposal of project			**-**		(636)
Write down of marketable securities			**552**		-
Write-off of equipment			**-**		4
Unrealized foreign exchange			**(169)**		(100)
Depreciation			**-**		5
Changes in non-cash working capital items:					
Receivables			**(146)**		182
Prepaid expenses and deposits			**116**		(10)
Accounts payable and accrued liabilities			**(309)**		(1,370)
Cash used in operating activities		**$**	**(6,961)**	$	(8,455)
Investing activities					
Acquisition of mineral property		**$**	**(1,434)**	$	(562)
Purchase of other assets			**(74)**		-
Purchase of equipment			**(70)**		-
Cash used in investing activities		**$**	**(1,578)**	$	(562)
Financing activities					
Receipt of option payment	7(c)(i)	**$**	**250**	$	-
Net proceeds from issuance of ordinary shares			**-**		6,104
Drawings under loan facility	11		**700**		-
Net cash acquired from acquisition			**-**		975
Cash from financing activities		**$**	**950**	$	7,079
Effect of foreign exchange rate changes on cash		**$**	**193**	$	94
Decrease in cash			**(7,396)**		(1,844)
Cash, beginning of year			**8,308**		10,152
Cash, end of year		**$**	**912**	$	8,308

The following non-cash transactions have not been included in the consolidated statement of cash flows:

			2015		2014
Net value of shares and options issued to acquire mineral properties		**$**	**2,154**	$	10,322
Less:					
Assets transferred to joint venture interest			**-**		(5,426)
Net mineral properties acquired		**$**	**2,154**	$	4,896

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

At December 31, 2015, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 60.7% (December 31, 2014 – 67.3%) of the Company's issued and outstanding common shares. The ultimate controlling entity is Ivanhoe Industries LLC, a privately owned company.

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

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

For the year ended December 31, 2015, the Company had no operating revenues and incurred a loss of $14.3 million. At December 31, 2015, the Company had consolidated cash of $0.9 million (December 31, 2014 - $8.3 million), excluding cash of $0.8 million (December 31, 2014 – $3.3 million) held by KZD Aspen Grove Holding Ltd., the joint venture interest that holds the Aspen Grove project.

At December 31, 2015, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, through to December 31, 2016 based on its cash position, the $4.3 million available to be drawn on the $5.0 million unsecured, revolving loan facility with majority shareholder HPX ("Loan Facility") (Note 11) and the collaborative working arrangement with partner ITOCHU Corporation ("ITOCHU"). The Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore, evaluate and develop its mineral properties and, ultimately, to achieve profitable operations.

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

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, effective as of December 31, 2015.

3. Significant accounting policies

(a) *Basis of measurement*

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

(b) *Functional and presentation currency*

Subsequent to the acquisition of West Cirque Resources Ltd. on July 7, 2014, management concluded the Company's functional currency should be changed from the U.S. dollar to the Canadian dollar as the majority of the Company's assets were denominated in Canadian dollars.

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

3. Significant accounting policies (continued)

(b) Functional and presentation currency (continued)

On June 30, 2014, the effective date of the change in functional currency, all assets, liabilities, issued capital and other components of equity were translated into Canadian dollars at the exchange rate on that date. The change in accounting treatment was applied prospectively.

References to "$" refer to Canadian currency and "US$" refer to U.S. currency.

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

At December 31, 2015 and 2014, the Company's subsidiaries are as follows:

Name of significant subsidiaries	Place of incorporation or registration	Method of accounting	Effective ownership interest at December 31,	
			2015	2014
Kaizen Discovery Peru S.A.C.	Peru	Consolidation	100%	-
Tundra Copper Corp.	British Columbia	Consolidation	100%	100%
West Cirque Resources Ltd.	British Columbia	Consolidation	100%	100%
Kaizen Fairholme Pty Ltd.	Australia	Consolidation	100%	100%
Ebende Resources Ltd.	British Virgin Islands	Consolidation	100%	100%

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

(d) Equity-accounted investees

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

Name of joint venture	Place of incorporation or registration	Method of accounting	Effective ownership interest at December 31,	
			2015	2014
KZD Aspen Grove Holding Ltd.	British Columbia	Equity	60%	60%

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

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

3. Significant accounting policies (continued)

(e) Business combinations

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

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

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

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

(f) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated into the functional currency at the exchange rate on the date when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

(ii) Foreign operations

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

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

3. Significant accounting policies (continued)

(g) Financial instruments

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

(iii) Financial liabilities

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

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

(h) 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.

3. Significant accounting policies (continued)

(h) Exploration and evaluation costs (continued)

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

(i) Property, plant and equipment

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

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

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

(j) 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.

(k) 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.

3. Significant accounting policies (continued)

(k) Provisions (continued)

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.

(l) Share-based payments

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

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

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

(m) Operating segments

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

(n) Earnings (loss) per share

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

(o) Income taxes

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

4. Adoption of new and revised accounting standards and interpretations

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2015, and have not been applied in preparing these consolidated financial statements. The following standards may have a potential effect on the consolidated financial statements of the Company:

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

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

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

5. Critical accounting estimates and judgments

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

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

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

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

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

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

5. Critical accounting estimates and judgments (continued)

(b) Determination of functional currency

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

(c) Going concern

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

The most significant estimate made by management is as follows:

(a) Share-based payments

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

The fair value of the equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility and expected life of the options (Note 16). Changes in these assumptions can materially affect the fair value estimate, so the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

6. Receivables

	December 31, 2015	December 31, 2014
Related parties (Note 21)	**$ 462**	$ 502
Value-added tax	**174**	117
Other	**143**	7
	$ 779	$ 626

7. Mineral properties

Mineral properties are summarized as follows:

	Peru	Canada					
	Pinaya (a)	Coppermine (b)	Tanzilla (c)(i)	Pliny (c)(i)	Castle (c)(ii)	Aspen Grove Note 8	Total
Balance at December 31, 2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions	-	3,094	1,565	560	239	5,426	10,884
Transfer to joint venture	-	-	-	-	-	(5,426)	(5,426)
Balance at December 31, 2014	$ -	$ 3,094	$ 1,565	$ 560	$ 239	$ -	$ 5,458
Additions	3,585	3	-	-	-	-	3,588
Impairments	-	(3,097)	(1,565)	(560)	(239)	-	(5,461)
Balance at December 31, 2015	**$ 3,585**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,585**

7. Mineral properties (continued)

(a) On October 26, 2015, the Company acquired the Pinaya Project (Note 18).

(b) On November 18, 2014, the Company completed the acquisition of the Coppermine Project. The project's mineral claims cover 3,303 square kilometers in the Coppermine District, near the town of Kugluktuk in Nunavut, Canada.

At December 31, 2015, since substantive expenditure on further exploration at the Coppermine Project was neither budgeted nor planned, the Company assessed the carrying amount of that mineral property and concluded it was impaired. An impairment loss of $3.1 million was recognized in the year ended December 31, 2015.

(c) On July 9, 2014, the Company acquired the Tanzilla, Pliny and Castle mineral property interests.

(i) Tanzilla and Pliny copper properties are both located in the Dease Lake area of British Columbia and cover surface areas of 4,047 hectares and 3,985 hectares respectively.

In March 2013, as part of an earn-in agreement, Freeport-McMoRan Corporation of Canada Limited ("Freeport") was granted the right to earn a 51% interest in the Tanzilla, Pliny and Castle properties by funding cumulative exploration expenditures of $4.0 million prior to December 28, 2015 and $8.0 million prior to June 28, 2017. On April 25, 2014, the earn-in agreement was amended to include only the Tanzilla and Pliny properties. On December 30, 2015, Freeport notified West Cirque that it had terminated its earn-in option.

For the year ended December 31, 2015, management fees of approximately $48,000 (2014 - $54,000) were earned by the Company as operator of the Tanzilla project under the earn-in agreement with Freeport.

On July 31, 2015, for consideration of $250,000, the Company, through its wholly owned subsidiary, West Cirque, granted ITOCHU an option to acquire an indirect 15% interest in the Tanzilla project for no additional consideration. ITOCHU was also granted a subsequent option to acquire up to a further indirect 10% interest at fair market value. Upon being notified that Freeport had terminated its earn-in option, ITOCHU had 30 days to exercise the option to acquire the 15% interest. In January 2016, the exercise period was extended by 330 days.

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

At December 31, 2015, since substantive expenditure on further exploration in the Tanzilla and Pliny project areas was neither budgeted nor planned, the Company assessed the carrying amounts of those two mineral properties and concluded they were impaired. An aggregate impairment loss of $2.1 million was recognized in the year ended December 31, 2015.

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

7. Mineral properties (continued)

(ii) The Castle copper property is a mineral claim located 68 kilometers south of Dease Lake, British Columbia and covers 1,034 hectares.

At December 31, 2015, since substantive expenditure on further exploration in the Castle copper property area was neither budgeted nor planned, the Company assessed the carrying amount of that mineral property and concluded it was impaired. An impairment loss of approximately $239,000 was recognized in the year ended December 31, 2015.

8. Joint venture interest

On August 18, 2014, the Company announced the signing of a definitive project financing agreement with ITOCHU for the Aspen Grove Project, a porphyry copper exploration project with claims comprising 11,237 hectares located halfway between Merritt and Princeton in southern British Columbia. On August 21, 2014, following the transfer by the Company of the Aspen Grove Project's mineral rights to KZD Aspen Grove Holding Ltd. ("KZD Aspen Grove"), a wholly-owned subsidiary of the Company, a $4.0 million cash contribution was received from ITOCHU in exchange for the acquisition by ITOCHU of a 40% share ownership interest in KZD Aspen Grove. The funds can be used to fund KZD Aspen Grove's corporate and exploration activities.

The Company's investment in KZD Aspen Grove is governed by the Unanimous Shareholders Agreement, which requires unanimous approval for certain key strategic, operating, investing and financing policies of KZD Aspen Grove. Accordingly, the Company is treating its 60% investment in KZD Aspen Grove as a joint venture investment using the equity method of accounting. There are no publicly quoted market prices for KZD Aspen Grove's common shares.

The following is a summary of the Company's 60% investment in KZD Aspen Grove at December 31, 2015:

		December 31, 2015		December 31, 2014
Carrying amount at beginning of year	**$**	**4,918**	$	-
Original mineral property acquisition value		**-**		5,426
Less:				
Share of losses from joint venture during the year		**(878)**		(508)
Carrying amount at end of year	**$**	**4,040**	$	4,918

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

8. Joint venture interest (continued)

The summarized financial information at December 31, 2015 of KZD Aspen Grove on a 100% basis and reflecting the Company's 60% interest is as follows:

		December 31, 2015		December 31, 2014
Assets				
Current assets				
Cash	**$**	**789**	$	3,337
Receivables		**931**		32
Non-current assets				
Mineral property		**5,426**		5,426
Other assets		**21**		5
Total assets		**7,167**		8,800
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**51**		220
Net Assets		**7,116**		8,580
Company's share of joint venture's net assets	**$**	**4,270**	$	5,148

9. Property, plant and equipment

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

		Cost		Accumulated Depreciation		Carrying amount
Balance at December 31, 2013	$	12	$	(3)	$	9
Depreciation		-		(5)		(5)
Disposals		(12)		8		(4)
Balance at December 31, 2014		-		-		-
Additions		70		-		70
Depreciation		-		-		-
Balance at December 31, 2015	**$**	**70**	**$**	**-**	**$**	**70**

10. Marketable securities

The following is a summary of marketable securities:

	Number of Shares		December 31, 2014		Impairment		Unrealized Loss		**December 31, 2015**
Alecto Minerals PLC	54,996,857	$	631	$	(552)	$	-	**$**	**79**
Other			18		-		(2)		**16**
		$	649	$	(552)	$	(2)	**$**	**95**

As a result of the significant decrease in the value of Alecto Minerals PLC's common shares in 2015, an impairment loss of approximately $552,000 was recognized in the statement of loss in the year ended December 31, 2015 (2014 - $Nil).

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

11. Loan facility

In 2013, the Loan Facility was established by HPX as part of the reverse take-over transaction that established the Company. Under the terms of the Inter-Corporate Loan Agreement between HPX and the Company dated December 4, 2013, HPX made available to the Company an unsecured, revolving loan facility of up to $5.0 million, which may be increased by HPX from time to time. There are no restrictions on the use of amounts drawn down on the Loan Facility.

In December 2015, the Company made an initial draw of $0.7 million on the Loan Facility, leaving $4.3 million available to be drawn in the future. Further draws of $1.0 million and $2.0 million were made in February and April 2016 respectively.

HPX is, on notice, entitled to charge interest at 3% per annum, compounded monthly, on the outstanding principal balance plus all accrued unpaid interest thereon, if any. In order for HPX to exercise its right to charge interest, it must provide the Company with 30 days advance written notice prior to the date interest will start accruing. On December 17, 2015, HPX provided the Company with such notice.

The outstanding principal balance plus all accrued unpaid interest thereon, if any, is repayable in full by the Company within 90 days of demand, and the Company may prepay any amount of the outstanding balance, without bonus or penalty, by providing 10 days advance written notice to HPX.

12. Provision

The Company has recognized a $1.26 million provision for potential obligations related to the Pinaya Copper-Gold Project, which was acquired on October 26, 2015 (Note 18). Due to the recourse available to the Company for the provision's full carrying amount, a $1.26 million asset was recognized at the same time as the provision and classified as other assets in the statement of financial position. Despite the linkage between them, the provision and asset are recorded separately.

13. Share capital

At December 31, 2015, the Company is authorized to issue an unlimited number of common shares with no par value. Shares issued and fully paid up at December 31, 2015 and 2014 are as follows:

	Number of common shares		**Amount**
Balance at December 31, 2013	125,281,177	$	15,204
Shares issued during the year:			
Private placements (ii) and (v)	11,318,000		6,160
Stock options exercised (iii)	129,500		81
Acquisition of West Cirque (iv)	14,714,560		7,946
Acquisition of Tundra (net of witholding taxes) (vi)	6,536,665		2,418
Balance at December 31, 2014	157,979,902		31,809
Shares issued during the year:			
Acquisition of Kaizen Discovery Peru S.A.C. (i)	**17,384,615**		**2,154**
Balance at December 31, 2015	**175,364,517**	**$**	**33,963**

During 2015, the Company issued the following common shares:

(i) On October 26, 2015, the Company issued 17.4 million shares as part of the consideration paid to acquire Kaizen Discovery Peru S.A.C. (Note 18).

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

13. Share capital (continued)

During 2014, the Company issued the following common shares:

(ii) On February 6, 2014, the Company issued 8.5 million common shares to ITOCHU at a price of $0.60 per share for net cash proceeds of $4.9 million.

(iii) A total of 129,500 stock options were exercised at a price of $0.60 per share for total proceeds of $81,000.

(iv) On July 8, 2014, the Company issued a total of 14.7 million common shares as part of the consideration paid to acquire all the outstanding common shares of West Cirque Resources Ltd.

(v) On October 3, 2014, the Company announced the completion of a non-brokered private placement of 2.8 million common shares at a price of $0.44 per share for total proceeds of $1.2 million.

(vi) On November 18, 2014, the Company issued 6.9 million shares at a price of $0.37 per share and a cash payment of $92,500 to acquire all of the outstanding securities of Tundra Copper Corp. ("Tundra") and settled a $185,000 debt obligation to certain shareholders of Tundra.

As part of this acquisition, in order to comply with Canadian withholding tax requirements, the Company withheld 351,750 shares and remitted a cash payment of $130,147 to the Canadian tax authorities. The December 31, 2014 balance of common shares in the table above excludes these common shares, which were held by the Company until returned to treasury in September 2015.

A total of 27.4 million shares were released from escrow in 2015 (2014 – 16.5 million). The following table summarizes the schedule of outstanding semi-annual releases from escrow at December 31, 2015:

	Millions of common shares		
	June	December	Total
2016	16.4	43.8	60.2

The 60.2 million common shares remaining to be released from escrow at December 31, 2015 includes 58.6 million common shares held by HPX, the Company's privately owned parent.

14. Exploration expenses

Exploration expenses are summarized as follows:

	Year ended December 31,	
	2015	2014
Wages and consultants	**$ 1,446**	$ 969
Drilling	**445**	74
Assay	**130**	27
Share-based payments	**212**	354
Fees and taxes	**360**	379
Geophysics	**(33)**	1,764
Camp	**278**	207
Travel	**68**	57
Aircraft	**868**	-
Other	**184**	108
	$ 3,958	$ 3,939

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

14. Exploration expenses (continued)

Exploration expenses were allocated to the following projects:

	Year ended December 31, 2015	2014
Coppermine	$ **2,327**	$ -
Fairholme	**508**	1,558
Ebende	**327**	1,180
Pinaya	**254**	-
Burkina Faso	**-**	240
General exploration	**542**	961
	$ **3,958**	$ 3,939

Management fees of $54,000 for the year ended December 31, 2014 have been reclassified from the exploration expenses category called other to management fees in the statement of loss to conform with the current year's presentation.

15. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Year ended December 31, 2015	2014
Wages and benefits	$ **1,671**	$ 1,995
Share-based payments	**757**	1,604
Professional fees	**594**	763
Office	**457**	390
Travel	**190**	227
Fees and taxes	**69**	118
Investor relations	**127**	113
Insurance	**73**	91
Rental	**26**	33
Other	**1**	98
	$ **3,965**	$ 5,432

Certain comparative amounts for the year ended December 31, 2014 have been reclassified to conform with the current year's presentation:

(a) Management fees of $76,000 have been reclassified from the administrative expenses category called other to management fees in the statement of loss.

(b) Gain on foreign exchange of $145,000 has been reclassified from administrative expenses to gain on foreign exchange in the statement of loss.

16. Share-based payments

Stock option plan

The Company's stock option plan for employees and directors permits the Board to grant options to acquire common shares of the Company at an exercise price not less than the closing price of the Company's shares on the day preceding the date of grant, less any discount permitted by the TSX Venture Exchange, over a maximum term of ten years. Pursuant to the plan, the Company is

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

16. Share-based payments (continued)

authorized to issue stock options for a maximum of 10% of the common shares of the Company outstanding from time to time. The general terms of stock options that have been granted under the plan include a maximum term of five years and vesting periods ranging from immediately to four years after the date of grant.

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number of stock options	Weighted average exercise price ($ per share)	Number of stock options	Weighted average exercise price ($ per share)
Outstanding, beginning of year	**11,589,700**	**$ 0.67**	1,156,500	$ 1.68
Granted	**3,830,000**	**0.28**	12,000,000	0.62
Exercised	**-**	**-**	(129,500)	0.60
Expired	**(620,000)**	**0.96**	(806,050)	1.51
Forfeited	**(1,728,700)**	**0.64**	(631,250)	0.59
Outstanding, end of year	**13,071,000**	**$ 0.55**	11,589,700	$ 0.67
Exercisable, end of year	**5,151,000**	**$ 0.60**	3,449,700	$ 0.77

Stock options outstanding and exercisable at December 31, 2015 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)
0.16	475,000	4.9	118,750	4.9
0.30	3,245,000	4.1	811,250	4.1
0.50	150,000	0.3	150,000	0.3
0.51	175,000	3.6	70,000	3.6
0.63	8,050,000	3.0	3,400,000	3.0
0.66	325,000	3.1	130,000	3.1
0.67	300,000	3.3	120,000	3.3
0.90	225,000	0.6	225,000	0.6
1.48	10,000	0.7	10,000	0.7
1.57	76,000	1.0	76,000	1.0
2.24	40,000	0.2	40,000	0.2
	13,071,000	3.3	5,151,000	3.0

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

16. Share-based payments (continued)

The weighted average fair value of stock options granted during the year ended December 31, 2015 was estimated at $0.13 (December 31, 2014 - $0.28) using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2015	2014
Risk free rate	**0.96%**	1.29%
Expected life (years)	**4.0**	2.9
Annualized volatility	**73%**	71%
Dividend rate	**0%**	0%
Forfeiture rate	**0%**	0%

17. Income taxes

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

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

	Year ended December 31,	
	2015	2014
Loss before income tax	**$ (14,313)**	$ (8,996)
Canadian statutory income tax rate	**26%**	26%
Income tax recovery at statutory rate	**(3,721)**	(2,339)
Reconciling items:		
Difference between statutory and foreign tax rates	**58**	119
Non-deductible share-based payments	**252**	509
Non-deductible expenses	**13**	141
Tax effect of tax losses and temporary differences not recognized	**3,398**	1,570
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, 2015, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in Canada of approximately $8.3 million. These losses can be carried forward against future taxable income and expire between 2030 and 2035.

At December 31, 2015, the Company did not recognize cumulative deferred income tax assets in respect of tax losses in other jurisdictions of approximately $2.2 million. These losses can be carried forward against future taxable income and approximately $2.1 million of these losses do not expire. The remaining losses expire between 2019 and 2024.

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

18. Acquisition of Pinaya Copper-Gold Project

On October 26, 2015, the Company closed its definitive acquisition agreement with AM Gold Inc. ("AM Gold") that gives the Company 100% ownership of the Pinaya Copper-Gold Project ("Pinaya Project") in Peru's provinces of Caylloma and Lampa. Under the acquisition agreement, the Company acquired Kaizen Discovery Peru S.A.C. ("Kaizen Discovery Peru") (formerly Canper Exploraciones S.A.C.), a Peruvian subsidiary of AM Gold. The Pinaya Project is Kaizen Discovery Peru's principal asset. The acquisition was accounted for as an asset acquisition as the activities of Kaizen Discovery Peru did not meet the definition of a business under IFRS 3, *Business Combinations.*

AM Gold received 15,384,615 common shares of the Company, a cash payment of $500,000 and a $260,864 (US$198,617) reimbursement for certain property-maintenance payments made by AM Gold.

The Company also closed a concurrent agreement with Rokmaster Resources Corp ("Rokmaster") which previously had entered into an option and joint-venture agreement with AM Gold to earn up to a 75% interest in the Pinaya Project by spending approximately $26 million. Rokmaster and AM Gold had been engaged in arbitration proceedings, which were suspended pending closing of the transaction with the Company. Under the terms of the agreement with Rokmaster, (i) Rokmaster transferred certain drill equipment located in Peru to the Company and (ii) Rokmaster agreed to, among other things, terminate the arbitration proceedings with AM Gold and Kaizen Discovery Peru. As consideration, the Company issued 2,000,000 common shares of the Company and paid $300,000 to Rokmaster.

The net assets acquired by the Company were estimated at a fair value of $3.7 million as follows:

Fair value of shares issued to:		
AM Gold (15,384,615 shares)	$	1,869
Rokmaster (2,000,000 shares)		285
Cash consideration		800
Transaction costs		440
Reimbursement for property maintenance payments		261
	$	3,655

The common shares issued to AM Gold and Rokmaster are subject to restrictions on disposition ranging from 12-to-39 months after close and 4-to-13 months after close respectively. The aggregate fair value of these shares was estimated by applying a weighted average discount of 25% to the $0.165 quoted market price of the Company's freely-tradeable common shares on October 26, 2015.

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

Mineral property	$	3,585
Equipment		70
Net assets acquired	$	3,655

On April 18, 2016, the Company closed a strategic financing agreement with ITOCHU to advance exploration efforts at the Pinaya Project (Note 23).

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

19. Capital risk management

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

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

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

During the years ended December 31, 2015 and 2014, 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.

20. Financial instruments

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

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

	December 31, 2015	December 31, 2014
Financial assets		
Loans and receivables		
Cash	**$ 912**	$ 8,308
Receivables	**605**	509
Other assets	**1,400**	66
Available-for-sale		
Marketable securities	**95**	649
Total financial assets	**$ 3,012**	$ 9,532
Financial liabilities		
Accounts payable and accrued liabilities	**$ 677**	$ 979
Loan facility	**700**	-
Option liability	**250**	-
Total financial liabilities	**$ 1,627**	$ 979

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

20. Financial instruments (continued)

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

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

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

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

(a) Credit risk

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

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

(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 and the Loan Facility. Interest rate risk on bank deposits is insignificant due to their short-term nature. The Company is not exposed to interest rate cash flow risk on the Loan Facility as its rate is fixed at 3% per annum, compounded monthly.

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

(c) Currency risk

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

The Company's exposure to foreign currency risk is insignificant as the net carrying amounts of monetary assets and liabilities denominated in foreign currencies are not significant.

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.

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

20. Financial instruments (continued)

(d) Liquidity risk (continued)

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 its cash position of $0.9 million (December 31, 2014 - $8.3 million), the $4.3 million available to be drawn on the Loan Facility and a framework agreement for cooperation with partner ITOCHU, it has adequate resources as at December 31, 2015 to maintain its minimum obligations, including general corporate activities, through to December 31, 2016.

21. Related party transactions

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

(a) Expenses, accounts receivable and accounts payable

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

	Year ended December 31,	
	2015	2014
Salaries and benefits	**$ 2,898**	$ 2,307
Corporate administration	**562**	417
Exploration and geophysical activities	**4**	1,128
Total related party expenses	**$ 3,464**	$ 3,852

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

	Year ended December 31,	
	2015	2014
GMM	**$ 3,460**	$ 2,724
HPX TechCo Inc. and affiliates	**4**	1,128
	$ 3,464	$ 3,852

The transactions with Global Mining Management Corporation ("GMM") noted above for the year ended December 31, 2015 include approximately $468,000 (2014 - $Nil) of expenses incurred by KZD Aspen Grove (Note 10), and the Company's share of losses from joint venture includes 60% of these expenses.

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

21. Related party transactions (continued)

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

		December 31, 2015		December 31, 2014
Accounts receivable				
GMM	**$**	**450**	$	291
KZD Aspen Grove		**12**		211
Total related party receivables	**$**	**462**	$	502

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

		December 31, 2015		December 31, 2014
Accounts payable				
GMM	**$**	**236**	$	247
HPX TechCo Inc.		**18**		35
Key management personnel, directors and officers		**-**		91
Total related party payables	**$**	**254**	$	373

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

(ii) HPX is the Company's privately owned parent, holding 60.7% of the Company's common shares at December 31, 2015 (December 31, 2014 – 67.3%). In 2015 and 2014, HPX planned and managed the Company's geophysical exploration programs in Africa and Australia. HPX's services are provided to the Company on a cost recovery plus 12% markup basis.

(iii) Amounts owed to key management personnel include outstanding salaries and expense reimbursements.

(iv) The Company is the operator of the Aspen Grove project, and the receivable balance represents unpaid reimbursements for expenses paid by the Company on behalf of KZD Aspen Grove and management fees. For the year ended December 31, 2015, management fees of $206,000 (2014 – $76,000) were earned by the Company as the project's operator.

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

21. Related party transactions (continued)

(b) Compensation of key management personnel

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

		Year ended December 31, 2015		2014
Salaries and short-term benefits	**$**	**1,326**	$	1,195
Share-based payments		**637**		1,519
Bonus		**-**		513
Total remuneration	**$**	**1,963**	$	3,227

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

22. Commitments

The Company's commitments in each of the next five years are not material.

23. Subsequent events

(a) Strategic financing agreement with ITOCHU for the Pinaya Copper-Gold Project

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

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

- ITOCHU's second payment of $625,000, for another 5% interest in Kaizen Peru Holdings, is conditional on the Company obtaining local community approvals for the lease and surface rights for the Pinaya Project and obtaining all necessary approvals to establish and operate the exploration camp, within two years of the initial payment. The Company recently signed surface-rights agreements with local landholders, securing access to key, prospective parts of the project area.

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

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

23. Subsequent events (continued)

(a) Strategic financing agreement with ITOCHU for the Pinaya Copper-Gold Project (continued)

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

(b) Corporate reorganization

Throughout March and April 2016, certain changes were made to the Company's management and geological teams. In connection with these changes, the Company will make separation payments totaling approximately $705,000 before the end of May 2016.

KAIZEN DISCOVERY

Management's Discussion and Analysis

December 31, 2015

As at April 29, 2016

Introduction

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide management's overview of the previous year's performance and future outlook for Kaizen Discovery Inc. (the "Company" or "Kaizen"). The report also provides information to enhance the reader's understanding of the Company's financial statements and highlights important business trends and risks affecting the Company's financial performance. It should therefore be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2015 (the "financial statements").

All information contained in this MD&A is current as of April 29, 2016 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.

The Company's financial statements and the other financial information included in this MD&A are the responsibility of the Company's management. The financial statements were prepared by management in accordance with IFRS and include certain amounts based on management's best estimates. The selection of accounting principles and methods is management's responsibility. Management recognizes its responsibility for conducting the Company's affairs in a manner that complies with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities. The Board of Directors supervises the financial statements and other financial information through its audit committee, with independent directors comprising the majority of members. This committee's role is to examine the financial statements and recommend that the Board of Directors approve them; to examine the internal control and information protection systems; and all other matters relating to the Company's accounting and finances. This committee is also responsible for recommending the appointment of the external auditors or the renewal of their engagement.

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

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict", "foresee" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect Kaizen's current expectations regarding future events, performance and results and speak only as of the date of this MD&A. These include, but are not limited to, statements regarding: the acquisition of projects that match evaluation criteria and align with corporate strategic objectives of the Company; participation by Japanese strategic partners, including at the project level; receipt of the second and third payments by ITOCHU in respect of its funding of the Pinaya Copper-Gold Project; Kaizen providing matching funding of up to $2.5 million for the Pinaya Copper Gold Project; the development of exploration programs at Kaizen's projects; access to HPX TechCo Inc.'s Loan Facility, technologies and expertise; and the identification, exploration and development of new, high quality mineral projects.

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

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

This MD&A also contains references to estimates of Mineral Resources. The estimation of Mineral Resources is inherently uncertain and involves subjective 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 licenses.

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

Forward-looking information is designed to help you 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 we are required to by applicable securities laws.

The forward looking statements contained herein are based on information available and are made as of April 29, 2016.

Overview of the Business

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

Kaizen's long-term growth strategy is to work with Japanese entities to identify, explore and develop high-quality mineral projects that have the potential to deliver minerals to Japan's industrial sector.

Through a January 2014 collaboration agreement with ITOCHU Corporation of Japan ("ITOCHU"), Kaizen and ITOCHU declared a mutual desire to work together to identify and pursue areas of potential cooperation on projects, including possible joint ventures. Each company will present, for consideration by the other, a number of mineral exploration and development projects from their respective existing portfolios or their properties of interest.

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

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

Outlook

Given the difficult economic environment currently facing the mineral exploration industry, management has recognized the need to safeguard the Company's treasury and to advance its projects in a prudent way. Accordingly, management will continue to assess the strategic importance and cost of exploration programs at each of Kaizen's projects and may revise the scope of planned programs.

Overall Performance

Corporate Activities

Acquisition of the Pinaya Copper-Gold Project in Peru

On October 26, 2015, the Company closed its definitive acquisition agreement with AM Gold Inc. ("AM Gold") giving Kaizen 100% ownership of the Pinaya Copper-Gold project (the "Pinaya project") in Peru's provinces of Caylloma and Lampa.

Under the acquisition agreement, Kaizen acquired Canper Exploraciones S.A.C., a Peruvian subsidiary of AM Gold, which was subsequently renamed Kaizen Discovery Peru S.A.C. The Pinaya project is Kaizen Discovery Peru S.A.C.'s principal asset. AM Gold received (i) 15,384,615 common shares of Kaizen, representing approximately 8.8% of Kaizen's then issued and outstanding common shares on an undiluted basis; (ii) a cash payment of $500,000; and (iii) a US$198,617 reimbursement for certain property-maintenance payments.

The Kaizen common shares issued to AM Gold are subject to escrow trickle-out provisions under which 10% of the shares will be released from escrow on the first anniversary date of the closing of the transaction. A further 10% will be released on each three-month anniversary thereafter, ensuring that all Kaizen common shares issued to AM Gold will be released from escrow 39 months after the closing date.

Agreement with Rokmaster Resources Corp.

Kaizen also closed a concurrent agreement with Rokmaster Resources Corp. ("Rokmaster"), which previously had entered into an option and joint-venture agreement with AM Gold to earn up to a 75% interest in the Pinaya project by spending approximately $26 million. Rokmaster and AM Gold were engaged in arbitration proceedings, which were suspended pending closing of the transaction with Kaizen. Under the terms of the agreement with Rokmaster, (i) Rokmaster transferred to Kaizen certain of Rokmaster's drill equipment located in Peru and (ii) Rokmaster agreed to, among other things, terminate the arbitration proceedings with AM Gold. As consideration, Kaizen issued 2,000,000 common shares to Rokmaster and paid $300,000.

The Kaizen common shares issued to Rokmaster are subject to restrictions on disposition pursuant to a lock-up agreement between Rokmaster and Kaizen wherein, without having first obtained the prior written consent of Kaizen, Rokmaster may only dispose of 25% of the shares on the first trading day after the expiry of the four-month hold period under applicable securities laws. A further 25% will be released on each subsequent three-month anniversary.

The Kaizen common shares issued to Rokmaster also are subject to a placement right during the 14 days prior to each release date, permitting Kaizen to arrange the sale of the escrowed Kaizen shares, provided the sale price is at least equal to the 30-day volume-weighted average trading price prior to such release date.

Strategic Financing Agreement with ITOCHU for Pinaya Copper-Gold Project

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

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

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

- ITOCHU's second payment of $625,000, for another 5% interest in Kaizen Peru Holdings, is conditional on Kaizen obtaining, within two years of the initial payment, local community approvals for the lease and surface rights for the Pinaya project and obtaining all necessary approvals to establish and operate the exploration camp. Kaizen recently signed surface rights agreements with local landholders, securing access to key prospective parts of the project area.

- The third payment of $1.25 million, to bring ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, is conditional on Kaizen obtaining, within two years of the initial payment, the necessary environmental permits, water and electricity rights required to conduct exploration drilling on the Pinaya project.

Kaizen has agreed to match ITOCHU's exploration funding, bringing total funding to $5 million for the Company's planned first phase of exploration at Pinaya. Kaizen expects that the $5 million will cover approximately two years of exploration work at the project.

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

Restricted Share Unit Plan

The TSX Venture Exchange has accepted for filing the Company's new Restricted Share Unit Plan as approved by shareholders on a disinterested basis at the Company's annual and special shareholders meeting held on June 30, 2015. Pursuant to the terms of the plan, up to 1,600,000 common shares of Kaizen would be issuable to eligible participants in the form of restricted share units. Vesting may be subject to performance criteria as determined by Kaizen.

Board of Directors and Management Changes

On January 15, 2015, Dr. David Broughton joined the company as Executive Vice President, Exploration.

On June 1, 2015, Pierre Massé resigned as the company's Chief Financial Officer ("CFO"). On the same date, Steve Vanry, Kaizen's Executive Vice President, Corporate Development, was named as Interim CFO.

On October 8, 2015, David Garratt was appointed CFO.

David Birkenshaw and the Hon. Robert Hanson resigned from the Board of Directors on October 20, 2015 and November 27, 2015 respectively.

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

B. Matthew Hornor resigned as Chief Executive Officer ("CEO"), President and a member of the Board of Directors on March 31, 2016. Eric Finlayson assumed the CEO position, on an interim basis, on April 1, 2016.

Exploration Activities

Pinaya Project, Peru

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

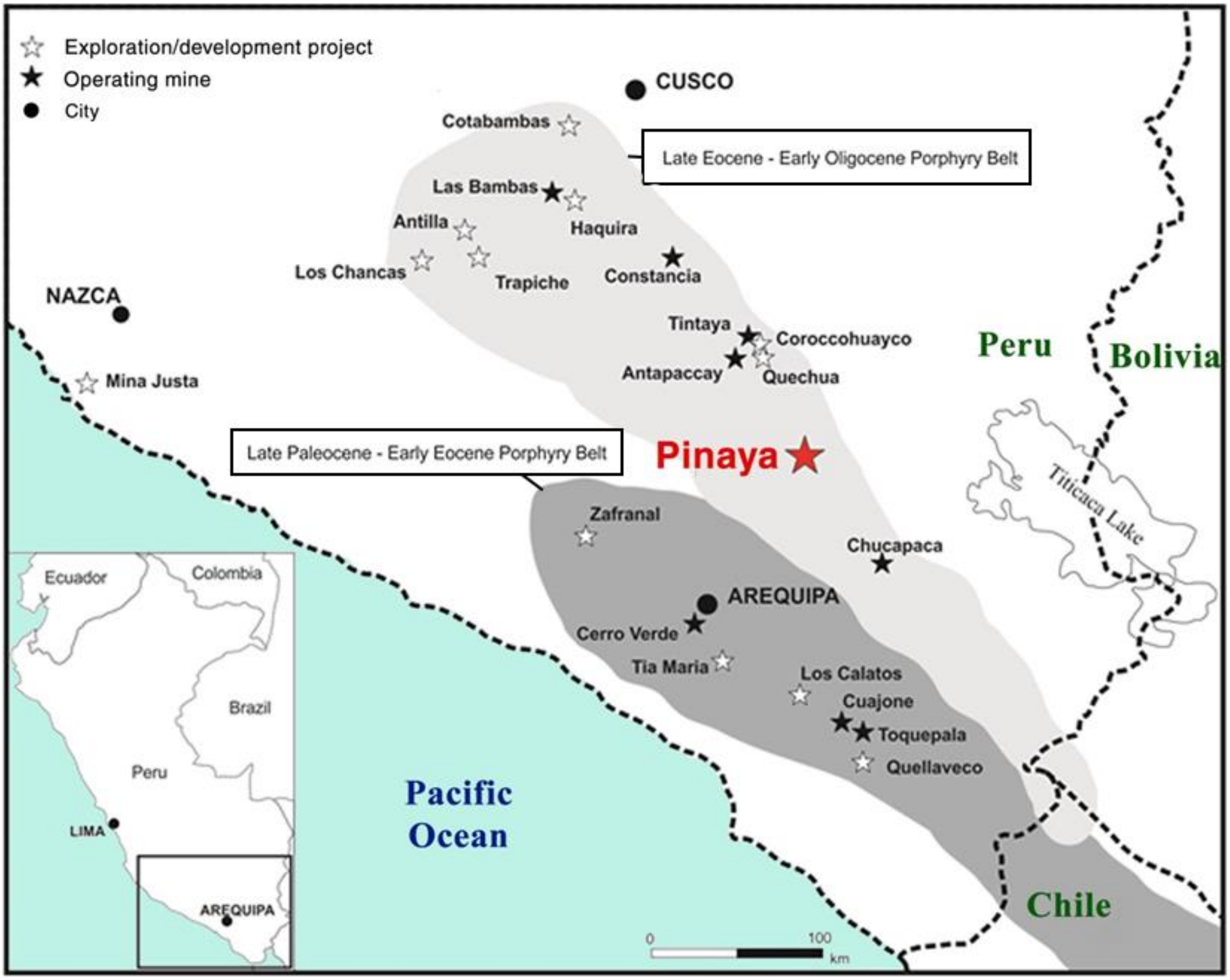
An updated NI 43-101 technical report for the Pinaya project, prepared jointly by Brian Cole, P.Geo and GeoSim Services Inc., with an effective date of April 26, 2016 was filed on the SEDAR website under Kaizen's profile at www.sedar.com and on the Kaizen website at www.kaizendiscovery.com. The technical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

The Pinaya project contains mineral resources within three contiguous zones over a 1.7-kilometre strike in the central part of the property. The Western and Northwestern porphyry zones hold measured and indicated resources of 35.1 million tonnes at 0.37% copper and 0.43 grams per tonne (g/t) of gold, for contained metal of 129,000 tonnes of copper and 487,000 ounces of gold. These porphyry zones also have additional inferred resources of 37.6 million tonnes grading 0.38% copper and 0.28 g/t gold, containing 143,000 tonnes of copper and 336,000 ounces of gold.

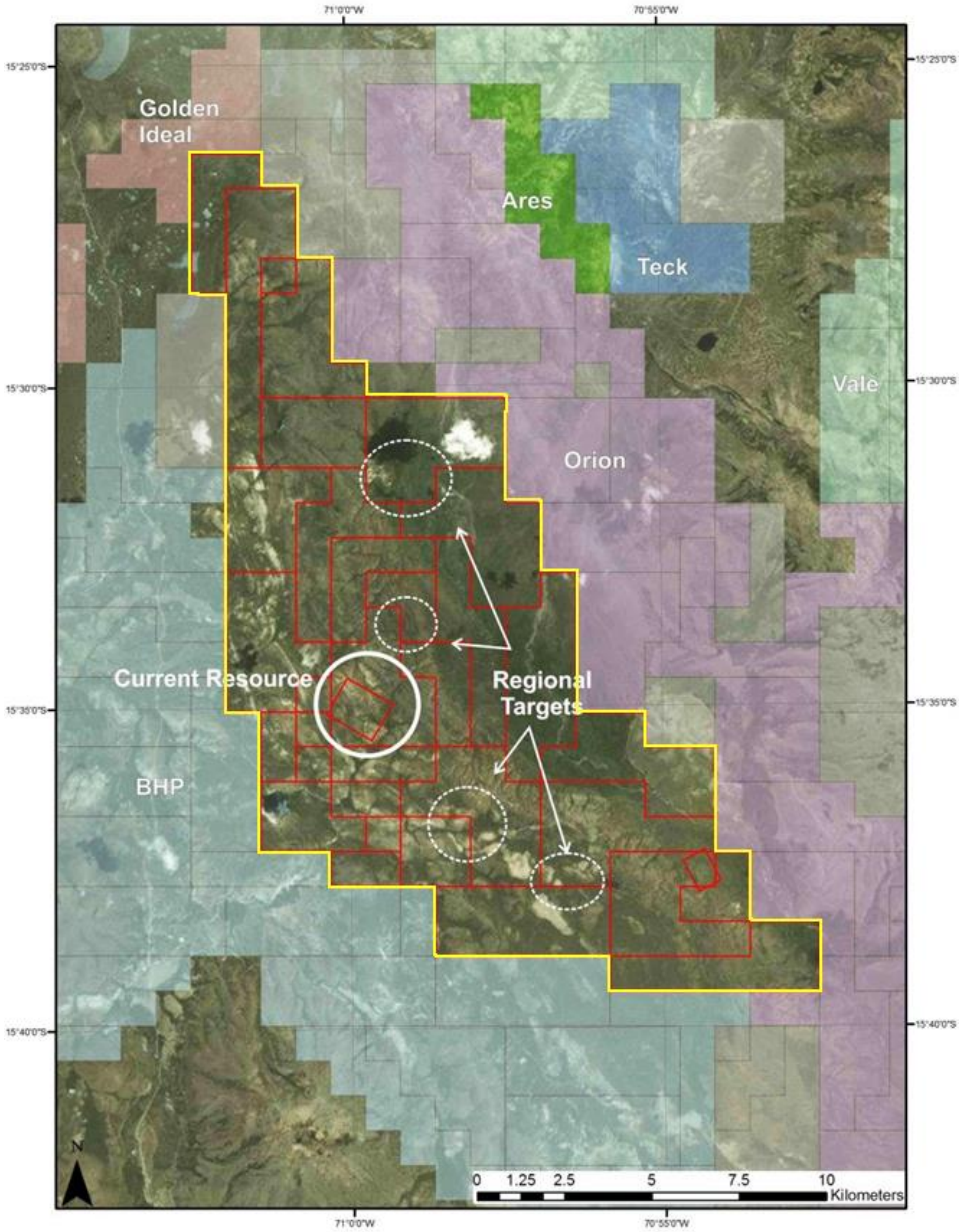
The Gold Oxide Skarn Zone has measured and indicated resources of 6.6 million tonnes at 0.79 g/t gold, containing 168,000 ounces of gold. This zone also has an inferred resource of 2.64 million tonnes grading 0.61 g/t of gold, containing 52,000 ounces of gold.

Previous exploration on the property was focused mainly on defining the current resources and much less on systematic regional exploration. Kaizen has reviewed existing geochemical and geophysical surveys and identified multiple untested targets along and across strike of the resources. Plans are being developed for preliminary fieldwork, including additional geophysics, and for subsequent diamond drilling using the Company-owned drill on site at Pinaya.

Location of the Pinaya Copper-Gold Project in Peru.



The 28 km-long Pinaya concession package (192 km^2), bounded to west by BHPB and east by Pembrook Mining (Compania de Exploraciones Orion S.A.C.)



Pinaya camp facilities

Core from previous drilling campaigns at Pinaya

Aspen Grove Project, British Columbia, Canada

The Aspen Grove project is located in southern British Columbia, near the city of Merritt, and comprises 29 claims (112 km^2). The project covers part of an extensive belt of porphyry copper-gold mineralization hosted by Early Triassic Nicola Group volcanic rocks and Late Triassic to Early Jurassic intrusions.

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

2015 Exploration Program Budget / Expenditures

Exploration expenditures for the Aspen Grove project for the year ended December 31, 2015 were $2.19 million compared with a budgeted amount of $3.03 million. The program was under budget by $0.84 million primarily due to a shortened drill program and cost savings associated with the excellent infrastructure in the area.

2015 Exploration Program

During April and May 2015, the Company performed induced polarization (“IP”) surveys covering a total of approximately 15 km^2, including the extension of the Par prospect, the Ketchan prospect and the Boss/Zig/Thalia prospects. In addition to the IP surveys, geological mapping and sampling were also carried out in these and other areas.

In early June 2015, diamond drilling commenced on a planned 7,500 metre program. Over the next three months, a total of 6,483 metres were drilled in 14 holes, including one hole at the Par prospect and 13 holes at Ketchan Lake.

The Par prospect, located on the western side of the property, was tested with drill hole AG15-01, which intersected over 100 metres of mineralized diatreme breccia from surface before being completed at a depth of 459 metres (Table 1).

Table 1: Par prospect drill highlights

Drill Hole	From (m)	To (m)	Drilled metres	Copper (%)	Gold (g/t)
AG15-01	1.8	105	103.2	0.20	0.084
Incl.	1.8	75	73.2	0.21	0.096
Incl.	48	75	27.0	0.38	0.114

Note: The true widths of the drill intersections reported throughout this MD&A are unknown as the geometry of the mineralized zones is not yet determined.

During July, August and September, exploration was focused at the Ketchan Lake prospect, targeting the 300-to-500-metre by 1,800-metre, north-northwest trending, copper-gold mineralized porphyry system, as defined by geophysical surveys, geological mapping, rock sampling and historical drilling.

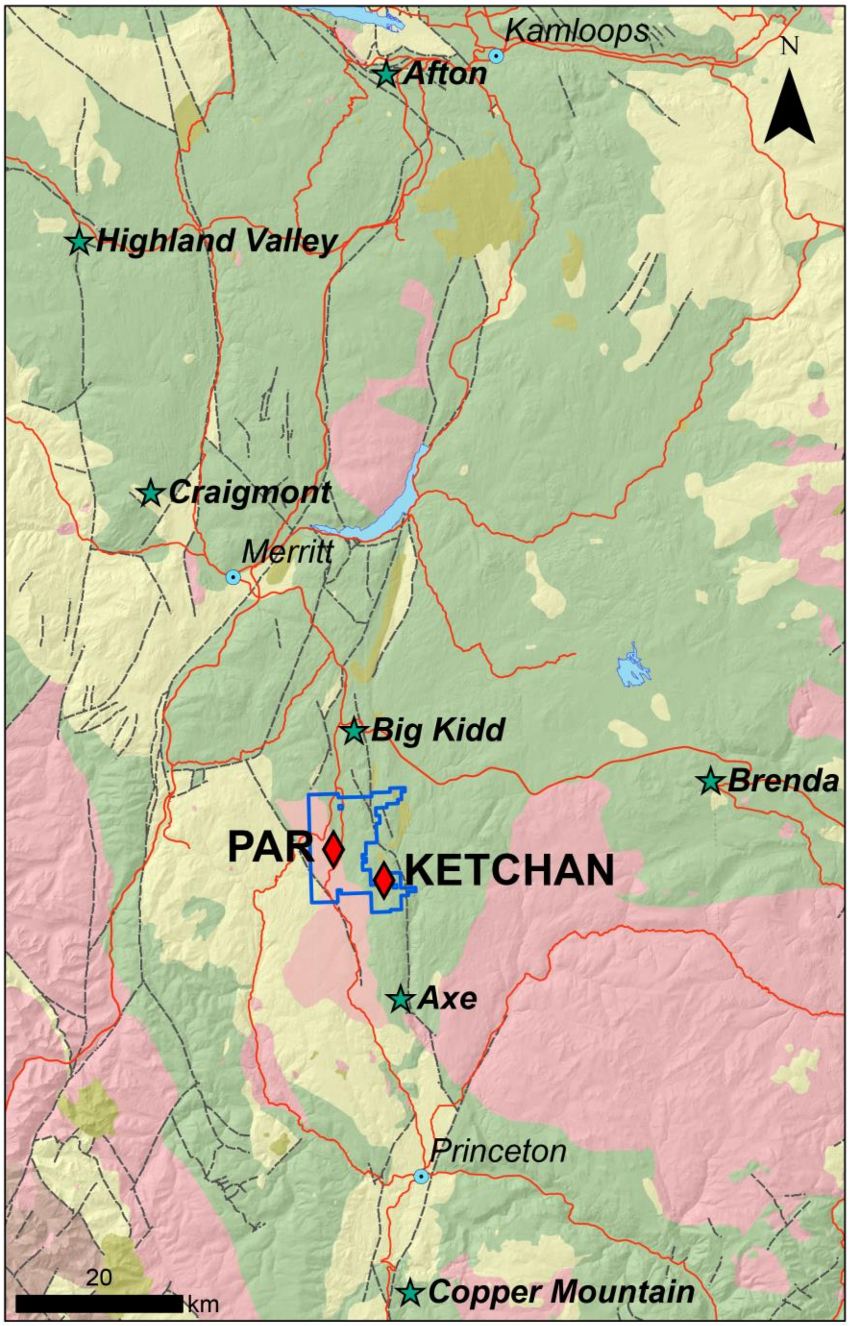
During September, Kaizen also completed an IP survey over a southern extension to the Ketchan Lake prospect, known as Ketchan South. The survey consisted of 21.4 line kilometres of survey, covering approximately 6 km^2.

Holes K15-01, 02 (02a, 02b), 03, 04, 05, and 13 were drilled in the central area of the Ketchan Lake porphyry system (Table 2). The best grades of copper and gold are generally associated with the margins of magnetic highs with associated moderate IP chargeability. Chalcopyrite, bornite and pyrite mineralization is associated with a variety of diorite and diorite breccia phases, in disseminations and in magnetite/hematite-K feldspar veins and epidote-calcite-magnetite veins. Late gypsum veins were intersected deeper in the system.

The southeast portion of the Ketchan Lake system was targeted by holes K15-06, 07, 08, and 09. Chalcopyrite+/- bornite mineralization occurs in disseminations and with magnetite-pyrite-actinolite-K feldspar veins and later calcite-epidote veins. As in the central area, the best grades of copper and gold are generally associated with the margins of magnetic highs with associated moderate IP chargeability. Hole K15-07, while having no significant intercepts of gold or copper, intersected potassically-altered diorite confirming the large size of the magmatic hydrothermal system.

Holes K15-10 (10a, 10b), 11, and 12 were drilled in the northwest portion of the Ketchan Lake porphyry system. Copper-gold mineralization is associated with a strong magnetic anomaly and weak IP chargeability. Chalcopyrite-bornite mineralization is hosted in diorite porphyry to microbreccia, in disseminations and in epidote-calcite veins. Minor chalcopyrite and pyrite also occurs in magnetite/hematite-K feldspar veins. Gold grades are higher in this part of the porphyry system.

Location of the Ketchan and Par prospects at Kaizen's Aspen Grove project.



Drilling at Aspen Grove in May 2015.

Table 2: Ketchan Lake prospect drill highlights

Drill Hole	From (m)	To (m)	Drilled metres	Copper (%)	Gold (g/t)
K15-01	4.5	270	265.5	0.27	0.11
Incl.	30	58	28	0.31	0.17
And	192	270	78	0.50	0.15
Incl.	248	262	14	1.03	0.13
K15-02b	4.65	391	386.35	0.14	0.10
Incl.	57	129	72	0.34	0.06
And	275	351	76	0.14	0.27
K15-03	5.3	341	335.7	0.15	0.15
incl.	269	341	72	0.31	0.20
incl.	325	341	16	0.55	0.40
K15-04	64	342	278	0.16	0.10
incl.	260	312	52	0.32	0.18
incl.	262	272	10	0.85	0.37
K15-05	19	413	394	0.14	0.06
incl.	203	259	56	0.31	0.08
K15-06	32	366	334	0.14	0.06
incl.	32	142	110	0.20	0.09
and	348	362	14	0.52	0.13
K15-07	No significant intercepts				
K15-08	13	345	332	0.15	0.09
incl.	15	75	60	0.27	0.15
incl.	53	75	22	0.42	0.30
K15-09	30	76	46	0.16	0.04
incl.	42	60	18	0.25	0.05
K15-10	18	126	108	0.28	0.04
incl.	100	126	26	1.05	0.05
incl.	102	110	8	2.59	0.13
K15-10a	76	82	6	0.69	0.02
and	108	116.45	8.45	0.21	0.09
K15-10b	74	86	12	0.22	0.01

and	108	148	40	0.25	0.02
incl.	126	134	8	0.41	0.01
K15-11	70	138	68	0.40	0.34
incl.	70	90	20	0.52	0.46
and	124	138	14	0.82	0.19
K15-12	376	398	22	0.12	0.43
K15-13	5.5	448	442.5	0.13	0.08
incl.	5.5	140	134.5	0.23	0.10
incl.	22	30	8	0.51	0.20

Note: The true widths of the drill intersections reported in this table are unknown as the geometry of the mineralized zones is not yet determined.

Coppermine Project, Nunavut, Canada

The Coppermine project constitutes a district-scale greenfield exploration prospect, covering approximately 115 kilometres of strike of an easterly-trending belt of Mesoproterozoic continental flood basalts (the Coppermine River Group) and unconformably overlying marine sedimentary rocks of Neoproterozoic age (the Rae Group). The belt has numerous mineral showings that demonstrate prospectivity for two distinct deposit types: sediment-hosted, stratiform copper-silver; and structurally-controlled, volcanic-hosted copper-silver.

Coppermine project camp facilities, September 2015

Licences

Kaizen, through its wholly owned subsidiary Tundra Copper Corp. (“Tundra”), holds 153 Crown Land mineral claims totalling 1,658 km^2 as well as eleven prospecting permits totalling 1,886 km^2. Fifteen of the Crown Land claims were held by Tundra when it was acquired by the Company in November 2014. The additional 138 claims were issued to Tundra in April 2015 as a result of staking in the fourth quarter of 2014.

Adjacent to these claims and prospecting permits are Inuit Owned Lands (“IOL’s”) for which Tundra, in July 2015, received a surface access permit from the Kitikmeot Inuit Association and mineral rights through a Mineral Exploration Agreement (“MEA”) with Nunavut Tunngavik Incorporated (“NTI”). The MEA granted Tundra rights to a 100% interest in the minerals contained in the IOL’s and includes a form of Mineral Production Lease and details of a net profits royalty benefiting NTI. In March of 2016, Kaizen terminated the

MEA covering the IOL's due to the lack of encouraging drill results in the area.

Subsequent to completing the 2015 exploration program, Kaizen increased its land-holding over the Coppermine area by staking an additional 185 km^2 in the western part of the license area, covering a gap between its two main license blocks. This western area returned the most encouraging results and is almost entirely covered, with virtually no outcrops of the targeted basal Rae Group sedimentary rocks.

On April 29, 2016, Kaizen submitted a Section 51 application under the Mining Regulations to the Mining Recorder for the Territory of Nunavut. Under section 51 of the Regulations, if a claim holder is unable to do the required assessment work because the holder is, for reasons beyond the claim holder's control, waiting for a public authority to give an authorization or decision without which the work cannot proceed, the claim holder may request a one-year suspension of the work requirements.

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

2015 Exploration Program Budget / Expenditures

The 2015 exploration program ended in early September. Actual expenditures of $1.67 million for the external costs of conducting the program were on budget. The program's remaining expenditures of $0.66 million mainly consisted of the allocation of salaries and overhead to the project.

2015 Exploration Program

Following construction of a 20-person exploration camp adjacent to the Hope Lake air strip within the project area, and completion of archeological and wildlife surveys, Kaizen conducted regional prospecting and mapping and drilled nine diamond drill holes totalling 2,060 metres between July 18 and September 3, 2015. After completion of the program, the camp was secured for winter in anticipation of future exploration activities.

The first two holes of the program, CP15-DD001 and CP15-DD002, tested two volcanic-hosted showings within the Coppermine River Group. Copper mineralization was intersected in both holes (Table 3), but Kaizen subsequently focused its drilling on the sediment-hosted stratiform copper potential in the basal Rae Group.

The majority of the 2015 program targeted sediment-hosted, stratiform copper-silver mineralization at the base of the Rae Group. The target is very gently north-dipping dark shale and siltstone overlying red beds and basalt of the Coppermine River Group, a setting analogous to important copper-producing districts such as the Central African Copperbelt, the Polish Kupferschiefer, and the Keweenaw district in Michigan. Previous work by Cominco in the early 1990s and Teshierpi Mines in the late 1960s intersected stratiform copper mineralization in a series of shallow drill holes over a strike distance of approximately 40 kilometres in the eastern part of Kaizen's licences.

Kaizen's primary exploration objective for 2015 was to evaluate this historical work, conduct detailed stratigraphic mapping to develop a better understanding of the sedimentary, stratigraphic and structural setting of mineralization, and to test the previously unexplored western extension of this mineralization at shallow depths with widely-spaced, reconnaissance drill holes.

Kaizen completed seven widely-spaced, relatively shallow, vertical diamond drill holes totalling 1,949 metres (CP15-DD003 through CP15-DD009) testing the stratiform copper target at the base of the Rae Group, over a strike distance of approximately 40 kilometres westward from the historical drilling. Copper mineralization was intersected in all seven holes, and most intersections consisted of disseminated chalcocite, bornite and chalcopyrite. Results are reported in Table 3.

The last holes of the program, CP15-DD008 and CP15-DD009, stepped 17 and 27 kilometres westward, respectively. The final and westernmost hole, CP15-DD009, was collared above a north-south structural block within the underlying basalt-red bed sequence, and was characterized by significantly higher grade and width of mineralization than encountered in previous holes. From 197 metres, the hole returned 29 metres grading 0.57% copper, including a one-metre interval grading 3.04%, and a separate 6-metre interval grading 1.06% copper. Copper sulphides occur as disseminations, bands, replacements after interpreted former pyrite nodules, and in thin, steeply-dipping sulphide and sulphide-calcite veinlets. Copper sulphide species within this 29 metres intersection are vertically zoned, from chalcocite at the base, through bornite, to chalcopyrite at the top. Anomalous zinc values overlie the copper-rich zone. Zoning of this sort is typical in stratiform copper deposits.

Coppermine project – geology & 2015 drilling

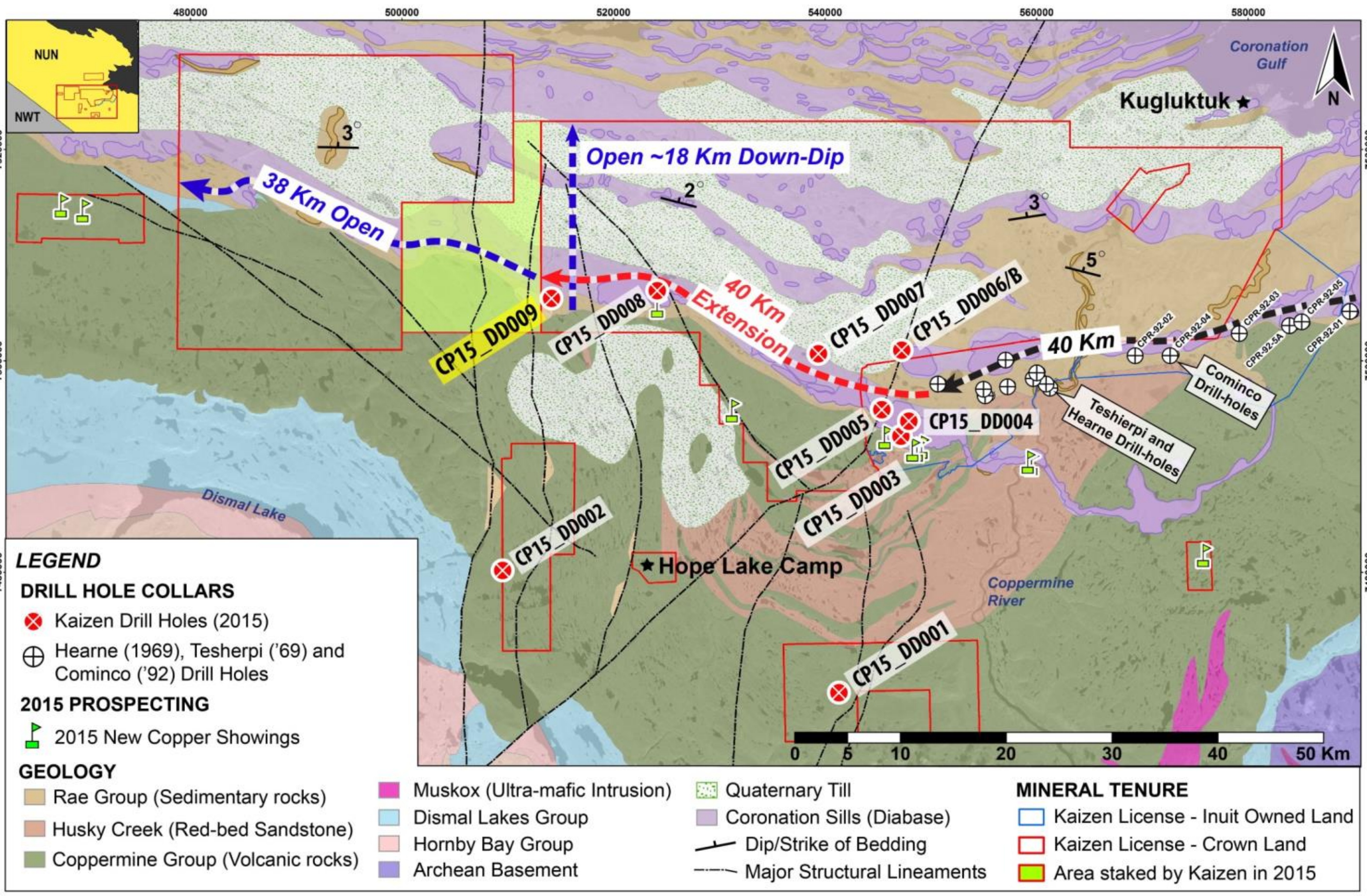


Table 3: Coppermine 2015 drill highlights

Drill-Hole ID	Dip/Azimuth	Area	From (m)	To (m)	Length (m)	Copper %	Silver g/t
CP15_DD001	-45/90	Volcanic-hosted	48.5	51.9	3.4	0.39	2.0
			56.9	57.6	0.7	2.44	4.0
CP15_DD002	-45/260	Volcanic-hosted	5.2	14.5	9.3	1.13	2.5
			Including:				
			5.2	7.0	1.8	2.96	6.0
			7.0	8.5	1.5	1.01	1.0
			18.3	20.0	1.8	1.63	3.0
			23.0	26.0	3.0	1.04	1.2
			Including:				
			23.0	24.5	1.5	1.50	1.9
CP15_DD003	-90/0.0	Sediment-hosted	127.5	133.5	6.0	0.13	1.4
CP15_DD004	-90/0.0	Sediment-hosted	85.5	88.5	3.0	0.33	1.9
			Including:				
			88.0	88.5	0.5	0.75	4.3
CP15_DD005	-90/0.0	Sediment-hosted	93.0	98.0	5.0	0.19	0.4
			Including:				
			95.0	97.0	2.0	0.30	0.0
CP15_DD006	-90/0.0	Sediment-hosted	No significant intercepts				
CP15_DD006B	-90/0.0	Sediment-hosted	372.1	372.9	0.8	0.19	0.0
			374.4	379.7	5.3	0.23	0.0
			Including:				
			378.4	379.7	1.3	0.40	0.0
CP15_DD007	-90/0.0	Sediment-hosted	230.3	232.1	1.8	0.29	0.0
			269.4	269.9	1.0	0.13	0.0
CP15_DD008	-90/0.0	Sediment-hosted	228.4	233.5	5.1	0.26	1.3
			Including:				
			229.4	230.7	1.2	0.48	1.6
CP15_DD009	-90/0.0	Sediment-hosted	73.0	75.4	2.4	0.48	0.6
			Including:				
			73.5	74.4	0.9	1.05	1.4
			197.0	226.0	29.0	0.60	1.9
			Including:				
			205.4	208.0	2.6	1.61	2.7
			207.0	208.0	1.0	3.04	5.0
			217.0	223.0	6.0	1.06	3.8
			217.0	218.5	1.0	2.09	4.2
			221.5	223.0	1.5	1.55	7.9

Note: Composites based on minimum 0.1% copper and 1 g/t silver. The true widths of the drill intersections reported in this Coppermine project disclosure are approximately equivalent to drilled widths, based on the flat lying nature of the host rocks.

Hole CP15-DD008 intersected anomalous zinc mineralization grading 0.18% over 3.11 metres, stratigraphically above a moderately mineralized copper zone (0.26% copper over 5.06 metres). Zinc mineralization is commonly found lateral or distal to copper in stratiform copper systems, and can be used to vector towards higher-grade copper.

Kaizen's 2015 drilling has doubled the confirmed strike length of mineralized basal Rae Group strata, from approximately 40 to 80 kilometres, and the system remains open along strike. To date, only the shallow, up-dip portion of the gently north-dipping target horizon has been tested along this 80 kilometre strike, and approximately 18 kilometres of down-dip extent remains untested on Kaizen's licences. The wide spacing of the 2015 reconnaissance drilling, in particular in the western area with only two holes over a strike of approximately 30 kilometres, requires additional shallow drilling, targeting higher grade areas.

Mineral Property Impairment

At December 31, 2015, since substantive expenditure on further exploration at the Coppermine Project was neither budgeted nor planned, the Company assessed the carrying amount of that mineral property and concluded that it was impaired. An impairment loss of $3.1 million was recognized in the year ended December 31, 2015 to write-off the mineral property's carrying amount.

Tanzilla Project, British Columbia, Canada

The Tanzilla project, located in northwest British Columbia, is approximately 20 kilometres southeast of the community of Dease Lake. The property covers a 7 kilometre-long hydrothermal alteration zone in Lower Jurassic Hazelton Group volcanic rocks, interpreted as related to one or more buried porphyry centers.

Earn-in and Joint Venture Agreement

The Tanzilla project was being funded by Freeport-McMoRan Corporation of Canada Limited ("Freeport"), a wholly owned, indirect subsidiary of Freeport-McMoRan Copper & Gold Inc. In March 2013, Freeport was granted the right to earn a 51% interest in the Tanzilla, Pliny and Castle properties by funding cumulative exploration expenditures of $4 million prior to December 28, 2015 and $8 million prior to June 28, 2017. On April 25, 2014, the earn-in agreement was amended to include only the Tanzilla and Pliny properties. On December 30, 2015, Freeport notified the Company that it had terminated its earn-in option.

On July 31, 2015, for consideration of $250,000, the Company, through its wholly owned subsidiary West Cirque Resources Ltd., granted ITOCHU an option to acquire an indirect 15% interest in the Tanzilla project for no additional consideration. ITOCHU was also granted a subsequent option to acquire up to a further indirect 10% interest at fair market value. Upon being notified that Freeport had terminated its earn-in option, ITOCHU had 30 days to exercise the option to acquire the 15% interest. In January 2016, the exercise period was extended by 330 days.

2015 Exploration Program Budget / Expenditures

Total expenditures of $0.78 million were incurred on the Tanzilla project during the 2015 exploration program. The exploration program was completed under its budgeted amount of $0.81 million.

2015 Exploration Program

Kaizen's 2015 drill program was designed to test to greater depth below and along strike from the 1.5 kilometre-wide Silica Ridge lithocap and associated IP chargeability anomaly. Three drill holes totalling 1,878 metres were completed between July 8, 2015 and August 7, 2015, and confirmed the conceptual model of a buried porphyry system and associated alteration. Additional exploration to vector toward a higher-grade core in the system may be warranted, but is not currently budgeted for 2016.

Mineral Property Impairment

At December 31, 2015, since substantive expenditure on further exploration in the Tanzilla project area was neither budgeted nor planned, the Company assessed the carrying amount of that mineral property and concluded that it was impaired. An impairment loss of $1.6 million was recognized in the year ended December 31, 2015 to write-off the mineral property's carrying amount.

Fairholme Project, New South Wales, Australia

The Fairholme project consists of two contiguous exploration licences, Fairholme EL6552 and Manna EL6915; covering a 169 km^2 area located 360 kilometres west of Sydney, Australia and 160 kilometres west of the town of Orange.

Farm-in and Joint Venture

On January 16, 2014, after incurring expenditures of A$1.0 million, the Company was granted a 49% interest in the Fairholme project subject to completing the next phase of the earn-in agreement. The Company had the right to increase its interest in the Fairholme project to 65% by funding an additional A$4.0 million in exploration prior to December 31, 2015. On August 21, 2015 the deadline for funding the additional A$4.0 million was extended from December 31, 2015 to December 31, 2017.

On March 21, 2016, Kaizen provided its notice of withdrawal from the Fairholme project due to lack of encouraging results.

Ebende Project, Democratic Republic of Congo

The Ebende project is an early stage exploration project consisting of 17 licences totalling approximately 2,551 km^2 located in the Eastern Kasai and Katanga Provinces of the Democratic Republic of Congo. The project is conceptual in nature and is based on the premise that the area shares geological similarities with continental flood basalts elsewhere that are known to contain economic concentrations of copper, nickel and platinum group elements (e.g. at Norilsk in Russia).

On March 21, 2016, Kaizen submitted renunciation notices to relinquish the Ebende exploration licences.

Exploration Expenses

(Tabular amounts are expressed in thousands of Canadian dollars)

Exploration expenses are summarized by project as follows:

	Year ended December 31, 2015						
	Coppermine	Fairholme	Ebende	Pinaya	Burkina Faso	Other	Total
	$	$	$	$	$	$	$
Wages and consultants	819	166	10	152	-	299	1,446
Drilling	282	163	-	-	-	-	445
Assay	25	105	-	-	-	-	130
Share-based payments	-	-	-	-	-	212	212
Fees and taxes	49	50	261	-	-	-	360
Geophysics	-	(51)	18	-	-	-	(33)
Camp	229	35	-	11	-	3	278
Travel	34	5	-	19	-	10	68
Aircraft	868	-	-	-	-	-	868
Other	21	35	38	72	-	18	184
	2,327	508	327	254	-	542	3,958

	Year ended December 31, 2014						
	Coppermine	Fairholme	Ebende	Pinaya	Burkina Faso	Other	Total
	$	$	$	$	$	$	$
Wages and consultants	-	295	156	-	189	329	969
Drilling	-	74	-	-	-	-	74
Assay	-	25	-	-	-	2	27
Share-based payments	-	-	-	-	-	354	354
Fees and taxes	-	105	274	-	1	(1)	379
Geophysics	-	862	638	-	-	264	1,764
Camp	-	128	12	-	29	38	207
Travel	-	27	18	-	-	12	57
Aircraft	-	-	-	-	-	-	-
Other	-	42	82	-	21	(37)	108
	-	1,558	1,180	-	240	961	3,939

Selected Annual Information

(Tabular amounts are expressed in thousands of Canadian dollars)

	December 31, 2015	December 31, 2014	December 31, 2013
	$	$	$
Total revenue	-	-	-
Net loss for the year	14,313	8,996	4,058
Total comprehensive loss for the year	14,291	9,032	4,058
Total assets	10,897	20,157	11,057
Total non-current liabilities	1,260	-	-
Dividends paid	-	-	-

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

Summary of Quarterly Results

(Tabular amounts are expressed in thousands of Canadian dollars)

	Quarter Ended			
	Dec-31 2015	Sep-30 2015	Jun-30 2015	Mar-31 2015
	$	$	$	$
Exploration expenses	354	1,742	1,014	848
Administrative expenses	976	810	1,026	1,153
Impairment of mineral properties	5,461	-	-	-
Share of (income) losses from joint venture	(424)	734	521	47
Gain on sale of project	-	-	-	-
(Gain) loss on foreign exchange	36	(73)	56	(149)
Write down of marketable securities	83	-	19	450
Other income	(94)	(159)	(96)	(22)
Loss for the period	6,392	3,054	2,540	2,327

	Quarter Ended			
	Dec-31 2014	Sep-30 2014	Jun-30 2014	Mar-31 2014
	$	$	$	$
Exploration expenses	210	1,594	1,045	1,090
Administrative expenses	1,865	1,200	867	1,500
Impairment of mineral properties	-	-	-	-
Share of (income) losses from joint venture	391	117	-	-
Gain on sale of project	(494)	-	-	-
(Gain) loss on foreign exchange	(16)	(148)	(294)	313
Write down of marketable securities	-	-	-	-
Other income	(82)	(162)	-	-
Loss for the period	1,874	2,601	1,618	2,903

The Company's changes in financial results on a quarter-by-quarter basis are due primarily to fluctuations in the level of activity of exploration programs, project acquisitions and administration.

Exploration expenses

Exploration expenses can vary widely from quarter to quarter depending on management decisions for exploration programs.

Exploration expenses were fairly consistent when comparing 2015 quarters with the corresponding 2014 quarters. However, in 2015 exploration expenses were mainly associated with the Coppermine project located in Nunavut and 2014 exploration expenses were mainly associated with the Ebende and Fairholme projects located in DRC and Australia respectively. Exploration expenditures dropped in Q4 2015 as the Coppermine project is in the northern hemisphere and thus not active during the winter months. In Q4 2014, exploration expenditures dropped as activities in the DRC are normally centered in the second and third quarter of the year to avoid the rainy season. In Australia, a similar seasonal impact is experienced as, in certain areas, exploration activity is carried out over farming areas and the resulting timing of exploration activities is designed to minimize the impact on planted crops.

Administration expenses

Administrative expenses have experienced quarterly variation primarily due to the timing of large stock option grants and the resulting allocation of significant share-based payment amounts. Such a grant was made in January 2014, resulting in Q1 2014 option benefits included in administrative expenses of $0.80 million compared to $0.20 million in Q1 2015. Q4 2014 included annual bonuses of $0.61 million, whereas no year-end bonuses were recognized in Q4 2015.

Impairment of mineral properties

In Q4 2015, impairments on mineral properties totaling $5.46 million were recognized related to the Coppermine, Tanzilla, Pliny and Castle projects.

Share of (income) losses from joint venture

Share of (income) losses from joint venture fluctuates in direct relation to exploration activities at the Aspen Grove project. The project was more active during the fall of 2014 and spring/summer 2015. In Q4 2015, the Company recorded $0.42 million of income as expenditures were partially offset by $0.49 million of income related to British Columbia mineral exploration tax credits.

Write-down of marketable securities

Q1 2015, Q2 2015 and Q4 2015 included write-downs of marketable securities related to shares held in Alecto Minerals PLC, which declined in value throughout 2015.

Results of Operations

Annual Results

The loss for the year ended December 31, 2015 totaled $14.31 million compared to the loss of $9.0 million for the year ended December 31, 2014. The increase in loss was attributable to the following items:

Exploration expenses of $3.96 million for 2015 were consistent with $3.94 million for 2014. Exploration expenses associated with initiating the Coppermine Project's exploration program in Q2'15 were mainly offset by reduced activity on the Fairholme and Ebende projects. Additionally, there were no costs incurred in 2015 related to Burkina Faso as that project was sold in November 2014.

Administrative costs decreased from $5.43 million in 2014 to $3.97 million in 2015. This decrease was mainly due to decreases in non-cash share based payments of $0.85 million, annual bonuses of $0.61 million and professional fees of $0.17 million.

The Company recorded $5.46 million in impairments on mineral properties in 2015 (2014 – $Nil). At December 31, 2015, since substantive expenditure on further exploration in the Coppermine, Tanzilla, Pliny and Castle project areas was neither budgeted nor planned, the Company assessed the carrying amounts of those mineral properties and concluded they were fully impaired.

The Company's share of KZD Aspen Grove's loss was $0.88 million in 2015 (2014 – $0.51 million). The Aspen Grove project was initiated in Q3 2014, whereas the project was active throughout 2015. The increase in expenditure associated with a full year's activity was partially offset by a $0.49 million share of income related to British Columbia mineral exploration tax credits.

In 2015, the Company recorded an impairment loss on marketable securities of $0.55 million (2014 - $Nil). The market value of Alecto Minerals PLC's common shares declined in 2015, which negatively impacted the carrying value of the approximately 55 million shares held by the Company.

Fourth Quarter Results

The loss for Q4 2015 totaled $6.39 million compared to $1.87 million for Q4 2014. The increase is loss was attributable to the following items:

Exploration expenses were $0.35 million in Q4 2015 compared to $0.21 million in Q4 2014. Q4 2015's activity primarily related to the Pinaya project, which was acquired in October 2015. The remainder of the Company's projects were inactive in Q4 2015. In Q4 2014, all exploration expenditures related to the Fairholme and Ebende projects.

Administration expenses decreased from $1.87 million in Q4 2014 to $0.98 million in Q4 2015. The change is partly due to decreases in professional fees of $0.14 million, non-cash share-based payments of $0.05 million and travel costs of $0.05 million. Additionally, no year-end bonuses were awarded for 2015, whereas bonuses of $0.61 million were recognized in Q4 2014.

The Company recorded $5.46 million in impairments on mineral properties in Q4 2015 (Q4 2014 - $Nil). At December 31, 2015, since substantive expenditure on further exploration in the Coppermine, Tanzilla, Pliny and Castle project areas was neither budgeted nor planned, the Company assessed the carrying amounts of those mineral properties and concluded they were fully impaired.

The Company's share of KZD Aspen Grove's income was $0.42 million in Q4 2015 (Q4 2014 – $0.39 million share of loss). Q4 2015's activity includes a $0.49 million share of income related to British Columbia mineral exploration tax credits. Furthermore, the bulk of the Aspen Grove project's 2015 exploration program concluded in Q3 2015, whereas the 2014 exploration program continued into Q4 2014.

In Q4 2015, the Company recorded an impairment loss on marketable securities of $0.08 million (Q4 2014 - $Nil). The market value of Alecto Minerals PLC's common shares continued to decline in Q4 2015, which negatively impacted the carrying value of the approximate 55 million shares held by the Company.

<u>Liquidity and Capital Resources</u>

At December 31, 2015, the Company had consolidated cash of $0.9 million (December 31, 2014 - $8.3 million), excluding cash of $0.8 million (December 31, 2014 - $3.3 million) held by KZD Aspen Grove, the joint venture interest that holds the Aspen Grove project. The Company holds its cash in interest bearing accounts with creditworthy financial institutions.

The primary uses of cash during the year ended December 31, 2015 were funding operating activities of $7.0 million (2014 – $8.5 million) and investing activities of $1.5 million to acquire the Pinaya project.

Under the terms of the Inter-Corporate Loan Agreement between HPX TechCo Inc. (“HPX”) and the Company dated December 4, 2013, HPX made available to the Company an unsecured, revolving loan facility of up to $5.0 million (“Loan Facility”), which may be increased by HPX from time to time. There are no restrictions on the use of amounts drawn down on the Loan Facility.

In December 2015, the Company made an initial draw of $0.7 million on the Loan Facility, leaving $4.3 million available to be drawn in the future. Further draws of $1.0 million and $2.0 million were made in February and April 2016, respectively.

HPX is, on notice, entitled to charge interest at 3% per annum, compounded monthly, on the outstanding principal balance plus all accrued unpaid interest thereon, if any. In order for HPX to exercise its right to charge interest, it must provide the Company with 30 days advance written notice prior to the date interest will start accruing. On December 17, 2015, HPX provided the Company with such notice.

The outstanding principal balance plus all accrued unpaid interest thereon, if any, is repayable in full by the Company within 90 days of demand, and the Company may prepay any amount of the outstanding balance, without bonus or penalty, by providing 10 days advance written notice to HPX.

As at December 31, 2015, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, through to December 31, 2016 based on its cash position, the $4.3 million available to be drawn on the Loan Facility and a framework agreement for cooperation with partner ITOCHU.

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, evaluate and develop 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.

Off-Balance Sheet Arrangements

During the year ended December 31, 2015, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

Related Party Transactions

(Tabular amounts are expressed in thousands of Canadian dollars)

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

Expenses, accounts receivable and accounts payable

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

	Year ended December 31,	
	2015	2014
	$	$
Salaries and benefits	2,898	2,307
Corporate administration	562	417
Exploration and geophysical activities	4	1,128
Total related party expenses	3,464	3,852

The breakdown of expenses by related party is as follows:

	Year ended December 31,	
	2015	2014
	$	$
GMM	3,460	2,724
HPX and affiliates	4	1,128
	3,464	3,852

The transactions with Global Mining Management Corporation (“GMM”) noted above for the year ended December 31, 2015 include approximately $468,000 (2014 - $Nil) of expenses incurred by KZD Aspen Grove, and the Company’s share of losses from joint venture includes 60% of these expenses.

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

	December 31, 2015	December 31, 2014
Accounts Receivable	$	$
GMM	450	291
KZD Aspen Grove	12	211
Total related party receivables	462	502

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

Accounts Payable	December 31, 2015 $	December 31, 2014 $
GMM	236	247
HPX	18	35
Key management personnel, directors and officers	-	91
Total related party payables	254	373

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

(ii) HPX is the Company's privately owned parent, holding 60.7% of the Company's common shares at December 31, 2015 (December 31, 2014 – 67.3%). In 2015 and 2014, HPX planned and managed the Company's geophysical exploration programs in Africa and Australia. HPX's services are provided to the Company on a cost-recovery plus 12% markup basis.

(iii) Amounts owed to key management personnel include outstanding salaries and expense reimbursements.

(iv) The Company is the operator of the Aspen Grove project, and the receivable balance represents unpaid reimbursements for expenses paid by the Company on behalf of KZD Aspen Grove and management fees. For the year ended December 31, 2015, management fees of $206,000 (2014 - $76,000) were earned by the Company as the project's operator.

Compensation of key management personnel

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

	Year ended December 31,	
	2015	2014
	$	$
Salaries and short-term benefits	1,326	1,195
Share-based payments	637	1,519
Bonus	-	513
Total remuneration	1,963	3,227

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 April 29, 2016, the Company had a total of 175,364,517 common shares issued and outstanding. There were also 12,081,000 stock options outstanding with a weighted average exercise price of $0.54 per share. Each stock option is exercisable to purchase a common share of the Company at prices ranging from $0.155 to $2.24 per common share.

Changes in Accounting Policies Including Initial Adoption

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2015, and have not been applied in preparing the consolidated financial statements for the year ended December 31, 2015. The following standards may have a potential effect on the consolidated financial statements of the Company.

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

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

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

Financial Instruments

(Tabular amounts are expressed in thousands of Canadian dollars)

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

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

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

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

	December 31, 2015	December 31, 2014
	$	$
Financial assets		
Loans and receivables		
Cash	912	8,308
Receivables	605	509
Other assets	1,400	66
Available-for-sale		
Marketable securities	95	649
Total financial assets	3,012	9,532
Financial liabilities		
Accounts payable and accrued liabilities	677	979
Loan facility	700	-
Option liability	250	-
Total financial liabilities	1,627	979

The risks associated with these 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 and other assets.

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

Interest rate risk

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

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

Currency risk

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

The Company's exposure to foreign currency risk is insignificant as the net carrying amounts of monetary assets and liabilities denominated in foreign currencies are not significant.

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 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, 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 ore, 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, currency fluctuations, changes in regulations, the availability of water, the availability and productivity of skilled labour, the receipt of necessary consents, permits and licenses, political factors including unexpected changes in governments or governmental policies towards exploration and mining activities, and the compliance of joint venture partners with various contractual obligations and commitments, as well as the ongoing support of joint venture partners in proceeding with exploration and/or development activities (including through funding provided by joint venture partners).

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

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

   The Company will need to make substantial investments in the exploration and development of its Projects, and 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.

   The Company will need to raise further funds to finance its exploration activities and fund project development. The Company may, therefore, seek to raise further funds through equity or debt financing, the sale of an interest in one or more of its Projects, entering into joint ventures or seeking other means to meet its financing requirements.

   There is no assurance, however, that additional funding will be available to the Company for further exploration and development of the Projects or that its joint venture partners will continue to provide financing to Kaizen's Projects and/or not withdraw its participation from such projects to conduct other exploration activities, or that the Company will ever be profitable. Failure to obtain additional financing would result in delay or indefinite postponement of further exploration and development of the Projects and the 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 commercially viable mineral deposits, its financial condition, and prospects.

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

   The Company's reporting currency is the Canadian dollar. Exploration activities in Peru and Australia are mainly incurred in Peruvian soles and Australian dollars respectively, 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 and prospects.

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

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

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

   Estimation of Mineral Resources is a subjective process that relies on the judgement of the persons preparing the estimates. The process relies on the quantity and quality of available data and is based on knowledge, mining experience, analysis of drilling results and industry practice. Valid estimates made at a given time may change significantly in the future when new information becomes available. By their nature Mineral Resource estimates are imprecise and depend, to a certain extent, upon the analysis of drilling results and statistical inferences that may ultimately prove to be inaccurate. Inferred Mineral Resources, in particular, have a degree of uncertainty as there is a limited ability to assess geological continuity. There is a risk that any estimate of Inferred Mineral Resources will not be capable of upgrading to Mineral

Resources with sufficient continuity to allow them to be used in connection with the estimation of Mineral Reserves. In addition, estimates of Mineral Resources may have to be recalculated based on fluctuations in copper and gold or other metal prices, results of drilling, metallurgical testing and production, including dilution, and the evaluation of mine plans subsequent to the date of any estimates. Any material change in the quantity of Mineral Resources or the related grades may affect the economic viability of the Projects at which a Mineral Resource has been identified and could have a material adverse effect on Kaizen's business, financial condition, results of operations or prospects.

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

   Exploration activities as well as mining, processing and development depend, to one degree or another, on adequate infrastructure and the ability to access such infrastructure. Reliable roads, airstrips, power sources 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, could 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 or development activities.

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

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

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

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

7. *The Company will 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.

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

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

9. *Fluctuations in the price of consumed commodities may adversely impact the cost of exploration, development and future mining activities.*

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

10. *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.

11. *The Company has a controlling shareholder.*

    Kaizen's principal shareholder is the beneficial owner of 60.7% 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. In addition, the principal shareholder is also the principal lender to the Company, and its failure to honour those lending commitments or a decision to call at short notice for a repayment of any loan made to Kaizen would materially and adversely affect the financial condition and results of operation of Kaizen, as well as its prospects.

<u>Qualified Person</u>

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

a) Pinaya project – The scientific and technical information in this MD&A for the Pinaya project has been reviewed and approved by Mark Rebagliati, P. Eng., a geological consultant for Kaizen. Mr. Rebagliati has verified the technical data disclosed in this MD&A for the Pinaya project.

The Mineral Resources disclosed in this MD&A for the Pinaya project are reported in the NI 43-101 Technical Report dated April 26, 2016, “Pinaya Gold-Copper Project Technical Report” (the “Technical Report”) prepared jointly by Brian Cole, P.Geo and Ronald G. Simpson, P.Geo (Geosim Services Inc.). Mr. Rebagliati has reviewed the Technical Report on behalf of Kaizen. To the best of Kaizen's knowledge, information, and belief, there is no new material scientific or technical information that would make the disclosure of the mineral resources, mineral reserves or results of a preliminary economic assessment inaccurate or misleading.

b) Aspen Grove project – The scientific and technical information in this MD&A for the Aspen Grove project has been reviewed and approved by Nils Peterson, M.Sc., P.Geo, a geological consultant for Kaizen.