KAIZEN DISCOVERY

Condensed Interim Consolidated Financial Statements of

Kaizen Discovery Inc.

September 30, 2017

(Unaudited)

Kaizen Discovery Inc.
Condensed Interim Consolidated Financial Statements

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Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes		**September 30, 2017**		December 31, 2016
Assets					
Current assets					
Cash and cash equivalents		**$**	**4,972**	$	281
Receivables			**46**		371
Prepaid expenses and deposits	16		**506**		495
Total current assets			**5,524**		1,147
Non-current assets					
Mineral properties	4		**-**		3,665
Joint venture interests	5		**815**		503
Advances to joint venture	5(a)		**1,058**		-
Financial assets	6		**215**		60
Property, plant and equipment			**70**		70
Other assets			**78**		114
Total assets		**$**	**7,760**	$	5,559
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	16	**$**	**388**	$	890
Option liability	7		**250**		250
Total current liabilities			**638**		1,140
Non-current liabilities					
Provision	8		**-**		1,274
Total liabilities		**$**	**638**	$	2,414
Equity					
Share capital	9	**$**	**45,987**	$	39,010
Share-based payment reserve			**3,674**		3,334
Other reserves			**452**		521
Share purchase warrants	9		**177**		-
Accumulated other comprehensive (loss) income			**(194)**		8
Accumulated deficit			**(42,974)**		(39,767)
Equity attributable to owners of Kaizen Discovery Inc.			**7,122**		3,106
Non-controlling interest			**-**		39
Total equity		**$**	**7,122**	$	3,145
Total liabilities and equity		**$**	**7,760**	$	5,559

Description of business and going concern (Note 1)
Subsequent event (Note 6(a)(ii))

Approved and authorized for issue on behalf of the Board on November 14, 2017:

/s/ Terry Krepiakevich
Terry Krepiakevich, Director

/s/ David Huberman
David Huberman, Director

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

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

	Notes	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating expenses					
Exploration expenses	10	**$ (143)**	$ (484)	**$ (497)**	$ (1,921)
Administrative expenses	11	**(576)**	(707)	**(1,941)**	(3,002)
Share of losses from joint ventures	5	**(522)**	(316)	**(1,649)**	(495)
Loss from operations		**(1,241)**	(1,507)	**(4,087)**	(5,418)
Other income (expenses)					
Gain on sale of mineral property	4(b)	**-**	-	**518**	-
Dilution gain	5(a)	**-**	-	**439**	-
Management fees	16	**1**	66	**6**	101
(Loss) gain on foreign exchange		**(2)**	28	**(46)**	44
Interest income		**15**	4	**50**	12
Interest expense		**-**	(32)	**-**	(73)
Write-down of other assets		**-**	-	**-**	(1,214)
Loss on disposal of marketable securities	6(a)	**(8)**	-	**(8)**	-
Other income (expense)		**18**	(35)	**(84)**	(41)
Loss before income taxes		**(1,217)**	(1,476)	**(3,212)**	(6,589)
Income taxes		**-**	-	**-**	-
Net loss for the period		**(1,217)**	(1,476)	**(3,212)**	(6,589)
Other comprehensive income (loss)					
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustment		**(7)**	19	**(68)**	(15)
Share of other comprehensive loss of joint venture	5(a)	**(72)**	-	**(86)**	-
Unrealized gain (loss) on marketable securities	6(a)	**80**	-	**(75)**	6
Items that have been reclassified to profit or loss:					
Realized loss on disposal of marketable securities reclassified to statement of loss	6(a)	**8**	-	**8**	-
Cumulative exchange loss relating to deconsolidated foreign subsidiary	5(a)	**-**	-	**14**	-
Total other comprehensive income (loss) for the period		**$ 9**	$ 19	**$ (207)**	$ (9)
Total comprehensive loss for the period		**$ (1,208)**	$ (1,457)	**$ (3,419)**	$ (6,598)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		**$ (1,217)**	$ (1,460)	**$ (3,207)**	$ (6,546)
Non-controlling interest		**-**	(16)	**(5)**	(43)
Net loss for the period		**$ (1,217)**	$ (1,476)	**$ (3,212)**	$ (6,589)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		**$ (1,208)**	$ (1,442)	**$ (3,409)**	$ (6,554)
Non-controlling interest		**-**	(15)	**(10)**	(44)
Total comprehensive loss for the period		**$ (1,208)**	$ (1,457)	**$ (3,419)**	$ (6,598)
Loss per share (basic and diluted)		**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.03)
Weighted average number of basic and diluted shares outstanding	2(c)	**276,766,636**	192,611,272	**274,848,641**	190,599,965

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

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

	Number of shares	Share capital	Share-based payment reserve	Other reserves	Share purchase warrants	Accumulated other comprehensive (loss) / income	Accumulated deficit	Equity attributable to owners of Kaizen Discovery Inc.	Non-controlling interest	Total
Balance at December 31, 2015	175,364,517	$ 33,963	$ 3,161	$ -	$ -	$ (17)	$ (29,097)	$ 8,010	$ -	$ 8,010
Net loss for the period	-	-	-	-	-	-	(6,546)	(6,546)	(43)	(6,589)
Other comprehensive loss	-	-	-	-	-	(8)	-	(8)	(1)	(9)
Share-based compensation	-	-	353	-	-	-	-	353	-	353
Non-controlling interest's investment in subsidiary	-	-	-	582	-	-	-	582	43	625
Shares issued on settlement of debt	32,210,460	5,073	-	-	-	-	-	5,073	-	5,073
Balance at September 30, 2016	**207,574,977**	**$ 39,036**	**$ 3,514**	**$ 582**	**$ -**	**$ (25)**	**$ (35,643)**	**$ 7,464**	**$ (1)**	**$ 7,463**
Balance at December 31, 2016	**207,574,977**	**$ 39,010**	**$ 3,334**	**$ 521**	**$ -**	**$ 8**	**$ (39,767)**	**$ 3,106**	**$ 39**	**$ 3,145**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(3,207)**	**(3,207)**	**(5)**	**(3,212)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(202)**	**-**	**(202)**	**(5)**	**(207)**
Share-based compensation	**-**	**-**	**340**	**-**	**-**	**-**	**-**	**340**	**-**	**340**
Shares and share purchase warrants issued pursuant to rights offering (Note 9), net of share issue costs of $112	**69,191,659**	**6,977**	**-**	**-**	**177**	**-**	**-**	**7,154**	**-**	**7,154**
Other changes in non-controlling interest	**-**	**-**	**-**	**(69)**	**-**	**-**	**-**	**(69)**	**69**	**-**
Deconsolidation of subsidiary (Note 5(a))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(98)**	**(98)**
Balance at September 30, 2017	**276,766,636**	**$ 45,987**	**$ 3,674**	**$ 452**	**$ 177**	**$ (194)**	**$ (42,974)**	**$ 7,122**	**$ -**	**$ 7,122**

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	Nine months ended September 30, 2017	2016
Operating activities			
Net loss for the period		**$ (3,212)**	$ (6,589)
Adjustments for non-cash items:			
Share-based compensation		**340**	353
Share of losses from joint ventures		**1,649**	495
Gain on sale of mineral property		**(518)**	-
Dilution gain		**(439)**	-
Loss (gain) on unrealized foreign exchange		**39**	(70)
Interest expense		**-**	73
Write-down of other assets		**-**	1,214
Other expense		**116**	41
Loss on disposal of marketable securities		**8**	-
Changes in non-cash working capital items:			
Receivables		**321**	(362)
Prepaid expenses and deposits		**(7)**	(61)
Accounts payable and accrued liabilities		**(366)**	(61)
Cash used in operating activities		**$ (2,069)**	$ (4,967)
Investing activities			
Reduction of cash from deconsolidation of subsidiary	5(a)	**$ (71)**	$ -
Advances to joint venture	5(a)	**(965)**	-
Step acquisition of subsidiary	13	**(293)**	-
Recognition of cash from consolidation of subsidiary	13	**756**	-
Proceeds from sale of marketable securities	6(a)	**179**	-
Cash used in investing activities		**$ (394)**	$ -
Financing activities			
Proceeds from rights offering		**$ 7,154**	$ -
Non-controlling interest's investment in subsidiary		**-**	625
Drawings under loan facility		**-**	4,300
Cash from financing activities		**$ 7,154**	$ 4,925
Effect of foreign exchange rate changes on cash		**$ -**	$ 2
Increase (decrease) in cash and cash equivalents		**4,691**	(40)
Cash and cash equivalents, beginning of period		**281**	912
Cash and cash equivalents, end of period		**$ 4,972**	$ 872

Supplemental cash flow information (Note 15)

See accompanying notes to the condensed interim consolidated financial statements.

1. Description of business and going concern

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

At September 30, 2017, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2016 – 66.8%) of the Company's issued and outstanding common shares. The ultimate controlling entity is Ivanhoe Industries LLC, a privately owned company.

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

(b) The Company's condensed interim 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 three and nine months ended September 30, 2017, the Company had no operating revenues and incurred losses of $1.2 million and $3.2 million. At September 30, 2017, the Company had consolidated cash and cash equivalents of $5.0 million (December 31, 2016 - $0.3 million), excluding cash of $0.1 million held by Kaizen Peru Holdings Ltd., the joint venture interest that holds the Pinaya Copper-Gold Project.

At September 30, 2017, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and ability to pursue additional sources of financing, including equity placements.

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

The Company's condensed interim 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

(a) *Statement of compliance*

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for full annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS.

(b) *Basis of presentation*

The accounting policies used in the preparation of these condensed interim consolidated financial statements are the same as those applied in the Company's most recent consolidated annual financial statements for the year ended December 31, 2016 and reflect

2. Basis of presentation (continued)

(b) Basis of presentation (continued)

all the adjustments necessary for fair presentation in accordance with IFRS for the interim periods presented.

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

These condensed interim consolidated financial statements are expressed in Canadian dollars.

(c) Comparative figures

On January 12, 2017, the Company announced the closing of its rights offering, which was open to all shareholders (Note 9). Since the subscription price was less than the fair value of a common share of the Company, the rights offering contained a bonus element. In order to provide a comparable basis for the current period, the basic and diluted loss per share for all periods prior to the rights offering have been adjusted retroactively for the bonus element contained in the rights offering. Specifically, the weighted average number of common shares outstanding used to compute basic and diluted loss per share for the three and nine months ended September 30, 2016 have been multiplied by a factor of 1.08.

(d) Critical accounting estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company's critical accounting judgments and estimates remain substantially unchanged from those disclosed in the consolidated financial statements for the year ended December 31, 2016.

(e) Segments

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

3. Adoption of new and revised accounting standards and interpretations

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2017 and have not been applied in preparing these condensed interim 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. As the Company, together with its subsidiaries and joint venture

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

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

(b) (continued)

interest, currently has no source of revenue, the application of IFRS 15 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

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

4. Mineral properties

(a) Pinaya copper-gold project

On February 10, 2017, the $3.57 million (December 31, 2016 - $3.67 million) carrying amount of the Pinaya Copper-Gold Project (the "Pinaya Project") mineral property was derecognized as the Company lost control of Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings") (Note 5(a)).

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

In February 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property ("Castle Property"), located in northern British Columbia, to Colorado Resources Ltd. ("Colorado"). Under the terms of the purchase and sale agreement, the Company received 1,000,000 units of Colorado, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the Company to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months. On the transaction date, the common shares and warrants received were recognized at their fair values of $340,000 (Note 6(a)) and $178,000 (Note 6(b)) respectively, resulting in a realized gain on sale of $518,000.

5. Joint venture interests

	September 30, 2017	December 31, 2016
Kaizen Peru Holdings Ltd. (a)	**$ 815**	$ -
KZD Aspen Grove Holding Ltd. (b)	**-**	503
	$ 815	$ 503

(a) Kaizen Peru Holdings Ltd.

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

On February 10, 2017, ITOCHU Corporation ("ITOCHU") completed its second payment under the strategic financing agreement to advance exploration efforts at the Pinaya Project, increasing its share ownership interest in Kaizen Peru Holdings to 10% while decreasing the Company's stake to 90%. Under the Shareholders Agreement, which governs Kaizen Peru

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

5. Joint venture interests (continued)

(a) Kaizen Peru Holdings Ltd. (continued)

Holdings' decision making, certain key strategic, operating, investing and financing decisions require the approval of all shareholders holding 10% or more of the common shares of Kaizen Peru Holdings. Therefore, the Company lost control of Kaizen Peru Holdings as a result of this joint control arrangement. Consequently, on February 10, 2017, the Company derecognized the assets and liabilities of Kaizen Peru Holdings and the associated non-controlling interest from its condensed interim consolidated statement of financial position. Additionally, the $14,000 cumulative amount of historical exchange losses relating to the translation of Kaizen Peru Holdings' Peruvian subsidiary was reclassified to loss. The retained 90% joint venture interest was recognized at cost and is accounted for using the equity method.

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

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

The following is a summary of the Company's 90% investment in Kaizen Peru Holdings at September 30, 2017:

		September 30, 2017
Beginning of period	**$**	**-**
Initial recognition on loss of control		**819**
Dilution gain on loss of control		**439**
Equity contribution *(i)*		**1,250**
Share of losses from joint venture *(ii)*		**(1,607)**
Share of other comprehensive loss from joint venture *(ii)*		**(86)**
Total equity investment, end of period	**$**	**815**
Advances *(i)*		**1,058**
Total investment, end of period	**$**	**1,873**

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

During the three months ended September 30, 2017, the Company used $1.25 million of such advances to subscribe for additional common shares of Kaizen Peru Holdings. Contemporaneously, in accordance with the Shareholders Agreement, Kaizen Peru Holdings issued to ITOCHU, for a nominal aggregate subscription price, a number of additional common shares sufficient to maintain ITOCHU's 10% joint venture interest.

5. Joint venture interests (continued)

(a) Kaizen Peru Holdings Ltd. (continued)

(ii) Share of losses from joint venture and share of other comprehensive loss from joint venture include the Company's share of those amounts from February 10, 2017, onwards. Share of losses from joint venture also includes the $125,000 excess of the Company's $1.25 million equity contribution, which was made in the three months ended September 30, 2017, over its 90% share of that contribution.

Strategic financing agreement

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

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

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

- A third payment of $1.25 million, for an additional 10% interest, which would bring ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, is conditional on obtaining, within two years of the first payment of $625,000, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project.

ITOCHU has the right to sell all, but not less than all, of its common shares in Kaizen Peru Holdings to the Company for $10.00 plus the amount of ITOCHU's $2.5 million of funding commitment that remains unspent and uncommitted, pro rata to ITOCHU's ownership percentage in Kaizen Peru Holdings on the date that ITOCHU exercises its right. The strategic financing agreement terminates upon ITOCHU exercising this right. At September 30, 2017, the right's estimated redemption amount was nominal.

The Company has agreed to match ITOCHU's exploration funding, bringing the total aggregate funding to $5.0 million for the planned first phase of exploration at Pinaya.

The initial $1.25 million of the Company's $2.5 million funding commitment has been satisfied. The Company's second funding commitment of $1.25 million is due on or before April 18, 2018. Following the completion of the Company's $2.5 million funding commitment, both the Company and ITOCHU become subject to customary cash call obligations and dilution should either party not fund its pro rata amount of any future funding.

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

5. Joint venture interests (continued)

(b) KZD Aspen Grove Holding Ltd.

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

On September 12, 2017, the Company and ITOCHU closed a sale-and-purchase agreement that provided the Company with 100% ownership of KZD Aspen Grove (Note 13). Previously, the Company and ITOCHU had share ownership interests in KZD Aspen Grove of 60% and 40% respectively.

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

On September 12, 2017, the joint venture investment in KZD Aspen Grove was derecognized, and the step acquisition was accounted for as an asset acquisition (Note 13).

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

	January 1, 2017 to September 12, 2017	Year ended December 31, 2016
Beginning of period	**$ 503**	$ 4,040
Share of losses from joint venture	**(42)**	(3,537)
Derecognition of joint venture interest (Note 13)	**(461)**	-
End of period	**$ -**	$ 503

6. Financial assets

	September 30, 2017	December 31, 2016
Marketable securities (a)	**$ 138**	$ 60
Derivative asset (b)	**77**	-
	$ 215	$ 60

(a) Marketable securities

		September 30, 2017				December 31, 2016			
	Number of shares	**Cost Basis**	**Impairment**	**Unrealized loss**	**Fair Value**	Cost Basis	Impairment	Unrealized loss	Fair Value
Alecto Minerals plc (i)	183,322	**$ 631**	**$ (552)**	**$ (79)**	**$ -**	$ 631	$ (552)	$ (19)	$ 60
Colorado Resources Ltd. (ii)	451,000	**153**	**-**	**(15)**	**138**	-	-	-	-
		$ 784	**$ (552)**	**$ (94)**	**$ 138**	$ 631	$ (552)	$ (19)	$ 60

(i) On December 21, 2016, upon being suspended from trading on AIM, pending the publication of an admission document in respect of a proposed transaction, Alecto Minerals plc's ("Alecto") shares closed at approximately $0.001. Due to the delay in publishing the admission document, the trading of Alecto's shares was cancelled on July 11, 2017. As there is no quoted price in an active market for Alecto's shares, the Company assessed its stake at September 30, 2017 and estimated its fair value to be $Nil.

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

6. Financial assets (continued)

(a) Marketable securities (continued)

(ii) In February 2017, the Company received 1,000,000 common shares of Colorado as partial consideration for the sale of the Castle Property to Colorado (Note 4(b)). In the three months ended September 30, 2017, 549,000 of these shares were sold for net proceeds of approximately $179,000, resulting in a realized gain of approximately $8,000. To date, an additional 107,000 shares were sold for net proceeds of approximately $32,000.

(b) Derivative asset

In February 2017, the Company received 1,000,000 share purchase warrants as partial consideration for the sale of the Castle Property to Colorado (Note 4(b)). Each share purchase warrant entitles the Company to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months. The fair value of each share purchase warrant was estimated to be $0.18 on initial recognition and $0.08 on September 30, 2017 using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2017	Initial Recognition
Exercise price	**$0.60**	$0.60
Risk free interest rate	**1.52%**	0.80%
Expected life (years)	**1.38**	2.00
Annualized volatility	**97%**	127%
Dividend rate	**0%**	0%

7. Option liability

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

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

8. Provision

In 2015, the Company recognized a provision for potential obligations related to the Pinaya Project, which was acquired on October 26, 2015. The provision's carrying amount of $1.30 million (December 31, 2016 - $1.27 million) was derecognized on February 10, 2017 as a result of the Company's loss of control of Kaizen Peru Holdings (Note 5(a)).

9. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At September 30, 2017, the Company had 276,766,636 common shares issued and outstanding (December 31, 2016 – 207,574,977).

Rights offering

On January 12, 2017, the Company announced the closing of its rights offering that raised gross proceeds of approximately $7.3 million. Upon the closing of the rights offering, the Company issued a total of 69,191,659 new common shares, which represents 100% of the maximum number of common shares that were available under the offering.

Pursuant to the rights offering, eligible shareholders of record on November 18, 2016 were issued rights on the basis of one right for each common share held. Three rights entitled the holder to subscribe for one common share of the Company upon payment of the subscription price of $0.105 per share. The rights traded on the TSX Venture Exchange from November 16, 2016 to January 11, 2017.

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

In accordance with the terms of the Standby Commitment Agreement, with the completion of the rights offering and fulfillment of the standby commitment by HPX, the Company issued 2,100,000 non-transferable warrants to HPX and the unsecured, revolving loan facility of up to $5.0 million made available to the Company by HPX, under the terms of the Inter-Corporate Loan Agreement between HPX and the Company dated December 4, 2013, was terminated.

Each non-transferable warrant entitles HPX to acquire one common share of the Company at an exercise price per common share of $0.155 at any time on or before January 11, 2022. The fair value of each warrant was estimated to be $0.08 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.09%, expected life of 5 years, annualized volatility of 98.5% and dividend yield of 0%. The aggregate fair value of $177,000 was debited to share capital as a cost of conducting the rights offering.

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

10. Exploration expenses

Exploration expenses are summarized as follows:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Wages and consultants	**$ 92**	$ 160	**$ 306**	$ 744
Assay	**-**	-	**10**	-
Share-based compensation	**15**	(2)	**64**	48
Fees and taxes	**-**	95	**-**	516
Camp	**3**	19	**10**	60
Travel	**10**	6	**52**	42
Professional fees	**-**	43	**5**	188
Demobilization	**21**	74	**21**	134
Environmental	**-**	59	**-**	86
Other	**2**	30	**29**	103
	$ 143	$ 484	**$ 497**	$ 1,921

Exploration expenses were allocated to the following projects:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Pinaya (i)	**$ -**	$ 326	**$ 110**	$ 1,301
Coppermine	**30**	90	**49**	348
Other exploration	**113**	68	**338**	272
	$ 143	$ 484	**$ 497**	$ 1,921

(i) From February 10, 2017 onwards, the Company's share of the Pinaya Project's exploration expenses is included in share of losses from joint ventures (Note 5(a)).

11. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Wages and benefits	**$ 324**	$ 386	**$ 1,073**	$ 1,961
Share-based compensation	**57**	160	**276**	305
Professional fees	**105**	37	**209**	247
Office	**52**	68	**197**	260
Travel	**-**	7	**9**	66
Fees and taxes	**8**	24	**59**	84
Investor relations	**2**	2	**40**	21
Insurance	**18**	19	**54**	43
Other	**10**	4	**24**	15
	$ 576	$ 707	**$ 1,941**	$ 3,002

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

12. Share-based payments

Stock option plan

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

Details of share option transactions during the nine months ended September 30, 2017 are as follows:

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of stock options	**Weighted average exercise price ($ per share)**	Number of stock options	Weighted average exercise price ($ per share)
Outstanding, beginning of period	**9,904,000**	**$ 0.49**	13,071,000	$ 0.55
Granted	**2,560,000**	**0.21**	1,050,000	0.24
Expired	**(19,000)**	**1.57**	(425,000)	0.90
Forfeited	**(3,445,000)**	**0.55**	(1,625,000)	0.52
Outstanding, end of period	**9,000,000**	**$ 0.39**	12,071,000	$ 0.51
Exercisable, end of period	**6,577,078**	**$ 0.41**	6,557,250	$ 0.54

Stock options outstanding and exercisable at September 30, 2017 are as follows:

	Options outstanding		**Options exercisable**	
Exercise price ($ per share)	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.155	425,000	3.2	212,500	3.2
0.20	1,550,000	4.3	1,033,333	4.3
0.215	250,000	4.5	83,333	4.5
0.235	725,000	4.4	241,662	4.4
0.24	1,050,000	3.9	1,050,000	3.9
0.30	1,435,000	2.3	1,076,250	2.3
0.51	175,000	1.9	140,000	1.9
0.63	3,240,000	1.2	2,620,000	1.2
0.66	150,000	1.3	120,000	1.3
	9,000,000	2.7	6,577,078	2.6

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

12. Share-based payments (continued)

Stock option plan (continued)

The weighted average fair value of stock options granted during the nine months ended September 30, 2017 was estimated at $0.12 (September 30, 2016 - $0.18) using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Nine months ended September 30,	
	2017	2016
Exercise price	**$0.21**	$0.24
Risk free interest rate	**0.79%**	0.61%
Expected life (years)	**2.18**	3.50
Annualized volatility	**107%**	103%
Dividend rate	**0%**	0%

13. Step acquisition of KZD Aspen Grove Holding Ltd.

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

The cost of the step acquisition was determined as follows:

Cash consideration	$	293
Joint venture interest derecognized (Note 5(b))		461
	$	754

The assets acquired and liabilities assumed were recognized as follows:

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

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

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

14. 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:

		September 30, 2017		December 31, 2016
Financial assets				
Loans and receivables				
Cash and cash equivalents	$	4,972	$	281
Receivables		2		27
Deposits		450		477
Other assets		78		114
Available-for-sale				
Marketable securities		138		60
Fair value through profit or loss				
Derivative asset		77		-
Total financial assets	$	5,717	$	959
Financial liabilities				
Accounts payable and accrued liabilities	$	388	$	890
Option liability		250		250
Total financial liabilities	$	638	$	1,140

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

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

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

Marketable securities are measured at fair value using level 1 inputs, except for the Alecto Minerals plc common shares which are measured at fair value using level 3 inputs. The derivative asset is measured at fair value using level 2 inputs.

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

15. Supplemental cash flow information

		September 30, 2017		December 31, 2016
Cash and cash equivalents				
Cash	**$**	**4,972**	$	206
Guaranteed investment certificate		**-**		75
Total cash and cash equivalents	**$**	**4,972**	$	281

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

		Nine months ended September 30, 2017		2016
Investing activities				
Consideration received on sale of Castle Property (Note 4(b))	**$**	**518**	$	-
Equity contribution to joint venture interest (Note 5(a))		**1,250**		-
Financing activities				
Share purchase warrants issued pursuant to rights offering (Note 9)	**$**	**(177)**	$	-
Shares issued on settlement of debt		**-**		5,073
Settlement of debt		**-**		(5,073)

16. Related party transactions

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

(a) *Expenses, deposits and accounts payable*

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

		Three months ended September 30, 2017		2016		Nine months ended September 30, 2017		2016
Salaries and benefits	**$**	**462**	$	536	**$**	**1,510**	$	2,481
Corporate administration		**73**		85		**260**		341
Exploration and geophysical activities		**19**		15		**103**		74
Total related party expenses	**$**	**554**	$	636	**$**	**1,873**	$	2,896

The breakdown of expenses by related party is as follows:

		Three months ended September 30, 2017		2016		Nine months ended September 30, 2017		2016
GMM	**$**	**553**	$	611	**$**	**1,849**	$	2,753
HPX		**1**		25		**24**		143
Total related party expenses	**$**	**554**	$	636	**$**	**1,873**	$	2,896

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

16. Related party transactions (continued)

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

The expenses with Global Mining Management Corporation ("GMM") noted above for the three and nine months ended September 30, 2017 include approximately $78,000 (2016 - $14,000) and $369,000 (2016 - $195,000) incurred by Kaizen Peru Holdings (Note 5(a)), the Company's equity-accounted investee. Upon recognizing the equity-method investment in Kaizen Peru Holdings on February 10, 2017, the Company's share of that investee's transactions with GMM commenced being included in share of losses from joint ventures, rather than in exploration or administrative expenses (Note 5(a)).

The expenses with GMM noted above for the three and nine months ended September 30, 2017 include approximately $7,000 (2016 - $170,000) and $34,000 (2016 - $254,000) incurred by KZD Aspen Grove. Upon consolidating KZD Aspen Grove on September 14, 2017, its transactions with GMM commenced being included in exploration or administrative expenses, rather than the Company's share being recognized as share of losses from joint ventures (Notes 5(b) and 13).

At September 30, 2017, the Company had a deposit of $450,000 (December 31, 2016 – $450,000) held with GMM.

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

		September 30, 2017		December 31, 2016
Accounts payable				
GMM	**$**	**209**	$	169
HPX		**1**		149
Key management personnel and officers		**1**		-
Total related party payables	**$**	**211**	$	318

(i) GMM, a private company based in Vancouver, provides administration, accounting, and other office services to the Company on a cost-recovery basis. The Company held 8.3% of GMM's common shares at September 30, 2017 (December 31, 2016 – 12.5%) and has an officer in common with GMM.

(ii) HPX is the Company's privately owned parent, holding 66.8% of the Company's common shares at September 30, 2017 (December 31, 2016 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

(b) Compensation of key management personnel

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

	Three months ended September 30,				**Nine months ended September 30,**			
		2017		2016		**2017**		2016
Salaries and benefits	**$**	**276**	$	258	**$**	**865**	$	1,422
Share-based compensation		**60**		149		**290**		264
Total remuneration	**$**	**336**	$	407	**$**	**1,155**	$	1,686

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

16. Related party transactions (continued)

(b) Compensation of key management personnel (continued)

(ii) The salaries and benefits for key management personnel noted above for the three and nine months ended September 30, 2017 include approximately $42,000 (2016 - $Nil) and $136,000 (2016 - $56,000) incurred by Kaizen Peru Holdings and approximately $Nil (2016 - $9,000) and $3,000 (2016 - $20,000) incurred by KZD Aspen Grove.

KAIZEN DISCOVERY

Management's Discussion and Analysis

September 30, 2017

As at November 14, 2017

Introduction

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide readers with management's overview of the past performance of, and future outlook for, Kaizen Discovery Inc. (the "Company" or "Kaizen"). The report also provides information to enhance readers' understanding of the Company's financial statements and highlights important business trends and risks affecting the Company's financial performance. It should be read in conjunction with the Company's condensed interim consolidated financial statements and notes for the three and nine month periods ended September 30, 2017 (the "financial statements"), audited consolidated financial statements and notes thereto for the year ended December 31, 2016 and MD&A for the year ended December 31, 2016.

All information contained in this MD&A is current as of November 14, 2017 unless otherwise stated.

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

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

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict", "foresee" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect Kaizen's current expectations regarding future events, performance and results, and is accurate only at the time of this MD&A, and may be superseded by more current information. These include, but are not limited to, statements regarding: (i) Kaizen's plans to commence a drilling program at the Pinaya Project once the Consulta Previa is complete and the Authorization to Commence Activities has been received; (ii) amending the DIA to include Pedro 2000 in the Pinaya Project's work program; (iii) potential amendments to the planned Pinaya Project work program to account for the time it takes for the DGM to issue the Authorization to Commence Activities and other factors, including local weather conditions; (iv) the receipt of the third payment by ITOCHU in respect of its funding of the Pinaya Project; (v) Kaizen providing its second funding commitment of $1.25 million for the Pinaya Project; (vi) the expectation that the $5.0 million will pay for the planned first phase of exploration at the Pinaya Project; (vii) Kaizen's options for the Aspen Grove Project, including a possible sale to, or joint venture with, a third party; (viii) Kaizen's options for the Coppermine Project, including a possible sale to, or joint venture with, a third party; (ix) the expectation that the draft Nunavut Land Use Plan's designations, among other strategic issues, will impact Kaizen's ability to continue to choose to invest in its exploration activities at the Coppermine Project until the DNLUP is finalized; and (x) Kaizen's options for the Tanzilla and Pliny copper-gold porphyry projects, including a possible sale to, or joint venture with, a third party.

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

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

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

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

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

The forward looking statements contained herein are based on information available and are made as of November 14, 2017.

Overview of the Business

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

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

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

Outlook

Kaizen’s management is optimistic that the improvement in investors’ sentiment toward the commodity sector in general and shares of mining companies that began in early 2016 will continue for some time to come. The Company’s exploration will continue to focus primarily on copper, which many analysts predict will be one of the best performing metals over the next three to five years, due in part to the revolution in electric vehicles.

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

In 2016 and early 2017, the Company took steps to streamline its exploration portfolio to concentrate its exploration expenditures on the Pinaya Copper-Gold Project – the Company's most promising exploration project. The Company continues to seek additional strategic project opportunities, primarily in South America, the costs of which are undetermined. As such, management will continue to assess the cost of exploration programs at the Pinaya Project and may revise the scope of planned programs.

Corporate Activities

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

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

Business Development Activities

The Company continues to review and seek additional strategic project opportunities, primarily in South America. During the three months ended September 30, 2017, project reviews, primarily focused on copper, were undertaken in Chile, Peru, Argentina and western United States. Discussions with third parties are underway. There can be no assurances that these discussions will result in an acquisition of a new project for the Company.

Exploration Activities

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

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

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

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

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

In 2016, Kaizen signed land access agreements with the community of Pinaya and individual private landholders that provide Kaizen with access rights to conduct its planned exploration program at the Pinaya Project for a two-year period. Kaizen also signed two separate agreements with the community outlining social development and employment commitments.

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

On September 8, 2017, Kaizen's Peruvian subsidiary, which holds the Pinaya Project, received notification from the Peruvian General Directorate of Mining ("DGM") that it had entered the final stage of review – a "Consulta Previa" or "prior consultation" review – prior to the DGM issuing the Authorization to Commence Activities for the Company's planned drill program at the Pinaya Project.

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

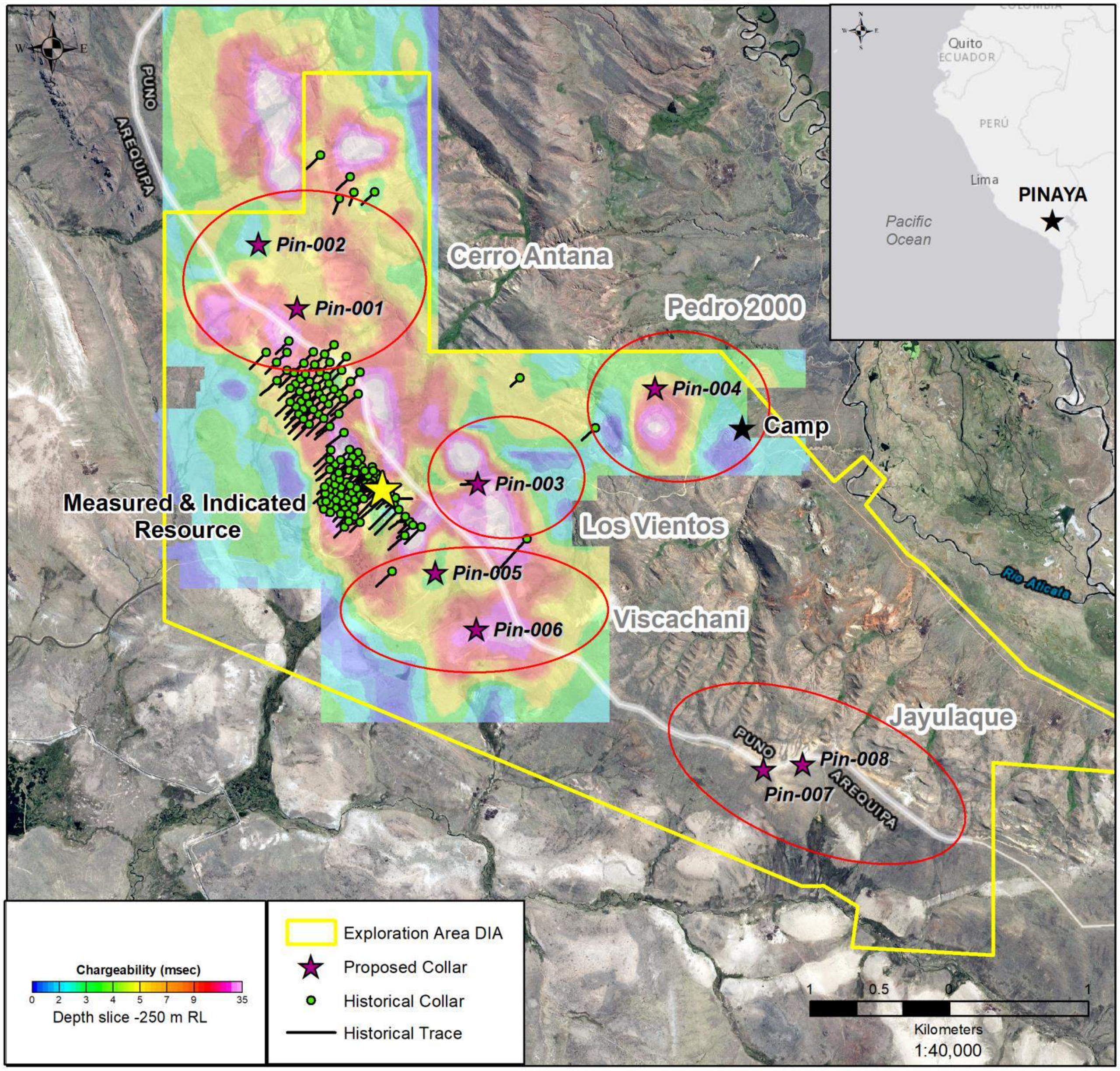
The Company is currently waiting for the completion of the Consulta Previa and the eventual issuance of the Authorization to Commence Activities. The Company is assessing its options and the possible implications for its planned Pinaya exploration program.

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

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

Until the Company receives the Authorization to Commence Activities, the planned exploration work on the Pinaya Project remains on hold. Depending on how long it takes until the Authorization to Commence Activities is received, the Company may amend its planned program to take into account a number of factors, including local weather conditions.

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



Strategic Financing Agreement with ITOCHU for Pinaya Copper-Gold Project

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

The financing agreement calls for ITOCHU to pay the $2.5 million to Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings"), the indirect holder of the Pinaya Project, in three payments.

- The first payment of $625,000 was made upon the closing of the transaction. This payment gave ITOCHU an initial 5% interest in Kaizen's subsidiary, Kaizen Peru Holdings. Kaizen retained the remaining 95%.
- On February 10, 2017, ITOCHU made its second payment of $625,000, for another 5% interest in Kaizen Peru Holdings, raising ITOCHU's interest to 10%. This payment was conditional on obtaining, within two

years of the first payment of $625,000, local community approvals for the lease and surface rights for the Pinaya Project and obtaining all necessary approvals to establish and operate the exploration camp.

- A third payment of $1.25 million, for an additional 10% interest, which would bring ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, is conditional on obtaining, within two years of the first payment of $625,000, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project.

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

Kaizen has agreed to match ITOCHU's exploration funding, bringing the total aggregate funding to $5.0 million for the planned first phase of exploration at Pinaya.

The initial $1.25 million of Kaizen's $2.5 million funding commitment has been satisfied. Kaizen's second funding commitment of $1.25 million is due on or before April 18, 2018. Following the completion of Kaizen's $2.5 million funding commitment, both Kaizen and ITOCHU become subject to customary cash call obligations and dilution should either party not fund its pro rata amount of any future funding.

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

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

The Aspen Grove Project is a non-core asset for which options are being assessed. Discussions are ongoing with potential interested parties for the possible sale or joint venture of the project. The project is located in southern British Columbia, near the city of Merritt. It comprises approximately 112 km^2 (11,237 ha) and covers part of an extensive belt of porphyry copper-gold mineralization hosted by Early Triassic Nicola Group volcanic rocks and Late Triassic to Early Jurassic intrusions.

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

Claims

Kaizen, through its wholly owned subsidiary KZD Aspen Grove, holds 29 claims totaling approximately 112 km^2 (11,237 ha), which will all remain valid through to 2027. Three of the claims (13.75 km^2) are subject to a 2% net smelter return royalty, 1% of which can be purchased at any time for $3.0 million.

Coppermine Project, Nunavut, Canada (100% owned)

The Coppermine Project is a non-core asset for which options are being assessed, including a possible sale to, or joint venture with, a third party. The project constitutes a district-scale, greenfield exploration prospect, discontinuously covering approximately 115 kilometres of strike of an easterly-trending belt of Mesoproterozoic continental flood basalts (the Coppermine River Group) and unconformably overlying marine sedimentary rocks of Neoproterozoic age (the Rae Group). The belt has numerous mineral showings that demonstrate prospectivity for two distinct deposit types: sediment-hosted stratiform copper-silver and structurally-controlled volcanic-hosted copper-silver.

Claims and Permits

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

All of the claims and permits are currently under Section 51 of the Mining Regulations of Nunavut. Under Section 51 of the Mining Regulations, if a claim holder is unable to do the required assessment work because the holder is, for reasons beyond the claim holder's control, waiting for a public authority to give an authorization or decision without which the work cannot proceed, the claim holder may request a one-year suspension of the work requirements.

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

On March 21, 2017, the annual renewal for the Section 51 one-year suspension of work requirements was approved by Indigenous and Northern Affairs Canada.

Other Exploration Projects

Discussions are ongoing with potential interested parties for the possible sale or joint venture of Kaizen's Tanzilla and Pliny copper-gold porphyry projects, located in the Stikine terrane of northwestern British Columbia.

Summary of Quarterly Results

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

	Quarter Ended			
	Sep-30 2017	Jun-30 2017	Mar-31 2017	Dec-31 2016
	$	$	$	$
Exploration expenses	143	160	194	619
Administrative expenses	576	668	697	443
Impairment of mineral properties	-	-	-	-
Share of losses (income) from joint ventures	522	863	264	3,042
Gain on sale of mineral property	-	-	(518)	-
Dilution gain	-	-	(439)	-
Loss (gain) on foreign exchange	2	5	39	37
Write-down of other assets	-	-	-	-
Write-down of marketable securities	-	-	-	-
Other expense (income)	(26)	1	61	9
Net loss for the period	1,217	1,697	298	4,150
Net loss attributable to owners of Kaizen Discovery Inc.	1,217	1,697	293	4,124
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	-	0.01	-	0.02

	Quarter Ended			
	Sep-30 2016	Jun-30 2016	Mar-31 2016	Dec-31 2015
	$	$	$	$
Exploration expenses	484	773	664	354
Administrative expenses	707	912	1,383	976
Impairment of mineral properties	-	-	-	5,461
Share of losses (income) from joint ventures	316	159	20	(424)
Gain on sale of mineral property	-	-	-	-
Dilution gain	-	-	-	-
Loss (gain) on foreign exchange	(28)	10	(26)	36
Write-down of other assets	-	1,214	-	-
Write-down of marketable securities	-	-	-	83
Other expense (income)	(3)	(44)	48	(94)
Net loss for the period	1,476	3,024	2,089	6,392
Net loss attributable to owners of Kaizen Discovery Inc.	1,460	2,997	2,089	6,392
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.01	0.02	0.01	0.03

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

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

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

Comparative Quarters

In Q1 2017, the Company completed a rights offering which was open to all shareholders. Since the rights offering's subscription price was lower than the fair value of a common share of the Company, the basic and diluted loss per share for all prior quarters were adjusted retroactively, in accordance with IFRS, for a bonus element contained in the rights offering. Specifically, the previously stated weighted average number of common shares outstanding used to compute basic and diluted loss per share for each of those quarters was multiplied by a factor of 1.08.

<u>Results of Operations</u>

Third Quarter Results – Three months ended September 30, 2017 ("Q3 2017") compared to three months ended September 30, 2016 ("Q3 2016")

The loss for Q3 2017 totaled $1.22 million compared to $1.48 million for Q3 2016.

Exploration expenses were $0.14 million for Q3 2017 compared to $0.48 million for Q3 2016. The decrease primarily results from not recognizing any exploration expenses for the Pinaya Project in Q3 2017, whereas $0.33 million was recognized in Q3 2016. When the joint venture interest that holds the Pinaya Project was deconsolidated on February 10, 2017, the Company's share of that project's exploration activities commenced being recognized as share of losses from joint venture, rather than as exploration expenses.

Administration expenses decreased from $0.71 million in Q3 2016 to $0.58 million in Q3 2017 primarily due to a $0.10 million decrease in non-cash share-based compensation expense.

Share of losses from joint ventures of $0.52 million in Q3 2017 (Q3 2016 – $0.32 million) includes the Company's $0.52 million (Q3 2016 – $Nil) share of Kaizen Peru Holdings' loss. On February 10, 2017, Kaizen Peru Holdings, the joint venture interest that holds the Pinaya Project, was deconsolidated and the Company commenced recognizing its share of that joint venture's loss under the equity method.

Year-To-Date Results – Nine months ended September 30, 2017 ("YTD 2017") compared to nine months ended September 30, 2016 ("YTD 2016")

The loss for YTD 2017 totalled $3.21 million, compared to the loss of $6.59 million for YTD 2016.

Exploration expenses were $0.50 million for YTD 2017 compared to $1.92 million for YTD 2016. While the Company continued to concentrate its exploration activities on the Pinaya Project throughout YTD 2017, exploration expenses recognized for that project were $1.19 million lower due to the deconsolidation of the joint venture interest that holds it. When that joint venture interest was deconsolidated on February 10, 2017, the Company's share of the Pinaya Project's exploration activities commenced being recognized as share of losses from joint venture, rather than as exploration expenses. Additionally, exploration expenses for the Coppermine Project decreased by $0.30 million as it was inactive throughout YTD 2017.

Administration expenses decreased from $3.00 million in YTD 2016 to $1.94 million in YTD 2017. Wages and benefits were higher in YTD 2016, mainly due to separation payments totaling $0.71 million related to certain changes made to the Company's management and geological teams.

Share of losses from joint ventures of $1.65 million in YTD 2017 (YTD 2016 – $0.50 million) includes the Company's $1.61 million (YTD 2016 – $Nil) share of Kaizen Peru Holdings' loss. On February 10, 2017, Kaizen Peru Holdings, the joint venture interest that holds the Pinaya Project, was deconsolidated and the Company commenced recognizing its share of that joint venture's loss under the equity method.

In YTD 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property to Colorado Resources Ltd. ("Colorado"). On the transaction date, the common shares and warrants received from Colorado were recognized at their fair values of $0.34 million and $0.18 million respectively, resulting in a realized gain on sale of mineral property of $0.52 million (YTD 2016 – $Nil).

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

In YTD 2016, the Company recorded a $1.21 million write-down of other assets (YTD 2017 – $Nil). Due to the recourse available to the Company should it be required to settle potential obligations related to the Pinaya Project, an asset was recognized at the same time as the provision for these potential obligations and classified as other assets in the statement of financial position. On June 30, 2016, the Company filed a notice of civil claim which was contested by the counterparty. Under the applicable accounting rules, it was appropriate to record a $1.21 million write-down of the asset, reducing its carrying amount to nil.

Liquidity and Capital Resources

At September 30, 2017, the Company had consolidated cash and cash equivalents of $4.97 million (December 31, 2016 - $0.28 million), excluding cash of $0.06 million held by Kaizen Peru Holdings, the joint venture interest that holds the Pinaya Project. The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary uses of cash during the nine months ended September 30, 2017 were funding operating activities of $2.07 million (2016 – $4.97 million) and advancing $0.97 million to the Kaizen Peru Holdings joint venture. The step acquisition of KZD Aspen Grove resulted in a net cash addition of $0.47 million, comprising the $0.76 million recognized upon consolidating KZD Aspen Grove and the $0.29 million paid to acquire ITOCHU's 40% stake. Cash provided by financing activities comprised $7.15 million of net proceeds from the rights offering that closed in January 2017.

At September 30, 2017, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and ability to pursue additional sources of financing, including equity placements.

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

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2017, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

Related Party Transactions

(Tabular amounts are expressed in thousands of Canadian dollars)

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

Expenses, deposits and accounts payable

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	$	$	$	$
Salaries and benefits	462	536	1,510	2,481
Corporate administration	73	85	260	341
Exploration and geophysical activities	19	15	103	74
Total related party expenses	554	636	1,873	2,896

The breakdown of expenses by related party is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	$	$	$	$
GMM	553	611	1,849	2,753
HPX	1	25	24	143
Total related party expenses	554	636	1,873	2,896

The expenses with Global Mining Management Corporation ("GMM") noted above for the three and nine months ended September 30, 2017 include approximately $78,000 (2016 - $14,000) and $369,000 (2016 - $195,000) incurred by Kaizen Peru Holdings, the Company's equity-accounted investee. Upon recognizing the equity-method investment in Kaizen Peru Holdings on February 10, 2017, the Company's share of that investee's transactions with GMM commenced being included in share of losses from joint ventures, rather than in exploration or administrative expenses.

The expenses with GMM noted above for the three and nine months ended September 30, 2017 include approximately $7,000 (2016 - $170,000) and $34,000 (2016 - $254,000) incurred by KZD Aspen Grove. Upon consolidating KZD Aspen Grove on September 14, 2017, its transactions with GMM commenced being included in exploration or administrative expenses, rather than the Company's share being recognized as share of losses from joint ventures.

At September 30, 2017, the Company had a deposit of $450,000 (December 31, 2016 – $450,000) held with GMM.

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

	September 30, 2017	December 31, 2016
	$	$
GMM	209	169
HPX	1	149
Key management personnel and officers	1	-
Total related party payables	211	318

(i) GMM, a private company based in Vancouver, provides administration, accounting, and other office services to the Company on a cost-recovery basis. The Company held 8.3% of GMM's common shares at September 30, 2017 (December 31, 2016 – 12.5%) and has an officer in common with GMM.

(ii) HPX TechCo Inc. ("HPX") is the Company's privately-owned parent, holding 66.8% of the Company's common shares at September 30, 2017 (December 31, 2016 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

Compensation of key management personnel

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	$	$	$	$
Salaries and benefits	276	258	865	1,422
Share-based compensation	60	149	290	264
Total remuneration	336	407	1,155	1,686

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

(ii) The salaries and benefits for key management personnel noted above for the three and nine months ended September 30, 2017 include approximately $42,000 (2016 - $Nil) and $136,000 (2016 - $56,000) incurred by Kaizen Peru Holdings and approximately $Nil (2016 - $9,000) and $3,000 (2016 - $20,000) incurred by KZD Aspen Grove.

Outstanding Share Data

At November 14, 2017, the Company had the following issued and outstanding:

- 276,766,636 common shares.
- 8,860,000 stock options with a weighted average exercise price of $0.39 per share. Each stock option is exercisable to purchase a common share of the Company at prices ranging from $0.155 to $0.66 per common share.
- 2,100,000 non-transferable warrants held by HPX. Each non-transferable warrant entitles HPX to acquire one common share of the Company at an exercise price per common share of $0.155 at any time on or before January 11, 2022.

Changes in Accounting Policies Including Initial Adoption

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2017, and have not been applied in preparing the condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2017. The following standards may have a potential effect on the consolidated financial statements of the Company.

a) IFRS 9, *Financial Instruments*, replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. 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. As the Company, together with its subsidiaries and joint venture interest, currently has no source of revenue, the application of IFRS 15 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

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

Financial Instruments

(Tabular amounts are expressed in thousands of Canadian dollars)

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

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

The carrying values of cash and cash equivalents; receivables; deposits; other assets; and accounts payable and accrued liabilities approximate their fair values. Marketable securities are measured at fair value using level 1 inputs, except for the Alecto Minerals plc common shares which are measured at fair value using level 3 inputs. The derivative asset is measured at fair value using level 2 inputs. The option liability is measured at cost.

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

	September 30, 2017	December 31, 2016
	$	$
Financial assets		
Loans and receivables		
Cash and cash equivalents	4,972	281
Receivables	2	27
Deposits	450	477
Other assets	78	114
Available-for-sale		
Marketable securities	138	60
Fair value through profit or loss		
Derivative asset	77	-
Total financial assets	5,717	959
Financial liabilities		
Accounts payable and accrued liabilities	388	890
Option liability	250	250
Total financial liabilities	638	1,140

The Company's exposures to financial risks and how the Company manages each of those risks are described in the Company's MD&A for the year ended December 31, 2016. There were no significant changes to the Company's exposures to those risks or to the Company's management of its risk exposures during the nine month period ended September 30, 2017.

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. Prospective investors should carefully consider all of the information disclosed in this MD&A and the Company's other public disclosures, including the risks disclosed in the "Risk Factors" section of the Company's MD&A for the year ended December 31, 2016, prior to making any investment in the Company's common shares.

Qualified Person

The scientific and technical information in this MD&A related to the Pinaya Project has been reviewed and verified by Mark Gibson, PrNatSci, Chief Operating Officer of the Company, a Qualified Person under the terms of NI 43-101. Mr. Gibson is not independent of Kaizen.

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