KAIZEN DISCOVERY

Condensed Interim Consolidated Financial Statements of

Kaizen Discovery Inc.

March 31, 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		**March 31, 2017**		December 31, 2016
Assets					
Current assets					
Cash and cash equivalents		**$**	**6,918**	$	281
Receivables	15		**52**		371
Prepaid expenses and deposits	15		**522**		495
Total current assets			**7,492**		1,147
Non-current assets					
Mineral properties	4		**-**		3,665
Joint venture interests	5		**1,534**		503
Advances to joint venture	5(a)		**1,486**		-
Financial assets	6		**467**		60
Property, plant and equipment			**70**		70
Other assets			**57**		114
Total assets		**$**	**11,106**	$	5,559
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	15	**$**	**880**	$	890
Option liability	7		**250**		250
Total current liabilities			**1,130**		1,140
Non-current liabilities					
Provision	8		**-**		1,274
Total liabilities		**$**	**1,130**	$	2,414
Equity					
Share capital	9	**$**	**45,987**	$	39,010
Share-based payment reserve	12		**3,479**		3,334
Other reserves			**452**		521
Share purchase warrants	9		**177**		-
Accumulated other comprehensive (loss) income			**(59)**		8
Accumulated deficit			**(40,060)**		(39,767)
Equity attributable to owners of Kaizen Discovery Inc.			**9,976**		3,106
Non-controlling interest			**-**		39
Total equity		**$**	**9,976**	$	3,145
Total liabilities and equity		**$**	**11,106**	$	5,559

Description of business and going concern (Note 1)

Approved and authorized for issue on behalf of the Board on May 12, 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)

		Three months ended March 31,	
	Notes	**2017**	2016
Operating expenses			
Exploration expenses	10	**$ (194)**	$ (664)
Administrative expenses	11	**(697)**	(1,383)
Share of losses from joint ventures	5	**(264)**	(20)
Loss from operations		**(1,155)**	(2,067)
Other income (expenses)			
Gain on sale of mineral property	4(b)	**518**	-
Dilution gain	5(a)	**439**	-
Management fees	15	**1**	4
(Loss) gain on foreign exchange		**(39)**	26
Interest income		**19**	2
Interest expense		**-**	(8)
Other expense		**(81)**	(46)
Loss before income taxes		**(298)**	(2,089)
Income taxes		**-**	-
Net loss for the period		**(298)**	(2,089)
Other comprehensive (loss) income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustment		**(64)**	9
Share of other comprehensive income of joint venture	5(a)	**37**	-
Unrealized (loss) gain on marketable securities		**(59)**	20
Items that have been reclassified to profit or loss:			
Cumulative exchange loss relating to deconsolidated foreign subsidiary	5(a)	**14**	-
Total other comprehensive (loss) income for the period		**$ (72)**	$ 29
Total comprehensive loss for the period		**$ (370)**	$ (2,060)
Net loss attributable to:			
Owners of Kaizen Discovery Inc.		**$ (293)**	$ (2,089)
Non-controlling interest		**(5)**	-
Net loss for the period		**$ (298)**	$ (2,089)
Total comprehensive loss attributable to:			
Owners of Kaizen Discovery Inc.		**$ (360)**	$ (2,060)
Non-controlling interest		**(10)**	-
Total comprehensive loss for the period		**$ (370)**	$ (2,060)
Loss per share (basic and diluted)		**$ (0.00)**	$ (0.01)
Weighted average number of basic and diluted shares outstanding		**269,078,674**	175,364,517

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	-	-	-	-	-	-	(2,089)	(2,089)	-	(2,089)
Other comprehensive income	-	-	-	-	-	29	-	29	-	29
Share-based compensation	-	-	77	-	-	-	-	77	-	77
Balance at March 31, 2016	**175,364,517**	**$ 33,963**	**$ 3,238**	**$ -**	**$ -**	**$ 12**	**$ (31,186)**	**$ 6,027**	**$ -**	**$ 6,027**
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	**-**	**-**	**-**	**-**	**-**	**-**	**(293)**	**(293)**	**(5)**	**(298)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(67)**	**-**	**(67)**	**(5)**	**(72)**
Share-based compensation	**-**	**-**	**145**	**-**	**-**	**-**	**-**	**145**	**-**	**145**
Shares and share purchase warrants issued pursuant to rights offering (Note 9), net of share issue costs of $112	**69,191,659**	**6,977**	**-**	**-**	**177**	**-**	**-**	**7,154**	**-**	**7,154**
Other changes in non-controlling interest	**-**	**-**	**-**	**(69)**	**-**	**-**	**-**	**(69)**	**69**	**-**
Deconsolidation of subsidiary (Note 5(a))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(98)**	**(98)**
Balance at March 31, 2017	**276,766,636**	**$ 45,987**	**$ 3,479**	**$ 452**	**$ 177**	**$ (59)**	**$ (40,060)**	**$ 9,976**	**$ -**	**$ 9,976**

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		Three months ended March 31, 2017		2016
Operating activities					
Net loss for the period		**$**	**(298)**	$	(2,089)
Adjustments for non-cash items:					
Share-based compensation			**145**		77
Share of losses from joint ventures			**264**		20
Gain on sale of mineral property			**(518)**		-
Dilution gain			**(439)**		-
Loss (gain) on unrealized foreign exchange			**36**		(37)
Interest expense			**-**		8
Other expense			**81**		46
Changes in non-cash working capital items:					
Receivables			**315**		(32)
Prepaid expenses and deposits			**(27)**		(53)
Accounts payable and accrued liabilities			**115**		679
Cash used in operating activities		**$**	**(326)**	$	(1,381)
Investing activities					
Reduction of cash from deconsolidation of subsidiary	5(a)	**$**	**(71)**	$	-
Advances to joint venture	5(a)		**(143)**		-
Cash used in investing activities		**$**	**(214)**	$	-
Financing activities					
Proceeds from rights offering		**$**	**7,174**	$	-
Drawings under loan facility			**-**		1,000
Cash from financing activities		**$**	**7,174**	$	1,000
Effect of foreign exchange rate changes on cash		**$**	**3**	$	(4)
Increase (decrease) in cash and cash equivalents			**6,637**		(385)
Cash and cash equivalents, beginning of period			**281**		912
Cash and cash equivalents, end of period		**$**	**6,918**	$	527

Supplemental cash flow information (Note 14)

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

The Company, together with its subsidiaries and joint venture 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 months ended March 31, 2017, the Company had no operating revenues and incurred a loss of $0.3 million. At March 31, 2017, the Company had consolidated cash and cash equivalents of $6.9 million (December 31, 2016 - $0.3 million), excluding cash of $0.5 million (December 31, 2016 – $0.5 million) held by KZD Aspen Grove Holding Ltd. and $0.5 million held by Kaizen Peru Holdings Ltd., the joint venture interests that hold the Aspen Grove Project and the Pinaya Copper-Gold Project respectively.

At March 31, 2017, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and ability to pursue additional sources of financing, including equity placements.

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

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) 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.

(d) 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. 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.

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

4. Mineral properties

(a) Pinaya copper-gold project

On February 10, 2017, the Company derecognized the $3.57 million (December 31, 2016 - $3.67 million) carrying amount of the Pinaya Copper-Gold Project (the “Pinaya Project”) mineral property as a result of the Company’s loss of 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, Kaizen received 1,000,000 units of Colorado, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles Kaizen to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months. 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

		March 31, 2017		December 31, 2016
Kaizen Peru Holdings Ltd. (a)	**$**	**1,040**	$	-
KZD Aspen Grove Holding Ltd. (b)		**494**		503
	$	**1,534**	$	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 completed its second payment under the strategic financing agreement to advance exploration efforts at the Pinaya Project, increasing its share ownership interest in Kaizen Peru Holdings to 10% while decreasing the Company’s stake to 90%. Under the Shareholders Agreement, which governs Kaizen Peru Holdings’ decision making, certain key strategic, operating, investing and financing decisions require the approval of all shareholders holding 10% or more of the common shares of Kaizen Peru Holdings. Therefore, as a result of this transaction, the Company lost control of Kaizen Peru Holdings and, due to the joint control arrangement, retained a 90% joint venture interest. Consequently, on February 10, 2017, the Company derecognized the assets and liabilities of Kaizen Peru Holdings and non-controlling interest in Kaizen Peru Holdings from its condensed interim consolidated statement of financial position. Additionally, the $14,000 cumulative amount of 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.

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

5. Joint venture interests (continued)

(a) Kaizen Peru Holdings Ltd. (continued)

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 March 31, 2017:

		March 31, 2017
Beginning of period	**$**	**-**
Initial recognition on loss of control		**819**
Dilution gain on loss of control		**439**
Share of losses from joint venture (i)		**(255)**
Share of other comprehensive income from joint venture (i)		**37**
Total equity investment, end of period	**$**	**1,040**
Advances (ii)		**1,486**
Total investment, end of period	**$**	**2,526**

(i) Share of losses and other comprehensive income from joint venture reflect the Company's share of those amounts from February 10, 2017 onwards.

(ii) Amounts advanced to Kaizen Peru Holdings are non-interest bearing and will be applied towards the Company's funding commitments, under the strategic financing agreement described below, by way of equity contributions to Kaizen Peru Holdings.

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 20% stake in the project. 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, bringing ITOCHU's total 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.

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

5. Joint venture interests (continued)

(a) Kaizen Peru Holdings Ltd. (continued)

Strategic financing agreement (continued)

- 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 environmental, archaeological and water 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 March 31, 2017, the right's estimated redemption amount was nominal.

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 initial $1.25 million of the Company's $2.5 million funding commitment has been satisfied through its advances to Kaizen Peru Holdings for an additional equity contribution. 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 a party not fund its then pro rata amount of any future funding.

(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.

The Company and ITOCHU have share ownership interests in KZD Aspen Grove of 60% and 40% respectively. Under the Unanimous Shareholders Agreement, which governs KZD Aspen Grove's decision making, unanimous shareholder approval is required for certain key strategic, operating, investing and financing decisions. Accordingly, the Company's 60% interest is treated as a joint venture investment, which is accounted for using the equity method.

The following is a summary of the Company's 60% investment in KZD Aspen Grove at March 31, 2017:

	Three months ended March 31, 2017	Year ended December 31, 2016
Beginning of period	**$ 503**	$ 4,040
Share of losses from joint venture	**(9)**	(3,537)
End of period	**$ 494**	$ 503

On December 21, 2016, the Company announced that KZD Aspen Grove does not intend to continue its exploration program at the Aspen Grove Project. KZD Aspen Grove will instead assess various options for the Aspen Grove Project, including a possible sale to, or joint venture with, a third party. As substantive expenditure on further exploration was neither budgeted nor planned, KZD Aspen Grove assessed the $5.43 million carrying amount of the Aspen Grove mineral property and concluded it was impaired. The Company has recognized its share of KZD Aspen Grove's impairment loss in the year ended December 31, 2016.

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

6. Financial assets

		March 31, 2017		December 31, 2016
Marketable securities (a)	**$**	**341**	$	60
Derivative asset (b)		**126**		-
	$	**467**	$	60

(a) Marketable securities

		March 31, 2017				December 31, 2016			
	Number of shares	**Cost Basis**	**Impairment**	**Unrealized loss**	**Fair Value**	Cost Basis	Impairment	Unrealized loss	Fair Value
Alecto Minerals plc	54,996,857	**$ 631**	**$ (552)**	**$ (18)**	**$ 61**	$ 631	$ (552)	$ (19)	$ 60
Colorado Resources Ltd. (i)	1,000,000	**340**	**-**	**(60)**	**280**	-	-	-	-
		$ 971	**$ (552)**	**$ (78)**	**$ 341**	$ 631	$ (552)	$ (19)	$ 60

(i) In February 2017, Kaizen received 1,000,000 common shares of Colorado as partial consideration for the sale of the Castle Property to Colorado (Note 4(b)).

(b) Derivative asset

In February 2017, Kaizen 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 Kaizen 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 $0.13 on March 31, 2017 using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2017	Initial Recognition
Exercise price	**$0.60**	$0.60
Risk free interest rate	**0.80%**	0.80%
Expected life (years)	**1.88**	2.00
Annualized volatility	**124%**	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 March 31, 2017, the Company had 276,766,636 common shares issued and outstanding (December 31, 2016 – 207,574,977).

Rights offering

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

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

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

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

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

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

10. Exploration expenses

Exploration expenses are summarized as follows:

	Three months ended March 31, 2017	2016
Wages and consultants	$ 139	$ 332
Assay	10	-
Share-based compensation	8	26
Fees and taxes	-	162
Camp	4	18
Travel	18	11
Professional fees	5	69
Other	10	46
	$ 194	$ 664

Exploration expenses were allocated to the following projects:

	Three months ended March 31, 2017	2016
Pinaya (i)	$ 110	$ 454
Coppermine	14	119
Other exploration	70	91
	$ 194	$ 664

(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 March 31, **2017**	2016
Wages and benefits	**$ 389**	$ 1,140
Share-based compensation	**137**	51
Professional fees	**23**	22
Office	**79**	93
Travel	**5**	25
Fees and taxes	**23**	23
Investor relations	**16**	11
Insurance	**18**	11
Other	**7**	7
	$ 697	$ 1,383

(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 three months ended March 31, 2017 are as follows:

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Number of stock options		**Weighted average exercise price ($ per share)**	Number of stock options		Weighted average exercise price ($ per share)
Outstanding, beginning of period	**9,904,000**	**$**	**0.49**	13,071,000	$	0.55
Granted	**2,310,000**		**0.21**	-		-
Expired	**(19,000)**		**1.57**	(40,000)		2.24
Forfeited	**(3,150,000)**		**0.55**	(800,000)		0.55
Outstanding, end of period	**9,045,000**	**$**	**0.40**	12,231,000	$	0.54
Exercisable, end of period	**5,515,416**	**$**	**0.45**	7,077,250	$	0.57

Stock options outstanding and exercisable at March 31, 2017 are as follows:

	Options outstanding		**Options exercisable**	
Exercise price ($ per share)	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.155	475,000	3.7	237,500	3.7
0.20	1,550,000	4.8	516,666	4.8
0.235	760,000	4.9	-	-
0.24	1,050,000	4.4	700,000	4.4
0.30	1,435,000	2.8	1,076,250	2.8
0.51	175,000	2.4	105,000	2.4
0.63	3,275,000	1.8	2,620,000	1.8
0.66	325,000	0.9	260,000	0.9
	9,045,000	3.1	5,515,416	2.6

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

12. Share-based payments (continued)

The weighted average fair value of stock options granted during the three months ended March 31, 2017 was estimated at $0.12 (March 31, 2016 - $Nil) using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Three months ended March 31,	
	2017	2016
Exercise price	**$0.21**	-
Risk free interest rate	**0.78%**	-
Expected life (years)	**2.16**	-
Annualized volatility	**107%**	-
Dividend rate	**0%**	-

13. 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:

	March 31, 2017	December 31, 2016
Financial assets		
Loans and receivables		
Cash and cash equivalents	**$ 6,918**	$ 281
Receivables	**2**	27
Deposits	**479**	477
Other assets	**57**	114
Available-for-sale		
Marketable securities	**341**	60
Fair value through profit or loss		
Derivative asset	**126**	-
Total financial assets	**$ 7,923**	$ 959
Financial liabilities		
Accounts payable and accrued liabilities	**$ 880**	$ 890
Option liability	**250**	250
Total financial liabilities	**$ 1,130**	$ 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.

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

13. 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 and the derivative asset is measured at fair value using level 2 inputs.

14. Supplemental cash flow information

		March 31, 2017		December 31, 2016
Cash and cash equivalents				
Cash	**$**	**6,918**	$	206
Guaranteed investment certificate		**-**		75
Total cash and cash equivalents	**$**	**6,918**	$	281

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

		Three months ended March 31, 2017		2016
Investing activities				
Consideration received on sale of Castle Property (Note 4(b))	**$**	**518**	$	-
Financing activities				
Share purchase warrants issued pursuant to rights offering (Note 9)	**$**	**(177)**	$	-

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

15. 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, receivables, deposits and accounts payable

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

	Three months ended March 31,			
		2017		2016
Salaries and benefits	**$**	**509**	$	1,346
Corporate administration		**105**		97
Exploration and geophysical activities		**63**		20
Total related party expenses	**$**	**677**	$	1,463

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

	Three months ended March 31,			
		2017		2016
GMM	**$**	**673**	$	1,443
HPX		**4**		20
Total related party expenses	**$**	**677**	$	1,463

The transactions with Global Mining Management Corporation ("GMM") noted above for the three months ended March 31, 2017 include approximately $15,000 (2016 - $39,000) and $142,000 (2016 - $143,000) incurred by KZD Aspen Grove (Note 5(b)) and Kaizen Peru Holdings (Note 5(a)), the Company's equity-accounted investees. The Company's share of losses from joint ventures includes 60% of GMM's transactions with KZD Aspen Grove and, commencing February 10, 2017, 90% of GMM's transactions with Kaizen Peru Holdings. Transactions that occurred between GMM and Kaizen Peru Holdings prior to the deconsolidation of Kaizen Peru Holdings on February 10, 2017 are included in exploration and administrative expenses.

The breakdown of receivables and deposits by related party is as follows:

		March 31, 2017		December 31, 2016
Receivables				
KZD Aspen Grove	**$**	**1**	$	1
Deposits				
GMM		**450**		450
Total related party receivables and deposits	**$**	**451**	$	451

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

15. Related party transactions (continued)

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

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

		March 31, 2017		December 31, 2016
Accounts payable				
GMM	**$**	**343**	$	169
HPX		**153**		149
Total related party payables	**$**	**496**	$	318

(i) GMM is a private company based in Vancouver owned equally by eight companies, one of which is the Company, and has an officer 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 66.8% of the Company's common shares at March 31, 2017 (December 31, 2016 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

(iii) 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 three months ended March 31, 2017, management fees of $1,000 (2016 – $4,000) were earned by the Company as the project's operator.

(b) Compensation of key management personnel

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

		Three months ended March 31,		
		2017		2016
Salaries and benefits	**$**	**278**	$	952
Share-based compensation		**135**		34
Total remuneration	**$**	**413**	$	986

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

KAIZEN DISCOVERY

Management's Discussion and Analysis

March 31, 2017

As at May 12, 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 months ended March 31, 2017 (the "financial statements"), audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the "financial statements") and MD&A for the year ended December 31, 2016,.

All information contained in this MD&A is current as of May 12, 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 remaining requirements needed to commence drilling activities have been fulfilled, including receiving a permission to initiate activities and a water-use permit; (ii) the expectation that the remaining requirements to commence drilling will be received for the planned start of the drilling program in June 2017; (iii) the receipt of the third payment by ITOCHU in respect of its funding of the Pinaya Project; (iv) Kaizen providing matching funding of up to $2.5 million for the Pinaya Project; (v) the expectation that the $5.0 million will pay for approximately two years of planned exploration work at the Pinaya Project; (vi) statements regarding Kaizen's and ITOCHU's options for the Aspen Grove Project, including a possible sale to, or joint venture with, a third party; (vii) statements regarding Kaizen's options for the Coppermine Project, including a possible sale to, or joint venture with, a third party; and (viii) the expectation that the uncertainty regarding the finalization of the draft Nunavut Land Use Plan will impact Kaizen's ability to continue its exploration activities at the Coppermine Project.

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 May 12, 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

During 2016 and the first quarter of 2017, there has been a noticeable improvement in investors' sentiment toward the commodity sector in general and shares of mining companies, marking a significant reversal of the bearish trend for commodities and commodity-related shares that had persisted since the second half of 2011. After a challenging 2015, investors showed renewed enthusiasm for commodities and mining shares beginning in mid-January 2016. This improved investors' sentiment was a contributing factor in Kaizen's successful, over-subscribed rights offering announced in late-2016 and completed in January 2017 that raised $7.3 million in gross proceeds. With the funds from the rights offering and the funding commitment from ITOCHU Corporation

("ITOCHU") for the first phase exploration program at the Pinaya Copper-Gold Project in Peru, the Company has sufficient funds to finance its current exploration commitments for 2017.

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 "Pinaya Project") – the Company's most promising exploration project. The Company continues to seek additional strategic project opportunities, primarily in South America, the costs of which are undetermined. As such, management will continue to assess the cost of exploration programs at the Pinaya Project and may revise the scope of planned programs.

Overall Performance

Corporate Activities

Over-Subscribed Rights Offering Raises Gross Proceeds of $7.3 Million

On November 10, 2016, the Company announced that it was conducting a rights offering to raise gross proceeds of approximately $7.3 million. Pursuant to the rights offering, eligible shareholders of record on November 18, 2016 were issued rights on the basis of one right for each common share held. Three rights entitled the holder to subscribe for one common share of the Company upon payment of the subscription price of $0.105 per share. The rights traded on the TSX Venture Exchange from November 16, 2016 to January 11, 2017.

On January 12, 2017, the Company announced the closing of the rights offering and confirmed it generated approximately $7.3 million in aggregate gross proceeds. Upon the closing of the rights offering, the Company issued a total of 69,191,659 new common shares, which represents 100% of the maximum number of common shares that were available under the rights offering. The Company now has 276,766,636 shares issued and outstanding.

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

In accordance with the terms of the Standby Commitment Agreement, with the completion of the rights offering and fulfillment of the standby commitment by HPX, the Company issued 2,100,000 non-transferable warrants to HPX and the Inter-Corporate Loan Agreement between the Company and HPX dated December 4, 2013, which made available to the Company a $5.0 million unsecured, revolving loan facility ("Loan Agreement"), was terminated. Each warrant entitles HPX to acquire one common share of the Company at an exercise price per common share of $0.155 at any time on or before January 11, 2022. No cash fees or commissions were paid to HPX or any other subscriber in connection with the rights offering.

Collaboration Agreement with ITOCHU Corporation

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

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

Changes to Management

On January 4, 2017, Kaizen announced the appointment of Tom Peregoodoff as President and Chief Executive Officer ("CEO"), replacing Eric Finlayson as the Company's Interim CEO. Mr. Finlayson had held the CEO position on an interim basis since March 31, 2016.

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

Exploration Activities

Pinaya Copper-Gold Project, Peru

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.

Kaizen acquired a 100% interest in the Pinaya Project from AM Gold in October 2015. Details of the acquisition agreement are contained in Kaizen's news release of October 26, 2015.

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 (Figure 2).

Kaizen has 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 November 2, 2016, Kaizen received its water-use authorization for the Pinaya Project's exploration camp.

In late 2016, Kaizen engaged consulting geologist Nadia Caira, P.Geo., to conduct an extensive review of the core drilled at the project by previous operators. This review has provided Kaizen with new and valuable insights into the distribution of the mineralization within the different deposit types in the resource area and their relation to the regional structural setting. Further work, including preliminary prospect mapping and resource drilling review, was recently completed by consulting geologist Gustavo Zulliger, whose insights have been critical to finalizing the 2017 resource and target testing drilling.

On February 14, 2017, Kaizen received approval of its Declaration for Environmental Impact ("DIA") for the Pinaya Project. The DIA allows Kaizen to use up to 20 drilling platforms and to drill as many as 55 holes totalling up to 17,200 metres. Kaizen plans to drill approximately 4,000 metres at the Pinaya Project in 2017. The DIA also enables Kaizen to excavate 95 trenches. In addition, the Certificate of Non-Existence of Archaeological Remains has been received which is also a precondition to commencing drilling.

The remaining requirements needed to commence drilling activities include receipt of a permission to initiate activities and a water-use permit. Applications for both have been filed and are expected to be received for the planned start of the drilling program in June of 2017.

Figure 1: Location of the Pinaya Copper-Gold Project in Peru.

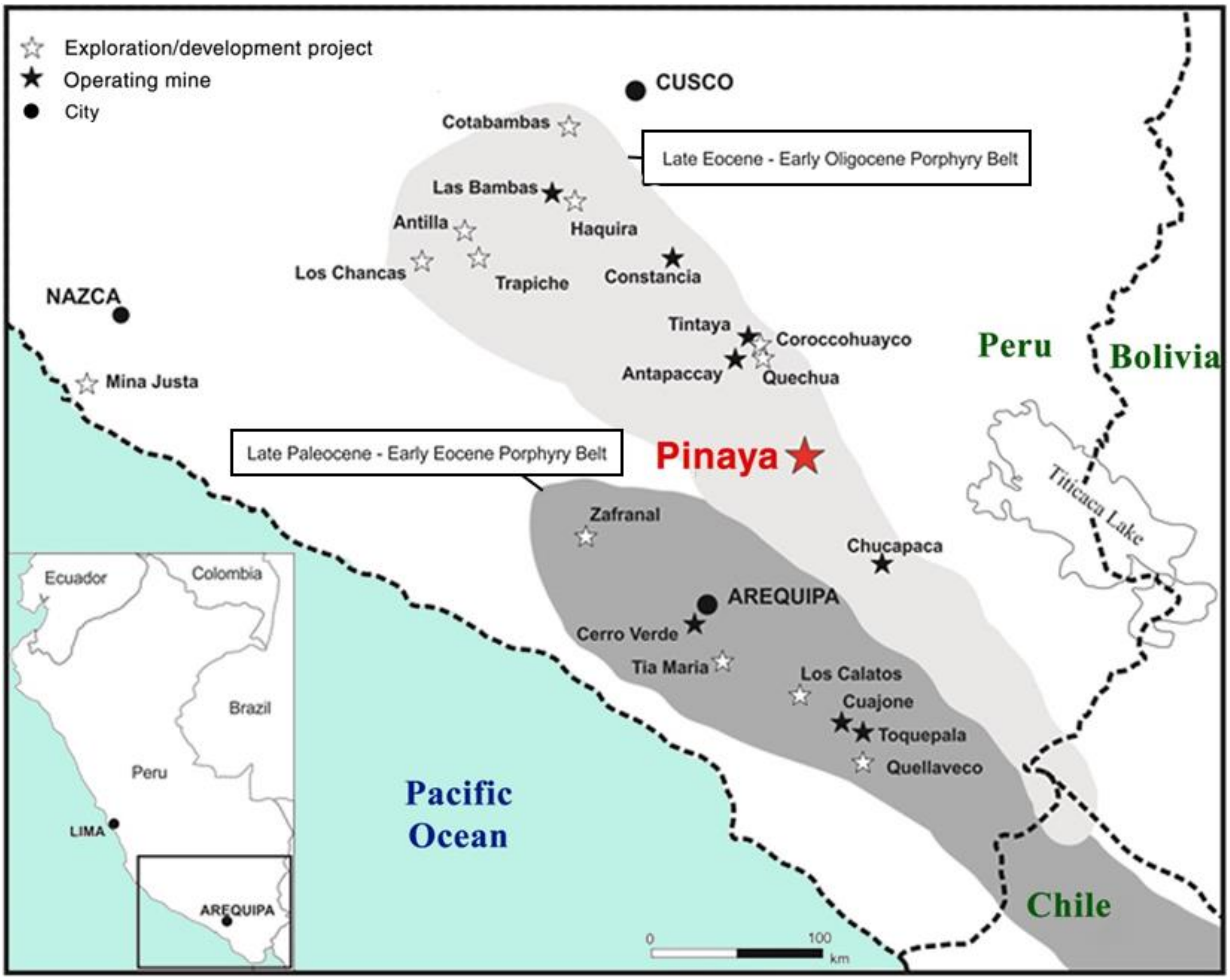
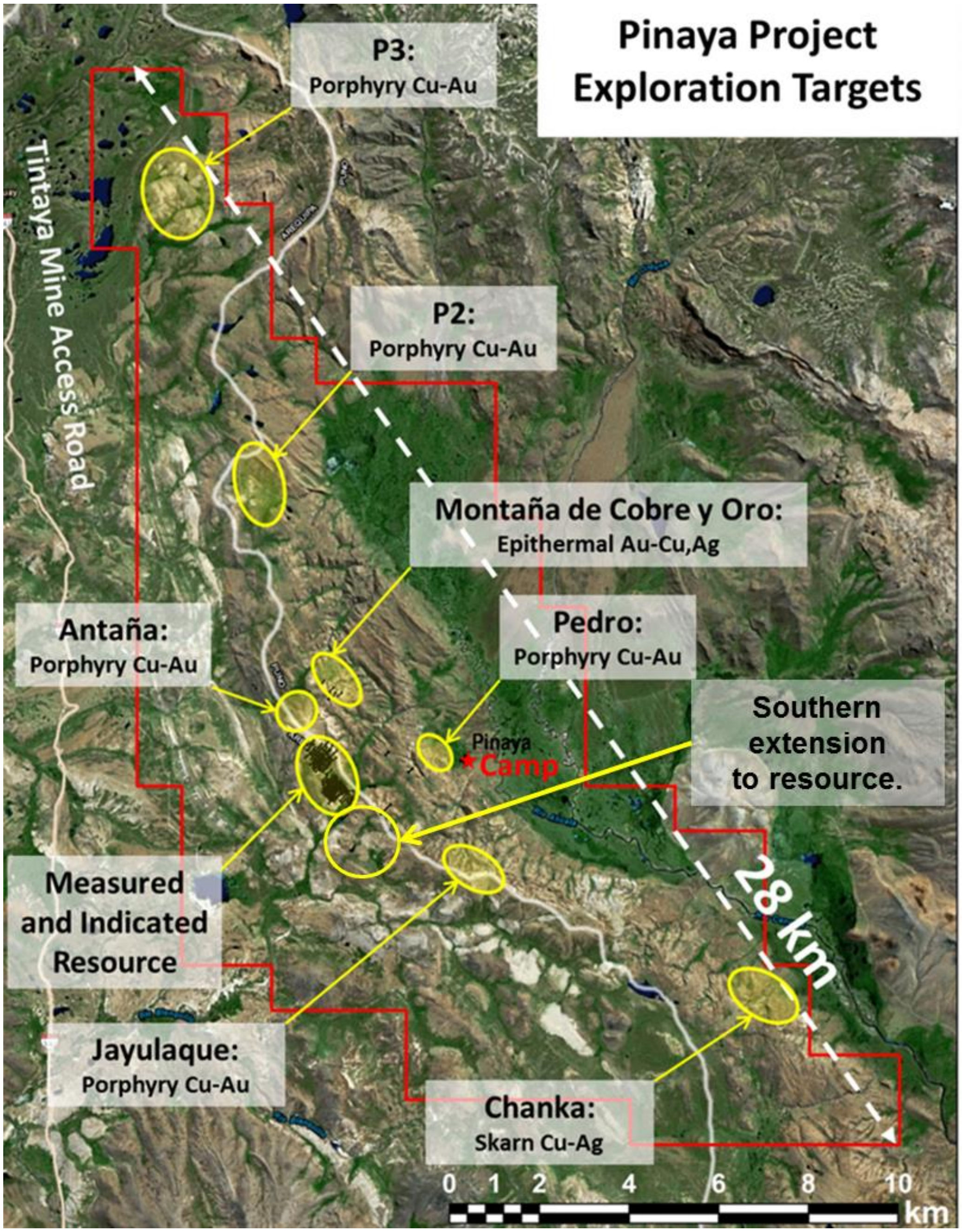


Figure 2: Satellite image with regional targets within Pinaya Copper-Gold Project in Peru.



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 Copper-Gold 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 in Kaizen Peru Holdings 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 environmental, archaeological and water 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. Kaizen expects that the $5.0 million will pay for approximately two years of planned exploration work at the project.

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

The Aspen Grove 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 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

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. The project's 29 claims will all remain valid through to 2027.

Coppermine Project, Nunavut, Canada

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.

Licences

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 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.

The annual renewal letter for the Section 51 one-year suspension of work requirements was submitted to the Nunavut Mining Recorder on March 7, 2017. On March 21, 2017, the renewal request was approved by Indigenous and Northern Affairs Canada.

Other Exploration Projects

In February 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property, located in northern British Columbia, to Colorado Resources Ltd. ("Colorado"). Under the terms of the purchase and sale agreement, Kaizen received 1,000,000 units of Colorado, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles Kaizen to purchase a further common share in Colorado at a price of $0.60 per share for a period of 24 months from the date of sale.

Summary of Quarterly Results

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

	Quarter Ended			
	Mar-31 2017	Dec-31 2016	Sep-30 2016	Jun-30 2016
	$	$	$	$
Exploration expenses	194	619	484	773
Administrative expenses	697	443	707	912
Impairment of mineral properties	-	-	-	-
Share of losses (income) from joint ventures	264	3,042	316	159
Gain on sale of mineral property	(518)	-	-	-
Dilution gain	(439)	-	-	-
Loss (gain) on foreign exchange	39	37	(28)	10
Write-down of other assets	-	-	-	1,214
Write-down of marketable securities	-	-	-	-
Other expense (income)	61	9	(3)	(44)
Net loss for the period	298	4,150	1,476	3,024
Net loss attributable to owners of Kaizen Discovery Inc.	293	4,124	1,460	2,997
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	-	0.02	0.01	0.02

	Quarter Ended			
	Mar-31 2016	Dec-31 2015	Sep-30 2015	Jun-30 2015
	$	$	$	$
Exploration expenses	664	354	1,742	1,014
Administrative expenses	1,383	976	810	1,026
Impairment of mineral properties	-	5,461	-	-
Gain on sale of mineral property	-	-	-	-
Dilution gain	-	-	-	-
Share of losses (income) from joint ventures	20	(424)	734	521
Loss (gain) on foreign exchange	(26)	36	(73)	56
Write-down of other assets	-	-	-	-
Write-down of marketable securities	-	83	-	19
Other expense (income)	48	(94)	(159)	(96)
Net loss for the period	2,089	6,392	3,054	2,540
Net loss attributable to owners of Kaizen Discovery Inc.	2,089	6,392	3,054	2,540
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.01	0.04	0.02	0.02

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 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.

Results of Operations

First Quarter Results – Three months ended March 31, 2017 ("Q1 2017") compared to three months ended March 31, 2016 ("Q1 2016")

The loss for Q1 2017 totalled $0.30 million compared to the loss of $2.09 million for Q1 2016.

Exploration expenses were $0.19 million for Q1 2017 compared to $0.66 million for Q1 2016. In both Q1 2017 and Q1 2016, exploration activities primarily related to the Pinaya Project. However, since 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 has been recognized in share of losses from joint venture from that date onwards, largely accounting for the decrease in exploration expenses reported for that project.

Administration expenses decreased from $1.38 million in Q1 2016 to $0.70 million in Q1 2017. Wages and benefits were higher in Q1 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 $0.26 million in Q1 2017 (Q1 2016 – $0.02 million) includes the Company's $0.26 million (Q1 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 Q1 2017, the Company completed the sale of its 100% interest in the Castle gold-silver-copper property to 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 (Q1 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 (Q1 2016 – $Nil).

Liquidity and Capital Resources

At March 31, 2017, the Company had consolidated cash and cash equivalents of $6.92 million (December 31, 2016 - $0.28 million), excluding cash of $0.50 million (December 31, 2016 – $0.53 million) held by KZD Aspen Grove and $0.54 million held by Kaizen Peru Holdings, the joint venture interests that hold the Aspen Grove Project and the Pinaya Project respectively. The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary use of cash during Q1 2017 was funding operating activities of $0.33 million (Q1 2016 – $1.38 million). During the same period, cash provided by financing activities comprised $7.27 million of gross proceeds from the rights offering that closed in January 2017.

On January 12, 2017, Kaizen announced the closing of its rights offering and confirmed it generated approximately $7.3 million in aggregate gross proceeds. The key terms of the rights offering are disclosed in the "Corporate Activities" section of this MD&A, including the termination of the Loan Agreement that occurred upon fulfillment of the standby commitment by HPX and completion of the rights offering.

At March 31, 2017, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and ability to pursue additional sources of financing, including equity placements.

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

Off-Balance Sheet Arrangements

During the three months ended March 31, 2017, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

Related Party Transactions

(Tabular amounts are expressed in thousands of Canadian dollars)

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

Expenses, receivables, deposits and accounts payable

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

	Three months ended March 31,	
	2017	2016
	$	$
Salaries and benefits	509	1,346
Corporate administration	105	97
Exploration and geophysical activities	63	20
Total related party expenses	677	1,463

The breakdown of expenses by related party is as follows:

	Three months ended March 31,	
	2017	2016
	$	$
GMM	673	1,443
HPX	4	20
Total related party expenses	677	1,463

The transactions with Global Mining Management Corporation ("GMM") noted above for the three months ended March 31, 2017 include approximately $15,000 (2016 – $39,000) and $142,000 (2016 – $143,000) incurred by KZD Aspen Grove and Kaizen Peru Holdings, the Company's equity-accounted investees. The Company's share of losses from joint ventures includes 60% of GMM's transactions with KZD Aspen Grove and, commencing February 10, 2017, 90% of GMM's transactions with Kaizen Peru Holdings. Transactions that occurred between GMM and Kaizen Peru Holdings prior to the deconsolidation of Kaizen Peru Holdings on February 10, 2017 are included in exploration and administrative expenses.

The breakdown of receivables and deposits by related party is as follows:

	March 31, 2017	**December 31, 2016**
	$	$
Receivables		
KZD Aspen Grove	1	1
Deposits		
GMM	450	450
Total related party receivables and deposits	451	451

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

	March 31, 2017	**December 31, 2016**
	$	$
GMM	343	169
HPX	153	149
Total related party payables	496	318

(i) GMM is a private company based in Vancouver owned equally by eight companies, one of which is the Company, and has an officer 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 66.8% of the Company's common shares at March 31, 2017 (December 31, 2016 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

(iii) 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 three months ended March 31, 2017, management fees of approximately $1,000 (2016 - $4,000) 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**:**

	Three months ended March 31,	
	2017	**2016**
	$	$
Salaries and benefits	278	952
Share-based compensation	135	34
Total remuneration	413	986

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 May 12, 2017, the Company had a total of 276,766,636 common shares issued and outstanding. There were also 9,095,000 stock options outstanding 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.

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 months ended March 31, 2017. The following standards may have a potential effect on the consolidated financial statements of the Company.

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

	March 31, 2017	**December 31, 2016**
	$	$
Financial assets		
Loans and receivables		
Cash and cash equivalents	6,918	281
Receivables	2	27
Deposits	479	477
Other assets	57	114
Available-for-sale		
Marketable securities	341	60
Fair value through profit or loss		
Derivative asset	126	-
Total financial assets	7,923	959
Financial liabilities		
Accounts payable and accrued liabilities	880	890
Option liability	250	250
Total financial liabilities	1,130	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 three month period ended March 31, 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 Charles Forster, P.Geo., technical advisor to the Company, a Qualified Person under the terms of NI 43-101. Mr. Forster 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.