



Condensed Interim Consolidated Financial Statements of

Kaizen Discovery Inc.

June 30, 2018

(Unaudited)

Kaizen Discovery Inc.

Condensed Interim Consolidated Financial Statements

Table of contents

Condensed interim consolidated statements of financial position.....	1
Condensed interim consolidated statements of loss and comprehensive loss	2
Condensed interim consolidated statements of changes in equity	3
Condensed interim consolidated statements of cash flows	4
Notes to the condensed interim consolidated financial statements	5-14

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	June 30, 2018	December 31, 2017
Assets			
Current assets			
Cash		\$ 1,910	\$ 4,090
Receivables		35	44
Prepaid expenses and deposits	13	512	474
Total current assets		2,457	4,608
Non-current assets			
Joint venture interest	4	1,178	550
Advances to joint venture	4	634	1,261
Financial assets	5	72	144
Other assets		78	78
Total assets		\$ 4,419	\$ 6,641
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 259	\$ 451
Provision		580	465
Option liability	6	-	250
Total current liabilities		839	1,166
Total liabilities		\$ 839	\$ 1,166
Equity			
Share capital	7	\$ 45,987	\$ 45,987
Share-based payment reserve		3,743	3,727
Other reserves		452	452
Share purchase warrants	7	177	177
Accumulated other comprehensive loss	2(b)	(669)	(107)
Accumulated deficit	2(b)	(46,110)	(44,761)
Equity attributable to owners of Kaizen Discovery Inc.		3,580	5,475
Non-controlling interest		-	-
Total equity		\$ 3,580	\$ 5,475
Total liabilities and equity		\$ 4,419	\$ 6,641

Description of business and going concern (Note 1)

Subsequent event (Note 4)

Approved and authorized for issue on behalf of the Board on August 9, 2018:

/s/ Terry Krepiakovich
Terry Krepiakovich, 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 June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Operating expenses					
Exploration expenses	8	\$ (146)	\$ (160)	\$ (338)	\$ (354)
Administrative expenses	9	(549)	(668)	(1,036)	(1,365)
Share of losses from joint ventures	4	(396)	(863)	(685)	(1,127)
Loss from operations		(1,091)	(1,691)	(2,059)	(2,846)
Other income (expenses)					
Gain on expiry of option liability	6	-	-	250	-
Interest income		13	16	28	35
Gain on sale of mineral property		-	-	-	518
Dilution gain		-	-	-	439
Management fees		-	4	-	5
Loss on foreign exchange		(3)	(5)	(3)	(44)
Interest expense		(58)	-	(115)	-
Other expense		(10)	(21)	(19)	(102)
Loss before income taxes		(1,149)	(1,697)	(1,918)	(1,995)
Income taxes		-	-	-	-
Net loss for the period		(1,149)	(1,697)	(1,918)	(1,995)
Other comprehensive income (loss)					
Items that will not be reclassified subsequently to profit or loss:					
Change in fair value of marketable securities	5(a)	3	-	(57)	-
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustment		-	3	-	(61)
Share of other comprehensive income (loss) of joint venture	4	19	(51)	63	(14)
Unrealized loss on marketable securities	5(a)	-	(96)	-	(155)
Items that have been reclassified to profit or loss:					
Cumulative exchange losses relating to partially disposed and liquidated foreign subsidiaries		-	-	1	14
Total other comprehensive income (loss) for the period		\$ 22	\$ (144)	\$ 7	\$ (216)
Total comprehensive loss for the period		\$ (1,127)	\$ (1,841)	\$ (1,911)	\$ (2,211)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		\$ (1,149)	\$ (1,697)	\$ (1,918)	\$ (1,990)
Non-controlling interest		-	-	-	(5)
Net loss for the period		\$ (1,149)	\$ (1,697)	\$ (1,918)	\$ (1,995)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		\$ (1,127)	\$ (1,841)	\$ (1,911)	\$ (2,201)
Non-controlling interest		-	-	-	(10)
Total comprehensive loss for the period		\$ (1,127)	\$ (1,841)	\$ (1,911)	\$ (2,211)
Loss per share (basic and diluted)		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of basic and diluted shares outstanding		276,766,636	276,766,636	276,766,636	273,873,749

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 income (loss)	Accumulated deficit	Equity attributable to owners of Kaizen Discovery Inc.	Non- controlling interest	Total
Balance at January 1, 2017	207,574,977	\$ 39,010	\$ 3,334	\$ 521	\$ -	\$ 8	\$ (39,767)	\$ 3,106	\$ 39	\$ 3,145
Net loss for the period	-	-	-	-	-	-	(1,990)	(1,990)	(5)	(1,995)
Other comprehensive loss	-	-	-	-	-	(211)	-	(211)	(5)	(216)
Share-based compensation	-	-	268	-	-	-	-	268	-	268
Shares and share purchase warrants issued pursuant to rights offering, net of share issue costs of \$112	69,191,659	6,977	-	-	177	-	-	7,154	-	7,154
Other changes in non-controlling interest	-	-	-	(69)	-	-	-	(69)	69	-
Deconsolidation of subsidiary	-	-	-	-	-	-	-	-	(98)	(98)
Balance at June 30, 2017	276,766,636	\$ 45,987	\$ 3,602	\$ 452	\$ 177	\$ (203)	\$ (41,757)	\$ 8,258	\$ -	\$ 8,258
Balance at January 1, 2018 (as reported)	276,766,636	\$ 45,987	\$ 3,727	\$ 452	\$ 177	\$ (107)	\$ (44,761)	\$ 5,475	\$ -	\$ 5,475
Impact of adopting IFRS 9 on January 1, 2018 (Note 2(b))	-	-	-	-	-	(569)	569	-	-	-
Balance at January 1, 2018 (restated)	276,766,636	\$ 45,987	\$ 3,727	\$ 452	\$ 177	\$ (676)	\$ (44,192)	\$ 5,475	\$ -	\$ 5,475
Net loss for the period	-	-	-	-	-	-	(1,918)	(1,918)	-	(1,918)
Other comprehensive income	-	-	-	-	-	7	-	7	-	7
Share-based compensation	-	-	16	-	-	-	-	16	-	16
Balance at June 30, 2018	276,766,636	\$ 45,987	\$ 3,743	\$ 452	\$ 177	\$ (669)	\$ (46,110)	\$ 3,580	\$ -	\$ 3,580

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	Six months ended June 30,	
		2018	2017
Operating activities			
Net loss for the period		\$ (1,918)	\$ (1,995)
Adjustments for non-cash items:			
Share-based compensation		16	268
Share of losses from joint ventures		685	1,127
Gain on expiry of option liability	6	(250)	-
Gain on sale of mineral property		-	(518)
Dilution gain		-	(439)
Loss on unrealized foreign exchange		1	40
Interest expense		115	-
Other expense		16	133
Changes in non-cash working capital items:			
Receivables		9	316
Prepaid expenses and deposits		(38)	(26)
Accounts payable and accrued liabilities		(194)	(321)
Cash used in operating activities		\$ (1,558)	\$ (1,415)
Investing activities			
Advances to joint venture	4	\$ (623)	\$ (605)
Reduction of cash from deconsolidation of subsidiary		-	(71)
Cash used in investing activities		\$ (623)	\$ (676)
Financing activities			
Proceeds from rights offering		\$ -	\$ 7,154
Cash from financing activities		\$ -	\$ 7,154
Effect of foreign exchange rate changes on cash		\$ 1	\$ 1
(Decrease) increase in cash and cash equivalents		(2,180)	5,064
Cash and cash equivalents, beginning of period		4,090	281
Cash, end of period		\$ 1,910	\$ 5,345

Supplemental cash flow information (Note 12)

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

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 June 30, 2018, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2017 – 66.8%) of the Company's issued and outstanding common shares. The ultimate controlling entity is Ivanhoe Industries LLC, a privately owned company.

The Company, together with its subsidiaries and joint venture interest, 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 six months ended June 30, 2018, the Company had no operating revenues and incurred losses of \$1.1 million and \$1.9 million. At June 30, 2018, the Company had consolidated cash of \$1.9 million (December 31, 2017 - \$4.1 million).

At June 30, 2018, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and ability to pursue additional sources of financing, including equity placements.

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

These 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. Summary of significant accounting policies

- (a) *Basis of presentation*

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. These 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, 2017, which have been prepared in accordance with IFRS.

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, 2017, and reflect all the adjustments necessary for fair presentation in accordance with IFRS for the interim periods presented, with the exception of the application of IFRS 9, *Financial Instruments* ("IFRS 9"), which is effective for annual periods beginning on or after January 1, 2018. The impact of the application of IFRS 9 is discussed in Note 2(b).

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.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

2. Summary of significant accounting policies (continued)

(a) *Basis of presentation (continued)*

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

(b) *Change in accounting policy*

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

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

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

(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, 2017.

(d) *Segments*

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

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

3. Adoption of new and revised accounting standards and interpretations

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

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

4. Joint venture interest

Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings") indirectly holds the Pinaya Copper-Gold Project ("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 ("ITOCU") increased its share ownership interest in Kaizen Peru Holdings from 5% to 10% 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, the Company lost control of Kaizen Peru Holdings as a result of this joint control arrangement. The retained 90% joint venture interest is accounted for using the equity method.

The following is a summary of the Company's 90% investment in Kaizen Peru Holdings at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Beginning of period	\$ 550	\$ -
Initial recognition on loss of control	-	819
Dilution gain on loss of control	-	439
Equity contribution (i)	1,250	1,250
Share of losses from joint venture (ii)	(685)	(1,883)
Share of other comprehensive income (loss) from joint venture	63	(75)
Total equity investment, end of period	\$ 1,178	\$ 550
Advances to joint venture (i)	634	1,261
Total investment, end of period	\$ 1,812	\$ 1,811

(i) The amounts advanced to Kaizen Peru Holdings are non-interest bearing and have been 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. Amounts advanced to Kaizen Peru Holdings as at June 30, 2018, are those in excess of amounts prescribed by the strategic financing agreement.

(ii) Share of losses from joint venture for the six months ended June 30, 2018, includes \$125,000 excess of the Company's second \$1.25 million equity contribution over its 90% share of that contribution.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

4. Joint venture interest (continued)

Strategic financing agreement

On April 18, 2016, the Company closed a strategic financing agreement with ITOCHU to advance exploration efforts at the Pinaya Project. The Company agreed to match ITOCHU's exploration funding, for a total aggregate funding commitment of \$5.0 million for the planned first phase of exploration at the Pinaya Project.

Under the terms of the agreement, ITOCHU acquired a 10% interest in the Pinaya Project by making aggregate payments of \$1.25 million to Kaizen Peru Holdings. The obligation to make a further payment of \$1.25 million, for an additional 10% interest, which would have increased ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, was conditional on obtaining by April 18, 2018, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project. Certain of these authorizations were not received until after April 2018 and ITOCHU has elected to decline from making any further payments.

The Company's second funding commitment of \$1.25 million, which was due on or before April 18, 2018, was satisfied via an additional equity contribution in February 2018. The Company's \$2.5 million funding commitment has been completed.

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 June 30, 2018, the right's estimated redemption amount was nominal.

5. Financial assets

	June 30, 2018	December 31, 2017
Marketable securities (a)	\$ 72	\$ 129
Derivative asset (b)	-	15
	\$ 72	\$ 144

(a) *Marketable securities*

	Number of shares	June 30, 2018			December 31, 2017			
		Cost basis	Fair value adjustments	Fair value	Cost basis	Impairment	Unrealized loss	Fair value
Cradle Arc plc (i)	183,322	\$ 631	\$ (611)	\$ 20	\$ 631	\$ (569)	\$ -	\$ 62
Colorado Resources Ltd. (i)	344,000	117	(65)	52	117	-	(50)	67
		\$ 748	\$ (676)	\$ 72	\$ 748	\$ (569)	\$ (50)	\$ 129

- (i) Upon the initial application of IFRS 9, the Company elected to classify its marketable securities as subsequently measured at FVOCI (Note 2(b)). Subsequent changes in fair value will be recognized in other comprehensive income / (loss) only and will not be reclassified to net loss. The new classification has been applied retrospectively, resulting in a \$569,000 reduction of opening accumulated deficit on January 1, 2018, and a corresponding increase in opening accumulated other comprehensive loss, relating to prior years' impairment losses.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

5. Financial assets (continued)

(b) Derivative asset

In February 2017, the Company received 1,000,000 share purchase warrants of Colorado Resources Ltd. ("Colorado"). Each share purchase warrant entitles the Company to purchase a further common share in Colorado at a price of \$0.60 per share for a period of 24 months. Changes in the fair value of the warrants are measured at fair value through profit or loss ("FVPL"). At June 30, 2018 the fair value of each share purchase warrant was estimated to be \$Nil (December 31, 2017 - \$0.02), using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2018	December 31, 2017
Exercise price	\$0.60	\$0.60
Risk free interest rate	1.90%	1.66%
Expected life (years)	0.63	1.12
Annualized volatility	69%	85%
Dividend rate	0%	0%

6. 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, ITOCHU had until February 28, 2018, to exercise the option. On February 28, 2018, the option expired unexercised without further extension and the agreement governing both options was then terminated. As a result, the option liability of approximately \$250,000, was derecognized and recorded as a gain on expiry of option liability.

7. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At June 30, 2018, the Company had 276,766,636 common shares issued and outstanding (December 31, 2017 – 276,766,636).

At June 30, 2018, there were 2,100,000 non-transferable warrants outstanding, 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.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

8. Exploration expenses

Exploration expenses are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries and consultants	\$ 119	\$ 75	\$ 259	\$ 214
Assay	-	-	-	10
Share-based compensation	1	41	13	49
Fees and taxes	1	-	1	-
Camp	2	3	9	7
Travel	8	24	37	42
Professional fees	-	-	-	5
Other	15	17	19	27
	\$ 146	\$ 160	\$ 338	\$ 354

Exploration expenses were allocated to the following projects:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Pinaya (i)	\$ -	\$ -	\$ -	\$ 110
Coppermine	1	4	3	19
Other exploration	145	156	335	225
	\$ 146	\$ 160	\$ 338	\$ 354

(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 4).

9. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 279	\$ 360	\$ 582	\$ 749
Share-based compensation	(8)	82	3	219
Professional fees	135	81	202	104
Office	57	66	117	145
Travel	18	4	25	9
Fees and taxes	13	28	22	51
Investor relations	8	22	18	38
Insurance	40	18	58	36
Other	7	7	9	14
	\$ 549	\$ 668	\$ 1,036	\$ 1,365

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

10. Share-based payments

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

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

	Six months ended June 30, 2018		Six months ended June 30, 2017	
	Number of stock options	Weighted average exercise price (\$ per share)	Number of stock options	Weighted average exercise price (\$ per share)
Outstanding, beginning of period	8,860,000	\$ 0.39	9,904,000	\$ 0.49
Granted	-	-	2,560,000	0.21
Expired	-	-	(19,000)	1.57
Forfeited	(392,918)	0.47	(3,350,000)	0.55
Outstanding, end of period	8,467,082	\$ 0.38	9,095,000	\$ 0.39
Exercisable, end of period	8,143,741	\$ 0.39	5,458,749	\$ 0.45

Stock options outstanding and exercisable at June 30, 2018 are as follows:

Exercise price (\$ per share)	Options outstanding		Options exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.155	343,750	0.8	318,750	0.7
0.20	1,550,000	3.6	1,550,000	3.6
0.215	250,000	3.8	166,666	3.8
0.235	663,332	3.0	483,325	2.8
0.24	1,050,000	3.2	1,050,000	3.2
0.30	1,435,000	1.5	1,435,000	1.5
0.51	175,000	1.1	140,000	1.1
0.63	2,850,000	0.5	2,850,000	0.5
0.66	150,000	0.4	150,000	0.4
	8,467,082	1.9	8,143,741	1.8

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

11. Financial instruments

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

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

	June 30, 2018	December 31, 2017
Financial assets		
Financial assets measured at amortized cost		
Cash	\$ 1,910	\$ 4,090
Receivables	3	1
Deposits	450	450
Other assets	78	78
Financial assets measured at FVOCI		
Marketable securities	72	129
Financial assets measured at FVPL		
Derivative asset	-	15
Total financial assets	\$ 2,513	\$ 4,763
Financial liabilities		
Accounts payable and accrued liabilities	\$ 259	\$ 451
Option liability	-	250
Total financial liabilities	\$ 259	\$ 701

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

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

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

Marketable securities are measured at fair value using level 1 inputs. Certain marketable securities were transferred from level 2 to level 1 during the six months ended June 30, 2018. The derivative asset is measured at fair value using level 2 inputs (Note 5(b)).

The Company did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at June 30, 2018.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

12. Supplemental cash flow information

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

	Six months ended June 30,	
	2018	2017
Investing activities		
Equity contribution to joint venture interest (Note 4)	\$ 1,250	\$ -
Consideration received on sale of mineral property	-	518
Financing activities		
Share purchase warrants issued pursuant to rights	\$ -	\$ (177)

13. 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 395	\$ 539	\$ 853	\$ 1,048
Corporate administration	90	82	154	187
Exploration and geophysical activities	26	21	42	84
Total related party expenses	\$ 511	\$ 642	\$ 1,049	\$ 1,319

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
GMM	\$ 507	\$ 623	\$ 1,040	\$ 1,296
HPX	4	19	9	23
Total related party expenses	\$ 511	\$ 642	\$ 1,049	\$ 1,319

The expenses with Global Mining Management Corporation ("GMM") noted above for the three and six months ended June 30, 2018, include approximately \$16,000 (2017 - \$149,000) and \$40,000 (2017 - \$291,000), respectively, incurred by Kaizen Peru Holdings, the Company's equity-accounted investee. The Company's share of Kaizen Peru Holdings' transactions with GMM were included in share of losses from joint ventures, rather than in exploration or administrative expenses, commencing on February 10, 2017, upon the recognition of Kaizen Peru Holdings' as an equity-method investment (Note 4).

At June 30, 2018, the Company had a deposit of \$450,000 (December 31, 2017 - \$450,000) held with GMM.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

13. Related party transactions (continued)

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

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

	June 30, 2018	December 31, 2017
GMM	\$ 180	\$ 194
HPX	3	42
Key management personnel and officers	11	5
Total related party payables	\$ 194	\$ 241

- (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 June 30, 2018, (December 31, 2017 – 8.3%) and has an officer in common with GMM.
- (ii) HPX is the Company's privately owned parent, holding 66.8% of the Company's common shares at June 30, 2018, (December 31, 2017 – 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 228	\$ 311	\$ 513	\$ 589
Share-based compensation	(7)	95	7	230
Total remuneration	\$ 221	\$ 406	\$ 520	\$ 819

- (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 six months ended June 30, 2018, include approximately \$Nil (2017 - \$73,000) and \$3,000 (2017 - \$95,000), respectively, which were incurred by Kaizen Peru Holdings.



Management's Discussion and Analysis

June 30, 2018

As at August 9, 2018

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 six months ended June 30, 2018 ("the financial statements"), the audited consolidated financial statements and notes thereto for the year ended December 31, 2017 (the "financial statements") and MD&A for the year ended December 31, 2017.

All information contained in this MD&A is current as of August 9, 2018 unless otherwise stated.

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

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

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict", "foresee" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect Kaizen's current expectations regarding future events, performance and results, and is accurate only at the time of this MD&A, and may be superseded by more current information. These include, but are not limited to, statements regarding: (i) Kaizen's plans to commence a drilling program at the Pinaya Project once all necessary permits, licenses and authorizations required to conduct exploration drilling have 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 took to issue the Authorization to Commence Activities and other factors, including local weather conditions; (iv) the expectation that \$5.0 million will pay for the planned first phase of exploration at the Pinaya Project; (v) Kaizen's options for the Aspen Grove Project, which may include drill testing of some or all of the remaining targets; (vi) Kaizen's options for the Coppermine Project, including a possible sale to, or joint venture with, a third party; (vii) 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 (viii) 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 August 9, 2018.

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. Global urbanization, and the resultant increase in air pollution, is one of the greatest economic and social phenomena in our history, with profound implication for metals markets, miners and stakeholders. The Company's exploration focus will continue to be primarily on copper, which many analysts predict will be one of the best performing metals over the next three to five years, due to increased demand for copper resulting from the global shift away from the internal combustion engines to electric and fuel cell vehicles. Goldman Sachs is forecasting a copper deficit of some 169,000 tonnes this year and 132,000 tonnes in 2019. According to a recent report by leading

consultancy group IDTechEx, copper demand for electric cars, trains and buses is set to rise nine-fold by 2027, from 185,000 tonnes in 2017 to 1.74 million tonnes in 2027.

In 2016 and early 2017, the Company took steps to streamline its exploration portfolio to concentrate its exploration expenditures on the Pinaya Copper-Gold Project (“Pinaya Project”) – the Company’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.

Delays to planned programs at the Pinaya Project due to regulatory requirements resulted in the expiry of the ITOCHU obligation to provide partnered funding to this project (both of these issues more properly described below in ‘Exploration Activities’). Kaizen’s current treasury, in the absence of this funding from ITOCHU, is insufficient to finance the current planned exploration drilling program at the Pinaya Project. Kaizen will need to obtain additional sources of financing in order to further explore and evaluate its mineral properties.

Corporate Activities

Changes to Management

On April 2, 2018, Kaizen announced the appointment of Greg Shenton as Chief Financial Officer (“CFO”), effective April 16, 2018, replacing David Garratt as the Company’s CFO. Mr. Garratt remained with the Company to assist with the handover until the end of April 2018.

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

Business Development Activities

The Company continues to review and seek additional strategic project opportunities, primarily in South America. During the six months ended June 30, 2018, project reviews, primarily focused on copper, were undertaken in Chile and Peru. Discussions with third parties are underway and 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 km² and includes 28 kilometres of strike length within the Andahuaylas-Yauri Porphyry Belt in southeastern Peru. This belt hosts numerous productive and world-scale porphyry and skarn systems, including Las Bambas, Tintaya, Constancia and Haquira.

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

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

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

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

On September 19, 2017, the land access agreements with individual private landholders that provide Kaizen with access rights to conduct its planned exploration program at the Pinaya Project were extended by a year.

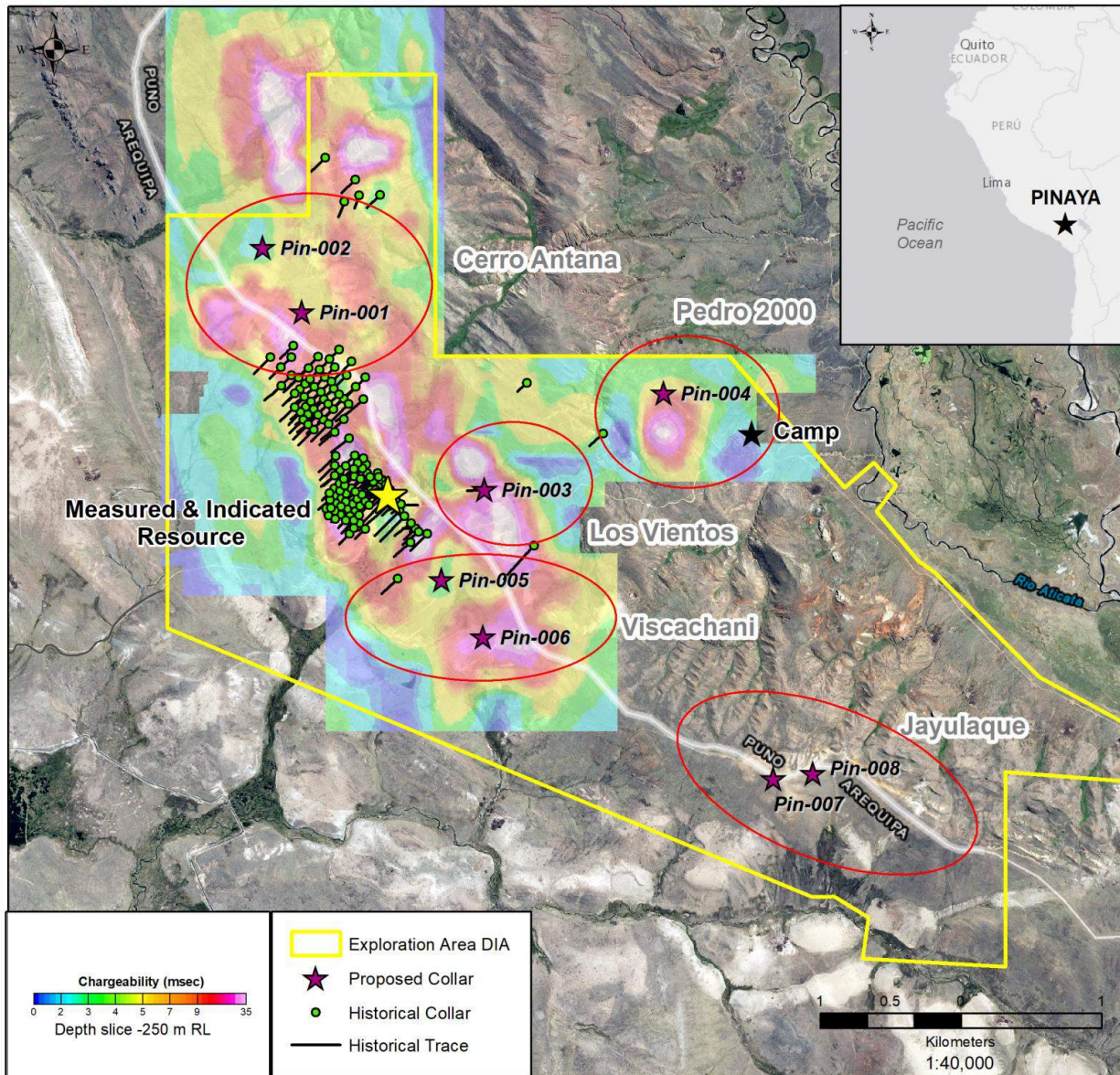
On July 9th, 2018, the Company announced that the Consulta Previa review had been successfully completed and Kaizen Peru Holdings' Peruvian subsidiary had been issued with the Authorization to Commence Activities for its planned drilling program at the Pinaya Project. The Pinaya Project's Consulta Previa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

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 assessing its financial options and the possible implications for commencement of its planned Pinaya exploration program.

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

The Pedro 2000 target was identified by the Company's geologists as an outcropping potassic-altered quartz diorite porphyry carrying chalcopyrite-bearing, early-stage "A" type veining, which coincides with anomalous values of copper and gold in soils as well as ground magnetic and chargeability anomalies. 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.

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

Under the terms of the agreement, ITOCHU acquired a 10% interest in the Pinaya Project by making aggregate payments of \$1.25 million to Kaizen. The obligation to make a further payment of \$1.25 million, for an additional 10% interest, which would have increased ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, was conditional on obtaining by April 18, 2018, the necessary permits, licences and authorizations required to conduct exploration drilling on the Pinaya Project. Certain of these authorizations were not received until after April 2018 and ITOCHU has elected to decline from making any further payments.

Kaizen completed its \$2.5 million funding commitment in February 2018.

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 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 June 30, 2018, the right's estimated redemption amount was nominal.

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

The Aspen Grove Project is located in southern British Columbia, near the city of Merritt and is 100% owned by Kaizen. It comprises approximately 112 km² (11,237 ha) and covers part of an extensive belt of porphyry copper-gold mineralization hosted by Early Triassic Nicola Group volcanic rocks and Late Triassic to Early Jurassic intrusions.

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

A recently completed technical review has highlighted a number of additional, untested targets. The Company is reviewing options for Aspen Grove, which may include drill testing of some or all of the remaining targets.

Claims

Kaizen, through its wholly owned subsidiary KZD Aspen Grove, holds 29 claims totaling approximately 112 km² (11,237 ha), which will all remain valid through to 2027. Three of the claims (13.75 km²) are subject to a 2% net smelter return royalty, 1% of which can be purchased at any time for \$3.0 million.

Coppermine Project, Nunavut, Canada (100% owned)

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

Claims and Permits

Kaizen, through its wholly owned subsidiary Tundra Copper Corp., holds 153 Crown Land mineral claims totalling 1,657 km² as well as 11 prospecting permits totalling 1,877 km².

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 February 8, 2018, the annual renewal for the Section 51 one-year suspension of work requirements was approved by Indigenous and Northern Affairs Canada.

Other Exploration Projects

On February 28, 2018, the option granted to ITOCHU in 2015, for consideration of \$250,000, to acquire an effective indirect 15% interest in the Tanzilla project, for no additional consideration, expired unexercised without further extension. The agreement governing that option and a subsequent option to acquire up to a further effective indirect 10% interest in the project was then terminated.

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

Summary of Quarterly Results

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

	Quarter Ended			
	Jun-30 2018	Mar-31 2018	Dec-31 2017	Sep-30 2017
	\$	\$	\$	\$
Exploration expenses	146	192	270	143
Administrative expenses	549	487	607	576
Share of losses from joint ventures	396	289	276	522
Gain on expiry of option liability	-	(250)	-	-
Gain on sale of mineral property	-	-	-	-
Dilution gain	-	-	-	-
Loss (gain) on foreign exchange	3	-	(1)	2
Write-down of marketable securities	-	-	17	-
Other expense (income)	55	51	618	(26)
Net loss for the period	1,149	769	1,787	1,217
Net loss attributable to owners of Kaizen Discovery Inc.	1,149	769	1,787	1,217
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	-	-	0.01	-

	Quarter Ended			
	Jun-30 2017	Mar-31 2017	Dec-31 2016	Sep-30 2016
	\$	\$	\$	\$
Exploration expenses	160	194	619	484
Administrative expenses	668	697	443	707
Share of losses from joint ventures	863	264	3,042	316
Gain on expiry of option liability	-	-	-	-
Gain on sale of mineral property	-	(518)	-	-
Dilution gain	-	(439)	-	-
Loss (gain) on foreign exchange	5	39	37	(28)
Write-down of marketable securities	-	-	-	-
Other expense (income)	1	61	9	(3)
Net loss for the period	1,697	298	4,150	1,476
Net loss attributable to owners of Kaizen Discovery Inc.	1,697	293	4,124	1,460
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.01	-	0.02	0.01

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

In 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

Second Quarter Results – Three months ended June 30, 2018 (“Q2 2018”) compared to three months ended June 30, 2017 (“Q2 2017”)

The loss for Q2 2018 totalled \$1.15 million compared to the loss of \$1.70 million for Q2 2017.

Exploration expenses of \$0.15 million for Q2 2018 were consistent with the \$0.16 million incurred during Q2 2017. Exploration expenses in Q2 2018 and Q2 2017 focused on corporate development opportunities.

Administration expenses decreased from \$0.67 million in Q2 2017 to \$0.55 million in Q2 2018 primarily due to a \$0.09 million decrease in non-cash share-based compensation expense and a \$0.08 million decrease in salaries and benefits partially offset by a \$0.05 million increase in professional fees.

Share of losses from joint ventures of \$0.40 million in Q2 2018 (Q2 2017 - \$0.86 million) comprises the Company's share of Kaizen Peru Holdings' loss.

Year-To-Date Results – Six months ended June 30, 2018 (“YTD 2018”) compared to six months ended June 30, 2017 (“YTD 2017”)

The loss for YTD 2018 totalled \$1.92 million, compared to the loss of \$2.00 million for YTD 2017.

Exploration expenses were \$0.34 million for YTD 2018 compared to \$0.35 million for YTD 2017. While the exploration costs are consistent, the YTD 2017 includes exploration activities on the Pinaya Project until the deconsolidation of the joint venture interest on February 10, 2017, at which time the Company's share of the Pinaya Project's exploration activities were recognized as a share of losses from joint venture, rather than as exploration expenses. Exploration expenses in YTD 2018 focused solely on corporate development opportunities. Additionally, exploration expenses for the Coppermine Project decreased by \$0.16 million in YTD 2018 compared to YTD 2017.

Administration expenses decreased from \$1.37 million in YTD 2017 to \$1.04 million in YTD 2018 primarily due to a \$0.22 million decrease in non-cash share-based compensation expense and a \$0.17 million decrease in salaries and benefits partially offset by a \$0.10 million increase in professional fees.

Share of losses from joint ventures of \$0.69 million in YTD 2018 (YTD 2017 – \$1.13 million) consists of the Company's share of Kaizen Peru Holdings' loss. Share of losses from joint venture in YTD 2017 includes the Company's share of KZD Aspen Grove's loss and the Company's share of Kaizen Peru Holdings' loss subsequent to February 10, 2017.

In YTD 2018 the Company recognized a \$0.25 million gain on the expiration of an option liability issued by West Cirque Resources Ltd. (“West Cirque”), a wholly owned subsidiary of the Company. On July 31, 2015, West Cirque had granted ITOCHU this option to acquire an indirect 15% interest in the Tanzilla project. This option expired unexercised on February 28, 2018.

Liquidity and Capital Resources

At June 30, 2018, the Company had consolidated cash and cash equivalents of \$1.91 million (December 31, 2017 - \$4.09 million). The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary uses of cash during the six months ended June 30, 2018, were funding operating activities of \$1.56 million (2017 – \$1.42 million) and advancing \$0.62 million (2017 - \$0.61 million) to the Kaizen Peru Holdings joint venture.

At June 30, 2018, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on its cash position and ability to pursue additional sources of financing, including equity placements.

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

Off-Balance Sheet Arrangements

During the six months ended June 30, 2018, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

Related Party Transactions

(Tabular amounts are expressed in thousands of Canadian dollars)

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

Expenses, deposits and accounts payable

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries and benefits	395	539	853	1,048
Corporate administration	90	82	154	187
Exploration and geophysical activities	26	21	42	84
Total related party expenses	511	642	1,049	1,319

The breakdown of expenses by related party is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
GMM	507	623	1,040	1,296
HPX	4	19	9	23
Total related party expenses	511	642	1,049	1,319

The expenses with Global Mining Management Corporation (“GMM”) noted above for the three and six months ended June 30, 2018 include approximately \$16,000 (2017 - \$149,000) and \$40,000 (2017 - \$291,000), respectively, incurred by Kaizen Peru Holdings, the Company’s equity-accounted investee. The Company’s share of Kaizen Peru Holdings’ transactions with GMM were included in share of losses from joint ventures rather than in exploration or administrative expenses, commencing on February 10, 2017, upon the recognition of Kaizen Peru Holdings as an equity-method investment.

At June 30, 2018, the Company had a deposit of \$450,000 (December 31, 2017 – \$450,000) held with GMM.

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

	June 30, 2018	December 31, 2017
	\$	\$
GMM	180	194
HPX	3	42
Key management personnel and officers	11	5
Total related party payables	194	241

- (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 June 30, 2018 (December 31, 2017 – 8.3%) and has an officer in common with GMM.
- (ii) HPX is Kaizen’s privately-owned parent, holding 66.8% of the Company’s common shares at June 30, 2018 (December 31, 2017 – 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries and benefits	228	311	513	589
Share-based compensation	(7)	95	7	230
Total remuneration	221	406	520	819

- (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 six months ended June 30, 2018, include approximately \$Nil (2017 - \$73,000) and \$3,000 (2017 - \$95,000), respectively, which were incurred by Kaizen Peru Holdings.

Outstanding Share Data

At August 9, 2018, the Company had the following issued and outstanding:

- 276,766,636 common shares.
- 8,343,750 stock options with a weighted average exercise price of \$0.38 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

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

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

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

The following new standard is not yet effective for the year ending December 31, 2018, and has not been applied in preparing the condensed interim consolidated financial statements for the three and six months ended June 30, 2018. The following standard may have a potential effect on the consolidated financial statements of the Company.

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. This new standard may have a potential effect on the consolidated financial statements of the Company, and management is currently assessing the potential impact of this standard.

Financial Instruments

(Tabular amounts are expressed in thousands of Canadian dollars)

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

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

The carrying values of cash; receivables; deposits; other assets; and accounts payable and accrued liabilities approximate their fair values due to their short term nature. Marketable securities are measured at fair value using level 1 inputs. Certain marketable securities were transferred from level 2 to level 1 during the six months ended June 30, 2018. The derivative asset is measured at fair value through profit or loss (“FVPL”), using level 2 inputs.

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

	June 30, 2018	December 31, 2017
	\$	\$
Financial assets		
Financial assets measured at amortized cost		
Cash	1,910	4,090
Receivables	3	1
Deposits	450	450
Other assets	78	78
Financial assets measured at FVOCI		
Marketable securities	72	129
Financial assets measured at FVPL		
Derivative asset	-	15
Total financial assets	2,513	4,763
Financial liabilities		
Accounts payable and accrued liabilities	259	451
Option liability	-	250
Total financial liabilities	259	701

The Company's exposures to financial risk and how the Company manages each of those risks are described in the Company's MD&A for year ended December 31, 2017. 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 six month period ended June 30, 2018.

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, 2017, 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.