



Condensed Interim Consolidated Financial Statements of

**Kaizen Discovery Inc.**

June 30, 2021

(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	June 30, 2021	December 31, 2020
<b>Assets</b>			
Current assets			
Cash		\$ 1,517	\$ 895
Receivables		27	28
Prepaid expenses and deposits	11	296	262
Total current assets		1,840	1,185
Non-current assets			
Mineral properties	3	3,105	3,197
Financial assets		34	19
Property, plant and equipment		20	22
Other assets		44	70
<b>Total assets</b>		<b>\$ 5,043</b>	<b>\$ 4,493</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 498	\$ 495
Provision		573	563
Promissory note	4,11	7,010	4,652
Total current liabilities		8,081	5,710
Non-current liabilities			
Non-current provision	5	941	1,643
<b>Total liabilities</b>		<b>\$ 9,022</b>	<b>\$ 7,353</b>
<b>Shareholders' deficit</b>			
Share capital	6	\$ 48,576	\$ 48,576
Share-based payment reserve	9	4,013	3,839
Other reserves		452	452
Share purchase warrants	6	891	891
Accumulated other comprehensive loss		(789)	(740)
Accumulated deficit		(57,122)	(55,878)
<b>Total shareholders' deficit</b>		<b>\$ (3,979)</b>	<b>\$ (2,860)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>\$ 5,043</b>	<b>\$ 4,493</b>

Description of business and going concern (Note 1)

Subsequent events (Notes 6(b) and 12)

Approved and authorized for issue on behalf of the Board on August 11, 2021:

*/s/ Terry Krepiakovich*

Terry Krepiakovich, Director

*/s/ Eric Finlayson*

Eric Finlayson, 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,	
		2021	2020	2021	2020
<b>Operating expenses</b>					
Exploration expenses	7	\$ (768)	\$ (556)	\$ (1,133)	\$ (1,633)
Administrative expenses	8	(406)	(538)	(677)	(806)
Loss from operations		(1,174)	(1,094)	(1,810)	(2,439)
<b>Other income (expenses)</b>					
Interest income		1	1	2	8
Gain on foreign exchange		78	155	181	31
Interest expense	4	(153)	(138)	(294)	(217)
Depreciation expense		-	(1)	(1)	(2)
Other income (expense)	5	68	(35)	678	(71)
Loss before income taxes		(1,180)	(1,112)	(1,244)	(2,690)
Income taxes		-	-	-	-
<b>Net loss for the period</b>		<b>(1,180)</b>	<b>(1,112)</b>	<b>(1,244)</b>	<b>(2,690)</b>
<b>Other comprehensive loss</b>					
Items that will not be reclassified subsequently to loss:					
Change in fair value of marketable securities		4	12	15	7
Items that may be reclassified subsequently to loss:					
Currency translation adjustment		(33)	(71)	(64)	111
Total other comprehensive (loss) income for the period		\$ (29)	\$ (59)	\$ (49)	\$ 118
<b>Total comprehensive loss for the period</b>		<b>\$ (1,209)</b>	<b>\$ (1,171)</b>	<b>\$ (1,293)</b>	<b>\$ (2,572)</b>
Loss per share (basic and diluted)		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average number of basic and diluted shares outstanding		343,554,821	317,254,821	343,554,821	317,254,821

See accompanying notes to the condensed interim consolidated financial statements.

# Kaizen Discovery Inc.

## Condensed Interim Consolidated Statements of Shareholders' Deficit

(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	Total
<b>Balance at January 1, 2020</b>	317,254,821	\$ 47,722	\$ 3,773	\$ 452	\$ 448	\$ (698)	\$ (50,581)	1,116
Net loss for the period	-	-	-	-	-	-	(2,690)	(2,690)
Other comprehensive income	-	-	-	-	-	118	-	118
Share-based payments	-	-	19	-	-	-	-	19
<b>Balance at June 30, 2020</b>	<b>317,254,821</b>	<b>\$ 47,722</b>	<b>\$ 3,792</b>	<b>\$ 452</b>	<b>\$ 448</b>	<b>\$ (580)</b>	<b>\$ (53,271)</b>	<b>(1,437)</b>
<b>Balance at January 1, 2021</b>	<b>343,554,821</b>	<b>\$ 48,576</b>	<b>\$ 3,839</b>	<b>\$ 452</b>	<b>\$ 891</b>	<b>\$ (740)</b>	<b>\$ (55,878)</b>	<b>(2,860)</b>
Net loss for the period	-	-	-	-	-	-	(1,244)	(1,244)
Other comprehensive loss	-	-	-	-	-	(49)	-	(49)
Share-based payments	-	-	174	-	-	-	-	174
<b>Balance at June 30, 2021</b>	<b>343,554,821</b>	<b>\$ 48,576</b>	<b>\$ 4,013</b>	<b>\$ 452</b>	<b>\$ 891</b>	<b>\$ (789)</b>	<b>\$ (57,122)</b>	<b>(3,979)</b>

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,	
		2021	2020
<b>Operating activities</b>			
Net loss for the period		\$ (1,244)	\$ (2,690)
Adjustments for non-cash items:			
Share-based payments		174	19
Gain on unrealized foreign exchange		(227)	(55)
Interest expense	4	294	217
Other (income) expense	5	(678)	71
Depreciation		1	2
Changes in non-cash working capital items:			
Receivables		1	(45)
Prepaid expenses and deposits		(34)	26
Accounts payable and accrued liabilities		8	340
Cash used in operating activities		\$ (1,705)	\$ (2,115)
<b>Investing activities</b>			
Redemption of other assets		\$ 26	\$ -
Cash from investing activities		\$ 26	\$ -
<b>Financing activities</b>			
Proceeds from promissory note		\$ 2,293	\$ -
Cash from financing activities		\$ 2,293	\$ -
Effect of foreign exchange rate changes on cash		\$ 8	\$ 113
Increase (decrease) in cash		\$ 622	\$ (2,002)
Cash, beginning of period		895	2,395
<b>Cash, end of period</b>		<b>\$ 1,517</b>	<b>\$ 393</b>

See accompanying notes to the condensed interim consolidated financial statements.

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

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### 1. Description of business and going concern

- (a) Kaizen Discovery Inc. (the "Company") is a publicly listed company incorporated under the laws of British Columbia, Canada. The Company's shares are listed on the TSX Venture Exchange under the symbol KZD and its head office and registered office are both located at Suite 606 – 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

At June 30, 2021, Ivanhoe Electric (BVI) Inc. ("Ivanhoe Electric") (formerly known as HPX TechCo Inc.), the Company's privately owned parent, held 73.2% (December 31, 2020 – 73.2%) of the Company's issued and outstanding common shares. The ultimate controlling entity is I-Pulse Inc., a privately owned company.

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

- (b) These 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, 2021, the Company had no operating revenues and incurred a net loss of \$1.18 million and \$1.24 million, respectively. At June 30, 2021, the Company had consolidated cash of \$1.52 million (December 31, 2020 - \$895,000).

At June 30, 2021, 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 such as the Rights Offering which was announced on August 9, 2021 (Note 12).

The Company currently has no source of operating cash flow, and has no assurance that additional funding will be available to it for additional exploration programs at its properties, or to enable the Company to fulfill its obligations under any applicable agreements. The Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore and evaluate its mineral properties and, ultimately, to achieve profitable operations. Significant reliance is placed on Ivanhoe Electric, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of Ivanhoe Electric to provide or participate in financing, or the inability of Ivanhoe Electric to provide or participate in financing, would likely result in difficulty for the Company to attract separate third party investment. In addition, the spread of COVID-19 globally has caused and continues to cause considerable disruptions to the world economy, including financial markets and could adversely impact the Company's ability to carry out plans to obtain additional financing. The ability to raise additional financing for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond the Company's control, such as uncertainty in the capital markets, depressed commodity prices or country risk factors. As such, there is a material uncertainty that may cast significant doubt regarding 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. 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

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

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### 2. Significant accounting policies (continued)

#### (a) *Basis of presentation (continued)*

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, 2020, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

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, 2020 and reflect 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.

#### (b) *Adoption of new and revised accounting standards and interpretations*

The Company has not adopted any new amendments to IFRS in the current period, and has not applied the following amendments to standards that have been issued but are not yet effective:

Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets (effective January 1, 2022) clarify that the ‘costs of fulfilling a contract’ when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. Management is currently assessing the impact of these amendments.

Amendments to IAS 1, Presentation of Financial *Statements* (effective January 1, 2023) clarifies the presentation of liabilities in the statement of financial position. The classification of liabilities as current or noncurrent is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendment also introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of this amendment.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (effective January 1, 2023) provide guidance to assist entities in distinguishing between policies and accounting estimates. The amendments replace the definition of a change in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The amendments are effective for annual periods beginning on or after January 1, 2023. Management is currently assessing the impact of this amendment.



# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

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### 2. Significant accounting policies (continued)

#### (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, 2020.

#### (d) Segments

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

### 3. Mineral properties

Mineral properties comprise the \$3.11 million (December 31, 2020 - \$3.20 million) carrying amount of the Pinaya Copper-Gold Project (the "Pinaya Project" or "Pinaya"). The decrease in the carrying amount since December 31, 2020 is due to fluctuations in foreign currency. The Pinaya Project covers 101 square kilometres of granted title, 28 square kilometres under application and includes more than 10 kilometres of underexplored strike length within the Andahuaylas - Yauri Porphyry Belt in southeastern Peru.

### 4. Promissory note

Under the terms of an amended and restated unsecured promissory note ("Amended Promissory Note"), the Company had drawn down a total of US\$3.40 million (\$4.48 million) at December 31, 2020. The Amended Promissory Note had a maturity date of December 31, 2020 and an interest rate of 10% per annum, with interest accruing daily and all interest compounding only at maturity. The interest rate increased to 12% per annum as the Company did not repay the amount owing upon the maturity date. On April 13, 2021, the Amended Promissory Note was replaced by a second amended and restated unsecured promissory note (the "Second Amended Promissory Note") which revises the maturity date of all amounts owing to September 30, 2021 and as a result, the interest rate will remain at 10% per annum until the loan matures on September 30, 2021.

During the three months ended June 30, 2021, the Company drew down an additional US\$1.84 million (\$2.29 million) under the Second Amended Promissory note, and at June 30, 2021, the carrying value of the promissory note was US\$5.66 million (\$7.01 million), comprising both principal and accrued interest. Interest expense on the promissory note of approximately \$147,000 and \$284,000 was recorded in the condensed interim consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2021 (June 30, 2020 - \$74,000 and \$146,000).

### 5. Non-current provision

The non-current provision with a carrying amount of \$941,000 at June 30, 2021 (December 31, 2020 - \$1.64 million) is related to potential obligations associated with the Pinaya Project. The non-current provision has been adjusted to reflect management's best estimate as at June 30, 2021.

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

### 6. Share capital

#### (a) Common shares

The Company is authorized to issue an unlimited number of common shares with no par value. At June 30, 2021, the Company had 343,554,821 common shares issued and outstanding (December 31, 2020 – 343,554,821).

#### (b) Share purchase warrants

Share purchase warrants outstanding as at June 30, 2021 and December 31, 2020, were as follows:

Expiry Date	Number of warrants (000's)	Weighted average exercise price (\$ per warrant)	Weighted average remaining contractual life (years)
July 11, 2021	20,000	\$ 0.12	0.03
January 11, 2022	2,100	0.155	0.53
December 15, 2022	26,300	0.075	1.46
	<b>48,400</b>	<b>\$ 0.10</b>	<b>0.83</b>

On July 11, 2021, all 20,000,000 warrants held by HPX expired unexercised.

### 7. Exploration expenses

Exploration expenses are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Salaries and consultants	\$ 239	\$ 160	\$ 447	\$ 414
Drilling	-	-	-	526
Assay	5	-	13	27
Rental	8	1	14	126
Share-based payments	25	-	57	-
Fees and taxes	311	372	314	374
Geophysics	94	-	129	-
Camp	8	1	19	69
Travel	12	-	18	14
Professional fees	19	17	39	42
Environmental	2	3	12	8
Other	45	2	71	33
Total exploration expenses	\$ 768	556	\$ 1,133	\$ 1,633

The Company has recognized approximately \$8,000 and \$14,000 related to short-term leases within exploration expenses for the three and six months ended June 30, 2021, respectively (June 30, 2020 - \$1,000 and \$122,000).

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

### 7. Exploration expenses (continued)

Exploration expenses were allocated to the following projects:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Pinaya	\$ 668	\$ 547	\$ 931	\$ 1,616
Aspen Grove	37	-	82	1
Coppermine	5	1	7	3
General project evaluation	33	8	56	13
Other	25	-	57	-
Total exploration expenses	\$ 768	\$ 556	\$ 1,133	\$ 1,633

### 8. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Salaries and benefits	\$ 104	\$ 73	\$ 187	\$ 162
Share-based payments	57	7	117	19
Professional fees	179	385	250	492
Office	31	17	55	40
Fees and taxes	3	25	14	40
Investor relations	2	3	(2)	5
Insurance	28	26	52	43
Other	2	2	4	5
Total administrative expenses	\$ 406	\$ 538	\$ 677	\$ 806

### 9. 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, 2021		Six months ended June 30, 2020	
	Number of stock options (000's)	Weighted average exercise price (\$ per share)	Number of stock options (000's)	Weighted average exercise price (\$ per share)
Outstanding, beginning of period	14,270	\$ 0.07	4,775	\$ 0.18
Granted	1,338	0.06	-	-
Expired	-	-	(985)	0.30
Forfeited	(92)	0.05	(500)	0.20
<b>Outstanding, end of period</b>	<b>15,516</b>	<b>\$ 0.07</b>	<b>3,290</b>	<b>\$ 0.14</b>
<b>Exercisable, end of period</b>	<b>6,262</b>	<b>\$ 0.09</b>	<b>2,223</b>	<b>\$ 0.18</b>

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

### 9. Share-based payments (continued)

Stock options outstanding and exercisable at June 30, 2021 are as follows:

Exercise price (\$ per share)	Options outstanding		Options exercisable	
	Number of stock options (000's)	Weighted average remaining contractual life (years)	Number of stock options (000's)	Weighted average remaining contractual life (years)
\$0.050	12,708	4.24	4,792	4.10
\$0.055	909	4.83	-	-
\$0.070	429	4.89	-	-
\$0.200	450	0.59	450	0.59
\$0.215	250	0.75	250	0.75
\$0.235	320	0.63	320	0.63
\$0.240	450	0.16	450	0.16
	<b>15,516</b>	<b>3.93</b>	<b>6,262</b>	<b>3.25</b>

The weighted average fair value of stock options granted during the six months ended June 30, 2021, was estimated at \$0.04 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.56%, expected life of 3.17 years, annualized volatility of 130% and dividend yield of 0%.

### 10. Financial instruments

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value on a recurring basis, whether changes in fair value are recognized at fair value through profit or loss or fair value through other comprehensive income ("FVTOCI"). The Company's financial assets and financial liabilities are classified as follows:

	June 30, 2021	December 31, 2020
Financial assets		
Financial assets measured at amortized cost		
Cash	\$ 1,517	\$ 895
Receivables	15	-
Deposits	257	237
Other assets	44	70
Financial assets measured at FVTOCI		
Marketable securities	34	19
<b>Total financial assets</b>	<b>\$ 1,867</b>	<b>\$ 1,221</b>
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	\$ 498	\$ 495
Promissory note	7,010	4,652
<b>Total financial liabilities</b>	<b>\$ 7,508</b>	<b>\$ 5,147</b>

The carrying values of cash, deposits, other assets, accounts payable and accrued liabilities and the promissory note approximate their fair values due to their short-term nature.

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

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

### 10. Financial instruments (continued)

- 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.

### 11. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below, with the exception of the Second Amended Promissory Note, which is disclosed in Note 4.

#### (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,	
	2021	2020	2021	2020
Salaries and benefits	\$ 225	\$ 154	\$ 423	354
Corporate administration	36	31	87	58
Exploration and geophysical activities	124	-	178	7
Total related party expenses	\$ 385	\$ 185	\$ 688	\$ 419

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
GMM (i)	\$ 275	\$ 185	\$ 530	\$ 412
Ivanhoe Electric (ii)	110	-	123	7
CGI (iii)	-	-	35	-
Total related party expenses	\$ 385	\$ 185	\$ 688	\$ 419

(i) Global Mining Management Corporation ("GMM"), a private company based in Vancouver, provides administration, accounting, and other office services to the Company on a cost-recovery basis. The Company held 7.7% of GMM's common shares at June 30, 2021 (December 31, 2020 – 7.7%). The investment in GMM is held at \$Nil on the condensed interim consolidated statements of financial position.

(ii) Ivanhoe Electric holds 73.2% of the Company's common shares at June 30, 2021 (December 31, 2020 – 73.2%). Costs incurred by Ivanhoe Electric on behalf of the Company are reimbursed on a cost-recovery basis.

(iii) Computational Geosciences Inc. ("CGI") is a private company based in Vancouver, Canada, which is also a member of the same Ivanhoe Electric group.

At June 30, 2021, the Company had a deposit of \$257,000 (December 31, 2020 – \$237,000) held by GMM. This deposit is recorded in prepaid expenses and deposits.

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

### 11. Related party transactions (continued)

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

	June 30, 2021	December 31, 2020
GMM	\$ 87	\$ 110
Ivanhoe Electric	131	20
Total related party payables	\$ 218	\$ 130

#### (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,	
	2021	2020	2021	2020
Salaries and benefits	\$ 128	\$ 103	\$ 251	\$ 228
Share-based payments	51	7	104	19
Total compensation of key management personnel	\$ 179	\$ 110	\$ 355	\$ 247

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

### 12. Subsequent event

On August 9, 2021, the Company announced that it will conduct an offering (the "Rights Offering") of rights to acquire common shares of the Company ("Common Shares") to raise gross proceeds of \$7.5 million.

Pursuant to the Rights Offering, eligible shareholders of record on August 23, 2021 will receive 0.4851239331 of one right for every one Common Share held. All fractional rights will be rounded down to the nearest whole number of rights (each whole right, a "Right"). Each Right will entitle the holder to subscribe for one Common Share at a subscription price of \$0.045 per Common Share (the "Basic Subscription Privilege"). Shareholders who fully exercise their Rights under the Basic Subscription Privilege will also be entitled to subscribe for additional Common Shares, on a pro rata basis, if available as a result of unexercised Rights prior to the Expiry Time (the "Additional Subscription Privilege"), subject to certain limitations as set out in the Company's Rights Offering Circular.

The Rights will be listed and posted for trading on the TSX Venture Exchange under the symbol "KZD.RT" on a "when issued" basis commencing on August 20, 2021 and will expire at 5:00 p.m. (Vancouver time) (the "Expiry Time") on September 16, 2021, after which time unexercised Rights will be void and of no value.

The Company currently has 343,554,821 Common Shares issued and outstanding. If all Rights issued under the Rights Offering are exercised, an additional 166,666,666 Common Shares would be issued.

In connection with the Rights Offering, the Company has entered into a standby commitment agreement (the "Standby Commitment Agreement") with Ivanhoe Electric (the "Standby Purchaser"), the Company's controlling shareholder. The Standby Purchaser has agreed, subject to certain terms and conditions, to exercise its Basic Subscription Privilege in respect of any Rights it holds, and, in addition thereto, to acquire any additional Common Shares available as a result of any unexercised Rights under the Rights Offering. The Standby Purchaser has agreed, subject to certain terms and conditions, to exercise its Basic Subscription Privilege in respect of any Rights it holds, and, in addition thereto, to

# Kaizen Discovery Inc.

## Notes to the condensed interim consolidated financial statements

(Unaudited)

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

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### 12. Subsequent event (continued)

acquire any additional Common Shares available as a result of any unexercised Rights under the Rights Offering, such that the Company will, subject to the terms of the Standby Commitment Agreement, be guaranteed to issue 166,666,666 Common Shares in connection with the Rights Offering for aggregate gross proceeds of \$7.5 million.

In consideration for the standby commitment, Ivanhoe Electric will receive 5-year warrants to purchase 25% of the Common Shares that Ivanhoe Electric has agreed to acquire under the standby commitment (not including any Common Shares acquired pursuant to its Basic Subscription Privilege or Additional Subscription Privilege), at an exercise price equal to \$0.065 per Common Share.

The Company intends to use the net proceeds of the Rights Offering to deploy Ivanhoe Electric's proprietary Typhoon™ transmitter system at its 100% owned Pinaya copper-gold project in Peru to undertake a 129 km<sup>2</sup> 3D Induced Polarization and Resistivity ("IP-resistivity") survey – the largest Typhoon™ survey completed to date. In addition, the Company will conduct exploration diamond drilling of laterally extensive shallow gold targets.



**Management's Discussion and Analysis**  
June 30, 2021

As at August 11, 2021



## **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 thereto for the three and six months ended June 30, 2021 (the "financial statements"), the audited consolidated financial statements and notes thereto for the year ended December 31, 2020 and the MD&A for the year ended December 31, 2020.

All information contained in this MD&A is current as of August 11, 2021 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](http://www.kaizendiscovery.com).

## **Forward-Looking Statements**

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

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

In making such statements, Kaizen has made assumptions regarding, among other things: general business and economic conditions; drilling programs and results at Pinaya; use of Typhoon™ geophysical surveys; the availability of additional exploration and mineral project financing; the supply and demand for, inventories of, and the level and volatility of the prices of metals; the timing and receipt of governmental permits and approvals; the timing and receipt of community and landowner approvals; changes in regulations; political factors; the accuracy of the Company's interpretation of drill results; the geology, grade and continuity of the Company's mineral deposits; the availability of equipment, skilled labour and services needed for the exploration and development of mineral properties; currency fluctuations; impact of the COVID-19 pandemic; the Company's receipt of all necessary regulatory, stock exchange and third party approvals in respect of the Rights Offering, the Debt Settlement, the Consolidation; the exercise of Rights by Ivanhoe Electric; the timing of the Rights Offering will meet the Company's expectations based on its business and operational requirements; risks that could cause the Company to allocate the proceeds of the Rights Offering in a manner other than as disclosed; and that the Rights Offering will provide sufficient liquidity to support the Company's intended use of the proceeds therefrom.

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; the availability of exploration capital and financing generally; changes in national and local government legislation; changes to taxation; changes in interest or currency exchange rates; loss of key personnel; inaccurate geological assumptions; legal disputes or unanticipated outcomes of legal proceedings; social unrest; competition; unavailability of materials and equipment; government action or delays in the receipt of permits or government approvals; community member disturbances; industrial disturbances or other job action; and unanticipated events related to health, safety and environmental matters including unknown impacts related to potential business disruptions stemming from the COVID-19 pandemic or another infectious disease.

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 11, 2021.

## **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 606 – 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**

Forecast growth in demand for energy metals such as copper exceeds the demand growth seen historically by the mining industry. With looming shortfalls in metal supply, a perfect storm of demand growth and supply-side challenges is developing, with implications for future metal prices and for the economic significance of the mining sector moving forward.

Kaizen continues to focus its activities on exploring the Pinaya Copper-Gold Project ("Pinaya") in Peru. As announced on August 9, 2021, Kaizen is planning a 3,000 metres diamond drill program to test shallow gold targets defined by historic shallow-penetrating IP chargeability anomalies, anomalous gold in rock samples and surface alteration. Additionally, preparation is also underway for an IP-resistivity survey using the proprietary deep-penetration Typhoon™ transmitter system, owned by majority shareholder Ivanhoe Electric (BVI) Inc. ("Ivanhoe Electric") (formerly known as HPX TechCo Inc.), a wholly-owned subsidiary of Ivanhoe Electric Inc.

(which acquired HPX Techco Inc. through a contribution agreement with High Power Exploration Inc. effective April 30, 2021), The main objective of the Typhoon survey is to define potential extensions at depth of the Pinaya Mineral Resource and of the shallow IP anomalies. The survey is also expected to show anomalies potentially associated with concealed porphyry mineralization along the more than 10km-long zone showing evidence of hydrothermal activity and to the west of the Mineral Resource area under Miocene post-mineral cover.

On September 29, 2020, Kaizen announced that it had restarted exploration activities at its 100%-owned Aspen Grove Project (“Aspen Grove”) in British Columbia. After conducting surface mapping, core re-logging, sampling, petrography and age dating of the main magmatic units, the Company has made the decision to put further activity at Aspen Grove on hold. The Company’s remaining portfolio of exploration properties, all of which are located in Canada, remain inactive at this time.

The Company continues to seek additional project opportunities, primarily in the Americas, the entry costs to which are as-yet undetermined. As such, management will continue to assess the cost of exploration programs at Pinaya and may revise the scope of planned programs. Although funding for the completed drill program at Pinaya in the first quarter of 2020 was obtained from Ivanhoe Electric, future planned exploration activities at Pinaya are dependent on completion of further equity financings or loans.

A global pandemic related to COVID-19 was declared by the World Health Organization in March 2020. The current and expected impacts of COVID-19 on the Company’s current operations are being closely monitored. There has been significant volatility in global markets including foreign exchange rates and commodity prices, supply chain disruptions, economic slow-downs, lockdowns and travel restrictions. Countries are asking people to self-isolate or practice social distancing to reduce the spread of the virus. Kaizen’s primary focus remains on the health and safety of its employees, contractors and host communities. The Company has followed the requirements and advice of government and health authorities in Canada and Peru and has implemented appropriate measures at the corporate offices and at all sites. These measures are continuously reviewed and updated to reflect current circumstances. To this end, all staff and contractors in both Peru and Canada have been primarily working from home and self-monitoring for signs of infection since late March 2020. These measures have impacted the Company’s operations, most notably in Peru, where restrictions on work and travel have reduced site access to Pinaya. The Company continues to monitor the ongoing developments surrounding COVID-19, including the impact of the COVID-19 variants and the distribution of vaccines and is prepared for continued short-term impacts to the Company and its operations.

## **Corporate Activities**

### *Legal Actions*

On March 23, 2021, the Company announced that the legal action initiated by AM Gold (“AMG”) against the Company in 2017 through the Supreme Court of British Columbia was dismissed by the Court after concluding “that AMG’s claims are all without merit.” Kaizen is entitled to recover costs and has applied for an enhanced, substantial-indemnity costs award. The plaintiff has commenced an appeal, Kaizen will file a responding appeal argument in August and the appeal will then be set for hearing later in 2021 or early 2022.

### *Financing Agreement with Ivanhoe Electric*

On April 13, 2021, the Company announced that it had arranged an additional US\$642,000 loan under an amended and restated unsecured promissory note (the “Second Amended Promissory Note”). The Second Amended Promissory Note reflects a maturity date for all amounts owing of September 30, 2021. The interest rate remains at 10% per annum, compounded only at maturity.

On June 30, 2021, the Company announced that it had arranged an additional US\$1.2 million loan under the Second Amended Promissory Note. The loan was in addition to the existing short-term loan of US\$4.04 million, and increased the total amount owing to US\$5.66 million (\$7.01 million). The maturity date and interest rate of the Second Amended Promissory Note remained unchanged.

The proceeds from the Second Amended Promissory Note are being used for general working capital purposes.

### *Corporate Reorganization*

On August 9, 2021, the Company announced that it will be undertaking a series of transactions to recapitalize and reorganize the Company.

- Rights Offering

The Company will conduct an offering of rights (the “Rights Offering”) to acquire common shares of the Company (“Common Shares”) to raise gross proceeds of \$7.5 million.

Pursuant to the Rights Offering, eligible shareholders of record on August 23, 2021 will receive 0.4851239331 of one right for every one Common Share held. All fractional rights will be rounded down to the nearest whole number of rights (each whole right, a “Right”). Each Right will entitle the holder to subscribe for one Common Share at a subscription price of \$0.045 per Common Share (the “Basic Subscription Privilege”). Shareholders who fully exercise their Rights under the Basic Subscription Privilege will also be entitled to subscribe for additional Common Shares, on a pro rata basis, if available as a result of unexercised Rights prior to the Expiry Time (the “Additional Subscription Privilege”), subject to certain limitations as set out in the Company’s Rights Offering circular.

The Rights will be listed and posted for trading on the TSX Venture Exchange under the symbol “KZD.RT” on a “when issued” basis commencing on August 20, 2021 and will expire at 5:00 p.m. (Vancouver time) (the “Expiry Time”) on September 16, 2021, after which time unexercised Rights will be void and of no value.

The Company currently has 343,554,821 Common Shares issued and outstanding. If all Rights issued under the Rights Offering are exercised, an additional 166,666,666 Common Shares would be issued.

In connection with the Rights Offering, the Company has entered into a standby commitment agreement (the “Standby Commitment Agreement”) with Ivanhoe Electric (the “Standby Purchaser”), the Company’s controlling shareholder. The Standby Purchaser has agreed, subject to certain terms and conditions, to exercise its Basic Subscription Privilege in respect of any Rights it holds, and, in addition thereto, to acquire any additional Common Shares available as a result of any unexercised Rights under the Rights Offering. The Standby Purchaser has agreed, subject to certain terms and conditions, to exercise its Basic Subscription Privilege in respect of any Rights it holds, and, in addition thereto, to acquire any additional Common Shares available as a result of any unexercised Rights under the Rights Offering, such that the Company will, subject to the terms of the Standby Commitment Agreement, be guaranteed to issue 166,666,666 Common Shares in connection with the Rights Offering for aggregate gross proceeds of \$7.5 million.

In consideration for the standby commitment, Ivanhoe Electric will receive 5-year warrants to purchase 25% of the Common Shares that Ivanhoe Electric has agreed to acquire under the standby commitment (not including any Common Shares acquired pursuant to its Basic Subscription Privilege or Additional Subscription Privilege), at an exercise price equal to \$0.065 per Common Share.

The Company intends to use the net proceeds of the Rights Offering to deploy Ivanhoe Electric Inc.’s proprietary Typhoon™ transmitter system at its 100% owned Pinaya copper-gold project in Peru to undertake a 129 km<sup>2</sup> 3D IP-resistivity survey – the largest Typhoon™ survey completed to date. In addition, the Company will conduct exploration diamond drilling of laterally extensive shallow gold targets.

- Debt Settlement

The Company has entered into a debt settlement agreement with Ivanhoe Electric whereby the Company will issue Common Shares at \$0.05 per Common Share in settlement of all principal and accrued and unpaid interest owing by the Company to Ivanhoe Electric (“the Debt Settlement”). As of the date of the announcement, August 9, 2021, the principal amount of US\$5,242,000 plus approximately US\$514,000 in accrued interest remains owing to Ivanhoe Electric.

The Debt Settlement constitutes a “related party transaction” under MI 61-101 and will require “minority approval” of Shareholders in accordance with MI 61-101. At the Annual General Meeting (“Meeting”), Shareholders, excluding Ivanhoe Electric and certain affiliated persons, will be asked to approve the Debt Settlement.

Assuming Shareholder and TSXV approval is obtained, the Debt Settlement is expected to close after the Meeting.

- Share Consolidation

Shareholders will be asked to consider a resolution to approve a consolidation (the “Consolidation”) of the Company’s Common Shares on a ratio of one (1) post-Consolidation Common Share for every ten (10) pre-Consolidation Common Shares.

The Consolidation is subject to Shareholder and TSXV approval. As of August 11, 2021 there are 343,554,821 Common Shares issued and outstanding. Upon completion of the Debt Settlement and assuming the full subscription of Rights under the Rights Offering, it is anticipated that there will be approximately 65,469,708 Common Shares issued and outstanding following the Consolidation. The Company is pursuing the Consolidation to reduce its number of issued and outstanding Common Shares and to provide for an increased Common Share price, which will allow it to attract additional investors who have minimum share price thresholds for equity investments.

## Exploration Activities

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

#### Overview

The Pinaya Copper-Gold Project covers approximately 101 km<sup>2</sup> of granted title, 28 km<sup>2</sup> under application and includes more than 10 kilometres of underexplored strike length within the Andahuaylas-Yauri Porphyry-Skarn Belt in southeastern Peru (Figure 1). This Eocene-Oligocene aged belt hosts numerous productive copper ± gold/molybdenum porphyry and skarn systems, including Las Bambas, Tintaya, Constancia, Haqira and Antapaccay.

An updated National Instrument 43-101 (“NI 43-101”) technical report for Pinaya, titled “Pinaya Gold-Copper Project Technical Report” prepared jointly by Brian Cole, P.Geol., 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](http://www.sedar.com) and on the Kaizen website at [www.kaizendiscovery.com](http://www.kaizendiscovery.com). The technical report includes an updated Mineral Resource estimate that was prepared in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum’s Standards of Disclosure for Mineral Projects.

Pinaya contains a Mineral Resource within three contiguous zones over 1.7-kilometres of strike in the central part of the property. The project's Measured Mineral Resource totals 8.2 million tonnes grading 0.33% copper and 0.60 grams per tonne (“g/t”) of gold, for contained metal of 27,000 tonnes of copper and 158,000 ounces of gold. The project's Indicated Mineral Resource totals 33.5 million tonnes grading 0.32% copper and 0.46 g/t gold, for contained metal of 108,000 tonnes of copper and 497,000 ounces of gold. The project also has an Inferred Mineral Resource of 40.2 million tonnes grading 0.36% copper and 0.30 g/t gold, containing 145,000 tonnes of copper and 388,000 ounces of gold. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability and due to the uncertainty that may be attached to Inferred Mineral Resources,

it cannot be assumed that all or any part of an Inferred Mineral Resource will be upgraded to an Indicated or Measured Mineral Resource as a result of continued exploration.

### Licenses and Permits

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

On July 9, 2018, the Company announced that the Consulta Previa review had been successfully completed and its Peruvian subsidiary had been issued with the Authorization to Commence Activities for its planned drilling program at Pinaya. Under Peruvian law, the government-led Consulta Previa (prior consultation) process verifies that the considerations of any local peoples that could represent an indigenous population have been recognized.

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

In April 2019, agreements with private landholders were re-signed, providing Kaizen with access rights to conduct its planned exploration program until June 2020.

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

On July 1, 2019, the Company signed three contracts with the community of Pinaya. The contracts comprise an Usufruct Agreement for the Mina Pata parcel; a Social Support Agreement; and a Collaboration Framework Agreement.

On January 29, 2021, the Company received approval from the Ministry of Mines for the Company’s second supporting technical report (“ITS”) for the DIA for Pinaya, giving the Company an additional period of twelve months to complete any further exploration drilling programs. The approval will expire on January 1, 2022.

On May 29, 2021 the Company renewed the Usufruct Agreement for the Mina Pata parcel; a Social Support Agreement; and a Collaboration Framework Agreement with the community of Pinaya.

**Figure 1: The Pinaya concessions include over 10 km of underexplored strike length in the heart of the Andahuaylas-Yauri Porphyry-Skarn Belt**



### Planned Work Programs

Multiple untested shallow gold targets have been identified by Kaizen after reviewing historical geophysical and geochemical data, combined with Kaizen's more recent geologic mapping and soil re-sampling. Of the seven large chargeable features identified, only three have been partially drill tested in the past with encouraging results. The focus of exploration by previous operators was to define the current Pinaya Mineral Resource and much less on drill-testing regional exploration targets.

A two phase exploration program is currently planned at Pinaya. During the first phase, between now and the end of 2021, Kaizen intends to complete an IP-resistivity survey using Ivanhoe Electric's proprietary deep-penetration Typhoon™ transmitter system in order to trace the Pinaya Mineral Resource and shallow chargeability anomalies to depth, to identify deeper concealed bodies of mineralization within the 10 km-long Pinaya hydrothermal system and to explore beneath Miocene post-mineral cover rocks to the west of the Pinaya Mineral Resource. In addition, drilling will test the shallow gold targets (see Figure 2 below) and strike extensions of mineralized cross structures in the area of the Pinaya Mineral Resource. Permitting of the drill holes is well underway. The second phase program, in early 2022, will then drill test targets arising from the IP-resistivity survey

The Company expects to use the proceeds from the Rights Offering to finance the first phase exploration program (see "Rights Offering" under the "Corporate Activities" section).

On January 13, 2020, the Company announced the commencement of an exploration drilling program at Pinaya to test three priority targets. On March 23, 2020, the Company announced the completion of the program, with 1,946 metres completed over three drill holes. Full assay results from the drilling were announced on July 7, 2020. Assay results returned intercepts with anomalous levels of copper and gold mineralization in all three holes.

Based on observations of drill core from holes PDH-163, -164 and -165, Kaizen believes that potential exists for a large, unroofed porphyry copper system, which could extend to depth and laterally beyond the bounds of the historic geophysical surveys. Hole PDH-163 did intersect thin porphyry dikes, however it is still not clear if those

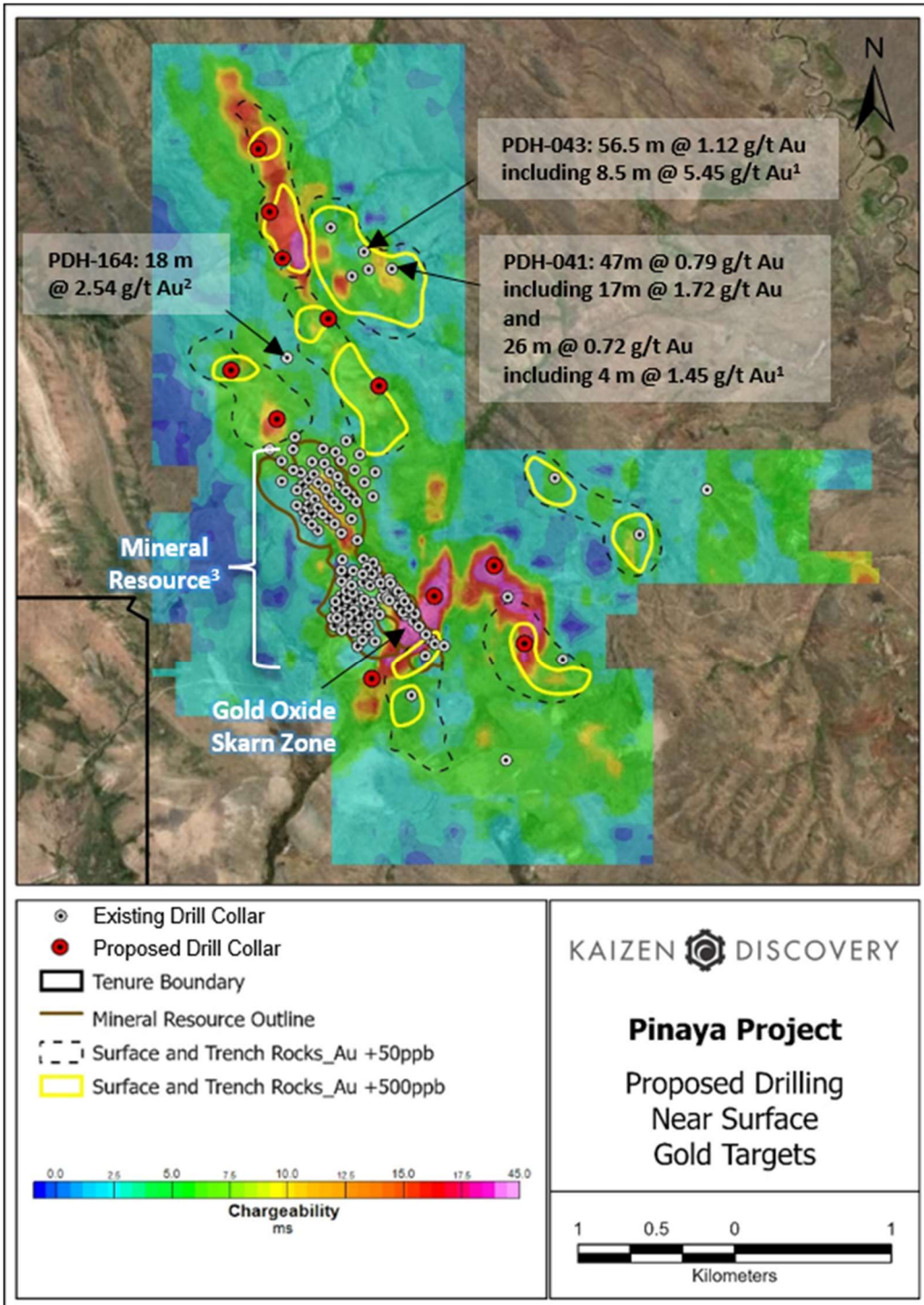
are responsible for the skarn alteration and mineralization observed within this hole. All holes drilled in the current program did not penetrate beyond the Puno Group roof rocks into the underlying porphyry system.

The timing of future work programs at Pinaya may be impacted by the COVID-19 pandemic and the ability of the Company to secure the necessary financing. The Peruvian Government declared a national state of emergency on March 15, 2020. Under the state of emergency, Peru initially enacted 15 days of mandatory quarantine, starting at midnight on March 16, 2020. All borders (land, air, and maritime) were also closed and at that time, all of the Company's employees and contractors in Peru began working from home. In June 2020, the Peruvian Government began to ease lockdown restrictions on the country's mining sector, with a phased restart of activities. All work at Pinaya requires the implementation of health protocols, including self-distancing, disinfection procedures, use of protective masks and COVID-19 testing. The Company submitted its plan for surveillance, prevention and control of COVID-19 at Pinaya to the Ministry of Health and Ministry of Mines, and upon receiving approval, restarted certain field activities on June 16, 2020. Activities in the mining industry are allowed as long as the protocols to prevent COVID-19 are in place. Currently, Peru is under a nationwide curfew from midnight to 4 am and international flights of up to 8 hours of duration are permitted. International travelers are permitted to enter Peru only after producing a negative COVID-19 test (issued no more than 72 hours before the flight). Upon arrival, international travelers may take a COVID-19 test and if they receive a negative result may avoid the fourteen day quarantine requirement.

COVID-19 continues to have a significant impact globally and this pandemic could have a material adverse effect on the Company, results from operations, and the ability of the Company to secure further financing.



Figure 2: Proposed preliminary drill plan for targeting shallow gold at Pinaya.



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

The Aspen Grove Project is located in southern British Columbia, near the city of Merritt, and is 100%-owned by Kaizen through its wholly-owned subsidiary KZD Aspen Grove Holding Ltd. It comprises 29 claims totaling approximately 112 km<sup>2</sup> which will remain valid through to 2027, and covers part of an extensive belt of porphyry copper-gold mineralization hosted by Late Triassic – Early Jurassic Nicola Group volcanics and coeval intrusions. Three of the claims (13.75 km<sup>2</sup>) are subject to a 2% net smelter return royalty, 1% of which can be purchased at any time for \$3.0 million.

The project encompasses a number of historical copper prospects: Zig, Thalia, Boss, Par and Ketchan. Of these five target areas, only the Par and Ketchan areas have had preliminary drill testing completed by Kaizen. 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.

As announced on September 29, 2020, Kaizen re-started exploration at Aspen Grove with the objective of mapping the northern prospects (Thalia, Zig, Thor, Boss); sampling the intrusions intersected at Ketchan and Par for U/Pb and Re/Os dating; and understanding volcanic stratigraphy.

The geological re-assessment work on the property was conducted during late 2020 and early 2021. It consisted of mapping, sampling, re-logging of selected sections at Par and Ketchan, petrography (thin and polished sections) and age dating of the main magmatic units. The main observations on the northern prospects (Thalia, Zig, Thor, Boss) indicate the presence of discontinuous strata-bound copper mineralization in the upper Nicola Group volcanics and volcanoclastics, likely to be genetically linked to weakly mineralized dioritic intrusions. Age dating and petrography at Ketchan suggest the system shares similarities with other deeply eroded systems in the belt, which downgrades its potential at depth. Age dating at Par failed to ascertain the age of the magmatism and mineralization.

Results of the geological re-assessment work performed at Aspen Grove in late 2020 and early 2021 concluded that the area should not be considered high priority at this time and a decision to suspend exploration activities has been made.

The Company has followed the COVID-19 requirements and advice of government and health authorities in British Columbia and has implemented measures, including social distancing, hand hygiene and personal protective equipment to protect employees and contractors at Aspen Grove.

### **Coppermine Project, Nunavut, Canada (100% owned)**

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

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

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

The Company's Section 51 application is based on the Draft Nunavut Land Use Plan ("DNLUP") classification for the land on which the project lies. In the DNLUP, the Company's mineral claims are overlain by areas with

proposed prohibitions and/or limitations on mining and exploration. Uncertainty regarding these designations, among other strategic issues, will impact Kaizen's ability to continue to choose to invest in exploration at the Coppermine Project until the land use plans for Nunavut are finalized.

## Other Exploration Projects

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

## Exploration Expenses

(Tabular amounts are expressed in thousands of Canadian dollars)

Exploration expenses for the three months ended June 30, 2021 and 2020 are summarized by project as follows:

	Three Months Ended June 30, 2021				
	Pinaya	Coppermine	Aspen Grove	Other	Total
	\$	\$	\$	\$	\$
Salaries and consultants	186	5	28	20	239
Drilling	-	-	-	-	-
Assay	5	-	-	-	5
Rental	8	-	-	-	8
Share-based payments	-	-	-	25	25
Fees and taxes	311	-	-	-	311
Geophysics	94	-	-	-	94
Camp	8	-	-	-	8
Travel	(1)	-	-	13	12
Professional fees	11	-	8	-	19
Environmental	2	-	-	-	2
Other	44	-	1	-	45
Total exploration expenses	668	5	37	58	768

	Three Months Ended June 30, 2020				
	Pinaya	Coppermine	Aspen Grove	Other	Total
	\$	\$	\$	\$	\$
Salaries and consultants	151	1	-	8	160
Drilling	-	-	-	-	-
Assay	-	-	-	-	-
Rental	1	-	-	-	1
Share-based payments	-	-	-	-	-
Fees and taxes	372	-	-	-	372
Geophysics	-	-	-	-	-
Camp	1	-	-	-	1
Travel	-	-	-	-	-
Professional fees	17	-	-	-	17
Environmental	3	-	-	-	3
Other	2	-	-	-	2
Total exploration expenses	547	1	-	8	556

Exploration expenses for the six months ended June 30, 2021 and 2020 are summarized by project as follows:

	Six Months Ended June 30, 2021				
	Pinaya	Coppermine	Aspen Grove	Other	Total
	\$	\$	\$	\$	\$
Salaries and consultants	335	5	65	42	447
Drilling	-	-	-	-	-
Assay	13	-	-	-	13
Rental	14	-	-	-	14
Share-based payments	-	-	-	57	57
Fees and taxes	312	2	-	-	314
Geophysics	129	-	-	-	129
Camp	19	-	-	-	19
Travel	5	-	-	13	18
Professional fees	27	-	12	-	39
Environmental	12	-	-	-	12
Other	65	-	5	1	71
<b>Total exploration expenses</b>	<b>931</b>	<b>7</b>	<b>82</b>	<b>113</b>	<b>1,133</b>

	Six Months Ended June 30, 2020				
	Pinaya	Coppermine	Aspen Grove	Other	Total
	\$	\$	\$	\$	\$
Salaries and consultants	398	3	-	13	414
Drilling	526	-	-	-	526
Assay	27	-	-	-	27
Rental	126	-	-	-	126
Share-based payments	-	-	-	-	-
Fees and taxes	374	-	-	-	374
Geophysics	-	-	-	-	-
Camp	69	-	-	-	69
Travel	14	-	-	-	14
Professional fees	42	-	-	-	42
Environmental	8	-	-	-	8
Other	32	-	1	-	33
<b>Total exploration expenses</b>	<b>1,616</b>	<b>3</b>	<b>1</b>	<b>13</b>	<b>1,633</b>

## Summary of Quarterly Results

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

	Quarter Ended			
	Jun-30 2021	Mar-31 2021	Dec-31 2020	Sep-30 2020
	\$	\$	\$	\$
Revenue	-	-	-	-
Exploration expenses	768	365	377	348
Administrative expenses	406	271	437	1,462
(Gain) loss on foreign exchange	(78)	(103)	(197)	(65)
Other (income) expense	84	(469)	143	102
Net loss for the period	1,180	64	760	1,847
Basic and diluted loss per share	-	-	-	0.01

	Quarter Ended			
	Jun-30 2020	Mar-31 2020	Dec-31 2019	Sep-30 2019
	\$	\$	\$	\$
Revenue	-	-	-	-
Exploration expenses	556	1,077	223	210
Administrative expenses	538	268	337	626
(Gain) loss on foreign exchange	(155)	124	28	(36)
Other (income) expense	173	109	(109)	34
Net loss for the period	1,112	1,578	479	834
Basic and diluted loss per share	-	-	-	-

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

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

In the quarter ended March 31, 2020, exploration expenses increased as the Company commenced and completed its planned exploration drilling program at Pinaya.

In the quarter ended June 30, 2020, exploration expenses decreased as the Company had completed its planned drilling program prior to the government mandated shutdowns due to COVID-19 in March 2020. Exploration during the quarter ended June 30, 2020 primarily related to care and maintenance costs at camp, and concession fees related to Pinaya.

In the quarter ended September 30, 2020, administration expenses increased primarily due to an increase in professional fees related to legal proceedings (as discussed in the "Risk Factors" section of this MD&A).

In the quarter ended December 31, 2020, administration expenses decreased primarily due to a decrease in professional fees related to legal proceedings, while exploration expenses increased due to the restart of limited exploration activity at Aspen Grove.

In the quarter ended March 31, 2021, the Company recognized other income due to an adjustment to reflect management's best estimate of the non-current provision at March 31, 2021.

In the quarter ended June 30, 2021, exploration expenses increased due to concession payments relating to the Pinaya Project.

## **Results of Operations**

### **Second Quarter Results – The three months ended June 30, 2021 (“Q2 2021”) compared to the three months ended June 30, 2020 (“Q2 2020”)**

The loss for Q2 2021 totaled \$1.18 million compared to the loss of \$1.11 million in Q2 2020.

Exploration expenses were \$768,000 in Q2 2021 compared to \$556,000 in Q2 2020. The increase relates to geophysics that were performed at Pinaya and geological re-assessment work, such as mapping, sampling and re-logging, at Aspen Grove. In the comparative period, Q2 2020, the Company incurred minimum care and maintenance costs due to low levels of activity resulting from COVID-19 restrictions.

Administration expenses decreased from \$538,000 in Q2 2020 to \$406,000 in Q2 2021 due to lower professional fees related to legal proceedings (as discussed in the 'Risk Factors' section of this MD&A). The decrease was partially offset by an increase in share based payments and salaries and benefits due to increased staff levels.

Foreign exchange fluctuated from a \$155,000 gain in Q2 2020 to a \$78,000 gain in Q2 2021 due to differences in the movements of foreign exchange rates during the comparative periods.

Interest expense was higher in Q2 2021 compared to Q2 2020 due to the larger principal outstanding on the short-term loan with Ivanhoe Electric in Q2 2021.

### **Year-to-Date Results – The six months ended June 30, 2021 (“YTD 2021”) compared to the six months ended June 30, 2020 (“YTD 2020”)**

The loss for YTD 2021 totaled \$1.24 million compared to the loss of \$2.69 million in YTD 2020.

Exploration expenses were \$1.13 million in YTD 2021 compared to \$1.63 million in YTD 2020. The decrease is predominantly due to the Company completing a drilling program at Pinaya in 2020, prior to the COVID-19 lockdowns which began in late March 2020. The costs incurred in YTD 2020 were comprised primarily of drilling, salaries, consultants, rentals and camp costs; whereas in YTD 2021, the Company did not complete any drilling and incurred minimum care and maintenance costs at its properties, with the exception of geophysics performed at Pinaya and geological re-assessment work, such as mapping, sampling and re-logging, at Aspen Grove.

Administration expenses decreased from \$806,000 to \$677,000 in YTD 2021. This is driven primarily by a decrease of \$242,000 in professional fees related to legal proceedings (as discussed in the 'Risk Factors' section of this MD&A), which were partially offset by a \$98,000 increase in share-based payments.

Foreign exchange fluctuated from a \$31,000 gain in YTD 2020 to an \$181,000 gain in YTD 2021 due to differences in the movements of foreign exchange rates during the comparative periods.

Other income in YTD 2021 includes an adjustment of \$629,000 to reflect management's best estimate of the non-current provision. There was no comparative adjustment in YTD 2020.

Interest expense was higher in YTD 2021 compared to YTD 2020 due to the larger principal outstanding on the short-term loan with Ivanhoe Electric in YTD 2021.

## **Liquidity and Capital Resources**

At June 30, 2021, the Company had consolidated cash of \$1.52 million (December 31, 2020 - \$895,000). The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary use of cash during the six months ended June 30, 2021, was funding operating activities of \$1.71 million (2020 - \$2.12 million).

On April 13, 2021, the Company announced that it had arranged an additional US\$642,000 short-term loan from Ivanhoe Electric. The Company issued to Ivanhoe Electric a Second Amended Promissory Note that replaced the amended unsecured promissory note covering the existing short-term loan that was due on December 31, 2020. The Second Amended Promissory Note reflects a maturity date for all amounts owing to September 30, 2021 and an interest rate of 10% per annum until the loan matures on September 30, 2021. On June 30, 2021, the Company announced it had arranged an additional US\$1.20 million under the Second Amended Promissory Note. The Company drew down a total of US\$1.84 million (\$2.29 million) in the three months ended June 30, 2021.

At June 30, 2021, the Company believes that it has adequate near-term resources to maintain its minimum obligations, including general corporate activities, based on its current cash position and ability to pursue additional sources of financing, including further equity placements. Subsequent to June 30, 2021, on August 9, 2021 the Company announced a Rights Offering (see 'Corporate Activities' section), and the expected gross proceeds of \$7.5 million from the Rights Offering will allow the Company to deploy Ivanhoe Electric's proprietary Typhoon™ transmitter system at Pinaya to undertake a 129 km<sup>2</sup> 3D IP-resistivity survey. In addition, the Company will conduct exploration diamond drilling of laterally extensive shallow gold targets.

The Company currently has no source of operating cash flow, and has no assurance that additional funding will be available to it for additional exploration programs at its properties, or to enable the Company to fulfill its obligations under any applicable agreements. The ability of the Company to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore and evaluate its mineral properties and, ultimately, to achieve profitable operations. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration of the Company's properties and the possible loss of title to such properties. Significant reliance is placed on Ivanhoe Electric, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of Ivanhoe Electric to provide or participate in future financings, or the inability of Ivanhoe Electric to provide or participate in future financings, would likely result in difficulty for the Company to attract separate third-party investment. In addition, the spread of COVID-19 globally has caused and continues to cause considerable disruptions to the world economy, including financial markets and commodity prices and could adversely impact the Company's ability to carry out plans to obtain additional financing. The ability to raise additional financing for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond the Company's control, such as uncertainty in the capital markets, depressed commodity prices or country risk factors. As such, there is material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

## **Off-Balance Sheet Arrangements**

During the six months ended June 30, 2021, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

## **Proposed Transactions**

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

## **Related Party Transactions**

*(Tabular amounts are expressed in thousands of Canadian dollars)*

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

### *Expenses, deposits and accounts payable*

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits	225	154	423	354
Corporate administration	36	31	87	58
Exploration and geophysical activities	124	-	178	7
Total related party expenses	385	185	688	419

The breakdown of expenses by related party is as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
GMM	275	185	530	412
Ivanhoe Electric	110	-	123	7
CGI	-	-	35	-
Total related party expenses	385	185	688	419

- (i) Global Mining Management Corporation (“GMM”), a private company based in Vancouver, provides administration, accounting, and other office services to the Company on a cost-recovery basis. The Company held 7.7% of GMM’s common shares at June 30, 2021 (December 31, 2020 – 7.7%). The investment in GMM is held at \$Nil on the consolidated statements of financial position.
- (ii) Ivanhoe Electric holds 73.2% of the Company’s common shares at June 30, 2021 (December 31, 2020 – 73.2%). Costs incurred by Ivanhoe Electric on behalf of the Company are reimbursed on a cost-recovery basis.
- (iii) Computational Geosciences Inc. (“CGI”) is a private company based in Vancouver, Canada, which is also a member of the same Ivanhoe Electric group.

At June 30, 2021, the Company had a deposit of \$257,000 (December 31, 2020 - \$237,000) held by GMM. This deposit is recorded in prepaid expenses and deposits.



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

	June 30, 2021	December 31, 2020
	\$	\$
GMM	87	110
Ivanhoe Electric	131	20
Total related party payables	218	130

Under the terms of an amended and restated unsecured promissory note (“Amended Promissory Note”), the Company had drawn down a total of US\$3.40 million (\$4.48 million) at December 31, 2020. The Amended Promissory Note had a maturity date of December 31, 2020 and an interest rate of 10% per annum, with interest accruing daily and all interest compounding only at maturity. The interest rate increased to 12% per annum as the Company did not repay the amount owing upon the maturity date. However, on April 13, 2021, the Company announced that it had arranged an additional US\$642,000 (\$806,000) loan under the Second Amended Promissory Note. The Second Amended Promissory Note reflects a maturity date for all amounts owing of September 30, 2021 and an interest rate of 10% per annum. On June 30, 2021, the Company arranged an additional US\$1.2 million (\$1.49 million) loan under the Second Amended Promissory Note.

At June 30, 2021, the Company had liability of US\$5.66 million (\$7.01 million) owing under the Second Amended Promissory Note agreement between Ivanhoe Electric and the Company. Interest expense of approximately \$147,000 and \$284,000 was recorded in the condensed interim consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2021 (June 30, 2020 - \$74,000 and \$146,000).

#### *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,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries and benefits	128	103	251	228
Share-based compensation	51	7	104	19
Total compensation of key management personnel <sup>1</sup>	179	110	355	247

<sup>1</sup> 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 August 11, 2021, the Company had the following issued and outstanding:

- 343,554,821 common shares.
- 15,515,993 stock options with a weighted average exercise price of \$0.07 per share. Each stock option is exercisable to purchase one common share of the Company at prices ranging from \$0.05 to \$0.24 per common share.
- 2,100,000 warrants held by Ivanhoe Electric. Each warrant entitles Ivanhoe Electric 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.
- 26,300,000 warrants entitling the holder to acquire one common share of the Company at an exercise price per common share of \$0.075 at any time on or before December 15, 2022. 26,000,000 of these warrants are held by Ivanhoe Electric.

## **Adoption of new and revised accounting standards and interpretations**

The Company has not adopted any new amendments to IFRS in the current period, and not applied the following amendments to standards that have been issued but are not yet effective:

Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (effective January 1, 2022) clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. Management is currently assessing the impact of these amendments.

Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2023) clarifies the presentation of liabilities in the statement of financial position. The classification of liabilities as current or noncurrent is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendment also introduces a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of this amendment.

Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2023) provide guidance to assist entities in distinguishing between policies and accounting estimates. The amendments replace the definition of a change in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The amendments are effective for annual periods beginning on or after January 1, 2023. Management is currently assessing the impact of this amendment.

## **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, deposits, other assets, accounts payable and accrued liabilities and the promissory note approximate their fair values due to their short-term nature. Marketable securities are measured at fair value using level 1 inputs and changes in fair value are recognized at fair value through other comprehensive income ("FVTOCI").

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

	June 30, 2021	December 31, 2020
	\$	\$
Financial assets		
Financial assets measured at amortized cost		
Cash	1,517	895
Receivables	15	-
Deposits	257	237
Other assets	44	70
Financial assets measured at FVTOCI		
Marketable securities	34	19
Total financial assets	1,867	1,221
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	498	495
Promissory note	7,010	4,652
Total financial liabilities	7,508	5,147

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 the year ended December 31, 2020. 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 months ended June 30, 2021.

### **Risk Factors**

The Company is engaged in mineral exploration and development activities which, by their very nature, are speculative. Due to the high-risk nature of the Company's business and the present stage of the Company's various projects, an investment in the Company's common shares should be considered a highly speculative investment that involves significant financial risks including the risk of total loss of the investment, and prospective investors should carefully consider all of the information disclosed in this MD&A and the Company's other public disclosures, including the risks disclosed in the "Risk Factors" section of the Company's MD&A for the year ended December 31, 2020, prior to making any investment in the Company's common shares.

The following risk factor disclosed in the Company's MD&A for the year ended December 31, 2020 has been updated:

*The Company may become subject to litigation and the outcome of pending litigation is uncertain.*

All industries, including the mining industry, may be made subject to legal claims and proceedings, with and without merit. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Kaizen may also in the future become the subject of a legal claim or proceeding at any time, and without advance notice of the commencement of the proceeding. To the extent Kaizen becomes subject to any such claim or proceeding, it may materially impact management's time and the Company's financial resources to defend, even if it is without merit. As well, due to the inherent uncertainty of the litigation process, the resolution of any particular legal claim or proceeding could have a material adverse effect on the Company's business, results of operations, financial condition (including its cash position) and prospects.

Kaizen is currently subject to litigation in British Columbia. The proceedings relate to a claim against the Company in respect of its acquisition of the Pinaya Project. The trial of the action has been concluded and the trial judge agreed with Kaizen's position that the plaintiff's claims were without merit and dismissed the action in its entirety. Kaizen is entitled to recover costs and has applied for an enhanced, substantial-indemnity costs

award. That decision is now on reserve with the trial judge. The plaintiff has commenced an appeal from the trial judgment and has recently articulated the grounds in support of its appeal. We believe that the plaintiff's appeal argument is essentially an effort to reargue the facts of the case. Kaizen will file a responding appeal argument in August and the appeal will then be set for hearing later in 2021 or early 2022. Counsel continues to believe that the appeal is without merit and unlikely to succeed but the course of legal proceedings is uncertain and Kaizen's assessment of the merits of pending litigation and any liability resulting from it may ultimately turn out to be incorrect, which could have a material adverse effect on the Company's business, results of operations, financial condition (including its cash position) and prospects.

### **Qualified Person**

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

The Mineral Resource disclosed in this MD&A for Pinaya are reported in the NI 43-101 technical report with an effective date of April 26, 2016 and titled "Pinaya Gold-Copper Project Technical Report" prepared jointly by Brian Cole, P.Geo. and Ronald G. Simpson, P.Geo., (Geosim Services Inc.). Both Mr. Cole and Mr. Simpson are "Qualified Persons" under NI 43-101 and are independent of Kaizen.