



Condensed Interim Consolidated Financial Statements of

Kaizen Discovery Inc.

June 30, 2019

(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, 2019	December 31, 2018
Assets			
Current assets			
Cash		\$ 205	\$ 355
Receivables		12	32
Prepaid expenses and deposits	13	506	475
Total current assets		723	862
Non-current assets			
Mineral properties	3	3,296	3,444
Financial assets	4	26	21
Property, plant and equipment		27	30
Other assets		70	78
Total assets		\$ 4,142	\$ 4,435
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 394	\$ 238
Provision		677	677
Promissory note	5,13	1,021	-
Total current liabilities		2,092	915
Non-current liabilities			
Non-current provision	6	1,622	1,579
Total liabilities		\$ 3,714	\$ 2,494
Equity			
Share capital	7	\$ 45,987	\$ 45,987
Share-based payment reserve	10	3,752	3,749
Other reserves		452	452
Share purchase warrants	7	177	177
Accumulated other comprehensive loss		(672)	(599)
Accumulated deficit		(49,268)	(47,825)
Total equity		\$ 428	\$ 1,941
Total liabilities and equity		\$ 4,142	\$ 4,435

Description of business and going concern (Note 1)

Subsequent events (Notes 5 and 14)

Approved and authorized for issue on behalf of the Board on August 15, 2019:

/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,	
		2019	2018	2019	2018
Operating expenses					
Exploration expenses	8	\$ (483)	\$ (146)	\$ (685)	\$ (338)
Administrative expenses	9	(277)	(549)	(622)	(1,036)
Share of losses from joint ventures		-	(396)	-	(685)
Loss from operations		(760)	(1,091)	(1,307)	(2,059)
Other income (expenses)					
Gain on expiry of option liability		-	-	-	250
Interest income		4	13	8	28
Loss on foreign exchange		(3)	(3)	(29)	(3)
Interest expense		(25)	(58)	(40)	(115)
Depreciation expense		(1)	-	(2)	-
Other expense		(38)	(10)	(73)	(19)
Loss before income taxes		(823)	(1,149)	(1,443)	(1,918)
Income taxes		-	-	-	-
Net loss for the period		(823)	(1,149)	(1,443)	(1,918)
Other comprehensive (loss) income					
Items that will not be reclassified subsequently to loss:					
Change in fair value of marketable securities	4(a)	7	3	5	(57)
Items that may be reclassified subsequently to loss:					
Currency translation adjustment		(34)	-	(80)	-
Share of other comprehensive income of joint venture		-	19	-	63
Items that have been reclassified to loss:					
Cumulative exchange loss relating to liquidated foreign subsidiaries		2	-	2	1
Total other comprehensive (loss) income for the period		\$ (25)	\$ 22	\$ (73)	\$ 7
Total comprehensive loss for the period		\$ (848)	\$ (1,127)	\$ (1,516)	\$ (1,911)
Loss per share (basic and diluted)		\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of basic and diluted shares outstanding		276,766,636	276,766,636	276,766,636	276,766,636

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	Total
Balance at January 1, 2018 (as reported)	276,766,636	\$ 45,987	\$ 3,727	\$ 452	\$ 177	\$ (107)	\$ (44,761)	5,475
Impact of adopting IFRS 9 on January 1, 2018	-	-	-	-	-	(569)	569	-
Balance at January 1, 2018 (restated)	276,766,636	\$ 45,987	\$ 3,727	\$ 452	\$ 177	\$ (676)	\$ (44,192)	5,475
Net loss for the period	-	-	-	-	-	-	(1,918)	(1,918)
Other comprehensive income	-	-	-	-	-	7	-	7
Share-based payments	-	-	16	-	-	-	-	16
Balance at June 30, 2018	276,766,636	\$ 45,987	\$ 3,743	\$ 452	\$ 177	\$ (669)	\$ (46,110)	3,580
Balance at January 1, 2019	276,766,636	\$ 45,987	\$ 3,749	\$ 452	\$ 177	\$ (599)	\$ (47,825)	1,941
Net loss for the period	-	-	-	-	-	-	(1,443)	(1,443)
Other comprehensive loss	-	-	-	-	-	(73)	-	(73)
Share-based payments	-	-	3	-	-	-	-	3
Balance at June 30, 2019	276,766,636	\$ 45,987	\$ 3,752	\$ 452	\$ 177	\$ (672)	\$ (49,268)	428

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)

		Six months ended June 30,	
	Notes	2019	2018
Operating activities			
Net loss for the period		\$ (1,443)	\$ (1,918)
Adjustments for non-cash items:			
Share-based payments		3	16
Share of losses from joint ventures		-	685
Gain on expiry of option liability		-	(250)
Loss on unrealized foreign exchange		39	1
Interest expense		40	115
Other expense		73	16
Depreciation		2	-
Changes in non-cash working capital items:			
Receivables		20	9
Prepaid expenses and deposits		(31)	(38)
Accounts payable and accrued liabilities		156	(194)
Cash used in operating activities		\$ (1,141)	\$ (1,558)
Investing activities			
Redemption of other assets		\$ 8	\$ -
Advances to joint venture		-	(623)
Cash from (used in) investing activities		\$ 8	\$ (623)
Financing activities			
Proceeds from promissory note	5	\$ 983	\$ -
Cash from financing activities		\$ 983	\$ -
Effect of foreign exchange rate changes on cash		\$ -	\$ 1
Decrease in cash		\$ (150)	\$ (2,180)
Cash, beginning of period		355	4,090
Cash, end of period		\$ 205	\$ 1,910

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, 2019, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2018 – 66.8%) 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, 2019, the Company had no operating revenues and incurred net losses of \$823,000 and \$1.44 million, respectively. At June 30, 2019, the Company had consolidated cash of \$205,000 (December 31, 2018 - \$355,000).

At June 30, 2019, 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. Significant reliance is placed on HPX, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of HPX to provide or participate in financing, or the inability of HPX to provide or participate in financing, would likely result in difficulty for the Company to attract separate third party investment. 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, 2018, 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, 2018 (with the exception of IFRS 16, *Leases* ("IFRS 16")), and reflect all the adjustments necessary for fair presentation in accordance with IFRS for the interim periods presented. The application of IFRS 16 is effective

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)*

for annual periods beginning on or after January 1, 2019, and the impact of the application of IFRS 16 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.

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

(b) *Change in accounting policy*

Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, using the modified retrospective application method, without restatement of prior year financial statements. IFRS 16 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. Other areas of the lease accounting model have been impacted, including the definition of a lease. On transition, the application of IFRS 16 did not impact the Company's condensed interim consolidated financial statements.

(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, 2018.

(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 comprises the \$3.30 million (December 31, 2018 - \$3.44 million) carrying amount of the Pinaya Copper-Gold Project (the "Pinaya Project" or "Pinaya"). The decrease in the carrying amount in the six months ended June 30, 2019 is due to a currency translation adjustment. The Pinaya Project covers 192 square kilometres and includes 28 kilometres of strike length within the Andahuaylas - Yauri Porphyry Belt in southeastern Peru.

4. Financial assets

(a) *Marketable securities*

	June 30, 2019			December 31, 2018		
	Cost basis	Fair value adjustments	Fair value	Cost basis	Fair value adjustments	Fair value
Cradle Arc plc	\$ 631	\$ (631)	\$ -	\$ 631	\$ (629)	\$ 2
Colorado Resources Ltd.	117	(91)	26	117	(98)	19
	\$ 748	\$ (722)	\$ 26	\$ 748	\$ (727)	\$ 21

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

4. Financial assets (continued)

(a) Marketable securities (continued)

On March 27, 2019, Cradle Arc plc shares were cancelled from trading on AIM and the Company has adjusted the fair value to \$Nil.

(b) Derivative asset

In February 2017, the Company received 1,000,000 share purchase warrants of Colorado Resources Ltd. ("Colorado"). Each share purchase warrant entitled 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 were recorded through profit or loss ("FVTPL"). In February 2019, the share purchase warrants of Colorado expired unexercised with a fair value of \$Nil (December 2018 - \$Nil).

5. Promissory note

Under the terms of an Unsecured Promissory Note Agreement between HPX and the Company ("Promissory Note"), on February 4, 2019, the Company drew down a total of US\$750,000 (\$983,000). The Promissory Note had a maturity date of June 30, 2019, 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 effective July 1, 2019, as the Company did not repay the amount owing upon the maturity date. At June 30, 2019, the carrying value of the Promissory Note including accrued interest was \$1.02 million (December 2018 - \$Nil).

On July 8, 2019, HPX converted the full amount of principal and interest owing on the Promissory Note totalling approximately US\$782,000 (\$1.02 million) into 20,488,185 shares of the Company at a price of \$0.05 per share.

Interest expense of approximately \$25,000 and \$40,000 (2018 - \$Nil) was accrued on the Promissory Note for the three and six months ended June 30, 2019, respectively.

6. Non-current provision

The non-current provision with a carrying amount of \$1.62 million at June 30, 2019 (December 31, 2018 - \$1.58 million) is related to potential obligations associated to the Pinaya Project.

7. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At June 30, 2019, the Company had 276,766,636 common shares issued and outstanding (December 31, 2018 - 276,766,636).

At June 30, 2019, there were 2,100,000 non-transferable warrants outstanding. All of these warrants are held by HPX, and 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,	
	2019	2018	2019	2018
Salaries and consultants	\$ 161	\$ 119	\$ 303	\$ 259
Share-based payments	-	1	3	13
Fees and taxes	260	1	272	1
Camp	12	2	22	9
Travel	9	8	10	37
Professional fees	29	-	43	-
Environmental	3	-	6	-
Other	9	15	26	19
	\$ 483	\$ 146	\$ 685	\$ 338

Exploration expenses were allocated to the following projects:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Pinaya (i)	\$ 415	\$ -	\$ 526	\$ -
Coppermine	2	1	2	3
General project evaluation	66	142	153	312
Other	-	3	4	23
	\$ 483	\$ 146	\$ 685	\$ 338

(i) For the period of February 10, 2017 to September 25, 2018, the Company's share of the Pinaya Project's exploration expenses is included in share of losses from joint ventures.

9. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Salaries and benefits	\$ 136	\$ 279	\$ 324	\$ 582
Share-based payments	-	(8)	-	3
Professional fees	84	135	141	202
Office	14	57	64	117
Travel	-	18	6	25
Fees and taxes	12	13	28	22
Investor relations	5	8	6	18
Insurance	23	40	49	58
Other	3	7	4	9
	\$ 277	\$ 549	\$ 622	\$ 1,036

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 year are as follows:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of stock options	Weighted average exercise price (\$ per share)	Number of stock options	Weighted average exercise price (\$ per share)
Outstanding, beginning of period	6,375,000	\$ 0.37	8,860,000	\$ 0.39
Granted	-	-	-	-
Expired	(2,025,000)	0.63	-	-
Forfeited	(875,000)	0.29	(392,918)	0.47
Outstanding, end of period	3,475,000	\$ 0.24	8,467,082	\$ 0.38
Exercisable, end of period	3,475,000	\$ 0.24	8,143,741	\$ 0.39

Stock options outstanding and exercisable at June 30, 2019 are as follows:

Options outstanding			Options exercisable	
Exercise price (\$ per share)	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.155	100,000	1.43	100,000	1.43
0.20	1,100,000	2.59	1,100,000	2.59
0.215	250,000	2.76	250,000	2.76
0.235	440,000	2.67	440,000	2.67
0.24	600,000	2.17	600,000	2.17
0.30	985,000	0.56	985,000	0.56
	3,475,000	1.93	3,475,000	1.93

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 at fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI"). The Company's financial assets and financial liabilities are classified as follows:

	June 30, 2019	December 31, 2018
Financial assets		
Financial assets measured at amortized cost		
Cash	\$ 205	\$ 355
Receivables	1	10
Deposits	450	450
Other assets	70	78
Financial assets measured at FVTOCI		
Marketable securities	26	21
Total financial assets	\$ 752	\$ 914
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	\$ 394	\$ 238
Promissory note	1,021	-
Total financial liabilities	\$ 1,415	\$ 238

The carrying values of cash; receivables; 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:

- 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.

12. Supplemental cash flow information

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

	Six months ended June 30,	
	2019	2018
Investing activities		
Equity contribution to joint venture interest	\$ -	\$ 1,250

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

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 Promissory Note, which is disclosed in Note 5.

(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,	
	2019	2018	2019	2018
Salaries and benefits	\$ 233	\$ 395	\$ 506	\$ 853
Corporate administration	23	90	84	154
Exploration and geophysical activities	-	26	1	42
Total related party expenses	\$ 256	\$ 511	\$ 591	\$ 1,049

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
GMM	\$ 256	\$ 507	\$ 591	\$ 1,040
HPX	-	4	-	9
Total related party expenses	\$ 256	\$ 511	\$ 591	\$ 1,049

- (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 8.3% of GMM's common shares at June 30, 2019, (December 31, 2018 – 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, 2019, (December 31, 2018 – 66.8%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

At June 30, 2019, the Company had a deposit of \$450,000 (December 31, 2018 – \$450,000) 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, 2019	December 31, 2018
GMM	\$ 96	\$ 126
HPX	201	3
Total related party payables	\$ 297	\$ 129

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)

(b) Compensation of key management personnel

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Salaries and benefits	\$ 164	\$ 228	\$ 345	\$ 513
Share-based compensation	-	(7)	3	7
Total remuneration	\$ 164	\$ 221	\$ 348	\$ 520

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

14. Subsequent event

On July 8, 2019, the Company announced a non-brokered private placement of up to \$2.5 million. The Company offered up to 50,000,000 units at a price of \$0.05 per unit, with each unit consisting of one common share and one common share purchase warrant of the Company. Each warrant will entitle the holder to purchase one common share of the Company at \$0.12 per share for a period of 24 months following the closing date of the private placement. A cash finder's fee of up to 6% may be payable on the portion of the private placement taken up by non-insiders.

The first tranche of this private placement closed on July 11, 2019, as HPX subscribed for 20 million units, for an investment of \$1.0 million of the private placement.



Management's Discussion and Analysis

June 30, 2019

As at August 15, 2019

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, 2019 (the "financial statements"), the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 and the MD&A for the year ended December 31, 2018.

All information contained in this MD&A is current as of August 15, 2019, 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

This MD&A may contain "forward-looking statements" that reflect the Company's current expectations and projections about its future results. 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; 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; relationships with strategic partners; 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; and currency fluctuations.

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

Although the forward-looking statements or information contained in this MD&A are based upon what management of Kaizen believes are reasonable assumptions, Kaizen cannot assure investors that actual results will be consistent with these forward-looking statements. They should not be read as guarantees of future performance or results. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: the factors discussed below and under "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.

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 15, 2019.

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

Global urbanization, and the resultant increase in air pollution, is one of the greatest economic and social phenomena in our history, with profound implications 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 five to ten years. Increased demand for copper resulting from (among other things) the global shift away from the internal combustion engines to electric and fuel cell vehicles is expected to result in future copper deficits.

The Company's plan is to concentrate its near term exploration activities on the Pinaya Copper-Gold Project ("Pinaya") in Peru. 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. Funding of the planned 2019 exploration drilling program at Pinaya is dependent on completion of the \$2.5 million private placement announced on July 8, 2019 which is discussed below.

Corporate Activities

Private placement

On July 8, 2019, the Company announced a non-brokered private placement of up to \$2.5 million. The Company offered up to 50,000,000 units at a price of \$0.05 per unit, with each unit consisting of one common share and one common share purchase warrant of the Company. Each warrant will entitle the holder to purchase one common share of the Company at \$0.12 per share for a period of 24 months following the closing date of the private placement. A cash finder's fee of 6% may be payable on the portion of the private placement taken up by non-insiders.

The first tranche of this private placement closed on July 11, 2019, as HPX TechCo Inc. ("HPX"), Kaizen's majority shareholder, subscribed for 20 million units, for an investment of \$1.0 million of the private placement. As of August 15, 2019, the balance of this private placement has not closed.

Financing agreement with HPX

On February 4, 2019, the Company received loan financing of US\$750,000 (\$983,000) under an unsecured promissory note (the "Promissory Note") provided by HPX. The note had a maturity date of June 30, 2019, 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 effective July 1, 2019, as Kaizen did not repay the amount owing upon the maturity date. The purpose of the Promissory Note was to enable the Company to maintain uninterrupted business operations while it pursued longer term business development and financing opportunities.

On July 8, 2019, HPX converted the full amount of principal and interest owing on the HPX Promissory Note totalling US\$782,052 (\$1,024,409) into 20,488,185 common shares of Kaizen at a price of \$0.05 per share.

Changes to Officers and Directors

On April 1, 2019, Kaizen announced the resignation of Ignacio Rosado from its Board of Directors.

On June 28, 2019, Richard Cohen did not stand for re-election at the Annual and Special Meeting of Shareholders.

Business Development Activities

The Company continues to review and seek additional project opportunities, primarily in North, South and Central America. During the six months ended June 30, 2019, project reviews, primarily focused on copper, were undertaken in the US, Chile and Peru.

Exploration Activities

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

Overview

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 Pinaya, 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.

Pinaya 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.

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 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 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.

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.

The community agreement and the agreements with the private landholders that provide Kaizen with access rights to conduct its planned exploration program at Pinaya expired on March 31, 2019. In April 2019, the agreements with the private landholders were re-signed, providing Kaizen with access rights to conduct its planned exploration program until June 2020. On July 1, 2019, the Company signed three contracts with the community of Pinaya. The contracts comprise Usufruct Agreement for the Mina Pata parcel; a Social Support Agreement; and Collaboration Framework Agreement.

Planned Work Programs

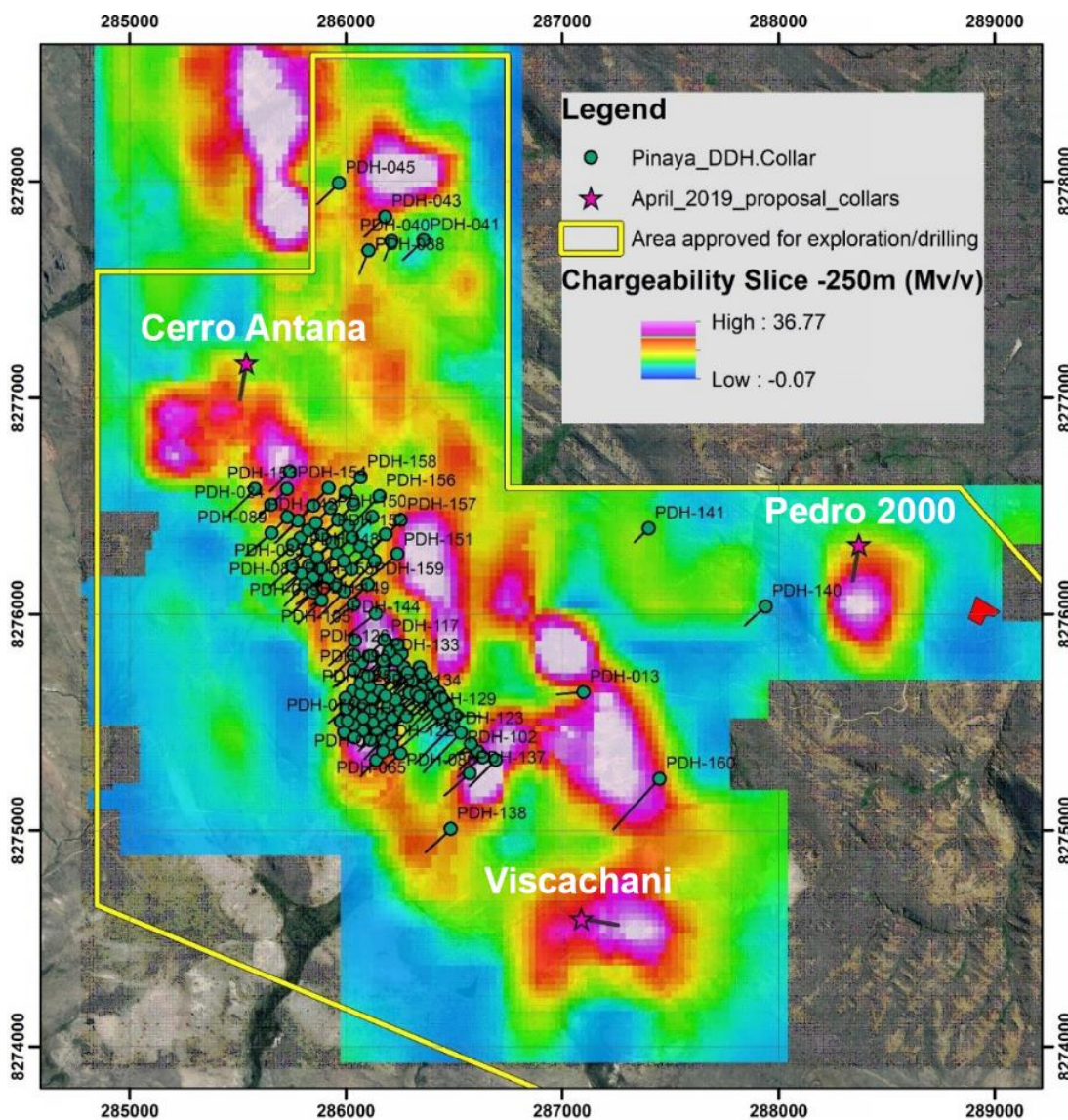
Previous exploration on the property was focused mainly on defining the current Mineral Resources and much less on systematic regional exploration. Kaizen has reviewed existing geochemical and geophysical surveys and has identified multiple untested targets along and across the strike of the current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

The current, planned first phase of exploration at Pinaya includes approximately 1,500 metres of drilling. Of this total, approximately 1,000 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 (the Viscachani target area) of the defined Mineral Resource area. An additional 500 metres is planned to test 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. Pedro 2000 is a new target and was not included in the original DIA application, however the DIA has now been amended to include the Pedro 2000 target in the work program. The Pedro 2000 target has never been drill tested.

Assuming completion of the private placement noted above, the Company is planning to commence its drilling activities in the third quarter of 2019 when weather permits.

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



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 km² which will remain valid through to 2027, 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. Three of the claims (13.75km²) 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. 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 technical review 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.

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.

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 Company's 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 exploration at the Coppermine Project until the DNLUP is finalized.

On January, 9, 2019, the annual renewal for the Section 51 one-year suspension of work requirements was submitted to Indigenous and Northern Affairs Canada.

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.

Summary of Quarterly Results

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

	Quarter Ended			
	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018
	\$	\$	\$	\$
Exploration expenses	483	202	242	117
Administrative expenses	277	345	530	540
Share of losses from joint ventures	-	-	-	144
Gain on expiry of option liability	-	-	-	-
Loss (gain) on foreign exchange	3	26	(24)	(2)
Write-down of marketable securities	-	-	-	-
Other expense (income)	60	47	76	92
Net loss attributable to owners of Kaizen Discovery Inc.	823	620	824	891
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	-	-	-	-

	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)	-	-
Loss (gain) on foreign exchange	3	-	(1)	2
Write-down of marketable securities	-	-	17	-
Other expense (income)	55	51	618	(26)
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	-

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 Q1 2018, an option, which permitted ITOCHU Corporation ("ITOCHU") to acquire an indirect interest in the Tanzilla project, expired unexercised. As a result, the option liability of \$250,000, was derecognized and recorded as a gain on expiry of option liability in the consolidated statements of loss and comprehensive loss.

In Q3 2018, the Company acquired ITOCHU's 10% interest in Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings"), the subsidiary that indirectly holds Pinaya, increasing the Company's ownership interest to 100%. For the period of February 10, 2017 to September 25, 2018, the Company's share of Pinaya's exploration expenses is included in share of losses from joint venture.

Results of Operations

Second Quarter Results – The three months ended June 30, 2019 (“Q2 2019”) compared to the three months ended June 30, 2018 (“Q2 2018”)

The loss for Q2 2019 totalled \$823,000, compared to the loss of \$1.15 million for Q2 2018.

Exploration expenses were \$483,000 for Q2 2019 compared to \$146,000 for Q2 2018. The Q2 2019 amount includes exploration expenses of \$415,000 related to Pinaya. In Q2 2018, exploration expenses related to Pinaya were recognized as share of losses from joint venture, rather than as exploration expenses. On September 25, 2018 the Company re-acquired control of Pinaya, and exploration expenses incurred subsequent to this date are recognized as exploration expense. In Q2 2019, exploration expenses at Pinaya comprised of general camp standby costs, plus payments relating to mining license concession fees. All other exploration focused primarily on other corporate development opportunities.

Administration expenses decreased from \$549,000 in Q2 2018 to \$277,000 in Q2 2019 primarily due to a \$143,000 decrease in salaries and benefits. Salaries and benefits decreased compared to Q2 2018 due to reduced staff levels, voluntary salary reductions by certain officers and the waiver of fees by the board. In addition, administration expenses were generally lower in all categories in Q2 2019 due to reduced overall corporate activity.

The share of losses from joint ventures was \$Nil in Q2 2019 compared to \$396,000 in Q2 2018. The share of losses from joint venture in Q2 2018 includes the Company's share of Kaizen Peru Holdings' loss which relate to expenditures at Pinaya. On September 25, 2018 the Company re-acquired control of Kaizen Peru Holdings, and exploration expenditures relating to Pinaya which are incurred subsequent to this date are recognized as exploration expense.

Expenditures (including both exploration expenses and losses from joint venture) related to Pinaya was lower in Q2 2018 compared to Q2 2019 due to reduced activity at Pinaya associated with permitting delays and the availability of financing in 2018.

Year-To-Date Results – The six months ended June 30, 2019 (“YTD 2019”) compared to the six months ended June 30, 2018 (“YTD 2018”)

The loss for YTD 2019 totalled \$1.44 million, compared to the loss of \$1.92 million for YTD 2018.

Exploration expenses were \$685,000 for YTD 2019 compared to \$338,000 for YTD 2018. The YTD 2019 amount includes exploration expenses of \$526,000 related to Pinaya. In YTD 2018, exploration expenses related to Pinaya were recognized as share of losses from joint venture, rather than as exploration expenses. On September 25, 2018 the Company re-acquired control of Pinaya, and exploration expenses incurred subsequent to this date are recognized as exploration expense. In YTD 2019, exploration expenses at Pinaya comprised of general camp standby costs, plus payments relating to mining license concession fees. All other exploration focused primarily on other corporate development opportunities.

Administration expenses decreased from \$1.04 million in YTD 2018 to \$622,000 in YTD 2019, primarily due to a \$258,000 decrease in salaries and benefits, and a \$61,000 decrease in professional fees. Salaries and benefits in YTD 2019 decreased compared to YTD 2018 due to reduced staff levels, voluntary salary reductions by certain officers and the waiver of fees by the board.

The share of losses from joint ventures was \$Nil in YTD 2019 compared to \$685,000 in YTD 2018. The share of losses from joint venture in YTD 2018 includes the Company's share of Kaizen Peru Holdings' loss which relate to expenditures at Pinaya. On September 25, 2018 the Company re-acquired control of Kaizen Peru Holdings, and exploration expenditures relating to Pinaya which are incurred subsequent to this date are recognized as exploration expense.

Expenditures (including both exploration expenses and losses from joint venture) related to Pinaya were lower in YTD 2018 compared to YTD 2019 due to reduced activity at Pinaya associated with permitting delays and the availability of financing in 2018.

In YTD 2018, the Company recognized a \$250,000 gain on the expiration of an option issued by West Cirque Resources Ltd. ("West Cirque"), a wholly owned subsidiary of the Company. On July 31, 2015, West Cirque had granted ITOCHU an option to acquire an indirect 15% interest in the Tanzilla project in exchange for a payment by ITOCHU of \$250,000. This option expired unexercised on February 28, 2018.

Liquidity and Capital Resources

At June 30, 2019, the Company had consolidated cash of \$205,000 (December 31, 2018 - \$355,000). 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, 2019, was funding operating activities of \$1.14 million (2018 – \$1.56 million).

On February 4, 2019, the Company received loan financing from HPX of US\$750,000 (\$983,000) under the Promissory Note. On July 8, 2019, HPX converted the full amount of principal and interest owing on the HPX Promissory Note totalling US\$782,052 (\$1,024,409) into 20,488,185 shares of Kaizen at a price of \$0.05 per share.

On July 8, 2019, the Company announced a non-brokered private placement of up to \$2.5 million. The Company offered up to 50,000,000 units at a price of \$0.05 per unit, with each unit consisting of one common share and one common share purchase warrant of the Company. Each warrant will entitle the holder to purchase one common share of the Company at \$0.12 per share for a period of 24 months following the closing date of the private placement. A cash finder's fee of 6% may be payable on the portion of the private placement taken up by non-insiders.

The first tranche of this private placement closed on July 11, 2019, HPX, subscribed for 20 million units, for an investment of \$1.0 million of the private placement. As of August 15, 2019, the balance of this private placement has not closed. There can be no assurance that the balance of this private placement will close and, therefore, no assurance that the Company can complete the planned 2019 Pinaya drill program without these funds.

At June 30, 2019, 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, proceeds of \$1.0 million received from the first tranche of the non-brokered private placement announced on July 8, 2019, and ability to pursue additional sources of financing, including the balance of the private placement, and further 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. Significant reliance is placed on HPX, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of HPX to provide or participate in future financings, or the inability of HPX to provide or participate in future financings, would likely result in difficulty for the Company to attract separate third party investment. 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, 2019, 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, with the exception of the Promissory Note, which is disclosed under the heading “Corporate Activities”.

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,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries and benefits	233	395	506	853
Corporate administration	23	90	84	154
Exploration and geophysical activities	-	26	1	42
Total related party expenses	256	511	591	1,049

The breakdown of expenses by related party is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
GMM	256	507	591	1,040
HPX	-	4	-	9
Total related party expenses	256	511	591	1,049

- (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 8.3% of GMM’s common shares at June 30, 2019 (December 31, 2018 – 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, 2019 (December 31, 2018 – 66.8%) and 71.0% on August 15, 2019 after changes resulting from the closing the first tranche of the private placement and conversion of the Promissory Note by HPX, both of which occurred in July 2019. Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.

At June 30, 2019, the Company had a deposit of \$450,000 (December 31, 2018 – \$450,000) 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, 2019	December 31, 2018
	\$	\$
GMM	96	126
HPX	201	3
Total related party payables	297	129

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,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries and benefits	164	228	345	513
Share-based compensation	-	(7)	3	7
Total remuneration	164	221	348	520

- (i) 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 15, 2019, the Company had the following issued and outstanding:

- 317,254,821 common shares.
- 3,475,000 stock options with a weighted average exercise price of \$0.24 per share. Each stock option is exercisable to purchase one common share of the Company at prices ranging from \$0.155 to \$0.30 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.
- 20,000,000 non-transferable warrants held by HPX. Each non-transferable warrant entitles the HPX to acquire one common share of the Company at an exercise price per common share of \$0.12 at any time on or before July 11, 2021.

Changes in Accounting Policies Including Initial Adoption

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (“IFRS 16”), using the modified retrospective application method, without restatement of prior year financial statements. IFRS 16, 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. Other areas of the lease accounting model have been impacted, including the definition of a lease. The application of IFRS 16 did not impact the Company’s condensed interim financial statements.

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; 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, 2019	December 31, 2018
	\$	\$
Financial assets		
Financial assets measured at amortized cost		
Cash	205	355
Receivables	1	10
Deposits	450	450
Other assets	70	78
Financial assets measured at FVTOCI		
Marketable securities	26	21
Total financial assets	752	914
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	394	238
Promissory note	1,021	-
Total financial liabilities	1,415	238

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, 2018. 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, 2019.

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, 2018, prior to making any investment in the Company's common shares.

In addition to the risk factors found in the annual MD&A, significant reliance is placed on HPX, the Company's controlling shareholder, for providing ongoing financing to the Company. Failure of HPX to provide or participate in future financings, or the inability of HPX to provide or participate in future financings, would likely result in difficulty for the Company to attract separate third party investment. Should this occur, there would be significant doubt as to the Company's ability to continue as a going concern.

Qualified Person

The scientific and technical information in this MD&A related to Pinaya 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 Pinaya 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.