



Condensed consolidated interim financial statements of

**Kaizen Discovery Inc.**

As at and for the three month periods ended March 31, 2015 and  
2014

# **Kaizen Discovery Inc.**

## Condensed consolidated interim financial statements March 31, 2015 and 2014

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# Kaizen Discovery Inc.

## Condensed consolidated interim statement of financial position

(unaudited)

(Stated in thousands of Canadian dollars)

|                                     | Notes | March 31, 2015 | December 31, 2014 |
|-------------------------------------|-------|----------------|-------------------|
|                                     |       | \$             | \$                |
| <b>Assets</b>                       |       |                |                   |
| <i>Current assets</i>               |       |                |                   |
| Cash                                | 5     | 6,205          | 8,308             |
| Receivables                         | 6     | 701            | 626               |
| Prepaid expenses                    |       | 151            | 132               |
| Marketable securities               | 7     | 198            | 649               |
| <b>Total current assets</b>         | .     | <b>7,255</b>   | <b>9,715</b>      |
| <i>Non-current assets</i>           |       |                |                   |
| Mineral property                    | 8     | 5,461          | 5,458             |
| Joint venture interest              | 9     | 4,871          | 4,918             |
| Other assets                        |       | 66             | 66                |
| <b>Total assets</b>                 |       | <b>17,653</b>  | <b>20,157</b>     |
| <b>Liabilities and equity</b>       |       |                |                   |
| <i>Current liability</i>            |       |                |                   |
| Payable and accrued liabilities     | 10    | 498            | 979               |
| <b>Equity</b>                       |       |                |                   |
| Share capital                       | 12    | 31,809         | 31,809            |
| Share based payment reserve         | 16    | 2,502          | 2,192             |
| Other comprehensive income          |       | (45)           | (39)              |
| Accumulated deficit                 |       | (17,111)       | (14,784)          |
| <b>Total equity</b>                 |       | <b>17,155</b>  | <b>19,178</b>     |
| <b>Total equity and liabilities</b> |       | <b>17,653</b>  | <b>20,157</b>     |

Continuing operations and going concern (Note 1)

Approved and authorized for issue on behalf of the Board on May 21, 2015

"Terry Krepiakevich"

Terry Krepiakevich

"Peter Meredith"

Peter Meredith

See accompanying notes to the condensed consolidated interim financial statements.

# Kaizen Discovery Inc.

## Condensed consolidated interim statements of loss and comprehensive loss

(unaudited)

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

|  |       | Three months ended March 31, |                 |
|--|-------|------------------------------|-----------------|
|  | Notes | 2015                         | 2014            |
|  |       | \$                           | \$              |
| <b>Expenses</b>  |       |                              |                 |
| Exploration expenses   | 13    | (848)                        | (1,090)         |
| Share of losses from joint venture                                       | 9     | (47)                         | -               |
| Write down of investment   | 7     | (450)                        | -               |
| Gain (loss) on foreign exchange  |       | 149                          | (313)           |
| Administrative expenses  | 14    | (1,148)                      | (1,500)         |
|  |       | <b>(2,344)</b>               | <b>(2,903)</b>  |
| Other income and expense   |       |                              |                 |
| Interest Income  |       | 17                           | -               |
| Loss before income taxes   |       | <b>(2,327)</b>               | <b>(2,903)</b>  |
| Income taxes   |       | -                            | -               |
| Loss for the period  |       | <b>(2,327)</b>               | <b>(2,903)</b>  |
| Other comprehensive income   |       |                              |                 |
| Items that may be reclassified subsequently to profit or loss            |       |                              |                 |
| Currency translation adjustment  |       | (6)                          | -               |
| <b>Total comprehensive loss for the period</b>                           |       | <b>(2,333)</b>               | <b>(2,903)</b>  |
| Attributable to  |       |                              |                 |
| Equity holders of the Company  |       | <b>(2,333)</b>               | <b>(2,903)</b>  |
| Loss per share (basic and diluted)                                       |       | <b>(\$0.01)</b>              | <b>(\$0.02)</b> |
| Weighted number of basic and diluted shares outstanding at end of period |       |                              |                 |
|  |       | <b>157,979,902</b>           | 130,425,516     |

See accompanying notes to the condensed consolidated interim financial statements.

# Kaizen Discovery Inc.

## Condensed interim consolidated statement of changes in equity for the three months period ended March 31, 2015 and 2014

(unaudited)

(Stated in thousands of Canadian dollars except for shares)

|                                     | Share capital       |               | Share based<br>payment reserve | Other<br>Comprehensive<br>Income | Accumulated<br>deficit | Total         |
|-------------------------------------|---------------------|---------------|--------------------------------|----------------------------------|------------------------|---------------|
|                                     | Number of<br>shares | Amount        |                                |                                  |                        |               |
|                                     |                     | \$            | \$                             | \$                               | \$                     | \$            |
| <b>Balance at December 31, 2013</b> | 125,281,177         | 15,204        | 37                             | (3)                              | (5,788)                | 9,450         |
| Shares issued on private placement  | 8,500,000           | 4,983         | -                              | -                                | -                      | 4,983         |
| Stock options exercised             | 129,500             | 17            | (6)                            | -                                | -                      | 11            |
| Recognition of share-based payments | -                   | -             | 976                            | -                                | -                      | 976           |
| Comprehensive loss for the period   | -                   | -             | -                              | -                                | (2,903)                | (2,903)       |
| <b>Balance at March 31, 2014</b>    | <b>133,910,677</b>  | <b>20,204</b> | <b>1,007</b>                   | <b>(3)</b>                       | <b>(8,691)</b>         | <b>12,517</b> |
| <br>                                |                     |               |                                |                                  |                        |               |
| <b>Balance at December 31, 2014</b> | 157,979,902         | 31,809        | 2,192                          | (39)                             | (14,784)               | 19,178        |
| Recognition of share-based payments | -                   | -             | 310                            | -                                | -                      | 310           |
| Other Comprehensive income          | -                   | -             | -                              | (6)                              | -                      | (6)           |
| Comprehensive loss for the period   | -                   | -             | -                              | -                                | (2,327)                | (2,327)       |
| <b>Balance at March 31, 2015</b>    | <b>157,979,902</b>  | <b>31,809</b> | <b>2,502</b>                   | <b>(45)</b>                      | <b>(17,111)</b>        | <b>17,155</b> |

See accompanying notes to the condensed consolidated interim financial statements.

# Kaizen Discovery Inc.

## Condensed consolidated interim statements of cash flows

(unaudited)

(Stated in thousands of Canadian dollars except for shares)

|  | Three months ended March 31, |               |
|--|------------------------------|---------------|
|  | 2015                         | 2014          |
|  | \$                           | \$            |
| <b>Operating activities</b>                        |                              |               |
| Net loss   | (2,327)                      | (2,903)       |
| Adjustments for non-cash items                     |                              |               |
| Recognition of equity-settled share-based payments | 310                          | 970           |
| Share of losses from joint venture                 | 47                           | -             |
| Write down of investment                           | 450                          | -             |
| Unrealized foreign exchange                        | (5)                          | -             |
|  | (1,525)                      | (1,933)       |
| Changes in:  |                              |               |
| Receivable   | (75)                         | 80            |
| Prepaid expenses                                   | (19)                         | (6)           |
| Payable and accrued liabilities                    | (481)                        | (381)         |
| Net cash used in operating activities              | (2,100)                      | (2,240)       |
| <b>Investing activity</b>                          |                              |               |
| Mineral property acquisition                       | (3)                          | -             |
| Net cash (used) in investing activities            | (3)                          | -             |
| <b>Financing activities</b>                        |                              |               |
| Net proceeds from issuance of ordinary shares      | -                            | 5,000         |
| Net cash from financing activities                 | -                            | 5,000         |
| Net decrease in cash                               | (2,103)                      | 2,760         |
| Cash, beginning of period                          | 8,308                        | 10,152        |
| <b>Cash, end of period</b>                         | <b>6,205</b>                 | <b>12,912</b> |

See accompanying notes to the condensed consolidated interim financial statements.

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

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#### 1. Continuing operations and going concern

- (a) Kaizen Discovery Inc. ("Kaizen" or the "Company"), is incorporated under the laws of British Columbia, Canada on March 21, 2006. On December 4, 2013, (the "Closing Date") Concordia completed an asset purchase agreement (the "Transaction") with HPX TechCo Asset Group ("HPX"). The Transaction was accounted for as a reverse acquisition. HPX is owned by a private company indirectly controlled by Mr. Robert Friedland.

The head office, principal address and registered and records office of the Company are located at 999 Canada Place, Suite 654, Vancouver, British Canada, V6C 3E1.

Kaizen together with its subsidiaries (the "Group"), is a mineral exploration and development group of companies focused on exploring and developing mineral properties located in Canada, Africa and Australia. In the first three months of 2015 and 2014, the Company's exploration activities were mainly focused on the Fairholme Project in New South Wales, Australia, the Aspen Grove Project in British Columbia, Canada, the Ebende Project in the Democratic Republic of Congo ("DRC") and planning the 2015 exploration program for the Tundra and the Tanzilla projects.

To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage. The amounts shown as exploration and evaluation assets represent acquisition cost incurred to date and do not necessarily represent present or future values. The underlying value of exploration and evaluation assets are entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete permitting, development, and future profitable production. The Company considers that it has adequate resources to maintain its core operations for the next 12 months.

- (b) The condensed consolidated interim 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. In the first quarter of 2015 and 2014, the Company had no operating revenues. In the first quarter of 2015, the Company incurred a loss and comprehensive loss of \$2.3 million, mainly consisting of \$0.7 million in joint venture and mineral exploration activities (2014 - \$1.1 million), \$1.3 million in administrative activities (2014 - \$1.5 million) and a \$0.4 million write-down of an investment in the common shares of Alecto Minerals PLC (note 7).

The Company's cash balance at March 31, 2015 was \$6.2 million compared to \$8.3 million at December 31, 2014. The Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore, evaluate and develop its mineral properties, to repay existing obligations when they become due, and ultimately, to achieve profitable operations.

The condensed consolidated interim 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 may be material.

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

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#### 2. Basis of preparation

a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including *IAS 34 Interim financial reporting*. The condensed consolidated interim financial statements do not include all of the information and footnotes required by IFRS for full annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS.

The same accounting policies are used in the preparation of these condensed consolidated interim financial statements as for the most recent audited annual financial statements and reflect all the adjustments necessary for fair presentation in accordance with IFRS for the interim periods presented.

b) Judgment and estimates

In the opinion of management, all adjustments considered necessary (including reclassifications and normal recurring adjustments) to present fairly the financial position, result of operations and cash flows at March 31, 2015 and for all periods presented, have been included in these condensed consolidated interim financial statements. The interim results are not necessarily indicative of results for the full year ending December 31, 2015, or future operating periods.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that apply to the Company's consolidated financial statements as at and for the year ended December 31, 2014.

c) Segments

The Company operates in a single reportable segment, being exploration and development of mineral properties.

d) Changes in Functional Currency

The Company's management concluded that the functional currency for the Company's consolidated financials should be changed to the Canadian dollar from the US dollar as, subsequent to the acquisition of West Cirque Resources Ltd on July 7, 2014, the majority of Company's assets were denominated in Canadian dollars.

On June 30, 2014, the effective date of change of functional currency, all assets, liabilities, issued capital and other components of equity were translated into Canadian dollar at the exchange rate on that date. The change in accounting treatment was applied prospectively. As a result, for comparative purposes, the financial information for the three months ended March 31, 2014 was translated for presentation purposes.

The reference to "\$" refers to the Canadian currency, "US\$" refers to the U.S. currency and "AUD\$" refers to the Australian currency.



# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

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#### 3. Adoption of new and revised accounting standards and interpretations

The following standards have been published and is mandatory for the Company's annual accounting periods beginning on January 1, 2018:

- (a) IFRS 9 "Financial Instruments: Classification and Measurement" - This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value to profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and derecognition of financial instruments. The Company is currently evaluating the extent of the impact of the adoption of this standard.
- (b) IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") which supersedes IAS 11 – *Construction Contracts*; IAS 18 – *Revenue*; IFRIC 13 – *Customer Loyalty Programmes*; IFRIC 15 – *Agreements for the Construction of Real Estate*; IFRIC 18 – *Transfers of Assets from Customers*; and SIC 31 – *Revenue – Barter Transactions involving Advertising Services*.

In May 2014, the IASB issued IFRS 15 establishing a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its Condensed consolidated interim financial statements.

#### 4. Critical accounting estimates and judgments

In the process of applying the Company's accounting policies, which are described in Note 2 to the condensed consolidated interim financial statements, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

Estimates and judgments made by management that may have significant effects on the Condensed consolidated interim financial statements or a significant risk of material adjustments in the next year are disclosed below:

##### (a) *Critical accounting estimates*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### Share-based payments

The Company issues share options to certain employees and directors and measures the value of these options using a fair value based method.

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model. This model incorporates management's best estimate of the expected life of the option, anticipated forfeiture rates, the volatility of

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 4. Critical accounting estimates and judgments (continued)

(a) *Critical accounting estimates (continued)*

the Company's stock and expected dividend rates. These estimates are disclosed in Note 16.

(b) *Critical accounting judgments*

(i) Mineral property impairment

Mineral exploration rights are carried at cost. At each reporting date, Management determines whether any impairment indicator exists such as mineral prices, status of exploration permits, plans for the mineral project and results of exploration and evaluation to date. Based on the above indicators and a preliminary financial analysis of the mineral resources contained within the exploration rights owned by the Company, management determined that there were no indicators of impairment at March 31, 2015.

(ii) Determination of functional currency

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, management determined that, starting in July 2014, the functional currency of the Company is the Canadian dollar (see note 2 (c)).

#### 5. Cash

Cash is denominated as follows:

|                      | March 31,<br>2015 | December 31,<br>2014 |
|----------------------|-------------------|----------------------|
|                      | \$                | \$                   |
| Denominated in CAD\$ | 4,657             | 6,678                |
| Denominated in US\$  | 1,464             | 1,541                |
| Other                | 84                | 89                   |
|                      | <b>6,205</b>      | <b>8,308</b>         |

#### 6. Receivable

|                         | March 31,<br>2015 | December 31,<br>2014 |
|-------------------------|-------------------|----------------------|
|                         | \$                | \$                   |
| Related party (note 11) | 559               | 502                  |
| Others                  | 142               | 124                  |
|                         | <b>701</b>        | <b>626</b>           |

Related party receivable at March 31, 2015 represents amounts due from Global Mining Management Corporation ("GMM") (of which the Company is a minority shareholder) and operating advances to the Aspen Grove joint venture interest. The other receivable balances mainly consist of value added tax receivable.

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 7. Marketable securities

The following is a summary of marketable securities:

|                     | Number of shares | December 31,<br>2014 | Impairment | Revaluation | March 31,<br>2015 |
|---------------------|------------------|----------------------|------------|-------------|-------------------|
|                     |                  | \$                   | \$         | \$          | \$                |
| Alecto Minerals PLC | 54,996,857       | 631                  | (450)      | -           | 181               |
| Other               |                  | 18                   | -          | (1)         | 17                |
|                     |                  | 649                  | (450)      | (1)         | 198               |

Management of the Company recognized an impairment in the statement of comprehensive loss of \$0.4 million to its investment in Alecto Mineral PLC's common shares as a result of a significant decrease in Alecto Minerals PLC's share value in early 2015.

#### 8. Mineral properties

The Company's mineral properties at March 31, 2015 consists in the following mineral rights:

|                         | March 31,<br>2015 | December 31,<br>2014 |
|-------------------------|-------------------|----------------------|
|                         | \$                | \$                   |
| a) West Cirque Projects |                   |                      |
| Tanzilla                | 1,565             | 1,565                |
| Pliny                   | 560               | 560                  |
| Castle East             | 239               | 239                  |
|                         | 2,364             | 2,364                |
| b) Copper Mine Project  | 3,097             | 3,094                |
|                         | 5,461             | 5,458                |

##### (a) West Cirque Projects

As part of the July 9, 2014 acquisition of West Cirque, the Company acquired the following mineral property interests located in British Columbia, Canada:

- (i) The Aspen Grove copper property covers a surface area of 11,237 hectares located in the Nicola Mining division of British Columbia. A total of 1,375 hectares is subject to 2% NSR with a buy-down option of 1% for \$3.0 million. Following the West Cirque's acquisition, the Company transferred the Aspen Grove property to the Aspen Grove joint venture (note 9).
- (ii) The Company owns a 100% interest in the Tanzilla and the Pliny copper properties, both located in the Dease Lake area of British Columbia. The properties cover a surface area of 4,625 hectares and 3,407 hectares respectively. In March 2013 these properties were part of an earn-in agreement with Freeport McMoran Corporation of Canada Limited ("Freeport").

Freeport may earn a 51% interest by funding cumulative exploration expenditures of \$4.0 million prior to December 28, 2015 and funding cumulative exploration expenditures of \$8.0 million prior to June 28, 2017.

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

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#### 8. Mineral properties (continued)

(a) *West Cirque Projects (continued)*

Upon Freeport earning a 51% interest, Freeport and the Company will form a joint venture. The Company will then have the option to a) proportionally fund its 49% share of the joint venture expenditures or b) agree to dilute its interest by allowing Freeport to earn an additional 26.5% interest through funding of all subsequent expenditures necessary to complete a feasibility study.

- (iii) The Company owns a 100% interest in the Castle copper property, a mineral claim located in the Nicola Mining division of British Columbia with a surface area of 603 hectares.

(b) *Coppermine Project*

On November 18, 2014, the Company completed the acquisition of all outstanding shares of Tundra Copper Corp. ("Tundra").

- (i) At the time of acquisition, the Coppermine Project's mineral claims owned by Tundra covered a surface area of 352 square kilometres ("km<sup>2</sup>") in the Coppermine District, near the town of Kugluktuk in Nunavut Canada.
- (ii) In the fourth quarter of 2014, the Company completed additional staking and also applied for prospecting permits covering a combined 3,160 km<sup>2</sup> near Tundra's Coppermine Project's holdings.

(c) *Ebende Project*

- (i) The Company owns a 100% interest in the Ebende Project consisting in 17 contiguous and near contiguous licences located in the Eastern Kasai and Katanga Provinces of the DRC.
- (ii) At December 31, 2014, the total area of the licences was approximately 5,400 square kilometres ("km<sup>2a</sup>"). In 2015, following the Company exploration licences renewal's application, the mineral interest's acreage was reduced to 2,551 km<sup>2</sup>.
- (iii) The Group has spent a total of approximately \$5.4 million in exploration expenditures on the Ebende Project to March 31, 2015.

(d) *Fairholme Project*

- (i) The Fairholme Project consists of two copper/gold licences covering 172 km<sup>2</sup> in central New South Wales, Australia.
- (ii) In May 2013, the Company optioned the right to earn an initial 49% of the Fairholme Project by funding AUD\$1.0 million in exploration over one year, including a minimum spending commitment of AUD\$0.5 million. Prior to the end of 2015, the Company has the right to increase its interest in the Fairholme Project to 65% by funding an additional AUD\$4.0 million in exploration with the aim of delineating a scoping study. The Company can ultimately increase its stake to 90% or 95% by funding a bankable feasibility study (depending on the cost of such study). A 49% interest in the Fairholme Project was transferred to the Company on January 16, 2014.

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

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#### 8. Mineral exploration rights (continued)

##### (d) Fairholme Project (continued)

- (iii) At the end of March 2015, the Company has incurred a total of approximately \$3.2 Million in exploration expenditures on the Fairholme Project.

#### 9. Joint venture interest

On August 18, 2014, the Company announced the signing of a definitive project financing agreement with Itochu Corporation of Japan ("Itochu").

On August 21, 2014, following the transfer by the Company of the Aspen Grove's mineral rights to KZD Aspen Grove Holding Ltd ("Aspen Grove"), a wholly-owned subsidiary of the Company, a \$4.0 million cash contribution was received from Itochu in exchange for the acquisition by Itochu of a 40% share ownership interest in Aspen Grove. The funds can be used to fund Aspen Grove's corporate and exploration activities.

The financing agreement also grants Itochu the right to future off-take from Aspen Grove in proportion to its ownership interest. The agreement also provide for Itochu to use reasonable endeavours to arrange project financing and support from Japanese financial institutions for the development of the Aspen Grove Project.

The Company's investment in Aspen Grove is governed by the Shareholders Agreement that requires unanimous approval for certain key strategic, operating, investing and financing policies of Aspen Grove. The Company is treating its 60% investment in Aspen Grove as a joint venture investment using the equity method of accounting. There are no publicly quoted market prices for shares in Aspen Grove.

The following is a summary of the Company's 60% investment in Aspen Grove at March 31, 2015:

Statement of investment in joint venture:

|   | <b>March 31,</b> | December 31, |
|---|------------------|--------------|
|   | <b>2015</b>      | 2014         |
|   | <b>\$</b>        | <b>\$</b>    |
| Balance at beginning of year                                    | <b>4,918</b>     | -            |
| Original Company's property acquisition value - August 18, 2014 | -                | 5,426        |
| Less:   |                  |              |
| Company's share of losses from joint venture during the period  | (47)             | (508)        |
| Joint venture interest at March 31, 2015                        | <b>4,871</b>     | 4,918        |

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 9. Joint venture interest (continued)

The summarized financial information at March 31, 2015 of Aspen Grove on a 100% basis and reflecting the Company's 60% interest is as follows:

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
|  | \$                | \$                   |
| <b>Assets</b>  |                   |                      |
| Current assets   |                   |                      |
| Cash   | 3,307             | 3,337                |
| Receivable   | 35                | 32                   |
| Mineral property interest  | 5,426             | 5,426                |
| Other asset  | 15                | 5                    |
| Total assets   | 8,783             | 8,800                |
| <b>Liabilities</b>   |                   |                      |
| Current Liabilities  |                   |                      |
| Accounts payable and accrued liabilities                         | 283               | 220                  |
| <b>Net Assets</b>  | 8,500             | 8,580                |
| <b>The Company's equity share of net assets of joint venture</b> | 5,100             | 5,148                |

#### 10. Payable and accrued liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases relating to mineral exploration activities in Africa and Australia, and amounts payable for administrative and financing activities with related parties (Note 11(a)). The average credit period taken for trade purchases is 30 to 90 days.

Accounts payable and accrued liabilities are denominated in the following currencies:

|                      | March 31,<br>2015 | December 31,<br>2014 |
|----------------------|-------------------|----------------------|
|                      | \$                | \$                   |
| Denominated in US\$  | 38                | 18                   |
| Denominated in CAD\$ | 551               | 893                  |
| Denominated in AUD\$ | (98)              | 64                   |
| Other                | 7                 | 4                    |
|                      | 498               | 979                  |

#### 11. Related party transactions

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Transactions between the Company and its subsidiaries, which are related parties of the Company, 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:

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 11. Related party transactions

(a) *Expenses, accounts receivable and accounts payable*

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

|  | Three months ended March 31, |      |
|--|------------------------------|------|
|  | 2015                         | 2014 |
|  | \$                           | \$   |
| Exploration and geophysical activities | (23)                         | -    |
| Salaries and benefits                  | 532                          | 604  |
| Corporate administration               | 109                          | 85   |
| Total related party expenses           | 618                          | 689  |

The breakdown of the expenses between the different related parties is as follows

|                               | Three months ended March 31, |      |
|-------------------------------|------------------------------|------|
|                               | 2015                         | 2014 |
|                               | \$                           | \$   |
| HPX TechCo Inc and affiliates | (23)                         | -    |
| GMM                           | 641                          | 689  |
|                               | 618                          | 689  |

The above noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The breakdown of accounts receivable between the different related parties is as follows:

|   | March 31, | December 31, |
|---|-----------|--------------|
|   | 2015      | 2014         |
|   | \$        | \$           |
| Account receivable                      |           |              |
| GMM                                     | 288       | 291          |
| Aspen Grove joint venture               | 270       | 211          |
| Total related party accounts receivable | 558       | 502          |

The breakdown of accounts payable between the different related parties is as follows:

|   | March 31, | December 31, |
|---|-----------|--------------|
|   | 2015      | 2014         |
|   | \$        | \$           |
| Account payable                                   |           |              |
| HPX TechCo Inc.                                   | 18        | 35           |
| GMM   | 274       | 247          |
| Key management personnel<br>(Directors, Officers) | 48        | 91           |
| Total related party accounts payable              | 340       | 373          |

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 11. Related party transactions (continued)

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

- (i) Global Mining Management Corporation ("GMM") is a private company based in Vancouver owned equally by six companies, one of which is Kaizen Discovery Inc. GMM has an officer in common with the Company. The CEO of the Company is a director and an officer of GMM's parent entity. GMM provides administration, accounting, and other office services to the Company on a cost-recovery basis.
- (ii) HPX TechCo Inc. is the Company's parent entity, holding 67.3% of the Company's common shares at March 31, 2015. In 2015 and 2014, HPX TechCo Inc. planned and managed the Company's geotechnical exploration programs in Africa and Australia. HPX TechCo services are provided to the Company on a cost recovery basis plus a 12% markup.
- (iii) Amounts owed to key management personnel include outstanding salary and expenses.
- (iv) The Company is the operator of the Aspen Grove joint venture and the receivable balance at March 31, 2015 represents unpaid outstanding expenses of the joint venture.

(b) *Compensation of key management personnel*

The remuneration of directors and other members of key management for the three months period ended March 31, 2015 and 2014 is as follows:

|                                  | Three months ended March 31, |       |
|----------------------------------|------------------------------|-------|
|                                  | 2015                         | 2014  |
|                                  | \$                           | \$    |
| Salaries and short-term benefits | 286                          | 432   |
| Share-based payments             | 226                          | 774   |
| Total remuneration               | 512                          | 1,206 |

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

#### 12. Share capital

Common shares

At March 31, 2015, the Company is authorized to issue an unlimited number of common shares with no par value. Shares issued and paid up at March 31, 2015 and December 31, 2014 are as follows:

|   | Number of<br>Ordinary<br>shares | Amount |
|---|---------------------------------|--------|
|   |                                 | \$     |
| Balance at March 31, 2015 and December 31, 2014 | 157,979,902                     | 31,809 |



# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 12. Share capital (continued)

A total of 16.5 million shares were released from escrow in 2014. The following table summarizes the schedule of outstanding semi-annual releases from escrow at March 31, 2015:

|      | Million of shares |          |       |
|------|-------------------|----------|-------|
|      | June              | December | Total |
| 2015 | 11.0              | 16.4     | 27.4  |
| 2016 | 16.4              | 43.8     | 60.2  |
|      | 27.4              | 60.2     | 87.6  |

#### 13. Exploration expenses

Exploration expenses for the Company were principally incurred in DRC and Australia and are summarized as follows:

|                              | Three months ended March 31, |       |
|------------------------------|------------------------------|-------|
|                              | 2015                         | 2014  |
|                              | \$                           | \$    |
| Drilling                     | 293                          | -     |
| Assay                        | 106                          | 25    |
| Wages and consultants        | 254                          | 517   |
| Share based payments expense | 82                           | 156   |
| Fees and taxes               | 87                           | 271   |
| Geophysics                   | (37)                         | -     |
| Camp                         | 31                           | 55    |
| Travel                       | 14                           | 2     |
| Professional fees            | 2                            | 43    |
| Rental                       | 1                            | 8     |
| Insurance                    | 1                            | 10    |
| Cost recovery                | -                            | -     |
| Other                        | 14                           | 3     |
|                              | 848                          | 1,090 |

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 13. Exploration expenses (continued)

Exploration expenses were allocated to the following projects:

|                              | Three months ended March 31, |              |
|------------------------------|------------------------------|--------------|
|                              | 2015                         | 2014         |
|                              | \$                           | \$           |
| Ebende Project               | 62                           | 329          |
| Fairholme Project            | 547                          | 76           |
| Burkina Faso                 | -                            | 127          |
| Canada                       | 157                          | 402          |
| Share based payments expense | 82                           | 156          |
|                              | <b>848</b>                   | <b>1,090</b> |

#### 14. Administrative expenses

Administrative expenses for the Company are summarized as follows:

|                              | Three months ended March 31, |              |
|------------------------------|------------------------------|--------------|
|                              | 2015                         | 2014         |
|                              | \$                           | \$           |
| Wages and benefits           | 461                          | 336          |
| Share based payments expense | 228                          | 820          |
| Professional fees            | 159                          | 135          |
| Office                       | 172                          | 68           |
| Travel                       | 58                           | 70           |
| Fees and taxes               | 15                           | 26           |
| Investor relations           | 23                           | 14           |
| Insurance                    | 55                           | 18           |
| Rental                       | 15                           | 6            |
| Depreciation                 | -                            | 1            |
| Other                        | (38)                         | 6            |
|                              | <b>1,148</b>                 | <b>1,500</b> |

#### 15. Segmented information

The Company operates in one business segment, being the acquisition and exploration and evaluation of mineral assets. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for the three months period ended March 31, 2015 and 2014.

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

#### 15. Segmented information (continued)

The Company's total net assets are segmented geographically as follows:

| March 31, 2015                   |               |  |            |            |               |
|----------------------------------|---------------|--|------------|------------|---------------|
|                                  | Canada        | Democratic<br>Republic of<br>the Congo | Australia  | Other      | Total         |
|                                  | \$            | \$                                     | \$         | \$         | \$            |
| Total assets                     | 17,246        | 192                                    | 100        | 115        | 17,653        |
| Payables and accrued liabilities | (589)         | -                                      | 98         | (7)        | (498)         |
| <b>Total net assets</b>          | <b>16,657</b> | <b>192</b>                             | <b>198</b> | <b>108</b> | <b>17,155</b> |

| December 31, 2014                |               |  |             |            |               |
|----------------------------------|---------------|--|-------------|------------|---------------|
|                                  | Canada        | Democratic<br>Republic of<br>the Congo | Australia   | Other      | Total         |
|                                  | \$            | \$                                     | \$          | \$         | \$            |
| Total assets                     | 19,821        | 176                                    | 54          | 106        | 20,157        |
| Payables and accrued liabilities | (902)         | (9)                                    | (64)        | (4)        | (979)         |
| <b>Total net assets</b>          | <b>18,919</b> | <b>167</b>                             | <b>(10)</b> | <b>102</b> | <b>19,178</b> |

#### 16. Share-based payments

##### *Equity-settled share option arrangement*

The Company has a share option scheme for certain employees of the Company. The scheme is administered by the Board. Options are exercisable at prices to be determined by the Board. The vesting period is between nil to four years, and the share option expires 5 to 10 years after date of grant. Options are forfeited if employees leave before the options vest, and options which are vested shall expire in 120 days after the employees leave, unless otherwise determined by the Board.

The Company is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

Details of share options outstanding during the periods are as follows:

|                              | March 31,<br>2015          |  | December 31,<br>2014       |  |
|------------------------------|----------------------------|--|----------------------------|--|
|                              | Number of share<br>options | Weighted<br>average exercise<br>price (\$/per share) | Number of share<br>options | Weighted average<br>exercise price<br>(\$/per share) |
|                              |                            | \$   |                            | \$   |
| Balance, beginning of year   | 11,589,700                 | 0.67   | 1,156,500                  | 1.68   |
| Options granted              | 3,355,000                  | 0.30   | 12,000,000                 | 0.62   |
| Options exercised            | -                          | -  | (129,500)                  | 0.60   |
| Options expired              | (120,000)                  | 0.86   | (806,050)                  | 1.51   |
| Options forfeited            | (480,000)                  | 0.63   | (631,250)                  | 0.59   |
| <b>Balance end of period</b> | <b>14,344,700</b>          | <b>0.58</b>  | <b>11,589,700</b>          | <b>0.67</b>  |

# Kaizen Discovery Inc.

## Notes to the condensed consolidated interim financial statements

### For the three month periods ended March 31, 2015 and 2014

(unaudited and stated by management)

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

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

##### *Equity-settled share option arrangement (continued)*

The following table summarizes information about stock options outstanding and exercisable at March 31, 2015.

| Exercise price<br>(\$/per share) | Options outstanding        |   | Options exercisable        |   |
|----------------------------------|----------------------------|---|----------------------------|---|
|                                  | Number of<br>share options | Weighted average<br>remaining contractual<br>life (years) | Number of<br>share options | Weighted average<br>remaining contractual<br>life (years) |
| 0.30                             | 3,705,000                  | 4.4   | 1,188,750                  | 3.5   |
| 0.50                             | 200,000                    | 0.8   | 200,000                    | 0.8   |
| 0.51                             | 475,000                    | 3.2   | 135,000                    | 1.5   |
| 0.63                             | 8,625,000                  | 3.8   | 3,630,000                  | 3.8   |
| 0.66                             | 325,000                    | 3.8   | 130,000                    | 3.8   |
| 0.67                             | 300,000                    | 4.1   | 60,000                     | 4.3   |
| 0.90                             | 325,000                    | 1.3   | 325,000                    | 1.3   |
| 1.48                             | 10,000                     | 1.4   | 10,000                     | 1.4   |
| 1.57                             | 119,700                    | 0.4   | 119,700                    | 0.4   |
| 1.90                             | 20,000                     | 0.2   | 20,000                     | 0.2   |
| 2.13                             | 200,000                    | 0.7   | 200,000                    | 0.7   |
| 2.24                             | 40,000                     | 1.0   | 40,000                     | 1.0   |
|                                  | 14,344,700                 | 3.7   | 6,058,450                  | 3.2   |

The fair value of each option granted in 2015 was estimated using the Black-Scholes option pricing model with weighted average assumptions and range of values as follow:

| 2015                        | From   | To     | Weighted average |
|-----------------------------|--------|--------|------------------|
| Option exercise price range | \$0.30 | \$0.30 | \$0.30           |
| Risk free rate              | 0.97%  | 1.37%  | 1.14%            |
| Expected life (years)       | 5.0    | 5.0    | 5.0              |
| Annualized volatility       | 71%    | 71%    | 71%              |
| Dividend rate               | 0%     | 0%     | 0%               |
| Forfeiture rate             | 0%     | 0%     | 0%               |

The fair value of options at the date of grant was \$0.5 million, and total expense for the period was \$0.3 million (2014 - \$1.0 million)

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Introduction

Management's discussion and analysis ("MD&A") of Kaizen Discovery Inc. ("Kaizen" or the "Company") is focused on significant factors that affected Kaizen's current and maybe future performances. In order to better understand the MD&A, it should be read in conjunction with the December 31, 2014 audited consolidated financial statements and the March 31, 2015 unaudited condensed consolidated interim financial statements of the Company and the notes thereto. The Company reports its financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretation of International Financial Reporting Interpretations Committee ("IFRIC"). The Company's significant accounting policies are set out in Note 2 of the December 31, 2014 audited consolidated financial statements and have been applied consistently throughout the periods.

The Company's consolidated financial statements and the MD&A are intended to provide a reasonable basis for investors to evaluate the Company's development and financial situation.

This MD&A contains forward-looking statements that are subject to Risk Factors as referenced in the end of this MD&A. This information has been prepared as of May 21, 2014.

The information is presented in Canadian dollars unless otherwise noted; tabular amounts are in thousands.

### Mineral projects highlights

#### Canada

- Coppermine Project (*volcanic and sediment-hosted copper-silver*) – The Company controls Crown mineral claims and prospecting permits and has applied for subsurface mineral rights to Inuit Owned lands ("IOL") for a total of approximately 3,512 square kilometers ("km<sup>2</sup>") in Nunavut. In February 2015 the Company submitted applications for Land Use Permits and water permits to commence work on the Coppermine Project in 2015. These applications are currently being processed through the regulatory approval process, including screening by the Nunavut Impact Review Board ("NIRB").
- Tanzilla and Pliny projects (*copper-gold porphyry*) – As part of its acquisition of West Cirque Resources Ltd. ("West Cirque"), the Company controls 5 prospective copper-gold porphyry projects in British Columbia, Canada, two of which are subject to an \$8 million Earn-in Agreement with Freeport-McMoRan Corporation of Canada Limited ("Freeport"); Tanzilla and Pliny. Freeport spent a total of approximately \$1.7 million in exploration expenditures since inception, including \$0.9 million in 2014.
- Aspen Grove project (*copper-gold-silver porphyry*) – As part of a joint venture agreement with ITOCHU Corporation of Japan ("ITOCHU"), the Company completed a 2,000-meter ("m") drilling program in Q4'14.

#### Australia

- Fairholme project (*copper-gold-molybdenum porphyry*) - The Company completed a diamond-drilling program for 2,452m in March 2015. The Company earned an initial 49% interest in January 2014 and completed a 3D Induced Polarization ("IP") survey in August 2014.

## Democratic Republic of Congo

- Ebende project (*copper, nickel and platinum group*) - The project is conceptual in nature and is based on the premise that the area shares similar geological features to other mineralized continental flood basalts which are known to contain economic concentrations of copper, nickel and platinum group elements.

## Overview of the Business

Kaizen Discovery Inc. is a publicly traded Vancouver-based company engaged in the exploration, development, and acquisition of mineral properties in Canada, Australia, and Africa. Following the reverse take-over of Concordia Resources Corp. on December 4, 2013, management grew the business through the acquisition of two exploration entities, West Cirque and Tundra Copper Corp. ("Tundra").

At the end of March 2015, the Company held approximately 3,512 km<sup>2</sup> of exploration claims in the Coppermine District, Nunavut, Canada; approximately 217 km<sup>2</sup> of exploration claims in British Columbia, Canada; 169 km<sup>2</sup> in Australia and 2,551 km<sup>2</sup> in the Democratic Republic of Congo ("DRC").

Management's strategic approach is to acquire high quality mineral properties and make exploration discoveries through its experienced team and access to equity and project financing through Japanese partners.

The Company's common shares are listed on the TSX Venture Exchange under the symbol "KZD". Further details on Kaizen Discovery Inc. can be found in the Company's website at [www.kaizendiscovery.com](http://www.kaizendiscovery.com) or at [www.sedar.com](http://www.sedar.com).

### a) Private placements:

- There was no private placement in the first quarter of 2015.

### b) Acquisitions:

There was no acquisition in the first quarter of 2015.

### c) Change of functional currency

International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*, describes the functional currency as "the currency of the primary economic environment in which the entity operates." After the acquisition of West Cirque on July 8, 2014, management of the Company has considered the aggregate effect of all relevant factors, and concluded the major financing activities and significant majority of the expenditures for the Company are in Canadian dollars. Thus effective July 1, 2014, the functional currency of the Company is changed to Canadian dollar from US dollar.

In accordance with IAS 21, the change was accounted for prospectively with all items translated into Canadian dollars using the exchange rate at the date of change. The resulting translated amounts for non-monetary items are treated as their historical cost.

## Mineral Properties

**The Tanzilla Project** – The Tanzilla project, located in northwest British Columbia, is approximately 20 kilometres (“km”) south-east of the community of Dease Lake. At the end of 2014, funding from the Earn-in agreement covers the Tanzilla and the Pliny properties that are located within 15 km of each other. Most of the exploration activities in 2014 were centered on the Tanzilla property. The combined properties total 26 claims (8,032 hectares) 100% owned by Kaizen Discovery.

A more complete description of the project can be found in the December 2014 Management Discussion and Analysis filed on SEDAR.

### *Earn-in Agreement*

The Tanzilla project is being funded by Freeport-McMoRan Corporation of Canada Limited, a wholly owned, indirect subsidiary of Freeport-McMoRan Copper & Gold Inc. In March 2013, as part of an Earn-In Agreement, Freeport was granted the right to earn an initial 51% interest by funding cumulative expenditures of \$8.0 million over a four-year period. According to the terms of the agreement, Kaizen is the appointed operator.

### *2015 Exploration program*

A plan to drill approximately 1,800 m has been proposed for 2015. The main objective of the 2015 drill program is to test the lithocap to greater depths below the high sulfidation alteration and mineralization encountered in TZ14-05. Polyphase porphyry style veining intersected in the top part of this drill hole may represent a peripheral portion of the porphyry system which is offset by faulting; if so the central part of the lithocap intersected in the lower part of the hole probably lies in a down dropped fault block and porphyry style mineralization would be expected at greater depths. To date, significant potassic alteration, which would be typical of the core of the system, has not been intersected. Although not yet approved, Freeport's funding for the 2015 program is currently estimated at approximately \$800,000.

No field work was carried out on this project in Q1'15.

**The Aspen Grove Project** – The Aspen Grove project comprises 29 claims (11237 hectares) 100% owned by KZD Aspen Grove Holding Ltd., a subsidiary owned 60% by Kaizen and 40% by ITOCHU. Three claims (1375 hectares) are subject to a 2% net smelter return; 1% of which can be purchased at any time for \$3.0 million. The Aspen Grove property covers part of an extensive belt of porphyry copper mineralization hosted by Upper Triassic Nicola Group volcanic rocks and Late Triassic to Early Jurassic intrusions.

### *Exploration Program*

In 2015, the Company intends to perform additional IP surveys over a number of prospects within the Aspen Grove area, in addition to geological mapping and sampling. A 7000m drill program is planned to start in early June and will test the diatreme breccia-porphyry target at the Par prospect as well as the investigation of historic results and any new geophysical IP anomalies identified within the Ketchan Lake and Bos/Sig/Thalia prospects (“BZT”). Total exploration expenditures in 2015 are estimated at approximately \$3.1 million.

No field work has been carried out on the project in Q1'15. A 3D IP survey initiated in mid-April 2015 is expected to cover a total of approximately 15km<sup>2</sup> (5.8 square miles), including the extension of the Par prospect, followed by the Ketchan Lake and BZT prospects.

**The Coppermine Project** – The Coppermine Project constitutes a district-scale greenfield exploration prospect, covering approximately 115km of strike of an easterly-trending belt of Meso-Proterozoic continental flood basalts (the Coppermine River Group) and unconformably overlying marine sedimentary rocks of Neo-Proterozoic age (the Rae Group). The belt has numerous mineral showings and occurrences that demonstrate its prospectivity for two distinct deposit types: sediment-hosted, stratiform copper-silver; and structurally-controlled, volcanic-hosted copper-silver.

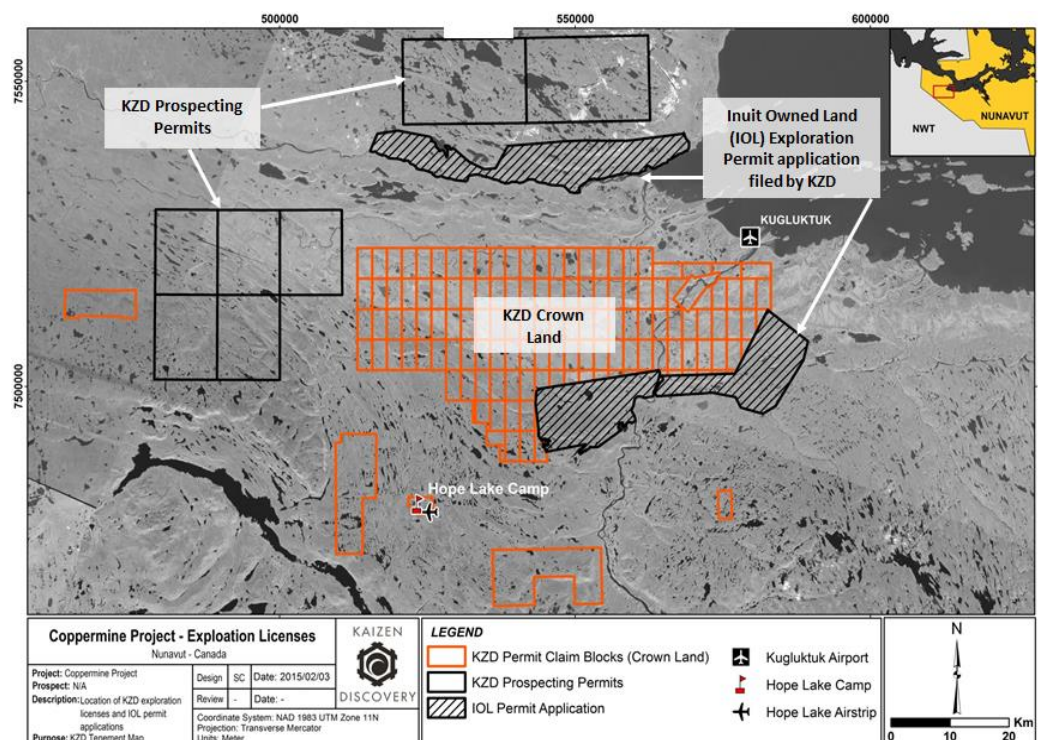
*Licences*

Tundra currently holds 174 Crown Land mineral claims totaling 186,739 hectares as well as 7 prospecting permits totaling 129,885 hectares; 36 of the Crown Land claims were held by Tundra when acquired by the Company in November 2014; the additional 138 claims were issued to Tundra in April 2015 as a result of staking in the fourth quarter of 2014.

Alongside these claims and prospecting permits, are IOL's, for which Tundra has filed 1) a permit application for surface access with the Kitikmeot Inuit Association and 2) an expression of interest for the underlying mineral rights, with Nunavut Tunngavik Inc.

In order to conduct exploration activities in 2015, Tundra is requesting permission from Aboriginal Affairs and Northern Development Canada (AANDC) for a Class B Land-Use Permit for activity on Crown Lands and has applied for Type B Water License from the Nunavut Water Board (NWB).

*Location*





*2015 Exploration Program –*

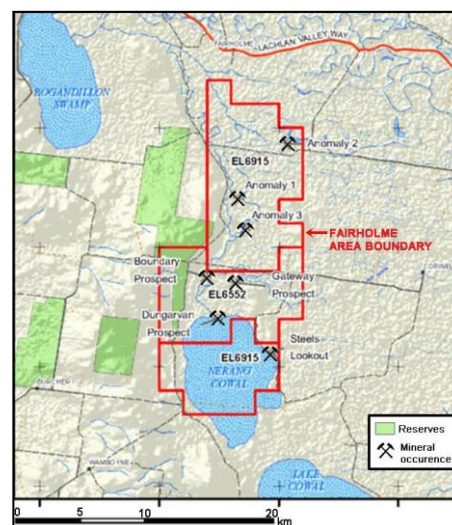
The Company has submitted land use applications which are now the subject of review and screening by the NIRB. The Company will continue consultation with various stakeholders and expects to submit revised proposals based on the terms and recommendations it receives from NIRB. Once the permitting process is completed and should approval be received; the Company plans for an exploration program to focus on drill testing both the volcanic-hosted and sedimentary hosted stratiform targets. A number of drill holes have been planned within the Upper Rae Group sediments, close to the volcanics to test the presence and continuity of mineralisation within the sediments. In addition, drilling is planned for the claims within the volcanics to test the vertical continuity of the high grade copper mineralisation. Exploration at Coppermine in 2015 is planned to also include geological mapping and sampling over the large landholding.

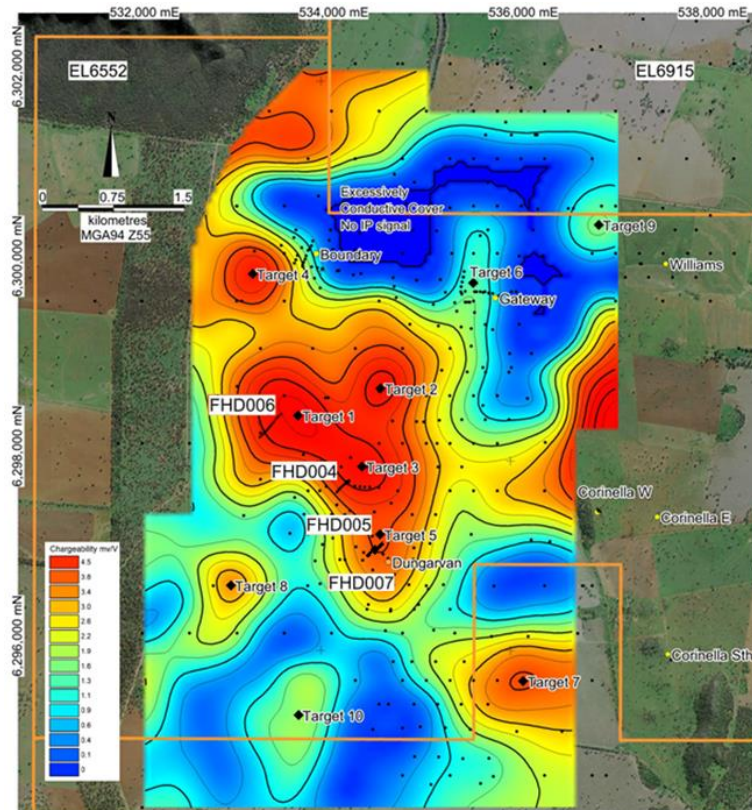
**The Fairholme Project** – The Fairholme Project consists of two contiguous exploration licences, Fairholme EL6552 and Manna EL6915; covering a 169 km<sup>2</sup> area located 360 km west of Sydney, Australia and 160 km west of the town of Orange. The EL 6915 licence has been renewed until October 18, 2015. The EL 6552 is valid until April 2, 2016.

*Joint venture –*

On January 16, 2014, the Company was granted a 49% interest in the Fairholme Project. Under the terms of an earn-in agreement, the Company has the right to increase its interest in the Fairholme Project to 65% by funding an additional AUD\$4.0 million in exploration over the subsequent two years with the aim of delineating a scoping study. The Company can further increase its stake to 90% or 95% by funding a bankable feasibility study (depending on the cost of such study).

Plan view of the southern part of the Fairholme project area, showing the 3D chargeability model sliced at -450-metre depth, and the locations of the 10 targets (contoured at 0.5mV/V intervals) with respect to the drill collars and prospect locations.





Four drill holes were completed between December 2014 to March 2015. Three holes tested Targets 3 and 5, which were identified by the 3D IP geophysical survey completed in 2014. The two targets are coincident with the main magnetic-intrusive centre at the Dungarvan prospect (FHD004-5 and FHD007). Drill hole FHD006 tested the magnetic low adjacent to Dungarvan.

| Drill hole | Easting | Northing | Azimuth | Dip | Depth (metres) |
|------------|---------|----------|---------|-----|----------------|
| FDH004     | 534158  | 6297698  | 32      | -70 | 541.9          |
| FDH005     | 534567  | 6297072  | 28      | -80 | 711.7          |
| FDH006     | 533364  | 6298246  | 28      | -65 | 793.3          |
| FDH007     | 534506  | 6297011  | 120     | -60 | 405.9          |
| TOTAL      |         |          |         |     | 2452.8         |

The drill holes over the Dungarvan prospect intercepted an extensive porphyry system associated with the main magnetic high centre. Rocks encountered included monzodiorite, intermediate feldspar-hornblende porphyry, intermediate feldspar porphyry and diorite intrusions hosted by an intermediate package of bedded, matrix-supported polymictic conglomerate and medium- to fine-grained volcanoclastic rocks. Hole FDH006 encountered well-bedded fine- to medium-grained volcanoclastic rocks with lesser conglomerate and minor feldspar porphyry intrusions. The drill holes intersected minor copper-gold mineralization within a broad zone of disseminated iron-sulphide-bearing volcanoclastic rocks, considered the source of the chargeability anomaly. A large part of the project area remains insufficiently explored under cover, and a project review is underway.

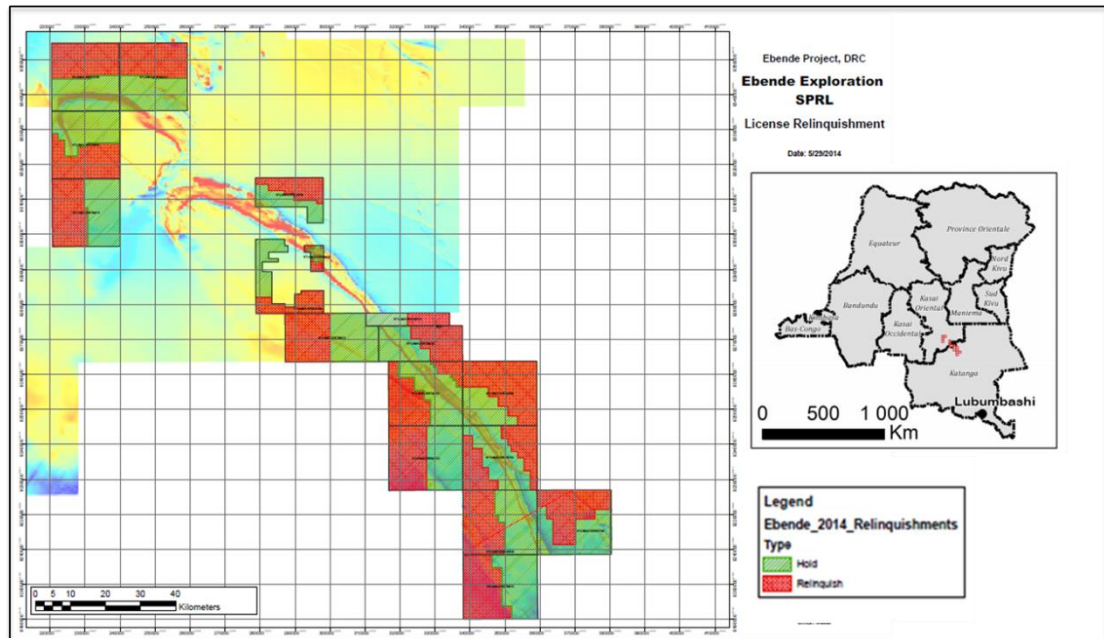
**The Ebende Project –**

The Ebende Project is an early stage exploration project consisting of 17 contiguous and near contiguous licences located in the Eastern Kasai and Katanga Provinces of the DRC. At this stage, the project is conceptual in nature and is based on the premise that the area shares similar geological features with other mineralised continental flood basalts which are known to contain economic concentrations of copper, nickel and platinum group elements (e.g. at Norilsk in Russia).

*Licences*

The Ebende Project’s exploration licences are renewable in the period between September 2014 and February 2015. Each licence has the option of two five-year renewal periods, subject each time to a minimum 50 percent reduction in the licence’s surface area. Applications to reduce the surface area of the permits by a minimum of 50% were submitted in June 2014 in anticipation of the obligatory ground reduction. Cadastral approval has been received for 14 of the 17 licences. The Company is waiting for approval by Ministerial Decree. Once approval is received the Company will hold approximately 2,551 km<sup>2</sup>. We expect renewals for all the licences to be completed in Q2’15.

*Location*



*A full description of the project can be found in the 2014 Q4 Management Discussion and Analysis.*

## Select Quarterly Financial Information

|                                    | Q1'15  | Q4'14  | Q3'14  | Q2'14  | Q1'14  | Q4'13  | Q3'13  | Q2'13 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|-------|
| Exploration expenses               |        |        |        |        |        |        |        |       |
| Ebende Project                     | 62     | 66     | 402    | 383    | 329    | 794    | 820    | 242   |
| Fairholme Project □                | 547    | 140    | 875    | 467    | 76     | 527    | 472    | 123   |
| Other                              | 239    | 8      | 259    | 195    | 685    | 42     | -      | -     |
| Total exploration expenses         | 848    | 214    | 1,536  | 1,045  | 1,090  | 1,363  | 1,292  | 365   |
| Administrative and interest        | 1,148  | 1,784  | 1,093  | 866    | 1,500  | 434    | 7      | (3)   |
| Share of losses from joint venture | 47     | 391    | 117    | -      | -      | -      | -      | -     |
| (Gain) on sale of mineral property | -      | (494)  | -      | -      | -      | -      | -      | -     |
| (Gain) loss on foreign exchange    | (149)  | (16)   | (149)  | (293)  | 313    | (2)    | -      | -     |
| Write down of investment           | 450    | -      | -      | -      | -      | -      | -      | -     |
| Other                              | (17)   | -      | -      | -      | -      | -      | -      | -     |
| Loss for the period                | 2,327  | 1,879  | 2,597  | 1,618  | 2,903  | 1,795  | 1,299  | 362   |
| Loss per share (basic and diluted) | (0.01) | (0.01) | (0.02) | (0.01) | (0.03) | (0.02) | (0.01) | -     |

### Nature of major quarterly variances

The Company's results have been largely driven by the level of its exploration activities in the DRC, Australia, and Canada. The Company has had no revenue from mining operations since its inception. Major quarterly expense variances are:

**Exploration** - Exploration expenses can vary widely from quarter to quarter depending on the stages and management decisions on the exploration program.

Other exploration expenditure in the first nine months of 2014 includes general activities incurred by the members of the exploration team based in head office to locate potential acquisition targets. In 2015, a larger portion of the exploration team's remuneration is expected to be allocated to managing projects previously acquired by the Company.

Exploration activities in the DRC are normally centered in the second and third quarter of the year to avoid the rainy season. In Australia, a similar seasonal impact is experienced as, in certain areas, exploration activity is carried over farming areas and the resulting timing of exploration activities is designed to minimize the impact on planted crops.

**Administrative** – The timing of large option grants has a significant impact on the recorded quarterly expense as approximately 20% to 25% of the total option benefit is expensed at the grant date and the remaining balance is expensed over the following three to four years. As a result of such a large grant in January 2014, the Q1'14 option benefits included an administrative expense of \$0.8 million compared to \$0.2 million in Q1'15.

Expenditures in Q1'15 included a one-time \$0.5 million impairment charge to marketable securities that were received as proceeds from the sale of the Burkina Faso project in November 2014.

## Selected Annual Information

(Unaudited - expressed in thousands dollars except loss per shares)

|  | Three months ended March 31, |          |
|--|------------------------------|----------|
|  | 2015                         | 2014     |
| Exploration activity   | \$                           | \$       |
| Ebende Project   | 62                           | 329      |
| Fairholme Project  | 547                          | 76       |
| Burkina Faso   | -                            | 127      |
| General exploration expenditure                                      | 157                          | 402      |
| Share based payments expense   | 82                           | 156      |
| Total exploration expenses   | 848                          | 1,090    |
| Share of loss on joint venture                                       | 47                           | -        |
| Write down of investment   | 450                          | -        |
| (Gain) loss on foreign exchange                                      | (149)                        | 313      |
| Administrative, interest income and (gains) loss on foreign exchange | 1,131                        | 1,500    |
| Net Loss for the period  | 2,327                        | 2,903    |
| Basic and diluted loss per share                                     | (\$0.01)                     | (\$0.02) |

|                   |        |
|-------------------|--------|
| Total assets      | 17,653 |
| Total liabilities | 498    |

## Results of Operations

**Exploration expenditures** - The following is a break-down of exploration expenditures by project:

|                              | Three months ended March 31, 2015 |           |              |       | Total |
|------------------------------|-----------------------------------|-----------|--------------|-------|-------|
|                              | Ebende                            | Fairholme | Burkina Faso | Other |       |
|                              | \$                                | \$        | \$           | \$    | \$    |
| Drilling                     | -                                 | 293       | -            | -     | 293   |
| Wages and consultants        | -                                 | 114       | -            | 173   | 287   |
| Assay                        | -                                 | 105       | -            | -     | 105   |
| Fees and taxes               | 42                                | 46        | -            | -     | 88    |
| Share based payments expense | -                                 | -         | -            | 82    | 82    |
| Camp                         | -                                 | 28        | -            | 3     | 31    |
| Other                        | -                                 | 12        | -            | 5     | 17    |
| Travel                       | -                                 | 4         | -            | 9     | 13    |
| Other Income                 | -                                 | -         | -            | (33)  | (33)  |
| Geophysics                   | 18                                | (55)      | -            | -     | (37)  |
|                              | 62                                | 547       | -            | 239   | 848   |

**Three months ended March 31, 2014**

|                              | Burkina |           |      |       | Total        |
|------------------------------|---------|-----------|------|-------|--------------|
|                              | Ebende  | Fairholme | Faso | Other |              |
|                              | \$      | \$        | \$   | \$    | \$           |
| Wages and consultants        | 25      | 23        | 101  | 368   | <b>517</b>   |
| Fees and taxes               | 252     | 19        | -    | -     | <b>271</b>   |
| Share based payments expense | -       | -         | -    | 156   | <b>156</b>   |
| Camp                         | 4       | 4         | 14   | 34    | <b>56</b>    |
| Professional fees            | 43      | -         | -    | -     | <b>43</b>    |
| Assay                        | -       | 25        | -    | -     | <b>25</b>    |
| Insurance                    | 2       | 1         | 7    | -     | <b>10</b>    |
| Rental                       | 2       | 2         | 5    | -     | <b>9</b>     |
| Other                        | -       | 2         | -    | -     | <b>2</b>     |
| Travel                       | 1       | -         | -    | -     | <b>1</b>     |
|                              | 329     | 76        | 127  | 558   | <b>1,090</b> |

**Administrative expenditures** - The following is a break-down of administrative expenditures:

|                              | Three months ended March 31, |       |
|------------------------------|------------------------------|-------|
|                              | 2015                         | 2014  |
|                              | \$                           | \$    |
| Wages and benefits           | <b>461</b>                   | 336   |
| Share based payments expense | <b>228</b>                   | 820   |
| Professional fees            | <b>159</b>                   | 135   |
| Office                       | <b>172</b>                   | 68    |
| Travel                       | <b>58</b>                    | 70    |
| Fees and taxes               | <b>15</b>                    | 26    |
| Investor relations           | <b>23</b>                    | 14    |
| Insurance                    | <b>55</b>                    | 18    |
| Rental                       | <b>15</b>                    | 6     |
| Depreciation                 | -                            | 1     |
| Other                        | <b>(38)</b>                  | 6     |
|                              | <b>1,148</b>                 | 1,500 |

**Q1'15 compared to Q1'14**

In Q1'15, the Company recorded a loss of \$2.3 million (Q1'14 - \$2.9 million), a decrease of \$0.6 million. The decrease is mainly the result of a \$0.2 million decrease in exploration expenses, a \$0.4 million decrease in administrative expenses, a \$0.5 million increase in marketable securities impairment and a \$0.5 million increase in foreign exchange gain.

**Exploration activities**

*Ebende project* – Exploration activities in Q1'15 mainly consist in fees related to exploration license's renewals and related legal expenditures. An additional \$0.2 million in renewal fees is expected to be incurred in Q2'15. The main activity in Q1'14 consisted in payments of licence renewals and related professional legal fees.

*Fairholme project* - The main activity in Q1'15 consisted of the completion of a drilling program based on targets identified by the geophysical survey completed in the second half of 2014. Activities in Q1'14 mainly consisted in planning efforts for the forthcoming year.

*Burkina Faso* - The Burkina Faso project was put on a care and maintenance basis at the beginning of 2014 and the project was sold in November 2014.

*Other exploration projects* – In Q1'14 and Q1'15, other exploration project expenditures mainly consist of a) the share based payments and b) the remuneration of the Company's geological staff based in the Vancouver office whose efforts consisted of evaluating mineral projects or mineral companies with the objective of identifying acquisition candidates worth pursuing.

### **Administrative activities**

Administrative expenses decreased from \$1.5 million in Q1'14 to \$1.1 million in Q1'15. The \$0.4 million decrease is mainly due to a \$0.6 million decrease in share-based payments, a \$0.1 million increase in cash wages and benefits and a \$0.1 million increase in office costs.

In January 2014, the Company recorded a \$0.8 million share based payment expense that resulted from a 9.6 million option grant to directors and officers of the Company. This grant was the first grant of options to directors and officers of the Company after the reverse take-over of the Company at the beginning of December 2013.

Wages and benefits increased from \$0.3 million in Q1'14 to \$0.5 million in Q1'15. The increase is related to additions to administrative, legal and accounting personnel in 2014.

The \$0.1 million increase in office costs in Q1'15 is due to the additional office space required by the staffing increases in 2014 as well as increased expenditures related to the Company's attendance at various geological and financial related conferences and seminars.

### **Investment impairment**

In January 2015, the market value of the Company's investment in common shares of Alecto Minerals PLC experienced a significant decrease which resulted in the Company recording a \$0.5 million impairment provision. The impairment provision was deemed necessary as the Company's management estimates that the value of Alecto's shares is likely to remain in the current trading range.

## **Liquidity and Capital Resources**

The Company is considered to be in the exploration stage, and to date, it has not generated revenues from its operations and has been dependent on equity and joint venture and/or financing partner's contributions. Cash on hand as at March 31, 2015 was \$6.2 million and working capital was \$6.8 million. The Company holds its excess cash in interest bearing accounts with creditworthy financial institutions, and has sufficient funding to cover all administrative and exploration activities for the next 12 months.

The ability of the Company to continue is dependent on the continuing success of its exploration activities and on generating continuous funding to support those activities.

## Outstanding Share Capital

As at May 21, 2015, 157,979,902 common shares are issued and outstanding, 14,151,000 stock options are outstanding at a weighted average exercise price of \$0.58, of which 5,864,750 are exercisable at weighted average exercise price of \$0.66.

## Outlook

The Board of Directors recognizes that the financing requirements for the next stage of exploration on the Coppermine, Ebende and the Fairholme projects as well as the pursuit of other potential exploration properties are such that further external sources of capital will be required to finance future exploration activities and planned engineering studies.

The Company's long-term growth strategy is to work with Japanese strategic partners to identify, explore and develop high-quality mineral projects that have the potential to produce and deliver minerals to Japan's industrial sector.

Over the next twelve months, the Company intends to pursue additional acquisitions and necessary funding requirements from capital markets and from private corporate investors at the project level.

## Off Balance Sheet Arrangements

None.

## Related Party Transactions

HPX TechCo Inc. ("HPX") is the parent entity to the Company, holding 67.3% of the Company's common shares at March 31, 2015. Starting in 2014, HPX has provided consulting services to the Company on a cost recovery basis plus 12% markup.

Global Mining Management Corporation ("GMM") is a private company based in Vancouver owned equally by six companies, one of which is the Company. Certain officers of the Company are also related to GMM. GMM provides administration, accounting, and other office services to the Company on a cost-recovery basis.

For a detailed discussion please refer to note 11 in the audited consolidated financial statements December 31, 2014.

## Other MD&A Requirements

The Company's business of exploring, developing and mining mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and the Company's common shares should be considered speculative.

Qualified Person under National Instrument 43-101

- a) Unless otherwise stated, Mr. John Bradford, is the qualified person responsible for the preparation of the technical information included in this MD&A.



- b) Ebende Project - The technical information for the Ebende Project was prepared under the supervision of Mr. Michael David Lynn, a principal consultant for MSA Company (Pty) Ltd.
- c) Fairholme Project - The technical information for the Fairholme Project was prepared under the supervision of Mr. Barry De Wet.

## Changes in Accounting Standards and Critical Accounting Estimates

Adoptions of new standards and amendments to existing standards have had no effect on the Company's financial position or financial performance. Details please refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2014.

Areas of judgments that have the most significant effect on the amount recognized in the financial statements are disclosed in note 4 of the Company's consolidated financial statements for the three-month periods ended March 31, 2015 and 2014.

## Management's Responsibility for Financial Information

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management. The financial statements were prepared by management in accordance with IFRS and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility. Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities. The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of a majority of non-management directors. This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. This committee is responsible for recommending the appointment of the external auditors or the renewal of their engagement.

## Financial Instruments

The Company's financial instruments include cash, receivables, marketable securities, payable and accrued liabilities.

Marketable securities measured at fair value were categorized in Level 1. The fair value of the Company's marketable securities is based on active market prices at the reporting date less any impairment.

The recorded amount for cash, receivable, payable and accrued liabilities approximate their fair values due to their short-term nature. Other than cash, the Company's financial instruments have no material risk exposure. Risk is managed with respect to cash by risk management policies that require cash deposits be invested with Canadian chartered banks that have high credit ratings assigned by international credit ratings agencies.

## Risk Factors

The Company is engaged in mining 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 properties, an investment in the Company's common shares should be considered a highly speculative investment that involves significant financial risks, and prospective investors should carefully consider all of the information disclosed in this MD&A, including the risks described below, prior to making any investment in the Company's common shares.

A list of risk factors impacting the Company can be found in the Risk Factor's section included in the Company's December 2014 MD&A.

## Forward-Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. These include, but are not limited to: statements regarding the acquisition of projects that match evaluation criteria and align with corporate strategic objectives; participation by Japanese strategic partners, including at the project level; continued access to capital and project financing; the potential for significant discoveries; the opening of Canada's north through accessible seaborne shipping lanes, infrastructure development and regional support; the advancement of current projects, including proposed work programs for the Coppermine, Aspen Grove, Tanzilla and Fairholme projects; access to HPX TechCo technologies and expertise; the identification, exploration and development of high quality mineral projects and the delivery of minerals to Japan's industrial sector.

Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Kaizen, its mineral projects, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect Kaizen's current expectations regarding future events, performance and results and speak only as of the date of this presentation.

In making such statements, Kaizen has made assumptions regarding, among other things: general business and economic conditions; the availability of obtaining additional project financing; the supply and demand for, inventories of, and the level and volatility of the prices of metals; estimated capital costs, operating costs, production and economic returns; ongoing relationships with our strategic partners; the timing and receipt of governmental permits and approvals; 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; market competition; performance by counterparties of their contractual obligations; and the future operational and financial performance of the Company generally.

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: unanticipated changes in general business and economic conditions or conditions in the financial markets; fluctuations in the price of metals; stock market volatility; decisions made by our strategic partners; significant capital requirements and the availability and management of capital resources; changes in national and local government legislation; changes in interest or currency exchange rates; loss of key personnel; inaccurate geological assumptions; legal disputes or unanticipated outcomes of legal proceedings; social unrest; competition; unanticipated operational difficulties including failure of equipment or processes, cost escalation, unavailability of materials and equipment, government action or delays in the receipt of permits or government approvals, industrial disturbances or other job action, and unanticipated events related to health, safety and environmental matters.

We recommend that you review the discussion of material risks in this MD&A that could cause actual results to differ materially from our current expectations. Forward-looking information is designed to help you understand management's current views of our near and longer term prospects, and it may not be appropriate for other purposes. We will not necessarily update this information unless we are required to by security laws.