



Condensed Interim Consolidated Financial Statements of

Kaizen Discovery Inc.

September 30, 2016

(Unaudited)

Kaizen Discovery Inc.

Condensed Interim Consolidated Financial Statements

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Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	September 30, 2016	December 31, 2015
Assets			
Current assets			
Cash		\$ 872	\$ 912
Receivables	16	688	329
Prepaid expenses and deposits	16	527	466
Total current assets		2,087	1,707
Non-current assets			
Mineral properties	4	3,580	3,585
Joint venture interest	5	3,545	4,040
Property, plant and equipment		70	70
Marketable securities	6	101	95
Other assets	9	141	1,400
Total assets		\$ 9,524	\$ 10,897
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	\$ 613	\$ 677
Loan facility	7	-	700
Option liability	8	250	250
Total current liabilities		863	1,627
Non-current liabilities			
Provision	9	1,198	1,260
Total liabilities		\$ 2,061	\$ 2,887
Equity			
Share capital	10	\$ 39,036	\$ 33,963
Share-based payment reserve	13	3,514	3,161
Other reserves		582	-
Accumulated other comprehensive loss		(25)	(17)
Accumulated deficit		(35,643)	(29,097)
Equity attributable to owners of Kaizen Discovery Inc.		7,464	8,010
Non-controlling interest		(1)	-
Total equity		\$ 7,463	\$ 8,010
Total liabilities and equity		\$ 9,524	\$ 10,897

Description of business and going concern (Note 1)

Subsequent event (Notes 4, 7 and 17)

Approved and authorized for issue on behalf of the Board on November 14, 2016

/s/ Terry Krepiakevich
Terry Krepiakevich, Director

/s/ David Huberman
David Huberman, Director

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Operating expenses					
Exploration expenses	11	\$ (484)	\$ (1,742)	\$ (1,921)	\$ (3,604)
Administrative expenses	12	(707)	(810)	(3,002)	(2,989)
Share of losses from joint venture	5	(316)	(734)	(495)	(1,302)
Loss from operations		(1,507)	(3,286)	(5,418)	(7,895)
Other income (expenses)					
Management fees	16	66	154	101	242
Gain on foreign exchange		28	73	44	166
Interest income		4	5	12	35
Interest expense		(32)	-	(73)	-
Write-down of other assets	9	-	-	(1,214)	-
Write-down of marketable securities		-	-	-	(469)
Other expense		(35)	-	(41)	-
Loss before income taxes		(1,476)	(3,054)	(6,589)	(7,921)
Income taxes		-	-	-	-
Net loss for the period		(1,476)	(3,054)	(6,589)	(7,921)
Other comprehensive (loss) income					
Items that may be reclassified subsequently to profit or loss:					
Unrealized (loss) gain on marketable securities	6	-	(23)	6	(23)
Currency translation adjustment		19	1	(15)	14
Total other comprehensive income (loss) for the period		\$ 19	\$ (22)	\$ (9)	\$ (9)
Total comprehensive loss for the period		\$ (1,457)	\$ (3,076)	\$ (6,598)	\$ (7,930)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		\$ (1,460)	\$ (3,054)	\$ (6,546)	\$ (7,921)
Non-controlling interest		(16)	-	(43)	-
Net loss for the period		\$ (1,476)	\$ (3,054)	\$ (6,589)	\$ (7,921)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		\$ (1,442)	\$ (3,076)	\$ (6,554)	\$ (7,930)
Non-controlling interest		(15)	-	(44)	-
Total comprehensive loss for the period		\$ (1,457)	\$ (3,076)	\$ (6,598)	\$ (7,930)
Loss per share (basic and diluted)		\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.05)
Weighted average number of basic and diluted shares outstanding					
		178,165,427	157,979,902	176,304,968	157,979,902

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(Stated in thousands of Canadian dollars, except for share amounts)

	Number of shares	Share capital	Share-based payment reserve	Other reserves	Accumulated other comprehensive loss	Accumulated deficit	Equity attributable to owners of Kaizen Discovery Inc.	Non- controlling interest	Total equity
Balance at December 31, 2014	157,979,902	\$ 31,809	\$ 2,192	\$ -	\$ (39)	\$ (14,784)	\$ 19,178	\$ -	\$ 19,178
Net loss for the period	-	-	-	-	-	(7,921)	(7,921)	-	(7,921)
Other comprehensive loss	-	-	-	-	(9)	-	(9)	-	(9)
Share-based compensation	-	-	741	-	-	-	741	-	741
Balance at September 30, 2015	157,979,902	\$ 31,809	\$ 2,933	\$ -	\$ (48)	\$ (22,705)	\$ 11,989	\$ -	\$ 11,989
Balance at December 31, 2015	175,364,517	\$ 33,963	\$ 3,161	\$ -	\$ (17)	\$ (29,097)	\$ 8,010	\$ -	\$ 8,010
Net loss for the period	-	-	-	-	-	(6,546)	(6,546)	(43)	(6,589)
Other comprehensive loss	-	-	-	-	(8)	-	(8)	(1)	(9)
Share-based compensation	-	-	353	-	-	-	353	-	353
Non-controlling interest's investment in subsidiary	-	-	-	582	-	-	582	43	625
Shares issued on settlement of debt (Note 7)	32,210,460	5,073	-	-	-	-	5,073	-	5,073
Balance at September 30, 2016	207,574,977	\$ 39,036	\$ 3,514	\$ 582	\$ (25)	\$ (35,643)	\$ 7,464	\$ (1)	\$ 7,463

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	Nine months ended September 30,	
		2016	2015
Operating activities			
Net loss for the period		\$ (6,589)	\$ (7,921)
Adjustments for non-cash items:			
Share-based compensation		353	741
Share of losses from joint venture		495	1,302
Write-down of other assets	9	1,214	-
Write-down of marketable securities		-	469
Other expense		41	-
Gain on unrealized foreign exchange		(70)	(181)
Changes in non-cash working capital items:			
Receivables		(362)	(59)
Prepaid expenses and deposits		(61)	(217)
Accounts payable and accrued liabilities		(61)	(337)
Loan facility		73	-
Cash used in operating activities		\$ (4,967)	\$ (6,203)
Investing activities			
Acquisition of other assets		\$ -	\$ (75)
Acquisition of mineral property		-	(3)
Cash used in investing activities		\$ -	\$ (78)
Financing activities			
Non-controlling interest's investment in subsidiary	4	\$ 625	\$ -
Drawings under loan facility	7	4,300	-
Receipt of option payment	8	-	250
Cash from financing activities		\$ 4,925	\$ 250
Effect of foreign exchange rate changes on cash		\$ 2	\$ 191
Decrease in cash		(40)	(5,840)
Cash, beginning of period		912	8,308
Cash, end of period		\$ 872	\$ 2,468

Supplemental cash flow information (Note 15)

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

1. Description of business and going concern

- (a) Kaizen Discovery Inc. (the "Company") is a publicly listed company incorporated under the laws of British Columbia, Canada. Its shares are listed on the TSX Venture Exchange under the symbol KZD. The Company's head office and registered office are both located at Suite 654 – 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

At September 30, 2016, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 66.8% (December 31, 2015 – 60.7%) of the Company's issued and outstanding common shares. The ultimate controlling entity is Ivanhoe Industries LLC, a privately owned company.

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

- (b) The Company's condensed interim consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and satisfaction of liabilities in the normal course of business.

For the three and nine months ended September 30, 2016, the Company had no operating revenues and incurred losses of \$1.5 million and \$6.6 million. At September 30, 2016, the Company had consolidated cash of \$0.9 million (December 31, 2015 - \$0.9 million), excluding cash of \$0.3 million (December 31, 2015 – \$0.8 million) held by KZD Aspen Grove Holding Ltd., the joint venture interest that holds the Aspen Grove project.

At September 30, 2016, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on a combination of its cash position, the expected proceeds from the rights offering (Note 17), the collaborative working arrangement with partner ITOCHU Corporation of Japan ("ITOCHU") and the ability to pursue additional sources of financing, including equity placements.

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

The Company's condensed interim consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

2. Basis of presentation

- (a) *Statement of compliance*

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for full annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

2. Basis of presentation (continued)

(b) *Basis of presentation*

The accounting policies used in the preparation of these condensed interim consolidated financial statements are the same as those applied in the Company's most recent consolidated annual financial statements for the year ended December 31, 2015 and reflect all the adjustments necessary for fair presentation in accordance with IFRS for the interim periods presented.

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

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

(c) *Critical accounting estimates and judgments*

The preparation of the condensed interim consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company's critical accounting judgments and estimates remain substantially unchanged from those disclosed in the consolidated financial statements for the year ended December 31, 2015.

(d) *Segments*

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

3. Adoption of new and revised accounting standards and interpretations

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2016, and have not been applied in preparing these condensed interim consolidated financial statements. The following standards may have a potential effect on the consolidated financial statements of the Company:

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

(b) IFRS 15, *Revenue from Contracts with Customers*, establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.

(c) IFRS 16, *Leases*, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

3. Adoption of new and revised accounting standards and interpretations (continued)

(c) (continued)

date of initial adoption of IFRS 16. Other areas of the lease accounting model have been impacted, including the definition of a lease. Management is currently assessing the potential impact of this standard.

4. Mineral properties

Mineral properties comprises the \$3.58 million carrying amount (December 31, 2015 - \$3.59 million) of the Pinaya Copper-Gold Project ("Pinaya Project"), which was acquired from AM Gold Inc. on October 26, 2015. The Pinaya Project covers 192 square kilometres and includes 28 kilometres of strike length within the Andahuaylas – Yauri Porphyry Belt in southeastern Peru.

On April 18, 2016, the Company closed a strategic financing agreement with ITOCHU to advance exploration efforts at the Pinaya Project. Under the terms of the agreement, ITOCHU will provide the Company with up to \$2.5 million in initial exploration funding for Pinaya, in exchange for an indirect 20% stake in the project. The financing agreement calls for ITOCHU to pay the \$2.5 million to the Company in three payments.

- The first payment of \$625,000 was made upon closing of the transaction. This payment gave ITOCHU an initial 5% interest in the Company's subsidiary, Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings"), the indirect holder of the Pinaya Project. The Company retained the remaining 95%.
- ITOCHU's second payment of \$625,000, for another 5% interest in Kaizen Peru Holdings, is conditional on the Company obtaining local community approvals for the lease and surface rights for the Pinaya Project and obtaining all necessary approvals to establish and operate the exploration camp. On November 9, 2016, the Company announced the satisfaction of all necessary requirements to trigger ITOCHU's second-stage investment.
- The third payment of ITOCHU's investment is conditional on the Company obtaining the necessary environmental, archaeological and water authorizations required to conduct exploration drilling on the Pinaya Project within two years of the initial payment. Subject to fulfillment of this condition, ITOCHU will pay the Company \$1.25 million to bring its aggregate interest in Kaizen Peru Holdings to 20%.

ITOCHU has the right to sell all, but not less than all, of its common shares in Kaizen Peru Holdings to the Company for \$10.00 plus the amount of ITOCHU's \$2.5 million of funding commitment that remains unspent and uncommitted, pro rata to ITOCHU's ownership percentage in Kaizen Peru Holdings on the date that ITOCHU exercises its right. The strategic financing agreement terminates upon ITOCHU exercising this right. At September 30, 2016, the right's estimated redemption amount was nominal.

The Company has agreed to match ITOCHU's exploration funding, which will bring total funding to \$5.0 million for the planned first phase of exploration at Pinaya. The Company expects that the \$5.0 million will cover approximately two years of exploration work at the project.

The initial \$1.25 million of the Company's \$2.5 million funding is due on or before the earlier of (i) April 18, 2017, one year after the date of ITOCHU's initial investment; or (ii) completion of ITOCHU's third-tranche payment. The Company's second \$1.25 million is due on or before April 18, 2018, two years after the date of completion of ITOCHU's initial investment. Following the Company's \$2.5 million funding, both the Company and ITOCHU become subject to customary cash call obligations and dilution should a party not fund its then pro rata amount of any future funding.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

5. Joint venture interest

KZD Aspen Grove Holding Ltd. ("KZD Aspen Grove") holds the Aspen Grove Project, a porphyry copper exploration project with claims comprising 11,237 hectares located halfway between Merritt and Princeton in southern British Columbia.

The Company and ITOCHU have share ownership interests in KZD Aspen Grove of 60% and 40%, respectively. Under the Unanimous Shareholders Agreement, unanimous shareholder approval is required for certain key strategic, operating, investing and financing decisions. Accordingly, the Company's 60% interest is treated as a joint venture investment, which is accounted for using the equity method. There are no publicly quoted market prices for KZD Aspen Grove's common shares.

The following is a summary of the Company's 60% investment in KZD Aspen Grove at September 30, 2016:

	September 30, 2016	December 31, 2015
Carrying amount at beginning of period	\$ 4,040	\$ 4,918
Less:		
Share of losses from joint venture during the period	(495)	(878)
Carrying amount at end of period	\$ 3,545	\$ 4,040

In light of the drilling results for the Aspen Grove Project's 2016 exploration program, ITOCHU and the Company are assessing the project's status, including whether further exploration activities are warranted. A decision is expected to be reached during the fourth quarter of 2016.

6. Marketable securities

	Number of Shares	December 31, 2015	Unrealized (losses) gains	September 30, 2016
Alecto Minerals plc	54,996,857	\$ 79	\$ (1)	\$ 78
Other		16	7	23
		\$ 95	\$ 6	\$ 101

7. Loan facility

Under the terms of the Inter-Corporate Loan Agreement between HPX and the Company dated December 4, 2013, HPX made available to the Company an unsecured, revolving loan facility of up to \$5.0 million ("Loan Facility"). The Loan Facility was established by HPX as part of the reverse take-over transaction that established the Company.

In December 2015, the Company made an initial draw of \$0.7 million on the Loan Facility. The remaining \$4.3 million available on the Loan Facility was fully drawn down by May 6, 2016.

Interest expense, charged at 3% per annum, compounded monthly, of approximately \$32,000 (2015 - \$Nil) and \$73,000 (2015 - \$Nil) was accrued on the Loan Facility for the three and nine months ended September 30, 2016.

On September 15, 2016, the Company and HPX agreed to settle the full amount of principal and interest owing on the Loan Facility, totaling approximately \$5.07 million, by issuing 32,210,460 common shares of the Company to HPX at a price of \$0.1575 per share, representing a 25% discount to the Company's closing share price of \$0.21 on September 15, 2016. Upon the transaction's completion on September 23, 2016, the \$5.07 million carrying amount of the Loan Facility was credited to share capital.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

7. Loan facility (continued)

On November 10, 2016, the Company announced that it will conduct a rights offering to raise gross proceeds of approximately \$7.3 million (the "Rights Offering"). The key terms of the Rights Offering are disclosed in Note 17, including the termination of the Loan facility upon fulfillment of the standby commitment by HPX and completion of the Rights Offering.

8. Option liability

On July 31, 2015, for consideration of \$250,000, the Company, through its wholly owned subsidiary West Cirque, granted ITOCHU an option to acquire an indirect 15% interest in the Tanzilla project, located in northwest British Columbia, for no additional consideration. ITOCHU was also granted a subsequent option to acquire up to a further indirect 10% interest at fair market value. Upon being notified that Freeport had terminated its earn-in option on the Tanzilla project on December 30, 2015, ITOCHU had 30 days to exercise the option to acquire the 15% interest. In January 2016, the exercise period was extended by 330 days.

Upon ITOCHU exercising the option to acquire an indirect 15% interest in the Tanzilla project, West Cirque's interest in the project must be transferred to a newly-incorporated wholly-owned subsidiary, and a sufficient number of this subsidiary's common shares would then be issued to ITOCHU such that ITOCHU holds an indirect 15% interest in the project. The fair value of the option liability to issue common shares, which do not yet exist, cannot be reliably measured as the asset underlying these shares is an early stage exploration project, so the option liability is measured at cost.

9. Provision

In 2015, the Company recognized a provision for potential obligations related to the Pinaya Copper-Gold Project, which was acquired on October 26, 2015 (Note 4). At September 30, 2016, the provision's carrying amount was \$1.20 million (December 31, 2015 - \$1.26 million).

Due to the recourse available to the Company should it be required to settle the potential obligations, an asset was recognized at the same time as the provision and classified as other assets in the statement of financial position. On June 30, 2016, the Company filed a notice of civil claim which has been contested by the counterparty. Under the applicable accounting rules, it was appropriate to record a \$1.21 million write down of the asset at June 30, 2016, reducing the carrying amount to nil.

10. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At September 30, 2016, the Company had 207,574,977 common shares issued and outstanding (December 31, 2015 – 175,364,517).

On September 23, 2016, the Company issued 32,210,460 common shares at a price of \$0.1575 per share to HPX to settle the full amount of principal and interest, totaling approximately \$5.07 million, owing on the Loan Facility (Note 7).

On June 7, 2016, a total of 60.2 million shares were released from escrow. At September 30, 2016, there were no shares remaining in escrow.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

11. Exploration expenses

Exploration expenses are summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Wages and consultants	\$ 160	\$ 468	\$ 744	\$ 1,150
Drilling	-	283	-	583
Assay	-	24	-	130
Share-based compensation	(2)	51	48	184
Fees and taxes	95	80	516	335
Geophysics	-	-	-	(33)
Camp	19	122	60	260
Travel	6	22	42	42
Aircraft	-	635	-	868
Professional fees	43	36	188	38
Demobilization	74	-	134	-
Environmental	59	-	86	-
Other	30	21	103	47
	\$ 484	\$ 1,742	\$ 1,921	\$ 3,604

Exploration expenses were allocated to the following projects:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Pinaya	\$ 326	\$ -	\$ 1,301	\$ -
Coppermine	90	1,562	348	2,226
Fairholme	-	2	18	612
Ebende	-	82	2	326
General exploration	68	96	252	440
	\$ 484	\$ 1,742	\$ 1,921	\$ 3,604

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

12. Administrative expenses

Administrative expenses for the Company are summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Wages and benefits	\$ 386	\$ 428	\$ 1,961	\$ 1,265
Share-based compensation	160	123	305	557
Professional fees	37	56	247	370
Office	68	90	260	343
Travel	7	23	66	161
Fees and taxes	24	38	84	80
Investor relations	2	44	21	108
Insurance	19	1	43	100
Other	4	7	15	5
	\$ 707	\$ 810	\$ 3,002	\$ 2,989

13. Share-based compensation

Stock option plan

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

Details of share option transactions during the nine months ended September 30, 2016 are as follows:

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	Number of stock options	Weighted average exercise price (\$ per share)	Number of stock options	Weighted average exercise price (\$ per share)
Outstanding, beginning of period	13,071,000	\$ 0.55	11,589,700	\$ 0.67
Granted	1,050,000	0.24	3,355,000	0.30
Expired	(425,000)	0.90	(120,000)	0.65
Forfeited	(1,625,000)	0.52	(1,346,200)	0.65
Outstanding, end of period	12,071,000	\$ 0.51	13,478,500	\$ 0.58
Exercisable, end of period	6,557,250	\$ 0.54	5,764,750	\$ 0.65

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

13. Share-based compensation (continued)

Stock options outstanding and exercisable at September 30, 2016 are as follows:

Exercise price (\$ per share)	Options outstanding		Options exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.16	475,000	4.2	118,750	4.2
0.24	1,050,000	4.9	350,000	4.9
0.30	2,695,000	1.9	1,347,500	1.9
0.51	175,000	2.9	105,000	2.9
0.63	6,975,000	1.2	4,185,000	1.2
0.66	325,000	2.3	195,000	2.3
0.67	300,000	0.1	180,000	0.1
1.57	76,000	0.3	76,000	0.3
	12,071,000	1.8	6,557,250	1.6

The weighted average fair value of stock options granted during the nine months ended September 30, 2016 was estimated at \$0.18 (September 30, 2015 - \$0.14) using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Nine months ended September 30,	
	2016	2015
Risk free rate	0.61%	0.98%
Expected life (years)	3.5	4.0
Annualized volatility	103%	71%
Dividend rate	0%	0%
Forfeiture rate	0%	0%

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

14. Financial instruments

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

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

	September 30,		December 31,
	2016		2015
Financial assets			
Loans and receivables			
Cash	\$ 872	\$	912
Receivables	383		155
Other assets	141		1,400
Available-for-sale			
Marketable securities	101		95
Total financial assets	\$ 1,497	\$	2,562
Financial liabilities			
Accounts payable and accrued liabilities	\$ 613	\$	677
Loan facility	-		700
Option liability	250		250
Total financial liabilities	\$ 863	\$	1,627

The carrying values of cash, receivables, other assets, accounts payable and accrued liabilities, and the Loan Facility approximate their fair values. The option liability is measured at cost.

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

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

The Company's marketable securities are measured at fair value using level 1 inputs.

15. Supplemental cash flow information

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

	Nine months ended September 30,	
	2016	2015
Financing activities		
Shares issued on settlement of debt (Notes 7 and 10)	\$ 5,073	\$ -
Settlement of debt (Note 7)	(5,073)	-

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

16. Related party transactions

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

(a) Expenses, receivables, deposits and accounts payable

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Salaries and benefits	\$ 536	\$ 915	\$ 2,481	\$ 2,271
Corporate administration	85	138	341	439
Exploration and geophysical activities	15	-	74	4
Total related party expenses	\$ 636	\$ 1,053	\$ 2,896	\$ 2,714

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
GMM	\$ 611	\$ 1,053	\$ 2,753	\$ 2,710
HPX	25	-	143	4
Total related party expenses	\$ 636	\$ 1,053	\$ 2,896	\$ 2,714

The transactions with Global Mining Management Corporation ("GMM") noted above for the three and nine months ended September 30, 2016 include approximately \$170,000 (2015 - \$194,000) and \$254,000 (2015 - \$399,000) of expenses incurred by KZD Aspen Grove (Note 5), and the Company's share of losses from joint venture includes 60% of these expenses.

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

	September 30,	December 31,
	2016	2015
Receivables		
KZD Aspen Grove	\$ 379	\$ 12
Deposits		
GMM	450	450
Total related party receivables and deposits	\$ 829	\$ 462

Deposits of \$450,000 at December 31, 2015 have been reclassified from receivables to prepaid expenses and deposits in the statement of financial position to conform with the current period's presentation.

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

16. Related party transactions (continued)

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

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

	September 30, 2016	December 31, 2015
Accounts payable		
GMM	\$ 145	\$ 236
HPX	143	18
Key management personnel, directors and officers	42	-
Total related party payables	\$ 330	\$ 254

- (i) GMM is a private company based in Vancouver owned equally by eight companies, one of which is the Company, and has officers in common with the Company. GMM provides administration, accounting, and other office services to the Company on a cost-recovery basis.
- (ii) HPX is the Company's privately owned parent, holding 66.8% of the Company's common shares at September 30, 2016 (December 31, 2015 – 60.7%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.
- (iii) Amounts owed to key management personnel, directors and officers comprise outstanding remuneration.
- (iv) The Company is the operator of the Aspen Grove project, and the receivable balance represents unpaid reimbursements for expenses paid by the Company on behalf of KZD Aspen Grove and management fees. For the three and nine months ended September 30, 2016, management fees of \$66,000 (2015 – \$110,000) and \$101,000 (2015 - \$195,000) were earned by the Company as the project's operator.

(b) Compensation of key management personnel

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Salaries and benefits	\$ 258	\$ 238	\$ 1,422	\$ 963
Share-based compensation	149	100	264	472
Total remuneration	\$ 407	\$ 338	\$ 1,686	\$ 1,435

Salaries and benefits for key management personnel include separation payments totalling \$627,000 that were recognized in the three months ended March 31, 2016.

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

Kaizen Discovery Inc.

Notes to the condensed interim consolidated financial statements

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

17. Subsequent event

On November 10, 2016, the Company announced that that it will conduct a rights offering to raise gross proceeds of approximately \$7.3 million. The key terms contained in the Rights Offering circular, which was filed on the SEDAR website under Kaizen's profile at www.sedar.com, include the following:

- The Company will issue rights to eligible holders of its common shares on the record date of November 18, 2016, on the basis of one right for each common share held.
- Three rights will entitle the holder to subscribe for one common share of the Company upon payment of the subscription price of \$0.105 per share.
- The rights will trade on the TSX Venture Exchange under the symbol KZD.RT commencing on November 16, 2016 and will trade until 1:00 p.m. (Vancouver time) on January 11, 2017.
- The rights will expire at 2:00 p.m. (Vancouver time) on January 11, 2017 (the "Expiry Time"), after which time unexercised rights will be void and of no value. Shareholders who fully exercise their rights will be entitled to subscribe for additional shares in the Rights Offering, if available as a result of unexercised rights prior to the Expiry Time, subject to certain limitations set out in Kaizen's Rights Offering circular.

In connection with the Rights Offering, the Company has entered into a standby commitment agreement (the "Standby Commitment Agreement") with majority shareholder HPX, who has agreed, subject to the satisfaction of certain conditions, to fully exercise its basic subscription privilege to purchase its pro rata share of the common shares offered in the Rights Offering and to acquire all other common shares not acquired on the exercise of rights in the Rights Offering.

Under the Standby Commitment Agreement, at completion of the Rights Offering, the Company will issue 2,100,000 non-transferable warrants to HPX. Each warrant will entitle HPX to acquire one common share of the Company at an exercise price per common share of \$0.155 at any time on or before January 11, 2022.

Upon fulfillment of the standby commitment by HPX and completion of the Rights Offering, the Loan Facility (Note 7) will be terminated.

The Company intends to use the net proceeds of the Rights Offering to fund commitments to advance the Pinaya Project, including a \$2.5 million commitment under the strategic financing agreement with ITOCHU; to identify and review new project opportunities; to fund other exploration project costs; and for general and administrative expenses.



Management's Discussion and Analysis
September 30, 2016

As at November 14, 2016

Introduction

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide readers with management's overview of the past performance of, and future outlook for, Kaizen Discovery Inc. (the "Company" or "Kaizen"). The report also provides information to enhance readers' understanding of the Company's financial statements and highlights important business trends and risks affecting the Company's financial performance. It should therefore be read in conjunction with the Company's condensed interim consolidated financial statements and notes thereto for the three and nine month periods ended September 30, 2016 (the "financial statements"), MD&A for the year ended December 31, 2015 and audited consolidated financial statements and notes thereto for the year ended December 31, 2015.

All information contained in this MD&A is current as of November 14, 2016 unless otherwise stated.

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

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

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict", "foresee" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect Kaizen's current expectations regarding future events, performance and results and speak only as of the date of this MD&A. These include, but are not limited to, statements regarding: the timing of, and other procedural matters associated with, the Rights Offering; the use of proceeds from the Rights Offering, including using the net proceeds of the Rights Offering to fund commitments to advance the Pinaya Project; the planned commencement of field work at the Pinaya Project in November 2016; plans that the Pinaya Project's initial exploration program will include re-logging of existing drill core, a detailed mapping program and regional-scale stream sampling where no previous, systematic exploration was carried out; plans to commence a drilling program at the Pinaya Project once the Declaration of Environmental Impact (Declaración de Impacto Ambiental, DIA) is approved and authorization to commence activities has been received; the receipt of the second and third payments by ITOCHU in respect of its funding of the Pinaya Project; Kaizen providing matching funding of up to \$2.5 million for the Pinaya Project; ITOCHU and Kaizen reaching a decision on the status of the Aspen Grove Project during the fourth quarter of 2016; and the finalization of the draft Nunavut Land Use Plan and its effect on Kaizen's exploration activities at the Coppermine Project.

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

In making such statements, Kaizen has made assumptions regarding, among other things: general business and economic conditions; the availability of additional exploration and mineral project financing; the supply and demand for, inventories of, and the level and volatility of the prices of metals; ongoing relationships with strategic partners; the timing and receipt of governmental permits and approvals; changes in regulations; political factors; the accuracy of the Company's interpretation of drill results; the geology, grade and continuity of the Company's mineral deposits; the availability of equipment, skilled labour and services needed for the exploration and development of mineral properties; and currency fluctuations.

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

Although the forward-looking statements or information contained in this MD&A are based upon what management of Kaizen believes are reasonable assumptions, Kaizen cannot assure investors that actual results will be consistent with these forward-looking statements. They should not be read as guarantees of future performance or results. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: the factors discussed below and under "Risk Factors"; unanticipated changes in general business and economic conditions or conditions in the financial markets; fluctuations in the price of metals; stock market volatility; decisions made by Kaizen's strategic partners; the availability of exploration capital and financing generally; changes in national and local government legislation; changes in interest or currency exchange rates; loss of key personnel; inaccurate geological assumptions; legal disputes or unanticipated outcomes of legal proceedings; social unrest; competition; unavailability of materials and equipment, government action or delays in the receipt of permits or government approvals; industrial disturbances or other job action; and unanticipated events related to health, safety and environmental matters.

Forward-looking information is designed to help readers understand management's current views of the Company's near and longer term prospects, and it may not be appropriate for other purposes. Kaizen will not update any forward-looking statements or forward-looking information unless required to by applicable securities laws.

The forward looking statements contained herein are based on information available and are made as of November 14, 2016.

Overview of the Business

Kaizen is a publicly listed mineral exploration company incorporated under the laws of British Columbia, Canada. The Company's shares are listed on the TSX Venture Exchange under the symbol KZD. The Company's head and registered office is located at Suite 654 – 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

The Company's current mineral property portfolio consists of exploration-stage projects in Peru and Canada.

To date, Kaizen has not generated any revenues from its operations and is considered to be in the exploration stage.

Outlook

Given the challenging market conditions that the mineral exploration industry has endured for the past several years, management has recognized the need to safeguard the Company's treasury and to advance its exploration projects in a prudent way. Accordingly, management will continue to assess the strategic importance and cost of exploration programs at each of Kaizen's projects and may revise the scope of planned programs.

Overall Performance

Corporate Activities

Rights Offering to Raise Gross Proceeds of \$7.3 Million

On November 10, 2016, Kaizen announced that it will conduct a rights offering to raise gross proceeds of approximately \$7.3 million (the “Rights Offering”). The key terms contained in the Rights Offering circular, which was filed on the SEDAR website under Kaizen's profile at www.sedar.com, include the following:

- Kaizen will issue rights to eligible holders of its common shares on the record date of November 18, 2016, on the basis of one right for each common share held.
- Three rights will entitle the holder to subscribe for one common share of Kaizen upon payment of the subscription price of \$0.105 per share.
- The rights will trade on the TSX Venture Exchange under the symbol KZD.RT commencing on November 16, 2016 and will trade until 1:00 p.m. (Vancouver time) on January 11, 2017.
- The rights will expire at 2:00 p.m. (Vancouver time) on January 11, 2017 (the “Expiry Time”), after which time unexercised rights will be void and of no value. Shareholders who fully exercise their rights will be entitled to subscribe for additional shares in the Rights Offering, if available as a result of unexercised rights prior to the Expiry Time, subject to certain limitations set out in Kaizen's Rights Offering circular.

In connection with the Rights Offering, Kaizen has entered into a standby commitment agreement (the “Standby Commitment Agreement”) with majority shareholder HPX TechCo Inc. (“HPX”), who has agreed, subject to the satisfaction of certain conditions, to fully exercise its basic subscription privilege to purchase its pro rata share of the common shares offered in the Rights Offering and to acquire all other common shares not acquired on the exercise of rights in the Rights Offering.

Under the Standby Commitment Agreement, at completion of the Rights Offering, Kaizen will issue 2,100,000 non-transferable warrants to HPX. Each warrant will entitle HPX to acquire one common share of Kaizen at an exercise price per common share of \$0.155 at any time on or before January 11, 2022.

Upon fulfillment of the standby commitment by HPX and completion of the Rights Offering, the existing Inter-Corporate Loan Agreement dated December 4, 2013 between Kaizen and HPX (the “Loan Agreement”) will be terminated. That Loan Agreement makes available to Kaizen a \$5.0 million unsecured, revolving loan facility. No amount is currently drawn by Kaizen under the Loan Agreement.

Kaizen intends to use the net proceeds of the Rights Offering to fund commitments to advance the Pinaya Copper-Gold Project (“Pinaya Project”), including a \$2.5 million commitment under the strategic financing agreement with ITOCHU Corporation of Japan (“ITOCHU”); to identify and review new project opportunities; to fund other exploration project costs; and for general and administrative expenses.

New Collaboration Agreement with ITOCHU Corporation

On November 2, 2016, Kaizen announced that it had entered into a new agreement with ITOCHU through which ITOCHU may continue to be a joint-venture partner or financier with Kaizen on selected, high-quality, international mineral projects.

The new agreement, which replaces the January 2014 framework agreement between Kaizen and ITOCHU, establishes a process by which ITOCHU may seek to invest and work together with Kaizen on future

exploration and development projects. The new agreement also allows Kaizen the flexibility to seek joint-venture partners or financiers other than ITOCHU.

Exploration Activities

Pinaya Copper-Gold Project, Peru

The Pinaya Copper-Gold Project covers 192 km² and includes 28 kilometres of strike length within the Andahuaylas-Yauri Porphyry Belt in southeastern Peru. This belt hosts numerous productive and world-scale porphyry and skarn systems, including Las Bambas, Tintaya, Constancia and Haquira.

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

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

The Pinaya Project contains Mineral Resources within three contiguous mineralized zones over a 1.7-kilometre strike in the central part of the property. The first two zones, referred to as the Western ("WPZ") and Northwestern ("NWPZ") porphyry zones, hold Measured and Indicated Resources of 35.1 million tonnes at a grade of 0.37% copper and 0.43 grams per tonne (g/t) of gold, for contained metal of 129,000 tonnes of copper and 487,000 ounces of gold. These porphyry zones also have additional Inferred Resources of 37.6 million tonnes grading 0.38% copper and 0.28 g/t gold, containing 143,000 tonnes of copper and 336,000 ounces of gold.

The third zone, referred to as the Gold Oxide Skarn Zone ("GOSZ"), has Measured and Indicated Resources of 6.6 million tonnes at a grade of 0.79 g/t gold, containing 168,000 ounces of gold. This zone also has Inferred Resources of 2.64 million tonnes grading 0.61 g/t of gold, containing 52,000 ounces of gold.

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

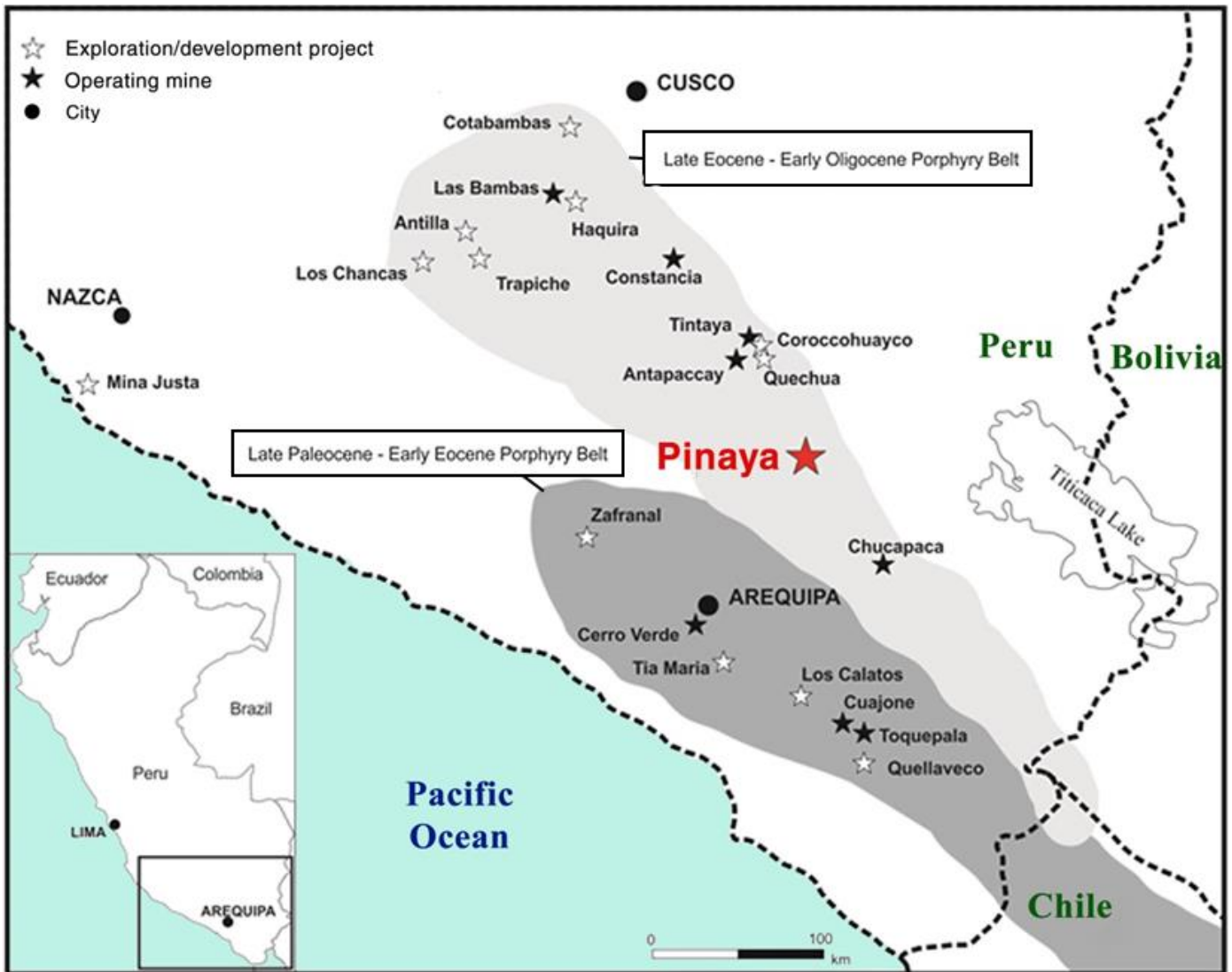
Land Access and Community Agreements Signed

Kaizen has signed land access agreements with the community of Pinaya and individual private landholders that provide Kaizen with access rights to conduct its planned exploration program at the Pinaya Project for a two-year period. Kaizen also signed two separate agreements with the community outlining social development and employment commitments.

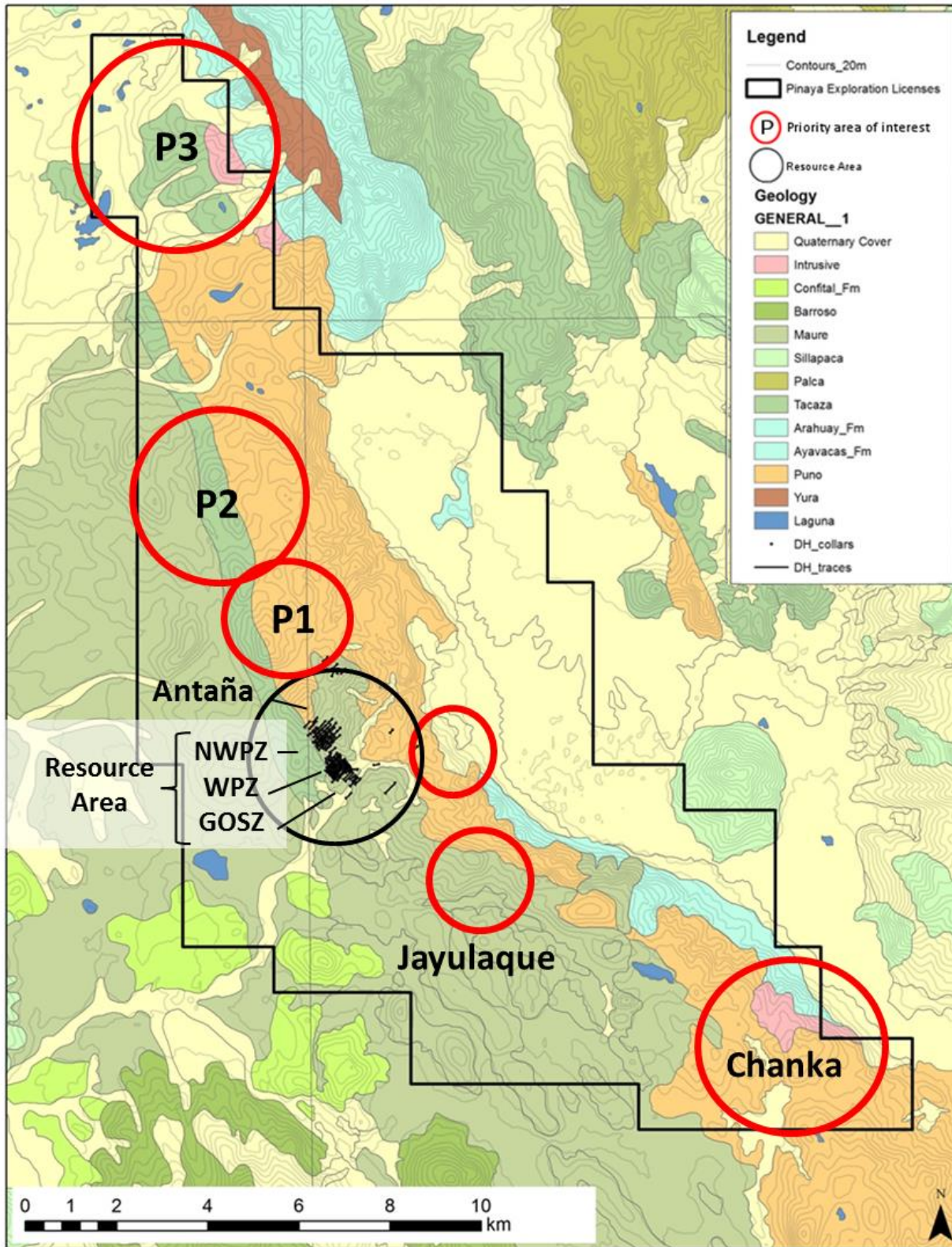
On November 2, 2016, Kaizen received its water-use authorization for the Pinaya Project's exploration camp. This authorization, in conjunction with the granting of access rights, means that Kaizen now has satisfied all necessary requirements to trigger ITOCHU's second-stage investment of C\$625,000 in the project. Upon receipt of ITOCHU's investment, ITOCHU's interest in Kaizen Peru Holdings Ltd. ("Kaizen Peru Holdings") – the indirect holder of the Pinaya Project – will increase from 5% to 10%.

Kaizen plans to commence fieldwork at the Pinaya property in November 2016. An initial exploration program will include re-logging of existing drill core, a detailed mapping program and regional-scale stream sampling where no previous, systematic exploration was carried out. Once the Declaration of Environmental Impact (Declaración de Impacto Ambiental, DIA) is approved and authorization to commence activities has been received, a drilling program will test drill-ready targets within the property.

Location of the Pinaya Copper-Gold Project in Peru.



Geological map with regional targets within Pinaya Copper-Gold Project in Peru.



Pinaya Copper-Gold Project's camp facilities May 6, 2016.



Kaizen team inspecting an undrilled prospect at Pinaya, May 6, 2016.



Strategic Financing Agreement with ITOCHU for Pinaya Copper-Gold Project

On April 18, 2016, Kaizen closed a strategic financing agreement with ITOCHU to advance Kaizen's exploration efforts at the Pinaya Copper-Gold Project. Under the terms of the agreement, ITOCHU will provide Kaizen with up to \$2.5 million in initial exploration funding for Pinaya, in exchange for an indirect stake in the project of up to 20%.

The financing agreement calls for ITOCHU to pay the \$2.5 million to Kaizen in three payments.

- The first payment of \$625,000 was made upon closing of the transaction. This payment gave ITOCHU an initial 5% interest in Kaizen's subsidiary, Kaizen Peru Holdings, the indirect holder of the Pinaya Project. Kaizen retained the remaining 95%.
- ITOCHU's second payment of \$625,000, for another 5% interest in Kaizen Peru Holdings, is conditional on Kaizen obtaining, within two years of the initial payment, local community approvals for the lease and surface rights for the Pinaya Project and obtaining all necessary approvals to establish and operate the exploration camp. The recently obtained water authorization for the exploration camp, in conjunction with the land access agreement and the previously signed surface rights agreements with local, private landholders, means that Kaizen has completed all necessary requirements to trigger ITOCHU's second-stage investment.
- The third payment of \$1.25 million, for a further 10% interest, to bring ITOCHU's aggregate interest in Kaizen Peru Holdings to 20%, is conditional on Kaizen obtaining, within two years of the initial payment, the necessary environmental, archaeological and water authorizations required to conduct exploration drilling on the Pinaya Project.

ITOCHU has the right to sell all, but not less than all, of its common shares in Kaizen Peru Holdings to Kaizen for \$10.00 plus the amount of ITOCHU's \$2.5 million of funding commitment that remains unspent and uncommitted, pro rata to ITOCHU's ownership percentage in Kaizen Peru Holdings on the date that ITOCHU exercises its right. The strategic financing agreement terminates upon ITOCHU exercising this right.

Kaizen has agreed to match ITOCHU's exploration funding, bringing the total funding to \$5 million for the planned first phase of exploration at Pinaya. Kaizen expects that the \$5 million will cover approximately two years of exploration work at the project.

The initial \$1.25 million of Kaizen's \$2.5 million funding is due on or before the earlier of (i) April 18, 2017, one year after the date of ITOCHU's initial investment; or (ii) completion of ITOCHU's third-tranche payment. Kaizen's second \$1.25 million is due on or before April 18, 2018, two years after the date of completion of ITOCHU's initial investment. Following Kaizen's \$2.5 million funding, both Kaizen and ITOCHU become subject to customary cash call obligations and dilution should a party not fund its pro rata amount of any future funding.

Aspen Grove Project, British Columbia, Canada

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

Title to the Aspen Grove property is held by KZD Aspen Grove Holding Ltd. ("KZD Aspen Grove"), a subsidiary owned 60% by Kaizen and 40% by ITOCHU. Three claims (13.75 km²) are subject to a 2% net smelter return royalty, 1% of which can be purchased at any time for \$3.0 million.

Location of the Ketchan and Par prospects at Kaizen's Aspen Grove project.



2016 Exploration Program

Exploration by Kaizen in 2015 and 2016 focused on the Ketchan alkalic copper-gold porphyry system, hosted by the Ketchan Stock, a dioritic to monzonitic intrusion at least 1,800 metres by 500 metres in size. All but one drill hole in the 2015 program, spanning the known length of the intrusion, intersected significant intervals of copper mineralization, often accompanied by gold mineralization. Drilling in 2015 revealed the presence of a complex zone of magnetically destructive alteration following an interpreted northwest-southeast structure within the Ketchan Stock. This zone is variably, in some places strongly, mineralized on its margin and may be an important control for the mineralizing system. It appears to divide the stock into two lobes, southwestern and northeastern.

The 2016 drilling program was completed in late September 2016 for a total of 4,009-metres within the Ketchan prospect. The purpose of the program was to expand known zones of mineralization and test undrilled areas within the Ketchan Stock. All holes intersected potassic or calc-potassic alteration and all but one returned intervals of copper and gold mineralization.

Drill holes K16-01, K16-02 and K16-05A were designed to expand the mineralized system in the northeastern lobe of the Ketchan Stock. K16-01 intersected 170 metres of hydrothermal breccia with several low-grade mineralized intervals. K16-05A intersected an interval of 8 metres of 0.68% copper and 0.45 g/t gold within a wider interval of 36 metres of 0.43% copper and 0.21 g/t gold.

Drill holes K16-03 and K16-04 tested the northwestern margin of the exposed Ketchan porphyry system, where 2015 drill hole K15-10 intersected 26 metres of 1.05% copper before being abandoned in a fault zone (see Kaizen's news release dated November 3, 2015). Drill hole K16-03 was successful in locating narrow mineralization of similar character, intersecting two metres of 0.94% copper and 1.75 g/t gold. These higher-grade mineralized occurrences are separated by more than 150 metres and are hosted by a unique monzogabbro phase of the Ketchan Stock.

Drill holes K16-06 and K16-08 were designed to follow up on high-grade surface samples and on mineralization in hole K15-01, which intersected 266 metres of mineralization from surface including 78 metres grading 0.50% copper and 0.15 g/t gold (see Kaizen's news release dated July 20, 2015). K16-06 intersected similar mineralization to that in K15-01 with 62 metres grading 0.46% copper and 0.10 g/t gold, including a 28-metre, higher-grade interval of 0.90% copper and 0.17 g/t gold. K16-08 was drilled to confirm the continuity of this higher-grade mineralization but failed to encounter the zone.

Drill hole K16-07 targeted a weak-to-moderate chargeability anomaly with a moderate magnetic response. The hole intersected a shallow high-grade interval of 8 metres of 1.29% copper and 0.84 g/t gold, and a deeper, broader interval of 60 metres of 0.36% copper and 0.15 g/t gold.

Jim Logan, P.Geo., an independent geological consultant with extensive alkalic porphyry experience, and formerly with the British Columbia Geological Survey, was retained by Kaizen to construct a geological model for the Ketchan prospect. Mr. Logan's work included re-logging of drill core, lithochemical sampling and thin section petrographic study and highlighted new controls to copper-gold mineralization on the Ketchan prospect.

In light of the 2016 exploration program's drilling results, ITOCHU and Kaizen are assessing the project's status, including whether further exploration activities are warranted. A decision is expected to be reached during the fourth quarter of 2016.

Table 1. Drill hole intercepts from 2016 Aspen Grove exploration drilling program

DDH	From (m)	To (m)	Width* (m)	Copper (%)	Gold (g/t)	Copper Eq** (%)
K16-01	23	37	14	0.44	0.18	0.61
K16-01	257	293	36	0.32	0.24	0.53
K16-01	315	337	22	0.34	0.05	0.38
incl.	331	337	6	1.04	0.09	1.11
K16-02	None significant					
K16-03	334	348	14	0.24	0.34	0.55
incl.	338	340	2	0.94	1.75	2.53
K16-03	406	478	72	0.11	0.42	0.48
K16-04	5	53	48	0.11	0.14	0.24
K16-05A	299	335	36	0.43	0.21	0.62
incl.	299	307	8	0.68	0.45	1.08

K16-06	347	409	62	0.46	0.10	0.55
incl.	367	395	28	0.90	0.17	1.05
K16-07	121	129	8	1.29	0.84	2.05
K16-07	278	338	60	0.36	0.15	0.50
K16-08	9	37	28	0.34	0.09	0.42
K16-08	151	167	16	0.35	0.13	0.47

* Width refers to drill-hole intercept. True widths have not been determined.

** Copper equivalent is used to express the combined value of copper and gold as a percentage of copper, for illustrative purposes. No allowances have been made for recovery losses that would occur in a mining scenario. Calculated on the basis of US\$2.15 per pound of copper and US\$1,330 per troy ounce of gold, using the formula copper eq =
$$\frac{(\%copper)(22.0462)(\$lbcopper) + (gptgold)(1/31.1035)(\$ozgold)}{[(22.0462)(\$lbcopper)]}$$

Interpreted geological features of the Ketchan Stock, with 2016 and 2015 drill holes indicated.

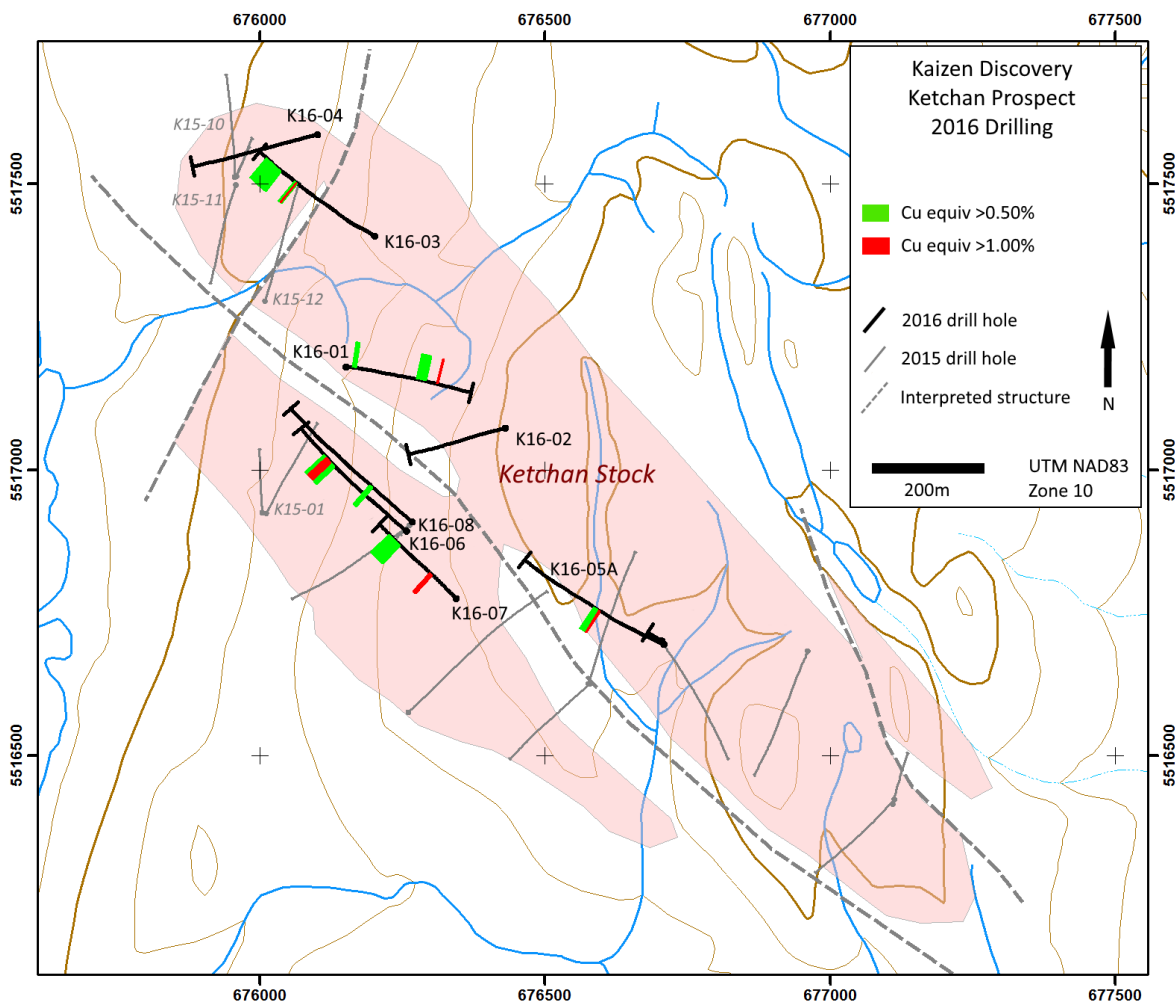


Table 2. Collar details of drill holes from 2016 program.

DDH	Azimuth	Dip	Easting	Northing	Total Depth (m)
K16-01	090	-60	676151	5517180	459.33
K16-02	250	-60	676430	5517073	380.09
K16-03	300	-60	676201	5517409	511.15
K16-04	260	-60	676101	5517586	459.33
K16-05	305	-60	676704	5516701	57.00
K16-05A	295	-65	676708	5516695	715.37
K16-06	310	-60	676257	5516893	544.68
K16-07	310	-60	676344	5516775	386.18
K16-08	310	-50	676267	5516909	495.91

Coordinates: UTM NAD83 zone 10N

Coppermine Project, Nunavut, Canada

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

Licences

Kaizen, through its wholly owned subsidiary Tundra Copper Corp. (“Tundra”), holds 153 Crown Land mineral claims totalling 1,658 km² as well as eleven prospecting permits totalling 1,886 km². Fifteen of the Crown Land claims were held by Tundra when it was 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.

On September 13, 2016, Kaizen received notice from the Mining Recorder for the Territory that its Section 51 application under the Mining Regulations of Nunavut had been registered and recorded. Under Section 51 of the Regulations, if a claim holder is unable to do the required assessment work because the holder is, for reasons beyond the claim holder’s control, waiting for a public authority to give an authorization or decision without which the work cannot proceed, the claim holder may request a one-year suspension of the work requirements.

The Company’s Section 51 application pertains to the draft Nunavut Land Use Plan (“DNLUP”). In the DNLUP, the Kaizen mineral claims and prospecting permits are overlain by areas with proposed prohibitions and/or limitations on mining and exploration. Uncertainty regarding these designations will impact Kaizen’s ability to continue its exploration activities at the Coppermine Project until the DNLUP is finalized.

Exploration Expenses

(Tabular amounts are expressed in thousands of Canadian dollars)

Exploration expenses are summarized by project as follows:

	Three months ended September 30, 2016					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	\$	\$	\$	\$	\$	\$
Wages and consultants	88	13	-	-	59	160
Drilling	-	-	-	-	-	-
Assay	-	-	-	-	-	-
Share-based compensation	-	-	-	-	(2)	(2)
Fees and taxes	95	-	-	-	-	95
Geophysics	-	-	-	-	-	-
Camp	15	-	-	-	4	19
Travel	-	-	-	-	6	6
Aircraft	-	-	-	-	-	-
Professional fees	43	-	-	-	-	43
Demobilization	-	74	-	-	-	74
Environmental	59	-	-	-	-	59
Other	26	3	-	-	1	30
	326	90	-	-	68	484

	Three months ended September 30, 2015					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	\$	\$	\$	\$	\$	\$
Wages and consultants	-	420	-	3	45	468
Drilling	-	283	-	-	-	283
Assay	-	24	-	-	-	24
Share-based compensation	-	-	-	-	51	51
Fees and taxes	-	37	-	43	-	80
Geophysics	-	-	-	-	-	-
Camp	-	121	1	-	-	122
Travel	-	22	-	-	-	22
Aircraft	-	635	-	-	-	635
Professional fees	-	-	-	36	-	36
Demobilization	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Other	-	20	1	-	-	21
	-	1,562	2	82	96	1,742

	Nine months ended September 30, 2016					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	\$	\$	\$	\$	\$	\$
Wages and consultants	395	137	14	2	196	744
Drilling	-	-	-	-	-	-
Assay	-	-	-	-	-	-
Share-based compensation	-	-	-	-	48	48
Fees and taxes	448	66	2	-	-	516
Geophysics	-	-	-	-	-	-
Camp	45	6	3	-	6	60
Travel	36	-	-	-	6	42
Aircraft	-	-	-	-	-	-
Professional fees	188	-	-	-	-	188
Demobilization	-	134	-	-	-	134
Environmental	86	-	-	-	-	86
Other	103	5	(1)	-	(4)	103
	1,301	348	18	2	252	1,921

	Nine months ended September 30, 2015					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	\$	\$	\$	\$	\$	\$
Wages and consultants	-	750	149	9	242	1,150
Drilling	-	283	300	-	-	583
Assay	-	24	106	-	-	130
Share-based compensation	-	-	-	-	184	184
Fees and taxes	-	26	47	261	1	335
Geophysics	-	-	(51)	18	-	(33)
Camp	-	227	33	-	-	260
Travel	-	28	5	-	9	42
Aircraft	-	868	-	-	-	868
Professional fees	-	-	-	38	-	38
Demobilization	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Other	-	20	23	-	4	47
	-	2,226	612	326	440	3,604

Summary of Quarterly Results

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

	Quarter Ended			
	Sep-30 2016	Jun-30 2016	Mar-31 2016	Dec-31 2015
	\$	\$	\$	\$
Exploration expenses	484	773	664	354
Administrative expenses	707	912	1,383	976
Impairment of mineral properties	-	-	-	5,461
Share of (income) losses from joint venture	316	159	20	(424)
Gain on sale of project	-	-	-	-
(Gain) loss on foreign exchange	(28)	10	(26)	36
Write-down of other assets	-	1,214	-	-
Write-down of marketable securities	-	-	-	83
Other (income) expense	(3)	(44)	48	(94)
Net loss for the period	1,476	3,024	2,089	6,392
Net loss attributable to owners of Kaizen Discovery Inc.	1,460	2,997	2,089	6,392
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.01	0.02	0.01	0.04

	Quarter Ended			
	Sep-30 2015	Jun-30 2015	Mar-31 2015	Dec-31 2014
	\$	\$	\$	\$
Exploration expenses	1,742	1,014	848	210
Administrative expenses	810	1,026	1,153	1,865
Impairment of mineral properties	-	-	-	-
Share of (income) losses from joint venture	734	521	47	391
Gain on sale of project	-	-	-	(494)
(Gain) loss on foreign exchange	(73)	56	(149)	(16)
Write-down of other assets	-	-	-	-
Write-down of marketable securities	-	19	450	-
Other (income) expense	(159)	(96)	(22)	(82)
Net loss for the period	3,054	2,540	2,327	1,874
Net loss attributable to owners of Kaizen Discovery Inc.	3,054	2,540	2,327	1,874
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.02	0.02	0.01	0.01

The changes in the Company's financial results on a quarter-by-quarter basis are due primarily to fluctuations in the level of activity of Company's exploration programs, project acquisitions and administration. The

Company is a mineral exploration company and does not earn any revenue. The Company's current mineral property portfolio consists of exploration-stage projects in Peru and Canada.

In Q4 2015, the Company recorded an impairment loss totalling \$5.46 million on the Coppermine, Tanzilla, Pliny and Castle mineral properties.

Third Quarter Results – Three months ended September 30, 2016 (Q3 2016) compared to three months ended September 30, 2015 (Q3 2015)

The loss for Q3 2016 totaled \$1.48 million compared to \$3.05 million for Q3 2015.

Exploration expenses were \$0.48 million in Q3 2016 compared to \$1.74 million in Q3 2015. Q3 2016's exploration activity primarily related to the Pinaya Project, which was acquired in October 2015. In Q3 2015, the Coppermine project's exploration program accounted for substantially all of the exploration activity as the remainder of the Company's projects were inactive during that period.

Administration expenses decreased from \$0.81 million in Q3 2015 to \$0.71 million in Q3 2016. Lower wages and benefits, investor relations costs and office costs were partially offset by higher non-cash share-based compensation due to options granted in Q3 2016.

The Company's share of KZD Aspen Grove's loss was \$0.32 million in Q3 2016 (Q3 2015 - \$0.73 million). Q3 2016's activity included a \$0.19 million share of income related to British Columbia mineral exploration tax credits (Q3 2015 - \$Nil). Furthermore, the Aspen Grove Project's exploration program was more active in Q3 2015 compared to Q3 2016 as Q3 2016's program focused on the Ketchan area only and no geophysics was performed.

Year-To-Date Results – Nine months ended September 30, 2016 (YTD 2016) compared to nine months ended September 30, 2015 (YTD 2015)

The loss for YTD 2016 totalled \$6.59 million, compared to the loss of \$7.92 million for YTD 2015.

Exploration expenses were \$1.92 million for YTD 2016 compared to \$3.60 million for YTD 2015. Exploration activity in YTD 2016 primarily related to the Pinaya Project, whereas the Coppermine and Fairholme projects were the focus in YTD 2015. In Q1 2016, Kaizen provided its notice of withdrawal from the Fairholme Project in Australia due to a lack of encouraging exploration results. The Coppermine Project was inactive in YTD 2016, a consequence of the Section 51 application under the Mining Regulations of Nunavut.

Administration expenses of \$3.00 million in YTD 2016 were consistent with \$2.99 million in YTD 2015. Wages and benefits were higher in YTD 2016, mainly due to separation payments totaling \$0.71 million related to certain changes made to the Company's management and geological teams. This increase in wages and benefits was partially offset by lower non-cash share-based compensation, professional fees, and travel and investor relations costs.

The Company's share of KZD Aspen Grove's loss was \$0.50 million in YTD 2016 (YTD 2015 - \$1.30 million). YTD 2016's activity included a \$0.29 million share of income related to British Columbia mineral exploration tax credits (YTD 2015 - \$Nil). Furthermore, the Aspen Grove Project's exploration program was more active in YTD 2015 compared to YTD 2016. YTD 2016's program focused on the Ketchan area only, drilling was limited to 8 holes, compared to 13 holes in YTD 2015, and no geophysics work was performed.

In YTD 2016, the Company recorded a \$1.21 million (YTD 2015 - \$Nil) write-down of other assets. Due to the recourse available to the Company should it be required to settle potential obligations related to the Pinaya Project, an asset was recognized at the same time as the provision for these potential obligations and classified as other assets in the statement of financial position. On June 30, 2016, the Company filed a notice

of civil claim which has been contested by the counterparty. Under the applicable accounting rules, it is appropriate to record a \$1.21 million write-down of the asset, reducing the carrying amount to nil.

In YTD 2015, the Company recorded an impairment loss on marketable securities of \$0.47 million. The market value of Alecto Minerals PLC's common shares declined in 2015, which negatively impacted the carrying value of the approximate 55 million shares held by the Company. No such impairment loss was recorded in YTD 2016.

Liquidity and Capital Resources

At September 30, 2016, the Company had consolidated cash of \$0.87 million (December 31, 2015 - \$0.91 million), excluding cash of \$0.34 million (December 31, 2015 - \$0.79 million) held by KZD Aspen Grove, the joint venture interest that holds the Aspen Grove project. The Company holds its cash in interest-bearing accounts with creditworthy financial institutions.

The primary use of cash during the nine months ended September 30, 2016 was funding operating activities of \$5.0 million (2015 – \$6.2 million). During the same period, cash provided by financing activities comprised draws totalling approximately \$4.3 million on the unsecured, revolving loan facility with majority shareholder HPX and the receipt of \$625,000 from ITOCHU as the first payment under the strategic financing agreement for the Pinaya Project.

Under the terms of the Loan Agreement, HPX made available to the Company an unsecured, revolving loan facility of up to \$5.0 million ("Loan Facility"). On September 15, 2016, the Company and HPX agreed to settle the full amount of principal and interest owing on the Loan Facility, totaling approximately \$5.07 million, by issuing 32,210,460 common shares of the Company to HPX at a price of \$0.1575 per share, representing a 25% discount to the Company's closing share price of \$0.21 on September 15, 2016. The transaction was completed on September 23, 2016.

On November 10, 2016, Kaizen announced that it will conduct a Rights Offering to raise gross proceeds of approximately \$7.3 million. The key terms of the Rights Offering are disclosed in the "Corporate Activities" section of this MD&A, including the termination of the Loan Facility upon fulfillment of the standby commitment by HPX and completion of the Rights Offering.

At September 30, 2016, the Company believes that it has adequate resources to maintain its minimum obligations, including general corporate activities, based on a combination of its cash position, the expected proceeds from the Rights Offering, the collaborative working arrangement with partner ITOCHU and the ability to pursue additional sources of financing, including equity placements.

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

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2016, the Company was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, capital expenditures, liquidity or capital resources of the Company.

Related Party Transactions

(Tabular amounts are expressed in thousands of Canadian dollars)

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

Expenses, receivables, deposits and accounts payable

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries and benefits	536	915	2,481	2,271
Corporate administration	85	138	341	439
Exploration and geophysical activities	15	-	74	4
Total related party expenses	636	1,053	2,896	2,714

The breakdown of expenses by related party is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
GMM	611	1,053	2,753	2,710
HPX	25	-	143	4
Total related party expenses	636	1,053	2,896	2,714

The transactions with Global Mining Management Corporation ("GMM") noted above for the three and nine month periods ended September 30, 2016 include approximately \$170,000 (2015 - \$194,000) and \$254,000 (2015 - \$399,000) of expenses incurred by KZD Aspen Grove, and the Company's share of losses from joint venture includes 60% of these expenses.

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

	September 30, 2016	December 31, 2015
	\$	\$
Receivables and Deposits		
Receivables		
KZD Aspen Grove	379	12
Deposits		
GMM	450	450
Total related party receivables and deposits	829	462

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

Accounts Payable	September 30, 2016	December 31, 2015
	\$	\$
GMM	145	236
HPX	143	18
Key management personnel, directors and officers	42	-
Total related party payables	330	254

- (i) GMM is a private company based in Vancouver owned equally by eight companies, one of which is the Company, and has officers in common with the Company. GMM provides administration, accounting, and other office services to the Company on a cost-recovery basis.
- (ii) HPX is the Company's privately-owned parent, holding 66.8% of the Company's common shares at September 30, 2016 (December 31, 2015 – 60.7%). Costs incurred by HPX on behalf of the Company are reimbursed on a cost-recovery basis.
- (iii) Amounts owed to key management personnel, directors and officers comprise outstanding remuneration.
- (iv) The Company is the operator of the Aspen Grove Project, and the receivable balance represents unpaid reimbursements for expenses paid by the Company on behalf of KZD Aspen Grove and management fees. For the three and nine month periods ended September 30, 2016, management fees of approximately \$66,000 (2015 - \$110,000) and \$101,000 (2015 - \$195,000) were earned by the Company as the project's operator.

Compensation of key management personnel

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries and benefits	258	238	1,422	963
Share-based compensation	149	100	264	472
Total remuneration	407	338	1,686	1,435

Salaries and benefits for key management personnel include separation payments totaling approximately \$627,000 that were recognized in the three months ended March 31, 2016.

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

Outstanding Share Data

At November 14, 2016, the Company had a total of 207,574,977 common shares issued and outstanding. There were also 9,961,000 stock options outstanding with a weighted average exercise price of \$0.50 per

share. Each stock option is exercisable to purchase a common share of the Company at prices ranging from \$0.155 to \$1.57 per common share.

Changes in Accounting Policies Including Initial Adoption

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2016, and have not been applied in preparing the condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2016. The following standards may have a potential effect on the consolidated financial statements of the Company.

- a) IFRS 9, *Financial Instruments*, replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.
- b) IFRS 15, *Revenue from Contracts with Customers*, establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management is currently assessing the potential impact of this standard.
- c) IFRS 16, *Leases*, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. Other areas of the lease accounting model have been impacted, including the definition of a lease. Management is currently assessing the potential impact of this standard.

Financial Instruments

(Tabular amounts are expressed in thousands of Canadian dollars)

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

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

The carrying values of cash, receivables, other assets, accounts payable and accrued liabilities and the Loan Facility approximate their fair values. Marketable securities are measured at fair value using level 1 inputs. The option liability is measured at cost.

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

	September 30, 2016	December 31, 2015
	\$	\$
Financial assets		
Loans and receivables		
Cash	872	912
Receivables	383	155
Other assets	141	1,400
Available-for-sale		
Marketable securities	101	95
Total financial assets	1,497	2,562
Financial liabilities		
Accounts payable and accrued liabilities	613	677
Loan facility	-	700
Option liability	250	250
Total financial liabilities	863	1,627

The Company's exposures to financial risks and how the Company manages each of those risks are described in the Company's MD&A for the year ended December 31, 2015. There were no significant changes to the Company's exposures to those risks or to the Company's management of its risk exposures during the nine month period ended September 30, 2016.

Risk Factors

The Company is engaged in mineral exploration and development activities which, by nature, are speculative. Due to the high-risk nature of the Company's business and the present stage of the Company's various projects, an investment in the Company's common shares should be considered a highly speculative investment that involves significant financial risks. Prospective investors should carefully consider all of the information disclosed in this MD&A and the Company's other public disclosures, including the risks disclosed in the "Risk Factors" section of the Company's MD&A for the year ended December 31, 2015, prior to making any investment in the Company's common shares.

Qualified Person

Disclosure of a scientific or technical nature in this MD&A with respect to the following projects has been reviewed and approved by a Qualified Person, as that term is defined in NI 43-101:

- a) Pinaya Project – The scientific and technical information in this MD&A related to the Pinaya Project has been reviewed and verified by Charles Forster, P.Geo., Kaizen's Vice President, Exploration, a Qualified Person under the terms of NI 43-101. Mr. Forster is not independent of Kaizen.

The Mineral Resources disclosed in this MD&A for the Pinaya project are reported in the NI 43-101 Technical Report dated April 26, 2016, "Pinaya Gold-Copper Project Technical Report" (the "Technical Report") prepared jointly by Brian Cole, P.Geo. and Ronald G. Simpson, P.Geo. (Geosim Services Inc.).

- b) Aspen Grove Project – The scientific and technical information in this MD&A for the Aspen Grove project has been reviewed and approved by Nils Peterson, M.Sc., P.Geo., a geological consultant for Kaizen. Mr. Peterson is not independent of Kaizen.