KAIZEN DISCOVERY

Condensed Interim Consolidated Financial Statements of

Kaizen Discovery Inc.

June 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		June 30, 2016		December 31, 2015
Assets					
Current assets					
Cash		$	**1,945**	$	912
Receivables	15		**485**		329
Prepaid expenses and deposits	15		**513**		466
Total current assets			**2,943**		1,707
Non-current assets					
Mineral properties	4		**3,550**		3,585
Joint venture interest	5		**3,861**		4,040
Property, plant and equipment			**70**		70
Marketable securities	6		**101**		95
Other assets	9		**141**		1,400
Total assets		$	**10,666**	$	10,897
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	**498**	$	677
Loan facility	7		**5,041**		700
Option liability	8		**250**		250
Total current liabilities			**5,789**		1,627
Non-current liabilities					
Provision	9		**1,188**		1,260
Total liabilities		$	**6,977**	$	2,887
Equity					
Share capital	10	$	**33,963**	$	33,963
Share-based payment reserve	13		**3,356**		3,161
Other reserves			**582**		-
Accumulated other comprehensive loss			**(43)**		(17)
Accumulated deficit			**(34,183)**		(29,097)
Equity attributable to owners of Kaizen Discovery Inc.			**3,675**		8,010
Non-controlling interest			**14**		-
Total equity		$	**3,689**	$	8,010
Total liabilities and equity		$	**10,666**	$	10,897

Description of business and going concern (Note 1)
Approved and authorized for issue on behalf of the Board on August 24, 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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Operating expenses					
Exploration expenses	11	**$ (773)**	$ (1,014)	**$ (1,437)**	$ (1,862)
Administrative expenses	12	**(912)**	(1,026)	**(2,295)**	(2,179)
Share of losses from joint venture	5	**(159)**	(521)	**(179)**	(568)
Loss from operations		**(1,844)**	(2,561)	**(3,911)**	(4,609)
Other income / (expenses)					
Management fees	15	**31**	83	**35**	88
(Loss) gain on foreign exchange		**(10)**	(56)	**16**	93
Interest income		**6**	13	**8**	30
Interest expense		**(33)**	-	**(41)**	-
Write-down of other assets	9	**(1,214)**	-	**(1,214)**	-
Write-down of marketable securities		**-**	(19)	**-**	(469)
Other income (expense)		**40**	-	**(6)**	-
Loss before income taxes		**(3,024)**	(2,540)	**(5,113)**	(4,867)
Income taxes		**-**	-	**-**	-
Net loss for the period		**(3,024)**	(2,540)	**(5,113)**	(4,867)
Other comprehensive (loss) income					
Items that may be reclassified subsequently to profit or loss:					
Unrealized gain (loss) on marketable securities	6	**(14)**	-	**6**	-
Currency translation adjustment		**(43)**	19	**(34)**	13
Total other comprehensive (loss) income for the period		**$ (57)**	$ 19	**$ (28)**	$ 13
Total comprehensive loss for the period		**$ (3,081)**	$ (2,521)	**$ (5,141)**	$ (4,854)
Net loss attributable to:					
Owners of Kaizen Discovery Inc.		**$ (2,997)**	$ (2,540)	**$ (5,086)**	$ (4,867)
Non-controlling interest		**(27)**	-	**(27)**	-
Net loss for the period		**$ (3,024)**	$ (2,540)	**$ (5,113)**	$ (4,867)
Total comprehensive loss attributable to:					
Owners of Kaizen Discovery Inc.		**$ (3,052)**	$ (2,521)	**$ (5,112)**	$ (4,854)
Non-controlling interest		**(29)**	-	**(29)**	-
Total comprehensive loss for the period		**$ (3,081)**	$ (2,521)	**$ (5,141)**	$ (4,854)
Loss per share (basic and diluted)		**$ (0.02)**	$ (0.02)	**$ (0.03)**	$ (0.03)
Weighted average number of basic and diluted shares outstanding		**175,364,517**	157,979,902	**175,364,517**	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) / income	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	-	-	-	-	-	(4,867)	(4,867)	-	(4,867)
Other comprehensive loss	-	-	-	-	13	-	13	-	13
Share-based compensation	-	-	567	-	-	-	567	-	567
Balance at June 30, 2015	**157,979,902**	**$ 31,809**	**$ 2,759**	**$ -**	**$ (26)**	**$ (19,651)**	**$ 14,891**	**$ -**	**$ 14,891**
Balance at December 31, 2015	**175,364,517**	**$ 33,963**	**$ 3,161**	**$ -**	**$ (17)**	**$ (29,097)**	**$ 8,010**	**$ -**	**$ 8,010**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**(5,086)**	**(5,086)**	**(27)**	**(5,113)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(26)**	**-**	**(26)**	**(2)**	**(28)**
Share-based compensation	**-**	**-**	**195**	**-**	**-**	**-**	**195**	**-**	**195**
Non-controlling interest's investment in subsidiary	**-**	**-**	**-**	**582**	**-**	**-**	**582**	**43**	**625**
Balance at June 30, 2016	**175,364,517**	**$ 33,963**	**$ 3,356**	**$ 582**	**$ (43)**	**$ (34,183)**	**$ 3,675**	**$ 14**	**$ 3,689**

See accompanying notes to the condensed interim consolidated financial statements.

Kaizen Discovery Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	Six months ended June 30, 2016	2015
Operating activities			
Net loss for the period		**$ (5,113)**	$ (4,867)
Adjustments for non-cash items:			
Share-based compensation		**195**	567
Share of losses from joint venture		**179**	568
Write-down of other assets	9	**1,214**	-
Write-down of marketable securities		**-**	469
Other expense		**6**	-
Gain on unrealized foreign exchange		**(29)**	(95)
Changes in non-cash working capital items:			
Receivables		**(162)**	(134)
Prepaid expenses and deposits		**(47)**	(29)
Accounts payable and accrued liabilities		**(175)**	(378)
Loan facility		**41**	-
Cash used in operating activities		**$ (3,891)**	$ (3,899)
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**	-
Cash from financing activities		**$ 4,925**	$ -
Effect of foreign exchange rate changes on cash		**$ (1)**	$ 111
Increase (decrease) in cash		**1,033**	(3,866)
Cash, beginning of period		**912**	8,308
Cash, end of period		**$ 1,945**	$ 4,442

See accompanying notes to the condensed interim consolidated financial statements.

1. Description of business and going concern

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

At June 30, 2016, HPX TechCo Inc. ("HPX"), the Company's privately owned parent, held 60.7% (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 six months ended June 30, 2016, the Company had no operating revenues and incurred losses of $3.0 million and $5.1 million. At June 30, 2016, the Company had consolidated cash of $1.9 million (December 31, 2015 - $0.9 million), excluding cash of $1.0 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 June 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 potential ongoing support provided by its majority shareholder HPX, 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 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.

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

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 $3.55 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, within two years of the initial payment. The Company recently signed surface-rights agreements with local landholders, securing access to key, prospective parts of the project area.

- The third payment of ITOCHU's investment is conditional on the Company obtaining the necessary environmental permits, water and electricity rights 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 June 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) 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 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.

(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 June 30, 2016:

		June 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		**(179)**		(878)
Carrying amount at end of period	**$**	**3,861**	$	4,040

6. Marketable securities

	Number of Shares		December 31, 2015		Unrealized (losses) / gains		**June 30, 2016**
Alecto Minerals plc	54,996,857	$	79	$	(3)	**$**	**76**
Other			16		9		**25**
		$	95	$	6	**$**	**101**

7. Loan facility

In 2013, the Loan Facility was established by HPX as part of the reverse take-over transaction that established the Company. 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, which may be increased by HPX from time to time. There are no restrictions on the use of amounts drawn down on the Loan Facility.

In December 2015, the Company made an initial draw of $0.7 million on the Loan Facility. Further draws of $1.0 million, $2.0 million and $1.3 million were made in February, April and May 2016 respectively. At June 30, 2016, the Loan Facility was fully drawn down.

Interest is charged at 3% per annum, compounded monthly, on the outstanding principal balance plus all accrued unpaid interest thereon. For the three and six months ended June 30, 2016, interest expense of approximately $33,000 (2015 - $Nil) and $41,000 (2015 - $Nil) was accrued on the Loan Facility.

The outstanding principal balance plus all accrued unpaid interest thereon is repayable in full by the Company within 90 days of demand, and the Company may prepay any amount of the outstanding balance, without bonus or penalty, by providing 10 days advance written notice to HPX.

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 June 30, 2016, the provision's carrying amount was $1.19 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 is appropriate to record a $1.21 million write down of the asset, 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 June 30, 2016, the Company had 175,364,517 common shares issued and outstanding (December 31, 2015 – 175,364,517).

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

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

11. Exploration expenses

Exploration expenses are summarized as follows:

	Three months ended June 30, **2016**	Three months ended June 30, 2015	Six months ended June 30, **2016**	Six months ended June 30, 2015
Wages and consultants	**$ 252**	$ 428	**$ 584**	$ 682
Drilling	**-**	7	**-**	300
Assay	**-**	-	**-**	106
Share-based compensation	**24**	51	**50**	133
Fees and taxes	**259**	168	**421**	255
Geophysics	**-**	4	**-**	(33)
Camp	**23**	107	**41**	138
Travel	**25**	6	**36**	20
Aircraft	**-**	233	**-**	233
Professional fees	**76**	-	**145**	2
Demobilization	**60**	-	**60**	-
Environmental	**27**	-	**27**	-
Other	**27**	10	**73**	26
	$ 773	$ 1,014	**$ 1,437**	$ 1,862

Exploration expenses were allocated to the following projects:

	Three months ended June 30, **2016**	Three months ended June 30, 2015	Six months ended June 30, **2016**	Six months ended June 30, 2015
Pinaya	**$ 521**	$ -	**$ 975**	$ -
Coppermine	**139**	536	**258**	664
Fairholme	**9**	63	**18**	610
Ebende	**-**	182	**2**	244
General exploration	**104**	233	**184**	344
	$ 773	$ 1,014	**$ 1,437**	$ 1,862

Management fees of $3,000 for the three and six months ended June 30, 2015 have been reclassified from the exploration expenses category called other to management fees in the statement of loss to conform with the current period's presentation.

(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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Wages and benefits	**$ 435**	$ 376	**$ 1,575**	$ 837
Share-based compensation	**94**	206	**145**	434
Professional fees	**188**	155	**210**	314
Office	**99**	81	**192**	253
Travel	**34**	80	**59**	138
Fees and taxes	**37**	27	**60**	42
Investor relations	**8**	41	**19**	64
Insurance	**13**	44	**24**	99
Rental	**-**	6	**-**	21
Other	**4**	10	**11**	(23)
	$ 912	$ 1,026	**$ 2,295**	$ 2,179

Management fees of approximately $80,000 and $85,000 for the three and six months ended June 30, 2015 have been reclassified from the administrative expenses category called other to management fees in the statement of loss to conform with the current period's presentation.

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 six months ended June 30, 2016 are as follows:

	Six months ended June 30, 2016		Six months ended June 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	**-**	**-**	3,355,000	0.30
Expired	**(190,000)**	**0.87**	(333,700)	0.82
Forfeited	**(800,000)**	**0.55**	(480,000)	0.63
Outstanding, end of period	**12,081,000**	**$ 0.54**	14,131,000	$ 0.58
Exercisable, end of period	**6,987,250**	**$ 0.57**	5,904,750	$ 0.65

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

13. Share-based compensation (continued)

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

	Options outstanding		Options exercisable	
Exercise price ($ per share)	Number of stock options	Weighted average remaining contractual life (years)	Number of stock options	Weighted average remaining contractual life (years)
0.16	475,000	4.4	118,750	4.4
0.30	3,045,000	3.6	1,522,500	3.6
0.51	175,000	3.1	70,000	3.1
0.63	7,450,000	2.5	4,590,000	2.5
0.66	325,000	2.6	195,000	2.6
0.67	300,000	2.8	180,000	2.8
0.90	225,000	0.1	225,000	0.1
1.48	10,000	0.2	10,000	0.2
1.57	76,000	0.5	76,000	0.5
	12,081,000	2.8	6,987,250	2.7

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:

	June 30, 2016	December 31, 2015
Financial assets		
Loans and receivables		
Cash	**$ 1,945**	$ 912
Receivables	**202**	155
Other assets	**141**	1,400
Available-for-sale		
Marketable securities	**101**	95
Total financial assets	**$ 2,389**	$ 2,562
Financial liabilities		
Accounts payable and accrued liabilities	**$ 498**	$ 677
Loan facility	**5,041**	700
Option liability	**250**	250
Total financial liabilities	**$ 5,789**	$ 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.

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

14. Financial instruments (continued)

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. 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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Salaries and benefits	**$ 599**	$ 824	**$ 1,945**	$ 1,356
Corporate administration	**159**	192	**256**	301
Exploration and geophysical activities	**39**	27	**59**	4
Total related party expenses	**$ 797**	$ 1,043	**$ 2,260**	$ 1,661

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
GMM	**$ 699**	$ 1,016	**$ 2,142**	$ 1,657
HPX	**98**	27	**118**	4
Total related party expenses	**$ 797**	$ 1,043	**$ 2,260**	$ 1,661

The transactions with Global Mining Management Corporation ("GMM") noted above for the three and six months ended June 30, 2016 include approximately $45,000 (2015 - $159,000) and $84,000 (2015 - $205,000) 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:

	June 30, 2016	December 31, 2015
Receivables		
KZD Aspen Grove	**$ 80**	$ 12
Deposits		
GMM	**450**	450
Total related party receivables and deposits	**$ 530**	$ 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.

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

15. Related party transactions (continued)

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

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

		June 30, 2016		December 31, 2015
Accounts payable				
GMM	**$**	**156**	$	236
HPX		**118**		18
Key management personnel, directors and officers		**8**		-
Total related party payables	**$**	**282**	$	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 60.7% of the Company's common shares at June 30, 2016 (December 31, 2015 – 60.7%). In 2015, HPX planned and managed the Company's geophysical exploration programs in Africa and Australia. HPX's services are provided to the Company on a cost recovery plus 12% markup basis.

(iii) Amounts owed to key management personnel include outstanding salaries and expense reimbursements.

(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 six months ended June 30, 2016, management fees of $31,000 (2015 – $80,000) and $35,000 (2015 - $85,000) 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 June 30,				**Six months ended June 30,**			
		2016		2015		**2016**		2015
Salaries and benefits	**$**	**212**	$	439	**$**	**1,164**	$	725
Share-based compensation		**81**		146		**115**		372
Total remuneration	**$**	**293**	$	585	**$**	**1,279**	$	1,097

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

Management's Discussion and Analysis

June 30, 2016

As at August 24, 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 the reader's 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 for the three and six month periods ended June 30, 2016 (the "financial statements"), MD&A for the year ended December 31, 2015 and audited consolidated financial statements and notes for the year ended December 31, 2015.

All information contained in this MD&A is current as of August 24, 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: receipt of the second and third payments by ITOCHU in respect of its funding of the Pinaya Copper-Gold Project; Kaizen providing matching funding of up to $2.5 million for the Pinaya Copper-Gold Project; the commencement of field work at the Pinaya Copper-Gold Project once land access agreements and community approvals have been finalized; the expected release of results for the 4,000 metre drilling program at the Ketchan prospect by the end of the third quarter; 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 you understand management's current views of the Company's near and longer term prospects, and it may not be appropriate for other purposes. Kaizen will not update any forward-looking statements or forward-looking information unless required to by applicable securities laws.

The forward looking statements contained herein are based on information available and are made as of August 24, 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 had to endure for the past several years, management has recognized the need to safeguard the Company's treasury and to advance its 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

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 (the "Pinaya 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 Ltd., 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. Kaizen recently signed surface rights agreements with local landholders, securing access to key prospective parts of the project area.

- 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 permits, water and electricity rights 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 Company's 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) 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 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.

Board of Directors and Management Changes

On April 1, 2016, Kaizen announced the appointment of Eric Finlayson as Chief Executive Officer ("CEO"), on an interim basis, following the resignation of B. Matthew Hornor as CEO, President and a member of the Board of Directors on March 31, 2016.

On May 2, 2016, Kaizen announced the appointments of Charlie Forster as Vice President, Exploration; Mark Gibson as Chief Operating Officer; and Sam Riggall as Commercial Advisor. These appointments followed the resignations of Dr. David Broughton, Executive Vice President, Exploration and Anthony Abbenante, Vice President, on April 30, 2016.

On June 30, 2016, Kaizen announced that Eric Finlayson, Richard Cohen, David Boehm, David Korbin and Ignacio Rosado were elected to the board of directors for the first time at the Company's annual general and special meeting, while David Huberman and Terry Krepiakevich were re-elected to the board. Peter Meredith, Ali Zamani, Akiko Levinson and Dr. Kuang Ine Lu did not stand for re-election.

Exploration Activities

Pinaya Project, Peru

The Pinaya Project covers 192 km^2 and includes 28 kilometres of strike length within the Andahuaylas-Yauri Porphyry Belt in southeastern Peru. This belt hosts numerous productive and world-scale porphyry and skarn systems, including Las Bambas, Tintaya, Constancia and Haquira.

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

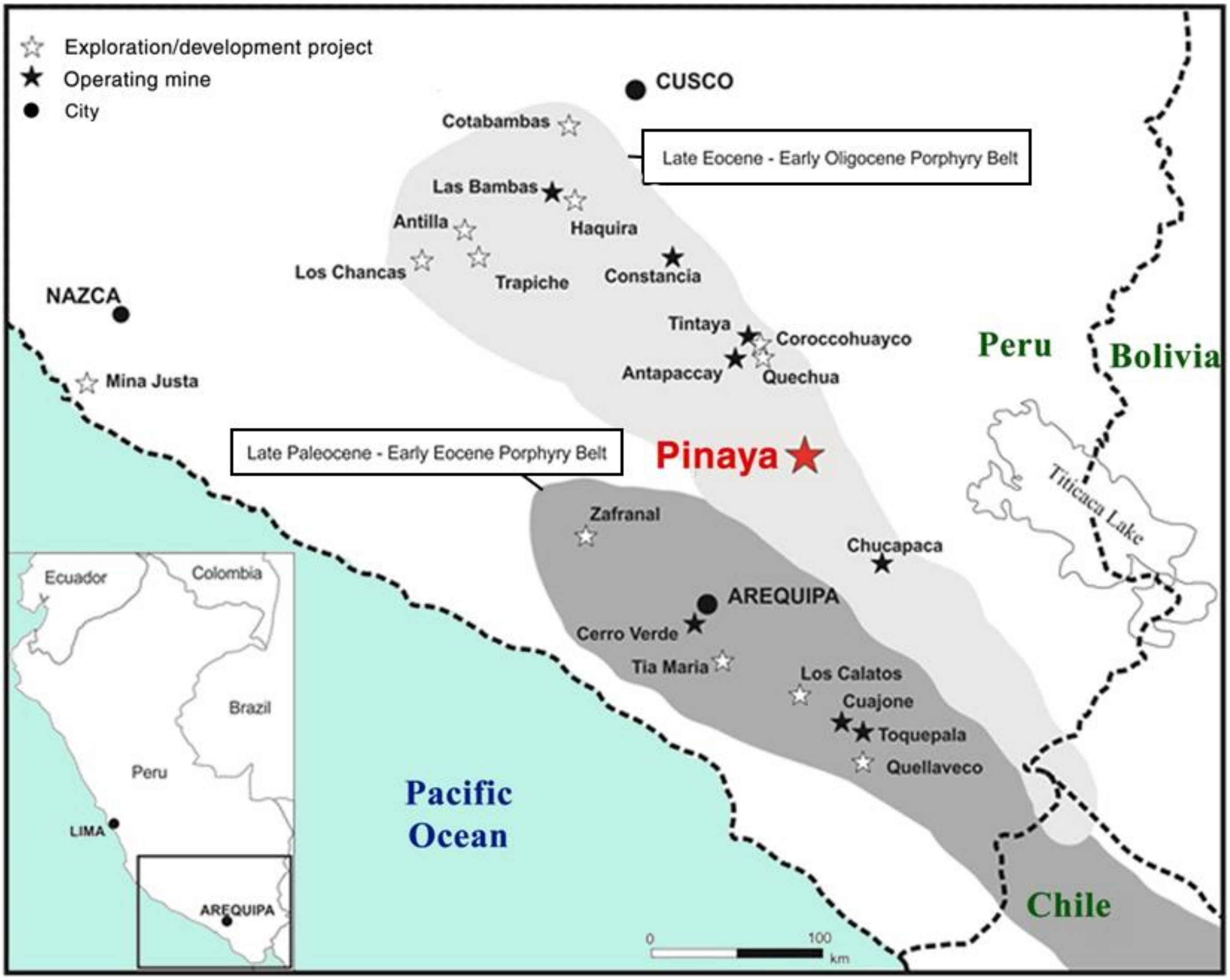
The Pinaya Project contains Mineral Resources within three contiguous mineralized zones over a 1.7 kilometre strike in the central part of the property. The first two zones, referred to as the Western ("WPZ") and Northwestern ("NWPZ") porphyry zones, hold Measured and Indicated Resources of 35.1 million 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.

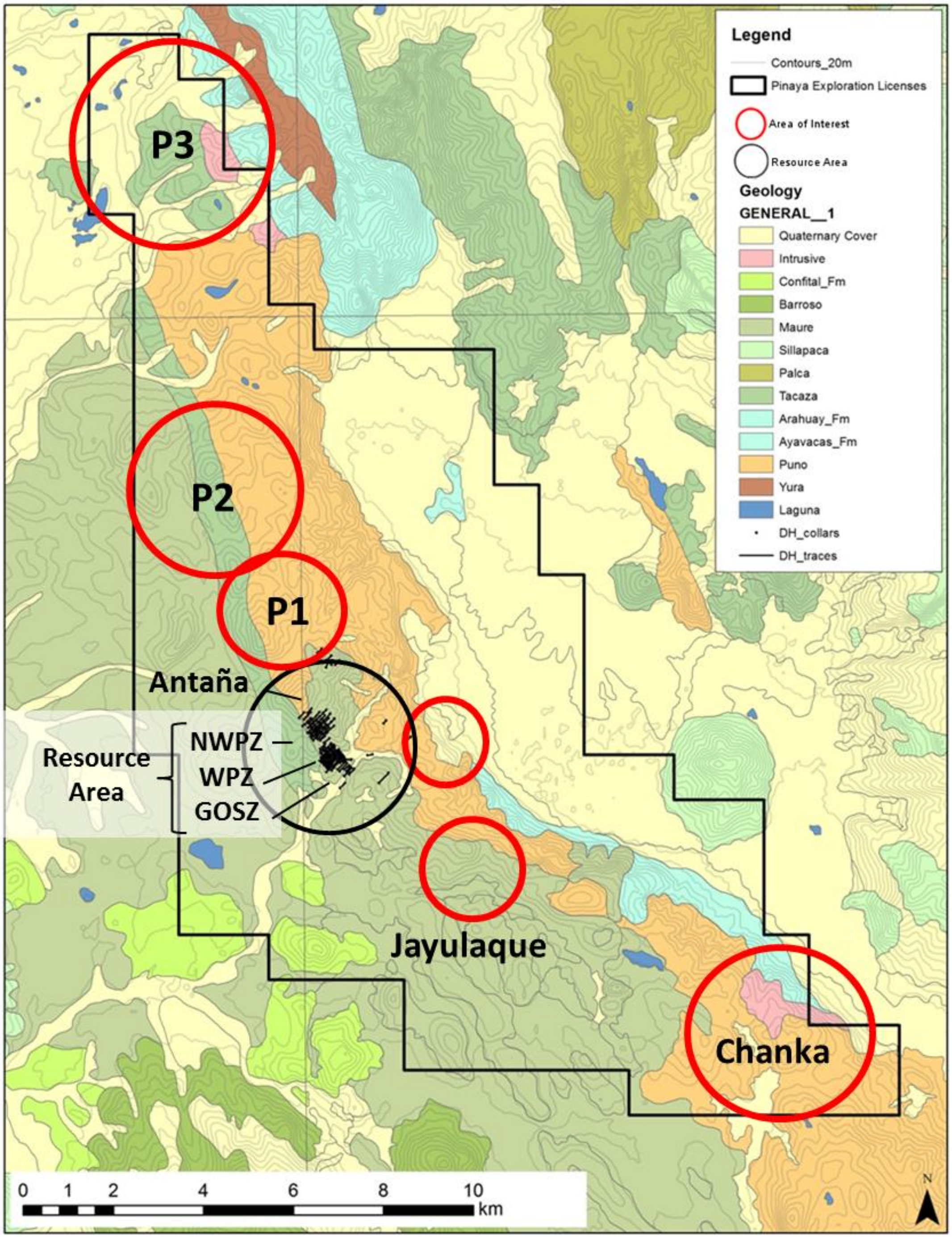
Previous exploration on the property was focused mainly on defining the current Mineral Resources and much less on systematic regional exploration. Kaizen has reviewed existing geochemical and geophysical surveys and has identified multiple untested targets along and across the strike of the current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

Kaizen plans to commence field work at the Pinaya property once land access agreements and community approvals have been finalized. An initial exploration program is planned to include re-logging of existing drill core, a detailed mapping program over the property, further regional-scale sampling of areas insufficiently explored in the past, and potentially an induced polarization survey over certain priority targets.

Location of the Pinaya Copper-Gold Project in Peru.



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



Pinaya camp facilities May 6, 2016.

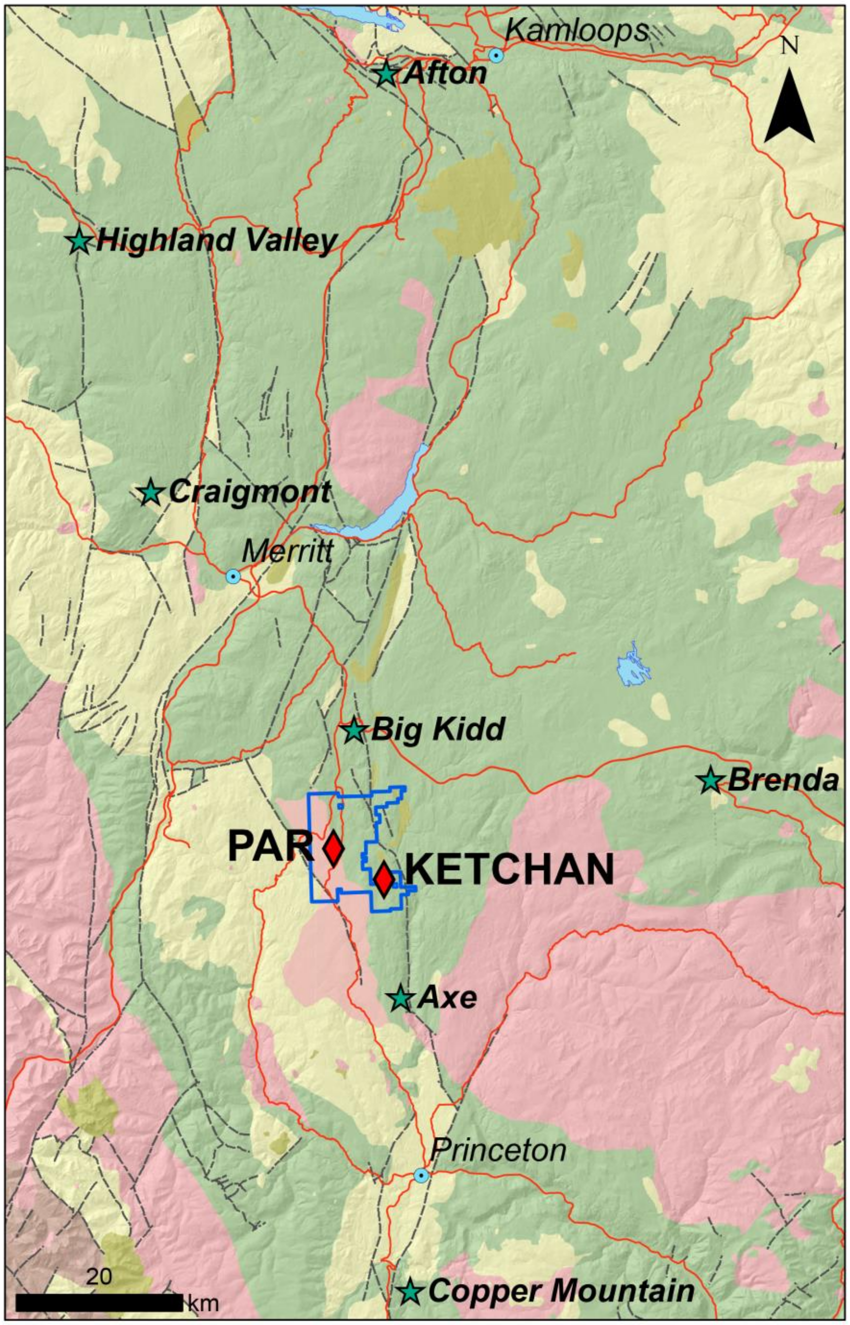
Kaizen team inspecting an undrilled prospect at Pinaya, May 6, 2016.

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 km^2 (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 km^2) 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 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. Throughout the Ketchan porphyry system, moderate-to-strong magnetic anomalies and weak-to-moderate chargeability anomalies are associated with strongest mineralization. Drilling in 2015 revealed the presence of a complex zone of magnetically destructive alteration (e.g. sericite+pyrite+/-quartz) and varying lithologies (e.g. volcaniclastic breccias) 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.

A 4,000-metre drilling program at Ketchan commenced in early June 2016. Results are expected to be released by the end of the third quarter once all assays have been received.

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 km^2 as well as eleven prospecting permits totalling 1,886 km^2. 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 April 29, 2016, Kaizen submitted a Section 51 application under the Mining Regulations to the Mining Recorder for the Territory of Nunavut. 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.

Other Exploration Projects

On March 21, 2016, Kaizen provided its notice of withdrawal from the two exploration licences which comprise the Fairholme Project in Australia, due to a lack of encouraging exploration results. Currently one exploration licence remains to be fully processed and returned to the joint venture partner.

Exploration Expenses

(Tabular amounts are expressed in thousands of Canadian dollars)

Exploration expenses are summarized by project as follows:

	Three months ended June 30, 2016					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	$	$	$	$	$	$
Wages and consultants	93	71	8	-	80	252
Drilling	-	-	-	-	-	-
Assay	-	-	-	-	-	-
Share-based compensation	-	-	-	-	24	24
Fees and taxes	257	1	1	-	-	259
Geophysics	-	-	-	-	-	-
Camp	13	6	2	-	2	23
Travel	25	-	-	-	-	25
Aircraft charter	-	-	-	-	-	-
Professional fees	76	-	-	-	-	76
Demobilization	-	60	-	-	-	60
Environmental	27	-	-	-	-	27
Other	30	1	(2)	-	(2)	27
	521	139	9	-	104	773

	Three months ended June 30, 2015					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	$	$	$	$	$	$
Wages and consultants	-	202	38	6	182	428
Drilling	-	-	7	-	-	7
Assay	-	-	-	-	-	-
Share-based compensation	-	-	-	-	51	51
Fees and taxes	-	(11)	2	176	1	168
Geophysics	-	-	4	-	-	4
Camp	-	106	1	-	-	107
Travel	-	6	1	-	(1)	6
Aircraft charter	-	233	-	-	-	233
Professional fees	-	-	-	-	-	-
Demobilization	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Other	-	-	10	-	-	10
	-	536	63	182	233	1,014

	Six months ended June 30, 2016					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	$	$	$	$	$	$
Wages and consultants	307	124	14	2	137	584
Drilling	-	-	-	-	-	-
Assay	-	-	-	-	-	-
Share-based compensation	-	-	-	-	50	50
Fees and taxes	353	66	2	-	-	421
Geophysics	-	-	-	-	-	-
Camp	30	6	3	-	2	41
Travel	36	-	-	-	-	36
Aircraft charter	-	-	-	-	-	-
Professional fees	145	-	-	-	-	145
Demobilization	-	60	-	-	-	60
Environmental	27	-	-	-	-	27
Other	77	2	(1)	-	(5)	73
	975	258	18	2	184	1,437

	Six months ended June 30, 2015					
	Pinaya	Coppermine	Fairholme	Ebende	Other	Total
	$	$	$	$	$	$
Wages and consultants	-	330	149	6	197	682
Drilling	-	-	300	-	-	300
Assay	-	-	106	-	-	106
Share-based compensation	-	-	-	-	133	133
Fees and taxes	-	(11)	47	218	1	255
Geophysics	-	-	(51)	18	-	(33)
Camp	-	106	32	-	-	138
Travel	-	6	5	-	9	20
Aircraft charter	-	233	-	-	-	233
Professional fees	-	-	-	2	-	2
Demobilization	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Other	-	-	22	-	4	26
	-	664	610	244	344	1,862

Summary of Quarterly Results

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

	Quarter Ended			
	Jun-30 2016	Mar-31 2016	Dec-31 2015	Sep-30 2015
	$	$	$	$
Exploration expenses	773	664	354	1,742
Administrative expenses	912	1,383	976	810
Impairment of mineral properties	-	-	5,461	-
Share of (income) losses from joint venture	159	20	(424)	734
Gain on sale of project	-	-	-	-
(Gain) loss on foreign exchange	10	(26)	36	(73)
Write-down of other assets	1,214	-	-	-
Write-down of marketable securities	-	-	83	-
Other (income) expense	(44)	48	(94)	(159)
Net loss for the period	3,024	2,089	6,392	3,054
Net loss attributable to owners of Kaizen Discovery Inc.	2,997	2,089	6,392	3,054
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.02	0.01	0.04	0.02

	Quarter Ended			
	Jun-30 2015	Mar-31 2015	Dec-31 2014	Sep-30 2014
	$	$	$	$
Exploration expenses	1,014	848	210	1,594
Administrative expenses	1,026	1,153	1,865	1,200
Impairment of mineral properties	-	-	-	-
Share of (income) losses from joint venture	521	47	391	117
Gain on sale of project	-	-	(494)	-
(Gain) loss on foreign exchange	56	(149)	(16)	(148)
Write-down of other assets	-	-	-	-
Write-down of marketable securities	19	450	-	-
Other (income) expense	(96)	(22)	(82)	(162)
Net loss for the period	2,540	2,327	1,874	2,601
Net loss attributable to owners of Kaizen Discovery Inc.	2,540	2,327	1,874	2,601
Loss per share attributable to owners of Kaizen Discovery Inc. (basic and diluted)	0.02	0.01	0.01	0.02

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.

Second Quarter Results – Three months ended June 30, 2016 (Q2 2016) compared to three months ended June 30, 2015 (Q2 2015)

The loss for Q2 2016 totaled $3.02 million compared to $2.54 million for Q2 2015.

Exploration expenses were $0.77 million in Q2 2016 compared to $1.01 million in Q2 2015. Q2 2016's activity primarily related to the Pinaya Project, which was acquired in October 2015. In Q2 2015, exploration expenditures mainly related to the initiation of work at the Coppermine Project and exploration license fees related to the Ebende Project. The Ebende exploration licenses were relinquished in Q1 2016.

Administration expenses decreased from $1.03 million in Q2 2015 to $0.91 million in Q2 2016. Lower non-cash share-based compensation, travel and investor-relations costs were partially offset by higher wages and professional fees.

The Company's share of KZD Aspen Grove's loss was $0.16 million in Q2 2016 (Q2 2015 - $0.52 million). Q2 2016's activity included a $0.08 million share of income related to British Columbia mineral exploration tax credits (Q2 2015 - $Nil). Furthermore, the Aspen Grove Project's exploration program was more active in Q2 2015 compared to Q2 2016 as the exploration work in Q2 2016 focused on the Ketchan area only.

In Q2 2016, the Company recorded a $1.21 million (Q2 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.

Year-To-Date Results – Six months ended June 30, 2016 (YTD 2016) compared to six months ended June 30, 2015 (YTD 2015)

The loss for YTD 2016 totalled $5.11 million, compared to the loss of $4.87 million for YTD 2015.

Exploration expenses were $1.44 million for YTD 2016, compared to $1.86 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 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's exploration program was inactive in YTD 2016, a consequence of the Company's Section 51 application.

Administration expenses of $2.30 million in YTD 2016 were consistent with $2.18 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, travel and office costs. Non-cash share-based compensation was lower in YTD 2016 compared to YTD 2015 as there were no option grants in YTD 2016.

The Company's share of KZD Aspen Grove's loss was $0.18 million in YTD 2016 (YTD 2015 - $0.57 million). YTD 2016's activity included a $0.10 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 Q2 2015 compared to Q2 2016 as the exploration work in Q2 2016 focused on the Ketchan area only.

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 June 30, 2016, the Company had consolidated cash of $1.95 million (December 31, 2015 - $0.91 million), excluding cash of $1.01 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 six months ended June 30, 2016 was funding operating activities of $3.9 million (2015 – $3.9 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 TechCo Inc. ("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 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"), which may be increased by HPX from time to time. There are no restrictions on the use of amounts drawn down on the Loan Facility.

At June 30, 2016, the Company had received the full $5.0 million principal amount available under the Loan Facility. The outstanding principal balance plus all accrued unpaid interest thereon is repayable in full by the Company within 90 days of demand, and the Company may prepay any amount of the outstanding balance, without bonus or penalty, by providing 10 days advance written notice to HPX.

At June 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 potential ongoing support provided by its majority shareholder HPX, 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 six months ended June 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Salaries and benefits	599	824	1,945	1,356
Corporate administration	159	192	256	301
Exploration and geophysical activities	39	27	59	4
Total related party expenses	797	1,043	2,260	1,661

The breakdown of expenses by related party is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2016	2016	2015
	$	$	$	$
GMM	699	1,016	2,142	1,657
HPX	98	27	118	4
Total related party expenses	797	1,043	2,260	1,661

The transactions with Global Mining Management Corporation ("GMM") noted above for the three and six month periods ended June 30, 2016 include approximately $45,000 (2015 - $159,000) and $84,000 (2015 - $205,000) 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:

Receivables and Deposits	June 30, 2016 $	December 31, 2015 $
Receivables		
KZD Aspen Grove	80	12
Deposits		
GMM	450	450
Total related party receivables and deposits	530	462

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

Accounts Payable	June 30, 2016 $	December 31, 2015 $
GMM	156	236
HPX	118	18
Key management personnel, directors and officers	8	-
Total related party payables	282	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 60.7% of the Company's common shares at June 30, 2016 (December 31, 2015 – 60.7%). In 2015, HPX planned and managed the Company's geophysical exploration programs in Africa and Australia. HPX's services are provided to the Company on a cost-recovery, plus 12% markup basis.

(iii) Amounts owed to key management personnel include outstanding salaries and expense reimbursements.

(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 six month periods ended June 30, 2016, management fees of $31,000 (2015 - $80,000) and $35,000 (2015 - $85,000) 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Salaries and benefits	212	439	1,164	725
Share-based compensation	81	146	115	372
Total remuneration	293	585	1,279	1,097

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 August 24, 2016, the Company had a total of 175,364,517 common shares issued and outstanding. There were also 11,331,000 stock options outstanding with a weighted average exercise price of $0.54 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 six month periods ended June 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:

	June 30, 2016	**December 31, 2015**
	$	$
Financial assets		
Loans and receivables		
Cash	1,945	912
Receivables	202	155
Other assets	141	1,400
Available-for-sale		
Marketable securities	101	95
Total financial assets	2,389	2,562
Financial liabilities		
Accounts payable and accrued liabilities	498	677
Loan facility	5,041	700
Option liability	250	250
Total financial liabilities	5,789	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 six month period ended June 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 National Instrument 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.