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The envy of metals explorers

By Tommy Humphreys



Discovery Done Different – Kaizen Discovery handout

Often people ask me who I think the next great mining entrepreneur will be. My standard answer is that while there are very few young men and women who can raise money, build teams, acquire assets and develop them in far off places, I have my eye on a few potential greats. Matthew Hornor is one of them. At 43, he is President, CEO and Director of Kaizen Discovery Inc. (TSXV:KZD), and he just raised \$290 million for Ivanhoe Mines' Platreef project in South Africa from a consortium of Japanese investors. Hornor is also the apprentice of mining titan Robert Friedland.

How did the California-native Hornor find Robert Friedland nearly \$300 million in Japan, let alone become his apprentice? Hornor's path began twenty-five years ago, while he was bussing tables the summer before his senior year of high school. Hornor's father (Boyd Evans Hornor III, also a prominent lawyer in California) had showed him a Wall Street Journal article about the scarcity and value of bilingual lawyers in Japan; there were just twenty in the country at the time (1988).

"That set me on a course," Hornor told *Resource Opportunities* in a recent Vancouver interview. After graduating from law school at University of Virginia, he was accepted to attend the University of Tokyo, which consistently ranks as the best university in Japan, under his second Japanese

Ministry of Education Fellowship (his first fellowship allowed him to attend Tohoku University in Sendai after he graduating from USC in L.A.). At Tokyo University he studied economics and law while continuing his Japanese language studies. Eventually, Hornor was hired at a prominent US law firm as a corporate lawyer working on international M&A transactions in Tokyo.

Honor had also grown up with Friedland's kids. So when Friedland would visit Japan, the two would meet and discuss strategy and Japanese markets. And in 2005, Hornor joined Friedland's Ivanhoe Capital full-time to help the group with financing efforts in Japan.

"Japan is an island nation, and unfortunately for them, they don't have a great endowment of natural resources. This is not a secret," Hornor says. "They will forever have an insatiable appetite for metals, in good and bad markets, to feed their industrial complex."

Fast forward to 2013: the market for mining shares had all but dried up. Friedland and Hornor devised a strategy to take advantage of the downturn, with the help of Hornor's Japanese connections and Friedland's HPX Typhoon, a proprietary geophysical tool that can reach up to five times deeper than conventional systems. The new company, Kaizen Discovery, would be a publicly-listed, private equity entity with a long-term time horizon to acquire and develop mining assets.

Kaizen Discovery went public in December 2013 after taking over Ed Flood's Concordia Resources. Today, Friedland's private technology firm HPX owns approximately 67% of Kaizen, while Concordia shareholders own approximately 12% and ITOCHU Corporation has 5.4% (and an additional 40% direct interest in Kaizen's Aspen Grove project in BC).

From the onset, Kaizen's business motto was "Discovery Done Different." With backing from Japanese investors, Kaizen would acquire distressed mineral exploration and development assets and companies for further exploration and development work. I first heard the Kaizen strategy in November 2013, just as it was getting going. In the year since, Hornor has raised almost \$12 million (on top of \$10 million in the treasury at launch and a \$5 million undrawn line of credit), closed four significant corporate transactions, and commenced drill programs on three separate projects.

In a market with little appetite for mineral exploration risk, Hornor has excelled at procuring financing from the Japanese. He says it's not in the DNA of Japanese investors to acquire junior mining companies to get access to the projects they hold, opting normally to acquire a direct project interest (they need the metals, not the shares). ITOCHU Corporation, one of Japan's largest commodities trading houses, has instead given Kaizen a mandate to help it to find mining projects on its behalf.

Rather than trying to find a strategic investor to help with financing risk after a deposit has been defined, Kaizen brings Japanese partners to the table from the very beginning, often selling a project interest to fund development all the way through the project's life-cycle.

"We are getting that 700-pound lineman in in the first quarter, we're not waiting for him to come in at the end of the game," Hornor said.

While Hornor focuses on strategy and capital-raising, he has assembled a team of seven full-time geologists to push development of its projects forward. Among them, Zach Flood, 29, is a former boarding school dormitory mate of mine. He was one of the smartest and best-natured kids in school. Zach is a young mining explorer I have high expectations for. In addition to Zach, Kaizen's technical team consists of several industry veterans.

Kaizen's projects

Kaizen is focused on assets in the Pacific Rim, where its partners can see a clear route for feeding off-take to Japan.

Shortly after Kaizen acquired West Cirque Resources for shares in July 2014, ITOCHU invested \$4 million into the Aspen Grove project outside of Merritt, British Columbia, where four holes were drilled into one of the prospects (PAR) this summer. The company was targeting porphyry-style mineralization, and was surprised to find both epithermal and VMS-style mineralization and alteration. Kaizen will follow up on the drilling next summer by testing an alkalic (gold-rich) porphyry target on the property. All of this exploration is already paid for by ITOCHU.

Kaizen has also started drilling the Fairholme project in New South Wales, Australia. The project is located in the Macquarie Arc (Home to Cadia Valley and Northparkes mines). The target is alkalic porphyry type. The entire project is under 50 metres of conductive lake sediments. No IP system prior to HPX's Typhoon could effectively penetrate the conductive overburden, but after completing its Typhoon IP survey, Kaizen found multiple chargeability anomalies that have never been drill tested. And since IP can pick up disseminated sulphides in these systems, Kaizen hopes to find copper sulphides by testing the targets. Drilling should be complete by the end of February.

The company is also doing more generative exploration work in British Columbia in a joint venture with Freeport McMoran, which will see Freeport spend up to \$8 million to earn 51% of the company's Tanzilla and Pliny projects.

Perhaps the most exciting project in Kaizen's portfolio is in Canada's high arctic. In December 2014, Kaizen acquired Tundra Copper Corp for shares, and staked claims and applied for permits that now cover over 4,000 sq. km. These claims hold the best high-grade, volcanic-hosted, as well as sediment hosted copper showings in the area. These are spectacular occurrences of massive chalcocite, a copper-rich sulphide, including chip samples with over 20% copper.

As Kaizen was completing due diligence on Tundra Copper, they began to focus on the overlying Rae Group sedimentary package, where there were numerous sediment-hosted copper occurrences as well. These sediments are Neo-proterozoic in age, similar to the Revett Formation (Montana), Nonesuch in Keweenaw (White Pine, Michigan), Redstone (N.W.T.), and most important, the Central African Copperbelt (Kamoa, Tenke, Kolwezi, etc.), where Ivanhoe has

significant experience. This type of deposit can potentially be very large and high-grade. In general, the largest occur in two time periods, the Neoproterozoic and the Permian (Kuperschiefer - Lubin is 3bt at over 3% Cu).

The Rae Group sediments tend to dip at around three to five degrees to the north, generally tabular, and are under cover. The outcropping sedimentary-hosted copper showings occur in a few areas along strike of over thirty kilometers. Kaizen has staked and has permits of over one-hundred kilometers of strike (E-W) by twenty kilometers, covering the down dip extension of the contact (N-S).

The point: there is plenty of under-cover, untested potential, that could host a flat lying, high-grade, blanket of copper along the lower Rae Group sediments, similar to Ivanhoe's Kamao deposit in the D.R.C., the world's largest and highest grade undeveloped copper deposit. There has been virtually no systematic exploration for sedimentary-hosted copper in the area. The project area is an average of 10 kilometers from tidewater. Kaizen holds a very large land package — one of the most important aspects when exploring for very large systems in covered terrains.

Hornor expects to complete a joint venture with Japanese partners on the Coppermine/Tundra in the near future, however the company has already started to formalize its exploration plans.

Kaizen also looks to acquire other projects and companies of interest in distressed situations. In a recent interview, Hornor commented that his firm is considering acquisitions in Chile and Peru, world leaders in copper.

“How many of these financings and acquisitions can we get under our belt before the market turns to a bull market?” Hornor said of his intentions during our most recent conversation.

Kaizen has roughly 160 million shares outstanding, which have traded in the \$0.30 range in recent weeks, giving the company a market capitalization of approximately \$48 million. Deducting Kaizen's \$15 million in cash gives you an approximately \$33 million enterprise value for Kaizen's business.

This may seem expensive in the context of other junior explorers. But other explorers are not significantly owned by Robert Friedland, the most successful mine developer in recent times, and backed by the impressive Ivanhoe Group. They do not have seemingly unlimited financing ability from Japanese investors, nor the strongest geophysical tool known to man—not to mention an accomplished technical team and a portfolio of promising early-stage projects.

The next generation of mining leaders are going to have to look deeper to find new mines, and spend more money developing them. Both of these requirements play to the hand of Matthew Hornor and Kaizen Discovery Inc.

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