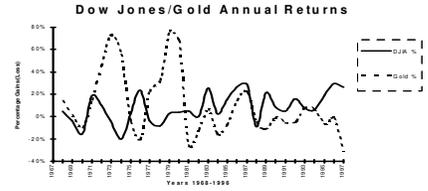




# Gold

## Energy & Tech Stocks



**Weekly Hotline Message** (Now in our 33<sup>rd</sup> Year) **February 7, 2014**

Update

### Novo Resources Corp.



**Business:** Exploring and developing gold deposits in the Pilbara Region of Western Australia.

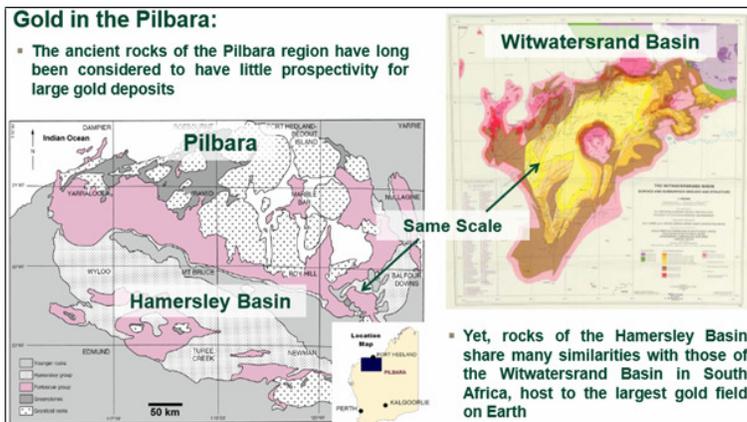
Traded TSX:	NVO
USOTC:	NSRPF
Initial Recommendation:	US \$0.795
Price 2/7/14:	US\$0.82
Shares Outstanding:	55,505,310
Market Cap:	\$45.5 million
Gold Resource (inferred – 1.47 gpt)	421,000 oz.
Major Shareholder - Newmont:	32%
Management & Insiders ownership:	50.1%
President & CEO:	Dr. Quinton Hennigh
Progress Rating:	A3
Telephone:	416-543-3120
Website:	<a href="http://www.NovoResources.com">www.NovoResources.com</a>

Novo Resources is a speculative junior gold stock. But I must tell you that among the Prospect A3 and A4 names, it is my largest holding. The reason I am so excited about this stock can be explained in one word – **“Witwatersrand.”** The **Witwatersrand Basin in South Africa** is the host to the largest gold field on earth. A total of 1.5 billion ounces of gold (over 40,000 metric tons) have been produced from Witwatersrand. The gold occurs in gold-bearing conglomerates or reefs in thin bands, that are mined down to depth of 4,000 meters. Although many of the older mines are now nearly exhausted, the Witwatersrand Basin still produces most of South Africa's gold and much of the total world output.

Could there be another deposit somewhere on earth like the Witwatersrand? Or if not as large, might there be a conglomerate deposit of size that resembles it? Dr. Quinton Hennigh, Novo Resources’ (Novo) President, is searching for another “Witwatersrand” look alike on the Australian continent. Results so far have been promising, which is no doubt one reason the stock chart for this company looks quite a lot better than most junior exploration companies.

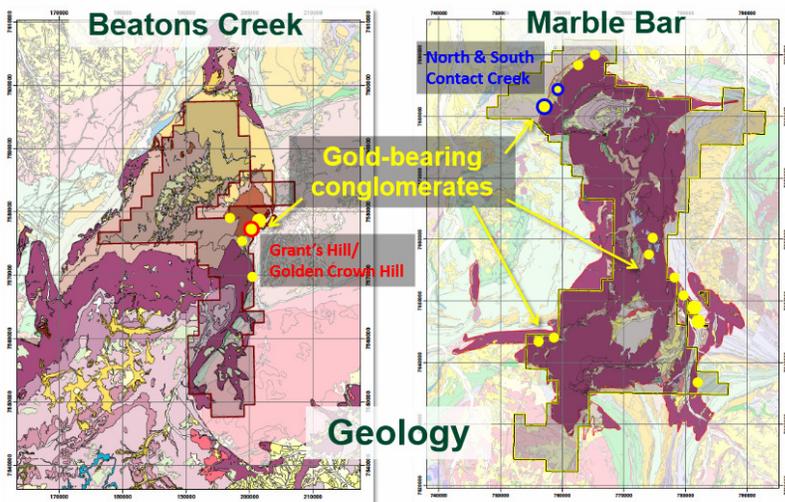
In search of the next Witwatersrand, Dr. Hennigh is examining the theory that gold mineralization in the basin was deposited by way of oxygen-producing algal and cyanobacterial mats growing on a shallow sea floor to precipitate gold from ocean water. Gold sticks to their fossil remains forming the gold-rich carbon seams preserved in many leader reefs. Sometimes, if sea level dropped, gold-bearing carbon was locally reworked by streams and rivers into channel-type conglomerates.

It was the search for that kind of geological environment that would have been suitable for hosting another Witwatersrand deposit that attracted Hennigh to Hamersley Basin in Western Australia. On behalf of Novo Resources, Hennigh has been able to gain an option for Novo to earn a 70% joint-venture position on two areas, the Marble Bar Project (1,251 sq. km) and the Beatons Creek Project (554 sq. km). Collectively these two properties are known as the Pilbara Gold Project. To earn a 70% interest, Novo was required to spend not less than AUD \$1 million by July 2013, which it has done. It is also required to reimburse up to AUD\$5.5 million for past exploration work carried out on the project. In addition, a bankable feasibility study must be completed by August 2, 2016.



What are the chances of success? It's hard to say, but several factors make this story very exciting.

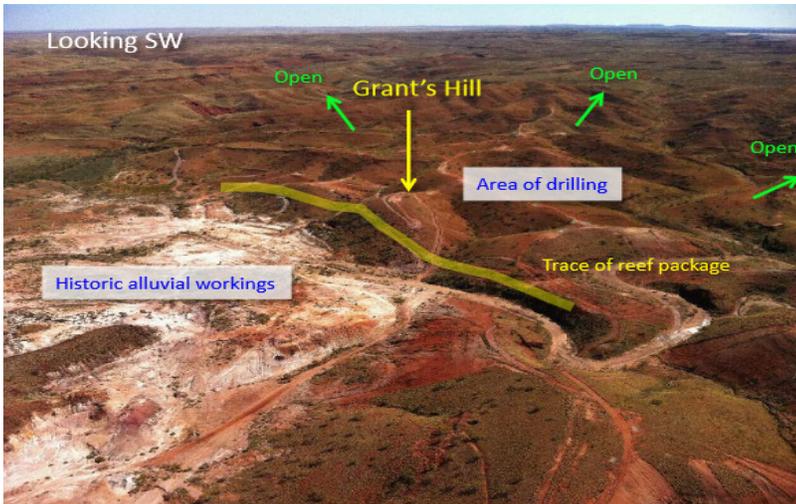
1. Early exploration success. From very early drilling, the company has established a surface resource of 421,000 ounces of gold averaging 1.47 grams/tonne.
2. The geological environment in the Pilbara Basin is very similar to the Witwatersrand Basin and it is of the same scale!
3. Mineralization is open laterally in various directions. Resource numbers should soon increase based on drilling carried out since the initial resource calculation and with additional drilling that is ongoing.
4. Given its existence at surface, the cost of building resource ounces should be relatively low.



Geological maps showing the two properties included in Novo's 70% joint-venture agreement are shown on your left. Note the yellow dots that show gold-bearing conglomerates. The focus thus far has been largely on just one of those dots at Beatons Creek, namely the one circled in red named Grant's Hill/Golden Crown Hill. It is here where the company's initial 421,000 oz. resource has been established.

A 421,000-ounce resource grading 1.47 gram/tonne gold is a nice start, but the picture below on the left that shows historic alluvial workings and the area of drilling thus far from which the 421,000 ounces have been established, may give you a sense of the upside potential for a lot more ounces of gold from just this one gold-bearing conglomerate on the Beatons Creek and Marble Bar properties.

Novo has some \$10.6 million in the Treasury and given low cost of exploring this near surface deposit, it can go quite a ways toward building ounces. The company is focused on expanding the existing deposit



from which those 421,000 ounces have been outlined. The prospects for success look good in part based on the company's January 29<sup>th</sup> press release that told of the discovery of a new out gold-bearing outcrop located approximately 700 meters west of the resource. Grab samples there graded from a low of 0.06 grams/tonne to a high of 17.86 grams/tonne. The reef varies from one to two meters thick and appears to be quite shallow, less than 20 meters from surface over an area roughly one kilometer across. Needless to say those are the kind of dimensions from which a significant resource could be forthcoming, once a sufficient amount of drilling data is accumulated.

Besides expanding the existing deposit, management notes the following priorities:

1. Upgrading the existing NI 43-101-compliant resource (421,000 ounces Au; 8.9 million tonnes at 1.47 g/t Au) and undertaking economic studies to move it toward feasibility;
2. Conducting large-diameter diamond core drilling and/or bulk sampling to evaluate shallow, oxidized gold-bearing reefs in proximity of the resource; attempts at reverse circulation drilling in these areas in 2013 failed to produce acceptable sample quality;
3. Completing deep diamond drill holes at both Beatons Creek and Marble Bar using funds from the \$400,000 drilling grant awarded by the government of Western Australia (see Dec. 14, 2013, news release).

**THE BOTTOM LINE:** In this dismal market, I have been focused more on advanced stage project companies and producers as well as prospect generators. It's not that I have turned my back on exploration companies, but many of them are struggling to keep the lights on and to the extent they are succeeding they are diluting shareholders interests to the extent that upside potential is considerably limited even if they are successful. In the case of Novo, they not only have a strong cash position, but the cost of building ounces there given its proximity to surface is quite low compared to most exploration stories. And as noted above, results so far are not dismissive of the possibility that Dr. Hennigh may be on to a Witwatersrand look alike.

I found this story quite interesting and the fact that the highly regarded Hennigh was behind it made it all the more attractive. In order to protect the innocent, I won't mention any names, but it was another highly regarded geologist who knows this story who really got me excited about it. This person was convinced of the geology and that there is a lot of gold at Grants Hill on the Beatons Creek property. It was just a question of grades and how much is there. The main point that was emphasized by this person was that it won't cost all that much to find out and to build a sizeable deposit. At a time when sub one grams per ounce are profitable, I like Novo's chances. I believe it highly likely that the 421,000 ounces grading 1.47 grams/tonne with a 0.5 gram/tonne cut is likely to grow dramatically as the drills turn on just the first of many targets as noted above. Certainly it should not be overlooked that one hungry gold giant, Newmont

Mining, owns 32% of Novo. Why would they be interested in this play if they were not looking at prospects for something very large?

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