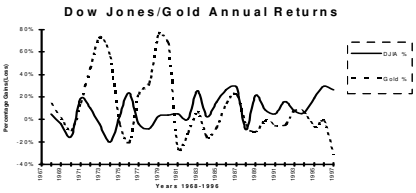
Gold



Energy & Tech Stocks

Weekly Hotline Message (*Now in our 33rd Year*) **July 11, 2014**

Update

Novo Resources Corp.

Might Quinton Hennigh's company discover another Witwatersrand?

Business: Exploration and development of a Witwatersrand-like gold deposit in Northwestern Australia led by CEO, Dr. Quinton Hennigh

Traded CNSX:	NVO
USOTC:	NSRPF
Initial Recommendation 8/9/13:	$0.795
Price 3/14/14:	US$1.29
Shares Outstanding:	56,737,558
Market Cap:	US$72 million
Insider Holdings:	52%
Cash Position 3/31/14:	$10 million
43-101 Gold Resources (1.47 gpt)	421,000 oz.
Mining Target (near term):	Open Pit
Progress Rating:	A3
Phone Number:	604-688-9588
Web Site:	www.novoresources.com

Overview: I have called ***Novo Resources Corp.*** my most exciting exploration stock because I believe it has a chance to become one of the most astoundingly successful exploration stories in the history of this newsletter, which dates back to 1981. That may well turn out to be a rather grandiose speculation. But if that turns out to be so, the geological theories upon which my views are based will have come from a brilliant and highly regarded exploration geologist, namely, Dr. Quinton Hennigh. Dr. Hennigh, who has been described as a free thinker, has challenged the theories about the origins of the Witwatersrand Gold Deposit from which 1.6 billion ounces of gold have been mined (about one-third of all the gold mined to date) since the late 1800s. If Quinton is right—and so far the odds continue to favor his theories—then Novo along with Newmont Mining (which owns 28% of Novo) may be on to a discovery of the next Witwatersrand Gold Deposit.

The Theory: Noting the enormous amount of gold located in one place—the Witwatersrand Deposit in South Africa—Dr. Hennigh theorized that the two main theories advanced by geologists for the origin of that massive gold deposit do not explain the enormity of that deposit. The two prevailing mainstream ideas about the origin of the Witwatersrand are the following:

- A ***paleoplacer process***, or fossilized placer deposit. In other words, the unconsolidated deposits originally formed at the surface by running water then later buried to sufficient depth to lithify the sediment into solid sedimentary rock. Original placer mineralization was formed by gravity separation during a sedimentary process before they were buried to become a paleoplacer deposit.
- A ***hydrothermal process*** in which gold was introduced into the conglomerate rocks by hot, gold-bearing fluids long after they were deposited by streams and rivers.

Flaws in Both Mainstream Geological Theories

But as Dr. Hennigh noted when I interviewed him on my radio show, those theories are unsatisfactory in explaining the deposition of so much gold in one place. Neither known examples on earth explained by either process comes even close to the enormous size of the Witwatersrand Deposit.

In addition, gold particles typically found in the Wits are very fine grained, often less than 0.05 millimeters in diameter. Small particles such as that would be dispersed in a high-energy stream environment, rather than being consolidated as they are in that famous South African deposit.

While at the Colorado School of Mines, Dr. Hennigh worked in the lab with Witwatersrand ore and he noticed something else that was very different from what is found in paleoplacer or hydrothermal deposits. He noticed thin layers of carbonaceous material that hosts high grades of gold in thin reefs known as leaders. Given the very small particles of gold hosted within this carbon material, Hennigh theorized that the Witwatersrand Deposit may have logically been a precipitation event in which huge amounts of gold were drawn out of the water by the layers of carbon at the bottom of a shallow, relatively tranquil sea.

Another unique fact regarding the Witwatersrand Deposit was the existence of high-grade, thin, fine-grained, gold-bearing reefs that are continuous over many square kilometers. By contrast, conglomerate rocks deposited by streams and rivers tend to form reefs that pinch and swell in thickness along strike. **So, based on those observations, it seems the paleoplacer theory has a major flaw in explaining the massive Witwatersrand Deposit** even though this remains the dominant explanation of geologists for the formation of that deposit.

Here are the flaws Dr. Hennigh has pointed out with respect to the hydrothermal model theory:

- Most hydrothermal gold deposits bear at least some coarse gold particles. As noted above, gold particles at the Witwatersrand Deposit are almost universally very small.
- As noted above, the gold-bearing carbon reefs extend for many kilometers. It is difficult to conceive how the proposed hydrothermal fluids responsible for gold deposition in this theory could follow such a select path.
- Many of the conglomerate beds found at the Witwatersrand Deposit were faulted shortly after deposition, yet gold-bearing deposition occurs on either side of these faults. It is difficult to envision how hydrothermal fluids "jumped" across such faults producing identical mineralization on either side if you apply this theory to the Witwatersrand Deposit.
- Hydrothermal proponents explain the existence of carbon found in the leader reefs in fossil oil that was brought in after burial, perhaps along with hot water. However, the chemistry of the gold-laden carbon material at the Witwatersrand is composed of kerogen, the residue remaining after oil has been cooked off. Instead, it is likely that the carbon in the

Witwatersrand material was from fossil algal and/or cyanobacterial mats representing some of the earliest forms of plant life on earth.

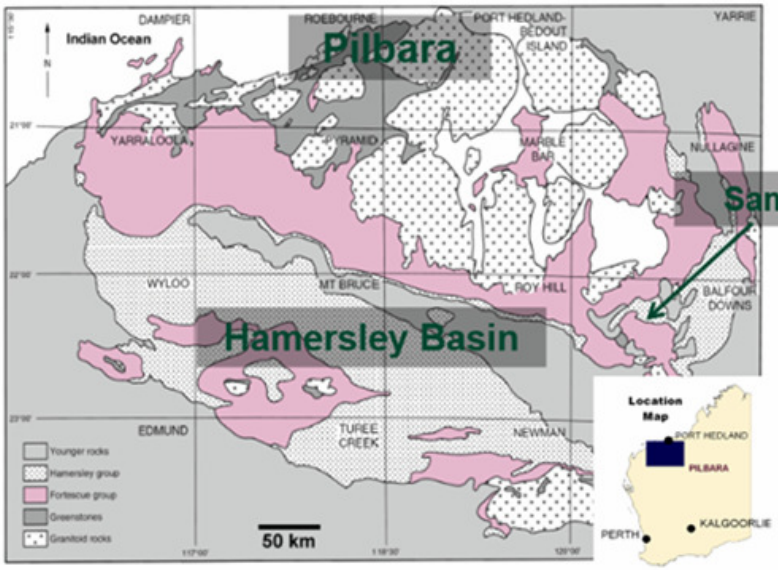
The Logic for Dr. Henning's Alternative Precipitation Model

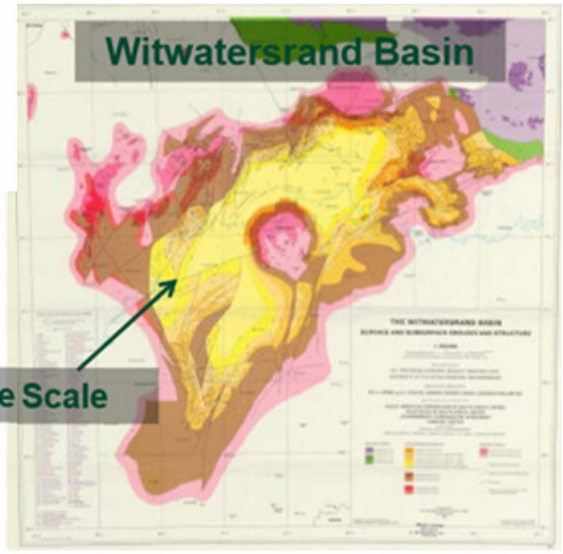
It is generally understood that some major copper deposits were formed through shallow sea precipitation events. So why might that not be true of the Witwatersrand Gold Deposit? But in order for a similar event to generate the Witwatersrand Gold Deposit through precipitation, specific conditions would need to be present, including the following:

- The presence of oxygen would be very limited and in the early stages of its growing abundance on earth as primitive pants began to thrive. This is believed to be true because with an abundance of oxygen present, gold would have precipitated out and drawn to the carbon material at the bottom of the shallow sea.
- Age of the rocks would need to be old. Specifically they would need to be between 2.7 and 2.8 billion years old because that is when the beginning of photosynthesis occurred and as such, the formation of oxygen, which is necessary for the precipitation process to begin, was being formed.
- The precipitation event would need to take place at the bottom of a massive shallow, quiet sea environment. This is true because otherwise a higher energy environment would not permit the existence of massive carbon leader reefs that measure in many square kilometers.

Where Might the Next Witwatersrand Be Found?

Few geologists believed the ancient rocks of the Pilbara region would be likely to host a gold deposit let alone a major one like the Witwatersrand deposit. Yet, Quinton noticed that the rocks of the Hamersley Basin share many similarities with those of the Witwatersrand Basin

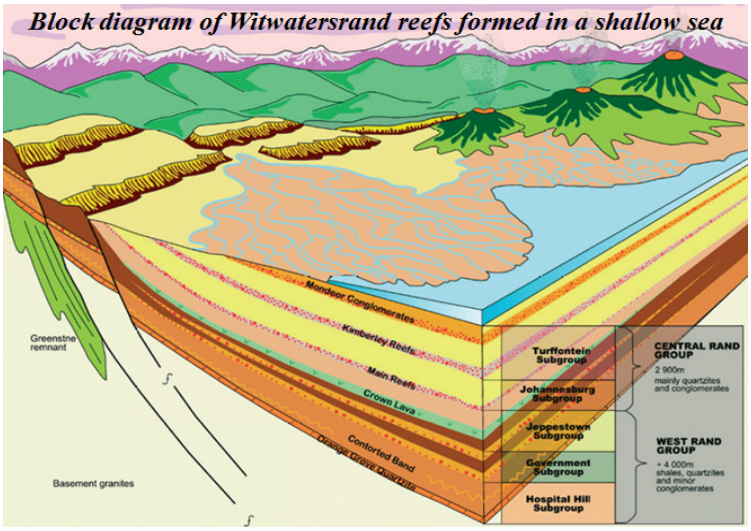




As noted in the illustration above just one small area of the Pilbara is of the same scale as the Witwatersrand Basin. Okay, but the trillion dollar question is this. Is the gold mineralization in the Pilbara similar to the Witwatersrand mineralization?

As a partial answer to whether or not gold mineralization in the Pilbara Basin can be compared to that of the Witwatersrand Basin, this is what Dr. Hennigh said in his most recent press release:

Two notable observations were made during the deportment study, both relating to the style of mineralization at Beatons Creek. ***First****, small amounts of gersdorffite, a nickel arsenic sulphide mineral, are sometimes present in these gold-bearing conglomerates.* ***Second****, detrital particles of carbonaceous material, likely kerogen, were recovered. Uranium-bearing minerals commonly rim these particles. The presence of gersdorffite and kerogen is ubiquitous in gold ores from the Witwatersrand basin, Republic of South Africa. There, kerogen has been demonstrated to be the fossil remains of early microbial life that contributed to the formation of these ores.*



Those are very promising indications but so far there has been no discovery of a gold-bearing carbon leader that is the extremely rich gold-bearing reef formation in which gold is measured not in ounces/ton but rather in percentage terms. Dr. Hennigh told me he thinks that is true because exploration so far has taken place higher up in the system where surface erosion was prominent. To observe what "high in the system" means, look at the block diagram of the Witwatersrand reefs on your left. The exploration that has taken place so far is from surface exposures that would have been the shallowest parts of the shallow sea. As such, during times when the sea receded, these areas would have been exposed to surface erosion from rivers and streams and would have cut through these rocks including the carbon leaders en route to the sea which may account for large particles of gold. The right kind of carbon associated with gold in the small area explored to date lends credibility to that view.

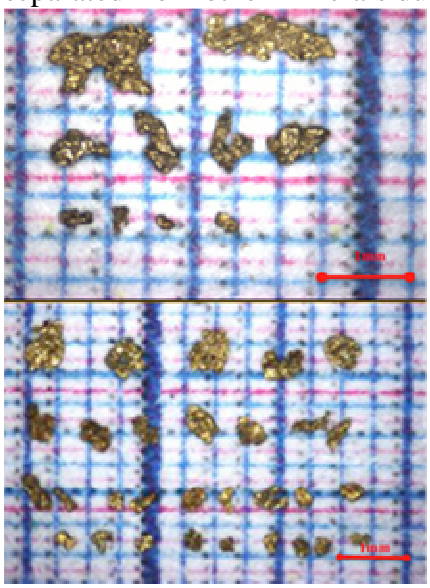
A Profitable Mining Project in Any Event?

Even if Hennigh's theory is not proven any time soon, what appeals to me and I think reduces the risk of an all-or-nothing proposition for Novo Gold is the presence of this large-particle gold discovered thus far from "high in the system." Indeed with just a very modest drill program in 2012, the company outlined a 43-101 resource of 421,000 ounces averaging 1.47 grams/ton.

In the July 8 press release, Dr. Hennigh stated that in order to better understand the nature of gold in conglomerates from Beatons Creek, two diamond drill samples from the Beatons Creek Property were sent to Process Mineralogical Consulting Ltd., based in Vancouver, B.C., for deportment study. As noted in the press release, *Gold deportment study involves the preconcentration of gold and heavy minerals in the sample using heavy liquids followed by superpanning of the heavy liquid gravity concentrate. The products are submitted for chemical analysis and examined by optical or instrumental means. Potential extractive metallurgy of gold is determined by evaluating the grain size and mineralogical associations of gold particles.*

Dr. Hennigh went on to say that "both samples from Beatons Creek produced gold particles dominantly free of other mineral grains suggesting they are potentially 'free' milling, meaning they can readily be

separated from other minerals during comminution (pulverization). Over 98 per cent of the gold by weight in each sample was of coarse grain size, more than 150 microns (more than 0.15 millimetre), suggesting that significant recovery of gold may be possible using simple, conventional gravity techniques. Given these very positive findings, Novo now plans to take several bulk samples from various locations at Beatons Creek for additional studies to help quantify potential gold recovery employing coarse grinding and gravity techniques."



Quinton reported that the data gained from the study also provided insight into appropriate sample size and method of gold analysis in order to have a high degree of confidence in the numbers. So for example, for the sake of statistical reliability, from either diamond core or reverse circulation drilling, the samples should weigh a minimum of 15 kilograms to account for acceptable representation of coarse, nuggety gold. An example of the coarse gold in the Beatons Creek samples is shown on your left, with the red lines indicating a length of 1 millimeter.

2014 Drill Program and Possible Gold Production Soon?

The company's ongoing exploration program is being carried out on two fronts. First, in conjunction with major shareholder, Newmont Mining, the bulk leach extractable gold (BLEG) sampling project is expected to be completed by the end of this month, and assays are expected by the end of August. This study will allow for a very quick identification of new potential gold targets on Novo's massive 70%-owned tenements.

Secondly, Novo will resume drilling on a very small part of just one small area of the entire tenement area held by Novo, namely, on its Beatons Creek Prospect where the company already has a 421,000-oz. resource grading 1.47 grams per ton. As Dr. Hennigh noted, the recent metallurgical study mentioned above will enable a more efficient drilling and sampling program that has the potential to lead to cheap processing for the recovery (mostly gravity) of Beatons Creek gold from this "high in the system" environment. Quinton said that management plans to demonstrate this with further testing of bulk samples collected this season. Now I'm recalling a conversation I had with Quinton in Toronto this past March and he told me that the prospect exists for custom milling this material at a nearby mill.

Nothing is ever a "slam dunk" in the mining business. But from all I can see, this company may have the chance of developing early cash flow from which it can fund ongoing exploration that could lead to an enormous if not a once-in-a-century gold discovery. Certainly, Newmont's enthusiastic participation as a major shareholder and active participation in using its proprietary BLEG sampling suggest it sees the possibility of something big in the making. No guarantees, folks. But I like what I see, which is why Novo is my largest gold-exploration exposure.