



THE DAILY GOLD PREMIUM

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Here is a copy of our most recent report on Novo Resources (NVO.v, NSRPF). The report was published for premium subscribers on Saturday September 2, 2017.

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Novo Resources (NVO.v, NSRPF)

Price: C\$3.91

Shares: 122.1M / 158.4M

Cap: C\$477 Million

Cash: C\$14M

Over 5 years ago I was on a mine tour with my friend Bob Moriarty (publisher of 321gold.com) and he mentioned he knew something that could become the biggest story in mining. That was when I first heard of Novo Resources and Quinton's Hennigh's theory that the Pilbara region of Western Australia millions of years ago was connected to the Witwatersrand Basin in South Africa and could, potentially, contain as much Gold. According to South Africa statistics, The Wits (as its known for short) has produced nearly 2 Billion oz Au (roughly half of all historical gold production). Until recently, Novo was active at its Beaton's Creek project where it discovered and drilled out nearly 600K oz Au at a strong grade of 2.7g/t Au. However, in 2016 upon hearing of local prospectors discovering gold outcropping at surface several hundred km west near Karratha, Quinton quickly staked up to 7000 square kilometers at what has become the Karratha Gold project. In late July, Novo reported and showed via video the discovery of gold nuggets in its first trenching at Purdy's Reward. This has led

some to believe that Quinton's theory has a chance to be validated and therefore Novo could be on the cusp of a historic gold discovery in Western Australia.

The backstory on what is now known as the Karratha Gold project is Quinton in 2016 heard of metal detectorists discovering gold nuggets around the city of Karratha, which is 300 km from Beaton's Creek. Quinton quietly and immediately went to Karratha to stake as much ground as he could. Through staking, Novo was able to acquire a 100% interest in a total of 6,021 square km. In addition, Novo struck a joint venture with ASX-listed Artemis Resources to earn a 50% interest in its claims totaling 1,536 square km, (which includes Purdy's Reward, which is 25 square km). Finally, Novo also acquired an 80% interest in Comet's Well, a 48 square km property at which gold nuggets were discovered by local prospectors. Some of the richest discoveries by prospectors were found around Purdy's Reward and Comet's Well. These are the properties Novo will be working over the next 6 to 12 months.

Since the time of our initial report (August 5), Novo reported spectacular grades from its first bulk sample (67 g/t Au in nuggets with an additional 9g/t in fine grain gold) yet was delayed for 6 weeks by Artemis' who wanted more. Artemis did not realize what they were sitting on at Purdy's Reward and gave away 50% of it to Novo for only \$2M. To get Artemis off its back, Novo had to give up 4M shares.

Novo will resume work at Purdy's Reward by the end of September and begin work at Comet's Well (upon permitting) by the end of October. The work will consist of trenching, bulk sampling and in the winter months, drilling. The budget for the entire program could total as much as \$6M and would fulfill Novo's \$2M requirement to earn into 50% of Artemis' holdings, including Purdy's Reward.

Because of the "nuggety" nature of the mineralization, Novo will have to employ some slightly nonconventional exploration methods. Think of a typical gold deposit and how gold can be dispersed everywhere but in very tiny amounts. A nuggety deposit can have massive amounts of gold in one hole and then nothing right beside it. Think of raisins in a raisin cake. In other words, the variability of nuggety mineralization creates some uncertainty as to the grade of the deposit and the overall endowment.

In addition to the bulk sampling (which is inexpensive), Novo will drill with a large diameter water well drill. While this drilling could be twice to thrice as expensive, it is necessary and effective. It could pickup many more samples which will allow for many more assays. Again, this drilling will be a lot more expensive but it will cover a lot more ground and in a timely fashion while generating much more information about the deposit. This work will lead to the first resource estimate in Q1 2018.

The key questions for Purdy's, Comet's Well (and the Karratha project as a whole) is how continuous is the mineralization and how deep does it go? The good news is conglomerate style gold mineralization (which this is) tends to be quite continuous. With a typical deposit you may need to drill holes 25 to 50 meters apart (to get a sense of the continuity) but with this style of mineralization you can drill up to 200 meters apart to get an idea of the continuity. In regards to the potential for mineralization at depth, a previous company was looking for uranium and drilled a vertical hole, roughly 2000 meters deep into the basin and intersected 12 g/t Au across 1 meter, 1000 meters deep.

To gain some perspective as to how the Karratha Gold project could compare to the Wits, let's look at some figures. According to South Africa, the Wits has produced a total of 2 Billion oz Au. I've seen estimates that show the Wits totals roughly 40,000 square km. That production equates to 1M oz per 20 square km. Novo controls roughly 8000 sq km. The same ratio would have production of 400 Million oz Au coming from Novo's holdings. I've heard that the Wits in its richest areas contained an average of 1M oz Au per square kilometer. Because of nugget effect some areas of the Karratha project could be extremely rich (in Gold) while others much less so. It appears that Purdy's Reward and Comet's Well have a chance to fall under the extremely rich category.

If we consider the 1M oz Au per square kilometer, then Purdy's Reward and Comet's Well together would mark one of the greatest discoveries of the past century. Combined, the two properties total +70 square km. One analyst (Red Cloud) already published a report assessing Comet's Well potential as 10M oz Au and that is only accounting for the fine gold. View the report here: <http://www.redcloudks.com/rcks-talk/nvo-site-visit-comet-well-has-10m-oz-potential-plenty-of-work-remains-to-prove-it>. (It should be noted Red Cloud is an investor in Novo). John Kaiser calculated that 10M oz Au @ 5 g/t at Comet's Well could be worth \$22/share.

The reason there is so much excitement and historic potential for Novo is Comet's Well and Purdy's Reward could have potential in the tens of millions of ounces and together they represent barely more than 2% of the entire Karratha project. It is important to note that even if Quinton's theory pans out, the other 98% is not going to entirely resemble Comet's and Purdy's. Some properties could be similarly rich and some areas could contain low grade gold. But if Karratha is another Wits, then Comet's and Purdy's will just be a fraction of the total Gold that is discovered in the years ahead.

Novo is currently very well funded with \$18.5M in cash and over 30M warrants that are in the money. (After the recent capital raise the company had 116.7M shares outstanding with \$14M in cash). If we count the warrants that expire in the next 12 months then that equates to 13.5M which

would generate ~\$14M in cash. With all of those exercised, the company would have ~\$28M in cash with 131M shares outstanding. Overall, if all warrants and options were exercised, it would generate an additional \$42M and the company would have nearly 160M shares outstanding.

Although Novo's share structure is not perfect and the shares outstanding will climb towards 150M in the next 12 months, the retail float is relatively small. Management and insiders control 24% of the shares while Newmont Mining owns 15% and Mark Creasy, a legendary mining investor in Australia owns 9%. Creasy owned the Beaton's Creek property and even owned part of Karratha at one point but let it go. Institutions own 17% of the company and that leaves a retail float of only 35%.

It is critical that Novo continue to maintain control of the company (which means having +50% of shareholders aligned with management) in order to prevent a hostile takeover bid. If the Karratha project represents another Wits then this is not something Novo intends to sell at any price. At the same time, any major company would be smart to try and wrestle it away from Novo. There have been rumors that another major could invest in Novo. This would tie up another 10% of the company and make it increasingly difficult for Newmont or anyone to try and pursue a hostile takeover in the future.

With respect to Novo's current enterprise value of roughly US \$370 Million, we estimate that the Karratha project is currently valued at roughly US ~\$300 Million. We deducted the market's value of Novo's Beaton's Creek project prior to the recent explosion in Novo's share price (roughly US \$60 Million).

While we could learn quite a bit about the potential at Purdy's Reward and Comet's Well within the next 6 to 12 months, it is possible the market could become increasingly convinced on Quinton's theory after only a handful of drill holes. If a few more bulk samples show similar grade and Novo intersects the same kind of mineralization in a few drill holes that are spaced 50m or 100m apart, then the market would likely bid up the stock substantially.

The reality is if the odds of the Karratha region being Wits 2.0 continue to increase, Novo stock will always appear to be expensive and overvalued. In other words, the stock will run well ahead of what could be considered reasonable value. When Bre-X went from \$2 to \$286 in one year it only had a handful of small and brief corrections along the way. Novo will remain overvalued and expensive until the Wits 2.0 theory is disproven.

The potential negative scenarios for Novo could be two-fold: there really is not that much Gold in Karratha as it is only enough for local prospectors or the Gold is there but it is not economic to mine due to

an extreme nugget effect. In other words, too much waste rock would need to be processed in order to mine the Gold. The thickness and grade of the conglomerate reefs (which host the Gold) can give us an indication as to the mine-ability. Using the 9 g/t Au grade of the fine grain gold, if the reefs are +10 meters thick then the potential mine-ability is outstanding. Quinton thinks the average thickness is 10 meters. However, note that this is not even counting the nuggets. It is only counting the 9 g/t fine grain Gold that was in the first bulk sample!

As we noted earlier, if a few more bulk samples or drill holes show similar grade and a hint of continuity then the market would bid up the stock as such results would allay the aforementioned concerns. There is a strike length of 8km at Comet's Well as well as evidence of metal detectorists digging for Gold throughout that 8km. If a few drill holes show bonanza grade, the market will do the math.

The type of junior exploration companies that have this amount of potential may only come around every decade or two. We did not buy the Novo hype in recent years (based on Beaton's Creek) but now there is tangible evidence that could support the hype. And let us not forget that Quinton Hennigh is a very highly regarded geologist by various credible individuals who cover the industry. If he was not highly regarded or if his theory lacked merit he would not have attracted Newmont and Mark Creasy as big shareholders.

It is hard to gauge but based on the resource estimate I have a 6 to 9 month price target of US\$10 which is nearly a \$1.5 Billion market cap. I think a resource estimate for Purdy's Reward of 3M-5M oz at a very strong grade with tremendous growth potential would justify \$10. However, if the market receives more evidence that Comet's Well and Purdy's Reward could be +10M oz Au deposits, then that could justify a share price of \$20-\$30.

An easy way to potentially value the deposits is by applying \$1/share for 1M oz Au. The industry average is likely around \$50/oz Au. Novo has roughly 160M shares fully diluted. So \$160/oz for Novo essentially equates to \$1/share. So 10M oz Au each at Purdy's Reward and Comet's Well could equate to a \$20 share price. The potential beyond these first two projects is what has to be realized for Novo to become a +\$100 stock.

It is obviously very important to note that Novo has only produced one bulk sample and therefore all of the facts and figures here are speculation or at best, guesses. There is no certainty as to how this will play out. We will have a better idea after the first drill results come in and a much better idea in 6 months. Unfortunately, if one wants to wait for confirmation of the hype then they could end up paying \$10 or even \$20 for the stock.

Therefore, each speculator and investor has to make their own calculated decision as to what is best for them. My view is that the

stock remains a great buy at current prices and every investor needs to own a position. If one is really skeptical I would make it a 3% position. If one is not convinced but optimistic, I would make it a 5% position. We believe in Quinton and Novo and that is why we've made it a ~10% position. We believe the upside potential is so huge that it dwarfs the downside risk, which is sizeable but not catastrophic if Karratha turns out to be a dud. I see that as highly unlikely.

Novo is our 2nd largest position currently but will become our largest position if the stock makes a new high. Because the stock is correcting we may add another tiny bit. Outside of the model portfolio, Novo is our largest position in our other accounts. Also, as we noted last week, Novo has contracted us for marketing purposes and we plan to use the majority of our compensation to buy the stock. Novo hopes to attract more shareholders that share its long-term version.

Novo Resources (NVO.v, NSRPF)

Novo Resources closed the week down 13% to C\$3.91. There is support at \$3.80 and if that breaks the stock could test strong support around \$3.25. The next support after that would be around \$2.75 which also will host the 50-dma very soon (\$2.63 and soaring). My guess is the stock dips below \$3.80 briefly (perhaps for a day or two) but then rebounds strongly.



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