NOVO RESOURCES

THE MORGAN REPORT

NOVO RESOURCES CORP.

OTCQX: NSRPF; TSX.V: NVO
Shares Outstanding: 213m; FD: 240.5m
Cash: ~C$62m (US$35m senior secured debt)
Most Recent Site-Posted Presentation/Sept. 20, 2020
52 Week H/L/Last: (US)$3.12/$1.00/$2.65
36 and 24 month Highs: $7.67 and $5.00
https://www.novoresources.com/

What follows is a report dealing with Novo Resources Corp. and its operations in Western Australia. The premise will be developed that Novo's gold production potential—scheduled to get underway during H1 2021—has the potential to launch it into a decades-long, low-cost "golden runway." If the company's business model is built out successfully, and if the assumptions underlying the area's gold deposit potential and its accessibility are accurate, this story could turn out, for a variety of unique reasons, to be one of the most profitable, enduring, low-footprint gold operations in modern history.

Rather than reinvent the wheel, let's start *verbatim* with the website definition, "About Novo Resources Corp."

Novo's focus is primarily to explore and develop gold projects in the Pilbara region of Western Australia. Novo has amassed a significant land package covering approximately 13,000 sq. km with varying ownership interests. In addition to the Company's primary focus, Novo seeks to leverage its internal geological expertise to deliver value-accretive opportunities for its shareholders. The Company's present focus is its Egina gold project, where it is currently exploring and testing innovative exploration techniques under a JV with Japan's Sumitomo Corporation.

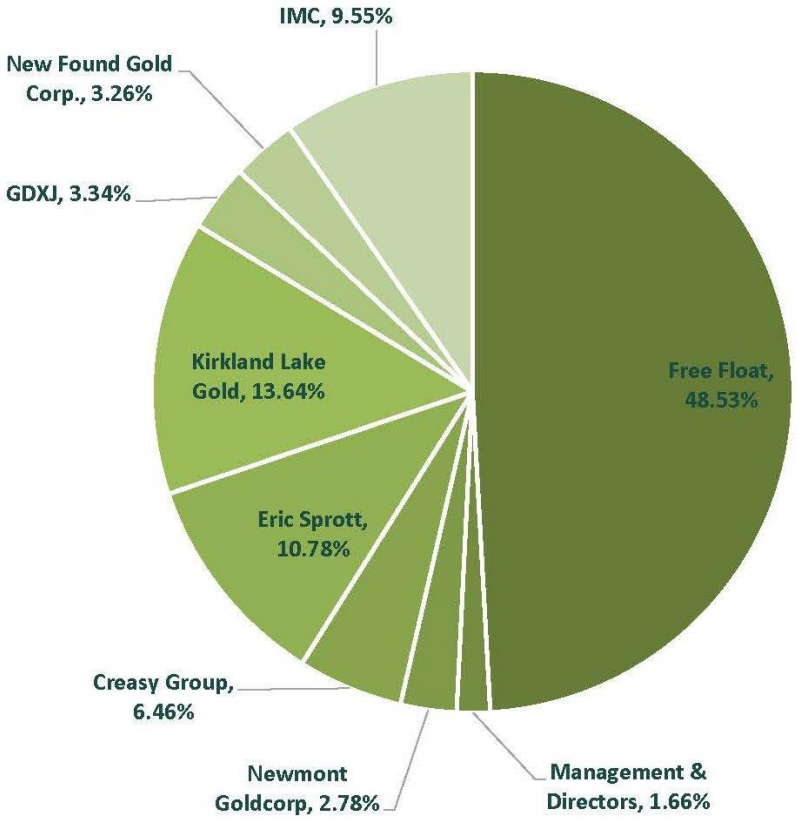
Novo also holds 100% interest in the Purdy's Reward gold project and a 100% interest in the production-ready Beatons Creek gold project which hosts a resource of 457K indicated oz Au at 2.1 g/t and 446K inferred oz Au at 3.2 g/t. The Company has an experienced management team in place, which has extensive expertise in identifying properties that have the best potential to develop newly discovered mineral prospects.

Pilbara Conglomerate Gold. For this report, we need to settle on an overall name that connects and defines the disparate Pilbara operations. After speaking with me about this, Quinton Hennigh suggested "Pilbara Conglomerate Gold."

Quinton Hennigh's bona fides. Dr. Hennigh is an economic geologist with 25 years of exploration experience. He is a founder, current Chairman, and President of Novo Resources, exploring and developing gold projects in the Pilbara region of Western Australia (WA), including its Beatons Creek, Karratha, and Egina gold projects, the latter of which is under a joint venture with Japan's Sumitomo Corporation.

Early on, he conducted exploration for several major mining firms including Homestake Mining, Newcrest, and Newmont Mining corporations. He joined the junior mining sector in 2007, thereafter becoming involved with Canadian listed gold companies, including Gold Canyon Resources, discovering the Springpole 5-million-ounce gold asset alkaline gold

project near Red Lake Ontario, sold to First Mining Gold Corp. He also played an important role in Kirkland Lake Gold's acquisition of Australia's Fosterville gold mine.



Shareholder distribution chart

Before we discuss where the "Pilbara Conglomerate Gold" project is today and where it may be headed, it's instructive to go back eight years to when 321 Gold's Bob Moriarty began writing about it. Going forward, you can find a number of entries he posted about it archived on his site. However, compressing his August 15, 2012, piece, titled, "698.3 Square Miles of the Wits," to its fundamental data points offers an excellent, and in my view, to this day, largely accurate picture of the composition and potential scope of much if not all of the 14,000 sq km in WA that Novo has currently staked or otherwise since acquired. (Novo Resources, formerly Galliard Resources, was formed as a company in 2009 and acquired its first real estate in the Pilbara in 2010. After it began trading in Canada, its U.S. variant, NSRPF, began trading on the OTC in September of that year and continues to this day.)

Of overwhelming significance is the presumption, on the part of both Moriarty and Hennigh, that this part of Western Australia marks a similar age to, but in a different basin of, the giant South African Witwatersrand gold deposit, site of almost 30% of all the gold ever mined on the planet. (At one time both would have been on the same proto-continent. –*Vaalbara*)

What does appear to be similar, is that much of the Wits has been made up of "stacked" conglomerate reefs, laid down in layers over time, like sediment in a stream bed. As many as 30 of these stacked reefs have been mined in South Africa. How many layers might there be in the Pilbara? How extensive might this kind of depositing be? Tantalizingly, Novo has observed that the beds of conglomerate dipping into the ground at Karratha (in which Novo has staked a 100% interest in over 6,000 sq km of mineral rights in that region) seem to be the same ones (also gold-bearing) that pop up again at Bellary Dome, nearly 300 km to the south—giving a sense of the area's scale.

Bob made the following points: Most of the world's mineral deposits are concentrated through hydrothermal action deep in the earth, involving tremendous pressure and heat, via fresh or salt water. Then a mineral source, and a heat source, like a volcano are needed. Finally, you need fluid movement and a mineralization event that moves it through cracks in the earth.

But here we are dealing with another type of mineralizing formation. Precipitation of gold from seawater was likely responsible for initially depositing much of the gold now found in the Pilbara. Oversimplified (but hopefully more accessible to us non-geologists), the gold got there as follows:

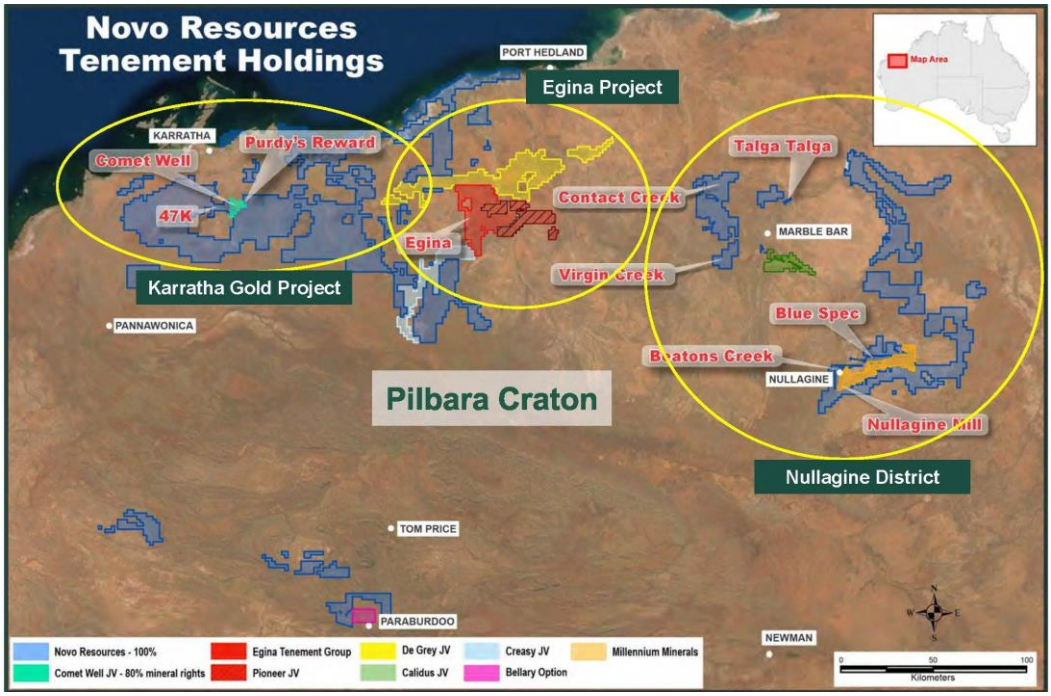
Ocean waters' chemistry billions of years ago enabled it to hold hundreds to thousands of times more gold in solution than it does today. Quinton has postulated that chemical changes including the introduction of oxygen into Earth's atmosphere caused the gold to fall out of solution. Western Australia's Pilbara and Witwatersrand are identical in age and rock type. Though as Bob has mentioned, even though the precipitation theory of gold deposits will long be debated, "*If iron can precipitate out of water (which it has), then why can't gold?*"

From 2012 on, Bob Moriarty and several others, including geologist Dr. Keith Barron, who in 2006 in Ecuador made one of the largest gold discoveries of the last quarter century, have written about the Novo story, as each time work in the Pilbara unlocked more of the area's gold secrets, taking the company (and this report) to where it is today. It should also be mentioned that in the interim, the stock—then trading as NVO-C—ran from C$0.45 to the high in October 2018, at US$7.08. At this writing the price is currently trading around $2.65.

Novo Resources is now moving forward, having explored in the Pilbara region for almost 10 years, stockpiling ore, and getting ready to begin gold production early in 2021. A solid cash position ($60m) due to equity raises and a senior secured debt facility from Sprott Lending, goes along with the acquisition of Millennium Minerals, purchased from IMC Holdings. The Company intends to make a new gold camp in the Pilbara, which has long had a reputation as "an iron ore camp."

Reconditioning a formerly-producing mill with tailing storage facility, admin structural facilities, and 230-room camp is underway. As Quinton says in the TMR Mastermind interview we conducted with him on Sept 30, "*We're in the biggest gold bull market in human history, and we're hitting it just right.*"

A Frasier Institute Survey ranks the Pilbara as the top rated operational locale on the globe. It has been largely unaffected by COVID.



Photos courtesy Novo Resources

The Beatons Creek Project, which will provide the base load production going forward, is "shovel ready" and now being permitted, showing over 450,000 Au ounces of Resource in both Indicated and Inferred categories. "With grades running 2-3 grams of gold, it is set to be one of, if not the highest-grade open pits in Australia." It's a metallurgically-friendly deposit with free-milling gold, displaying exceptional gravity recovery, with cyanide catching the rest. There is easy access in getting ore to the mill, which intends to operate at close to its historic throughput of just under 2mt/year. The operation will have a much higher grade mineralization, and an anticipated 95%+ recovery, resulting in substantial cash flow.

Novo's most advanced project, Beatons Creek, is a bedded, stacked sheet-like conglomerate hosted gold system, about 2 km in diameter, with flat layers of boulder conglomerate each 1-2m thick. Ore is free milling and non-refractory with free particulate gold occurring in a sandy matrix. A trial mining exercise was successfully conducted four years ago, stripping the waste rock off and mining a bench of conglomerate to confirm the predicted continuity. "*It was all free dig with no drilling/blasting—basically stripping the overburden, then selectively mining the conglomerate, and achieved 100% recovery of the targeted conglomerate bench . . . It's a flat-lying stacked system, with two to six conglomerate beds in any given location.*" (QH)

Also from Quinton—

The conglomerates at Beatons Creek are very conducive for expansion, they're sheet-like deposits, and there's no mystery about them continuing. We know that there will be extensions of these deposits, both laterally from the existing reefs, as well as underneath the existing pits. We think we can grow the resources by 50% to 100%, very quickly, very easily. We also see down dip potential. These beds go into the basin for some distance. I think that we'll see underground mining here in the not too distant future, perhaps 5 to 10 years out. People are starting to look and realize the underground potential payoff.

As for our similar Karratha deposit in the west Pilbara, we can mine this thing, like a gravel operation then crush, screen, and mechanically sort material to generate a high-grade concentrate that can be shipped over to Nullagine and put through the mill along with Beatons Creek ore. This is a wonderful outcome for this project, but that's only the beginning. Our Egina project, in the central Pilbara, is Mother Nature's pre-milled gold deposit, in my view. The gold-bearing Fortescue age rocks in this area have been eroded away and washed down onto the Marine Terrace surface, just inboard from the Indian Ocean. This vast area is covered by a sheet-like gravel deposit. The terrain is unbelievable, it looks like West Texas. That gravel horizon, from what we can see, is maybe a meter or two thick and it covers literally tens of hundreds of square kilometers.

The grades we're seeing here are very encouraging. People ask, will this be economic? Based on what we're seeing right now, these are grades that are at or above most alluvial operations; in fact, perhaps significantly above, and this should bode well for potential economics.

Our initial target area is about 170 square kilometers underlain by these gravels. My goodness, imagine if even half of these things are economic, this is the kind of system that could be mined for tens of years, quite frankly. This is like the Skeleton Coast where a vast lag gravel deposit yields a high value commodity, in that case diamonds. We think we'll have a very similar scenario to the diamond mines of De Beers along the Skeleton Coast—a very long mine that just goes and goes and goes.

The implications of "a very long mine" coastal Alluvial operation to which Quinton refers could be so profound on the longer-term fortunes of Novo Resources, that this report would like to pause briefly and insert a production description taken from DiamcorMining.com as to how it's done for diamonds. When you see the word "diamonds" think of a gold harvesting analogy and visualize how relatively easy, consistent and long-term profitable this type of gold harvesting would be:

Diamcor defines Alluvial projects as the exploration for, and mining of, near surface diamond bearing gravels. Alluvial deposits are the result of the pre-historic erosion of the top surface areas of primary Kimberlite sources by ancient rivers or events, and the recovery and processing of associated gravels to recover diamonds which have been transported and deposited along reasonably well defined areas over which these ancient rivers once flowed. These deposited settled alluvial gravels, and the associated diamonds, are typically found under varying layers of surface structure along graduating terraces in the various key areas over which these paleo-rivers once ran. Diamond bearing alluvial gravels typically produce gem quality stones as a result of the way and distance they have been moved by the paleo-rivers from their originating sources, as the washing or rolling effect of transporting the diamonds tends to destroy small, lower quality stones during the process, while polishing, rounding, and depositing the larger better quality stones into the various settlement areas.

Unlike the capital intensive methods of recovering diamonds underground from a primary Kimberlite source, the alluvial gravel recovery process is done via a simple strip mining and earth moving process using heavy equipment with no requirement for any underground work or associated infrastructure...Given the nature of both Alluvial, and Eluvial deposits, they can typically be recovered via simple strip-mining methods, and as such they can be brought into production relatively quickly. The Company carefully targets and selects certain alluvial and eluvial projects due to their potential to generate near term production.

If a build-out of the Company's greenfield exploration and analyses of these coastal alluvials is correct, it could over time, provide almost a "stand-alone" gold production pipeline apart from, but absolutely accretive to, the efforts of the Company's nugget/conglomerate reef efforts elsewhere on their WA holdings.

I'll summarize by saying, our focus, as far as production goes, is going to start in the East Pilbara, especially Beatons Creek, but there's lots of exploration potential within the region . . . The cashflow is going to allow us to advance our Egina project even faster. So we have a foundation for production for Novo for the foreseeable future. We're very excited about making this transition to a producer. I think Novo will become one of the highest margin, mid-tier gold producers in the not too distant future. (This writer's underline.)

What Quinton really likes when he's looking for a new gold project. *I like to look at gold systems that are big, potentially world-class systems, ones that are potentially very valuable. You can kind of discriminate. If you look around at populations of various types of gold deposits, you say, "Hmm, which ones make the most money, which ones are the most prolific and make the best return?" Conglomerate gold . . . absolutely. Also alkaline gold systems like Tuvatu in Fiji have that kind of potential. Look at analogs like Porgera and Cripple Creek and so forth, all very high margin gold production.*

But then you have other systems like high level orogenic deposits, epizonal systems like Fosterville, these are fantastic. When I see one of these, I get very excited and, as people know, New Found Gold is a perfect example. I think they're going to find the next Fosterville. The best part of New Found Gold is they're not drilling 800 meters deep to get at it, they're seeing very high grade very close to the surface. I think that'll be an exceptional story.

At Novo, we picked up the Malmsbury Project recently. Malmsbury is in Victoria and it's due South of Fosterville—the same geologic regime as Fosterville. I see Malmsbury as being a Fosterville analog within the Victorian Goldfield and Novo now owns it. These are the kinds of systems I like.

5-10 years out, underground mining will likely to come into play.

Now that you have a mill, you need to start thinking about district-scale production. Several nearby deposits (all on Novo's property) are starting to look like Beatons Creek mirror images.

Like layers of an onion, looking at the different layers of potential for the entire Pilbara. *At Purdy's Reward and Comet Well near Karratha, there are conglomerates in a continuous sheet-like system, much like Beatons, with the difference being that the gold is coarse grained with multi-gram nuggets occurring in the conglomerate matrix. In trying to assess the grade in 2018, bulk samples were collected in locations along 3-4 km of strike. A range of grades from one to six grams per tonne was determined. Mechanical sorting work determined that, from crushed rock, over 90% gold recovery could be accomplished, yielding a low mass concentrate—a few kilograms out of a tonne of rock.*

Steinert, a German mechanical sorter company, has worked with Novo to the point that particulate gold can now be sorted down to 0.6mm (600 microns). Novo's sorting machine being produced there is to be delivered in Q4 2020, at which point Novo will undertake crush-screen-sort trials beginning early next year. Assuming Karratha conglomerates can be mined like a gravel operation, i.e. crush/screen/sort, it will be able to produce a high-grade concentrate.

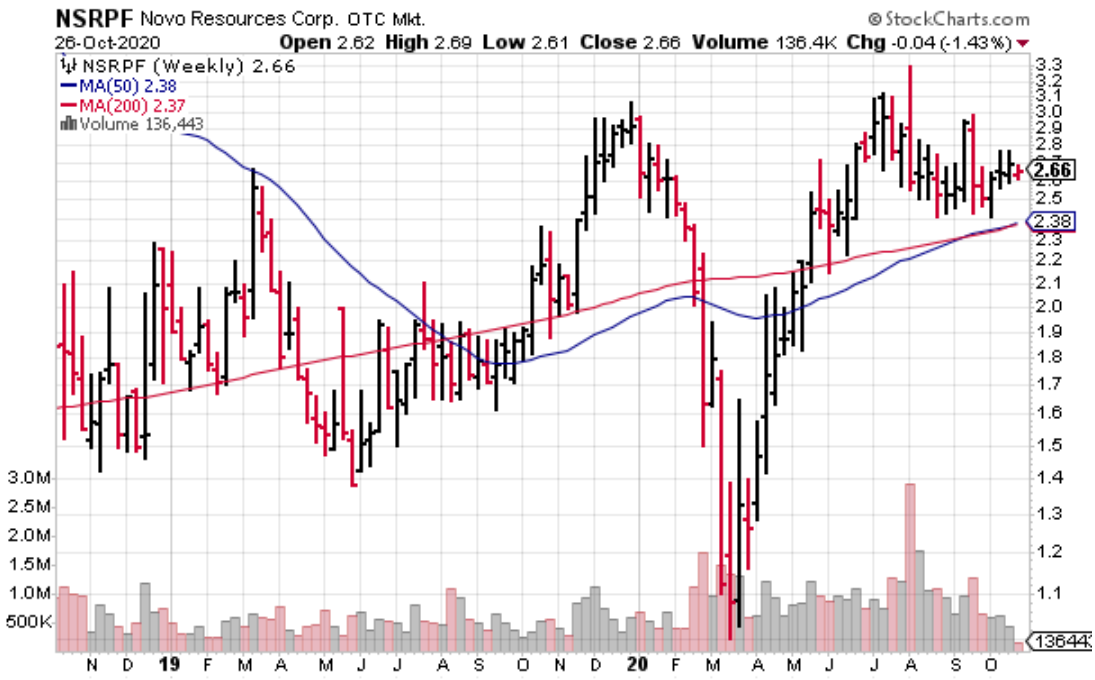
In situ gold nuggets frozen in matrix materials

Novo's Ancillary Value-Added Holdings. Hennigh's Novo Resources holds 11% of New Found Gold Corp. Even at current/share prices, this is no small detail. Currently, NFG has 157m shares fully diluted. At US$3/share, not far above current prices, the math on this works out to about $45m (15m shares x $3.00), a considerable "in the bank" sum. And should New Found transform itself into a major gold discovery (see our 10/07/20 Alert: New Found Gold. TMR Alert: One to Watch (Closely)) the shares' value could certainly "buoy" Novo's war chest potential. (For more background via Australian Mining see https://tinyurl.com/y45b2ddo.)

New Found's terrain appears to have been created via an *orogenic* ("mountain building process")–where two tectonic plates colliding (a "crustal suture"), create stress, causing faults to open at surface going down to the bottom of the crust. Enormous pressure and heat are created along with water, which scavenges metals, especially gold, which reciprocates into veins.

Technical Take

Daily NSRPF



Weekly NSRPF

Nearby daily and weekly NSRPF charts offer some information on the price trend.

The Daily shows the 50 Day MA to be stretched well above the 200 Day MA, a strong indication of a continuing bull trend. The Weekly chart shows probable support at the convergence of the two MAs with declining volume into declining prices, another positive trend. The 5-year chart (not shown) indicates narrowing Bollinger Band action, broad swinging Money Flow action, record high On Balance Volume, and a declining Accumulation Distribution pattern.

Taking a position in NSRPF

"Normal" volume on the OTCQX runs from about 300k to a recent high (on 8/3/20) of almost 3 million shares. The OTC bid-ask (buy-sell) can run anywhere from 1.5 to 16 cents, so it pays to watch for a narrowing of that spread when you want to buy. If it's just a couple of cents, you can place a LIMIT order to buy at the Ask and let it go at that. If the spread is, say, 10 cents, you can still play around and maybe get a fill by placing your order in the middle to the upper two-thirds of the current range. The last price traded can sometimes give you an idea of what will be accepted in your order.

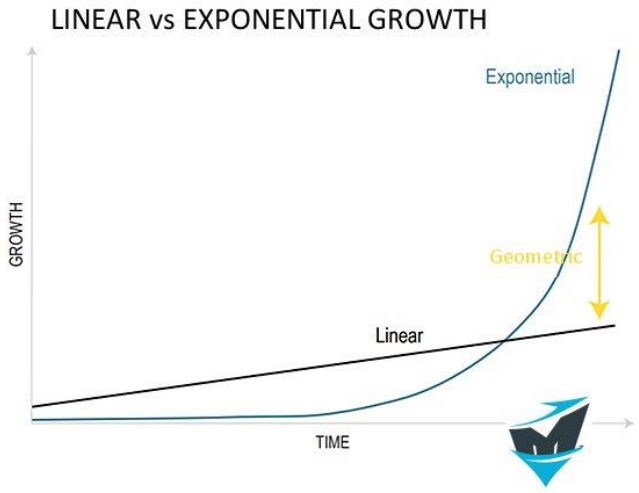
Conclusions

Linear vs. Exponential Growth

In very rare circumstances, a correlation of moving parts consisting of skilled management, an industry-changing approach, correct cyclical and secular timing, low country/regulatory risk, and an approach to solving a production problem that is unique for the industry can combine to elevate a company's share price from a linear progression to one of exponential growth and profitability. Only a few stocks out of the universe of many thousands of companies will ever accomplish this.

And if even one core component is not sufficiently acted upon, even an incredible story stock may be taken overtaken by events—or by competitors. A classic example of this is EnviroLeach Technologies (EVLLF/ETI), a stock TMR has long written about, believed in, and supported. We (still) see it as having a proven, transformative process that can change both eWaste reclamation and gold ore production in paradigm shifting ways. Yet, frustratingly, so far their business model has not been built out in such a way that convinces the market or enables its share price to appreciate in a manner indicating some connection between price and value.

An exponential rise in any stock is seldom predictable in advance, but if enough of the necessary components combine synergistically to create a sum considerably greater than the total of its parts, the stage can be set for such an occurrence. It is extremely difficult to time where in the linear progression launches into a geometric price rise (see nearby chart for the visuals). Because of its rarity and often long runway along the linear progression line before (and if!) a rocket launch, it catches almost everyone by surprise, to the point that few perceive it until after much/most of that geometric surge has taken place.



Some well-known (in retrospect) examples would be Microsoft, Amazon, and Apple. This writer knows several people who held—and sold—Apple during its multi-year trading range between about $12 and $75. None of them ever imagined that it would/could do much better. An individual from the mining sector who this writer knew personally, actually worked for the company. It was Seabridge Gold. This person had options that came “in the money” around 38 cents. When the shares went to 95 cents he sold completely out, taking “a tidy profit.” Over the next few years that stock went to $40 . . . twice.

Looking at the elements listed above and applying them to Novo Resources, a case can be made that it has the potential to accomplish such a feat. If so, it will almost certainly take a number of years to build out, most likely reaching lift off late in this secular cycle (2026?), but it’s difficult to find another mining exploration-production story that seems to have the necessary existence and potential combination of elements that would even make it a reasonable consideration. If this idea appeals to you, review the data points presented in this report and see if you agree. The approach then might be to take a good-sized position, sell enough into great price strength to recover all of your investment, and then just let the stock position ride . . . for the long term.

Project Summary: Novo's four current projects are fully-permitted Beatons Creek (900,000 ounces at c. 2g/tonne, with support from Sumitomo Corporation with a pre-approved $65m.); Comet Well (Karratha) to be advanced by bulk mining and trial sampling; the *Égina* marine gravel project (not conglomerate, but rather an area where the old conglomerates have eroded away, with the gold that was in conglomerates being reworked into trenches of geologically-modern surface gravel, in an area that literally goes on for miles); and 14,000 sq. km of greenfield exploration, *"having now identified over 1,000 km of geologically-prospective outcropping non-conformities. The plan is to first put Beatons Creek into production, using the cash flow from it to conduct exploration throughout the Pilbara and advance the other projects toward production.*" -CEO Rob Humphryson

Banking on Gold. There has been some talk that once Novo Resources becomes debt-free, the thinking would be to consider holding some gold production back, and possibly even some operating capital in that form, thereby participating in the potential ongoing upside, as well as side-stepping being in a totally fiat holding position.

Most mining operations, operating largely hand to mouth, are simply not in a position to even consider a strategy like this. However, if Novo's free cash flow after operating cost is sufficient, this could be something that would be both a real draw for shareholders and serve as an inspiration for the gold mining industry at large.

As the final unraveling the global debt scheme the world has endured for the last few decades plays out (perhaps by around 2030?) it's likely that some of the most well positioned players—individuals and companies—who hold precious metals will be in very strong financial positions. Harking back to what J.P. Morgan once said, "Gold is money. Nothing else." If Novo Resources can move into that space where they do indeed hold a goodly amount of gold as operational and growth security, they will almost undoubtedly see their status in the industry move up to the next level. Because as Egon von Greyerz recently said:

As the world's central banks desperately fight for the survival of the world financial system, they will print unlimited amounts, initially in the hundreds of trillions and when the derivative bubble bursts, we are likely to see quadrillions of dollars, euros, etc., being magically created out of thin air. Whether this will be current dollars or euros or new digital currencies will make zero difference. Fiat money will always remain fiat money, whatever spin central bankers will put on it.

An excellent video summary of the Company's projects can be found at https://www.b-tv.com/novo-gold-resources-gold-projects-corporate-video/.

Notes: Data and clarification portions highly relevant to this report consist of comments from the September 2020 Mastermind Interview we conducted with Dr. Hennigh (archived on TMR for MM members), interviews Dr. Hennigh has posted on YouTube, and on the Novo Resources website.

ACCESSING 321 GOLD's relevant Novo coverage – (free) access to a series of essays Bob Moriarty has penned over the years about Novo and the Pilbara can be found archived on his website http://321gold.com/. From the second box titled "Gold Silver $$$" drop down to "lots more here click," then *Browse Author by name*, Choose an Author, View all articles for this Author, (select) "Moriarty Bob" and click on the relevant essays.

Disclaimer: This writer, David H. Smith, holds shares in Novo Resources and New Found Gold, purchased in the open market.

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