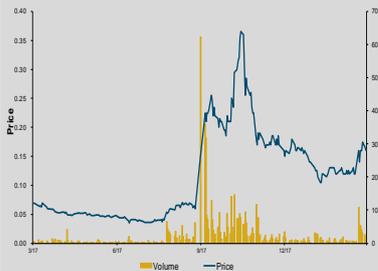


28 March 2018

12-MONTH PERFORMANCE

De Grey Mining Ltd (ASX:DEG)



Novo Resources Corp (TSXV:NVO)



Source: Cap IQ/DJC

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 Head of Research
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Pilbara Conglomerate Gold

Novo and De Grey Mining refuelling interest in Pilbara gold

Novo Resources Corp (TSX-V:NVO) and De Grey Mining (ASX:DEG) have both announced progress updates on their conglomerate gold targets in the Pilbara. DEG has announced further discoveries of gold nuggets around the Loudens' Patch, Jarret and Steel Well prospects on the western edge of its (Indee) tenement block. Although previous discoveries of 'watermelon seed' shaped nuggets had been found in alluvial channels, it has not been until now that there is direct evidence to show that gold is hosted within the conglomerate sequence in just the same way as that found by Novo at Purdy's Reward and Comet Well, 80km to the west. Novo too has released an update on the ongoing evaluation program on its tenements. Both announcements have injected some investor interest back into the conglomerate sector that appeared to go to sleep after the initial fervour.

Key Points

- DEG discovers more nuggets:** DEG has found the first physical evidence of gold hosted in conglomerates with an intact gold nugget and associated fine-grained halo of gold, found within the matrix of a conglomerate at the Loudens Patch prospect. This is the same mode of occurrence seen by Novo 80 km to the west at Purdy's Reward and Comet Well.
- Prospectivity increased around the Loudens range:** Furthermore, DEG has discovered additional nuggets and supporting fine grained gold in stream sediment sampling at other locations in the Loudens range. The total number of nuggets found now numbers 200 (90 previously) as the evidence mounts that the conglomerates at the base of the overlying Mt Roe Basalt is the source of the gold. Discoveries of gold at other prospects at the base of the basalts infers a widespread occurrence.
- Novo making progress with bulk samples:** Novo expect to receive first results from its +5 tonne bulk sampling program by mid to late April. A further 60 bulk samples are to be collected over the coming months to evaluate a 2km strike length of potentially mineralised conglomerates.
- Gold discovered in other conglomerate horizons:** In a further development, Novo has discovered gold mineralisation in other horizons within the conglomerate sequence at the Powerline showing at Comet Well. Pyrite appears frequently and gold showings have been recorded by metal detector. These detector strikes are being recorded from multiple horizons above the basal conglomerate zone. We believe this adds another dimension to the conglomerate gold story as it now appears that gold is not limited to the basal unit of the conglomerate below the Mt Roe basalt.
- Our view:** Over the coming weeks, Novo will be releasing its much-anticipated results from its bulk sampling program on its Pilbara tenements. DEG is also about to embark on the next phase of its evaluation of its conglomerate gold mineralisation. Both companies have seen a resurgent share price over the last few weeks as activity increases and results are anticipated. We believe the dormant conglomerate gold sector could receive increased interest driven by macro tailwinds for gold generally, increased interest in the Australian gold sector from overseas investors and, although still at a very early stage, specific interest in the potential for a significant gold discovery in the Pilbara.

Resurgence in interest in Novo Resources Corp

- After a hiatus in investor interest after the initial few months of fervour around the possibility of the discovery of a 'Wits 2.0', interest seems to be returning to the Pilbara conglomerate story. At the forefront of this interest was Novo Resources Corp (Novo), a TSXV-listed company that established a very large landholding in the Pilbara region, predicated on the idea that the Pilbara may host a Witwatersrand-style, conglomerate hosted gold field over an extensive area.
- Unlike most gold deposits in Western Australia, that typically exhibit steep dips, the Pilbara conglomerates dip very gently in a late Archean - early Proterozoic sedimentary basin. The requirement therefore is to establish a large land position that covered the potential extent of the conglomerate beds, most of which lie buried beneath younger sediments and lava flows.

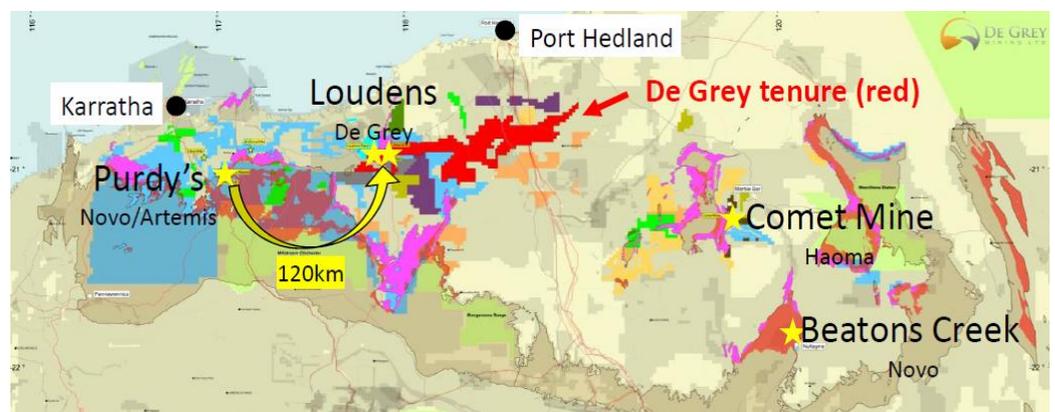


Figure 1. tenement position of Novo/ARV (green) and DEG (red)

Source: DEG

- Novo's share price and market capitalisation reached a high in 10 October 2017 at CA\$8.55, around the time of a large site visit organised for analysts, brokers and investors. As the blue-sky nature of the potential discovery gave way to the hard task of evaluating a very early conceptual gold play, the Novo share price retreated, reaching a recent low of CA\$2.61 on 24 January 2018. However, over the last few weeks, investor interest in Novo has returned, pushing the price up 101% since the recent low at CA\$5.26.



Figure 2. Novo share price – 1 year chart in CAD

Source data: CapIQ

- With the nuggety nature of the gold distribution, Novo discovered that the sample size needed to be much larger than previously thought in order to get a more robust measure of the grade of the mineralised material. This has necessitated the establishment of a sampling protocol and facility that can handle individual sample sizes of up to 5 tonnes. This is being conducted with Perth-based SGS Minerals.

Novo's new discovery: More than one gold horizon in the conglomerate

- Novo has collected several +5 tonne bulk samples from Powerline showing at Comet Well. Boulder clasts here are up to 1m across and are well rounded. Pyrite appears frequently and gold showings have been recorded by metal detector. These detector strikes are being recorded from multiple horizons above the basal conglomerate zone.
- A new gold-bearing conglomerate horizon has been identified at Powerline, approximately 20m up-dip from the basal unit. The thickness of the horizon has yet to be determined but, like Purdy's, the gold occurs in the matrix of the conglomerate. This gold-hosting bed occurs immediately above a marker horizon composed of a possible volcanic horizon containing large lapilli in a fine grained dark ashy matrix. The marker horizon has been followed on surface and also identified in several scout drill holes.
- This could be important, as a marker horizon allows a potentially mineralised portion of the conglomerate beds to be readily identified without the requirement to find gold nuggets during the exploration phase.
- Novo intend to submit a further 60 +5 tonne bulk samples from multiple trench sites over a 2km strike length at Comet Well. Novo's latest announcement indicates that the first results of the bulk samples should be available around mid to late April.

The latest DEG Results

Loudens Patch

- DEG collected 10 samples at Loudens Patch. Two were collected on the West side of the range and 8 on the east side. The west side samples show coarse nuggety gold (>1.7mm) draining from the area where many of the original nuggets were found close to historical workings in the conglomerate horizon
- Samples from the east side returned 6 positive results from the 8 taken. Coarse gold and fine 'colours' were seen in the southern end and mostly fine colours in the northern sample locations.
- A lack of positive results from the central area is thought to be related to a knoll of underlying Mallina Formation lying directly below the Mt Roe basalt, indicating that no conglomerate was deposited at this location. This is a very positive sign in our view lending credence to the theory that the gold is being shed directly from the conglomerate beds.

Steel Well

- Five samples were taken at Steel Well over a strike length of 700m with 3 of the 5 returning a positive result. All stream samples were taken between 40m and 80m of the exposed conglomerate beds in easterly draining creeks. In one sample several particles of nuggety gold were found.

- The two samples that recorded a negative result may have been due to the base of the beds not being encountered in this area and the large number of boulders encountered during the excavation, or, that the conglomerate in this area is not mineralised. DEG will perform more work in this area to determine the likely cause.

Jarret Well

- Five samples over a strike length of 500m were taken at Jarret Well. All samples record positive results, with medium to slightly coarse gold in each sample in addition to minor fine gold in four of the five samples. All samples were taken within 100m of the conglomerate,
- The best sample was taken within 15m of an outcropping ferruginous conglomerate sitting directly above the basement. Several nuggets were also found in this area (ASX announcement 30 October, 2017)

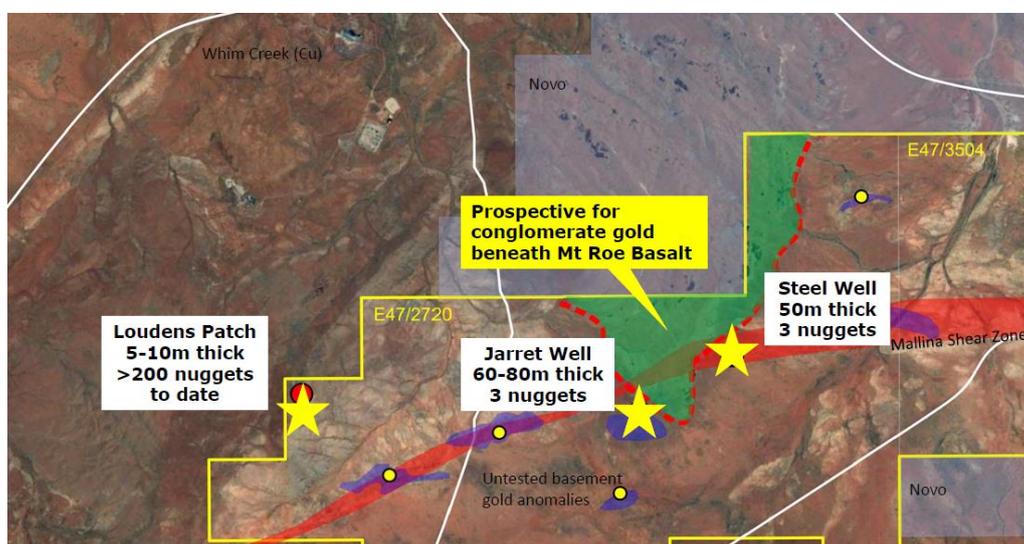


Figure 3. Location of DEG's conglomerate prospects

Source: DEG

The role of structure in the distribution of nuggets within the conglomerate

On our site visit to DEG late last year, we noted the proximity of large structures to the then known occurrences of conglomerate-hosted gold. DEG are postulating that structures active at the time of conglomerate formation may have influenced the distribution of gold mineralisation within the sedimentary sequence.

This does make sense to us and DEG is not the first to put forward such a theory. In our view it is understandable that the palaeosurface, influenced by active structures at the time, would play a role in the place of deposition of sedimentary piles of rocks, and in particular, conglomerates.

DEG postulate an active horst-graben architecture, that resulted from crustal rifting some 2780Ga. This resulted in opening of NE striking structures that may have provided the plumbing system to bring hydrothermal, gold-bearing fluids to the surface. Sediment-filled grabens, bounded by NE faults would then have received gold mineralisation, which were subsequently 'capped' by the flooding Mt Roe Basalt, that also ascended along the same architecture.

The result of this is that gold-laden conglomerates are found directly underneath exposures of Mt Roe Basalt as occurrences of both rock types were determined by the existing structure (topography).

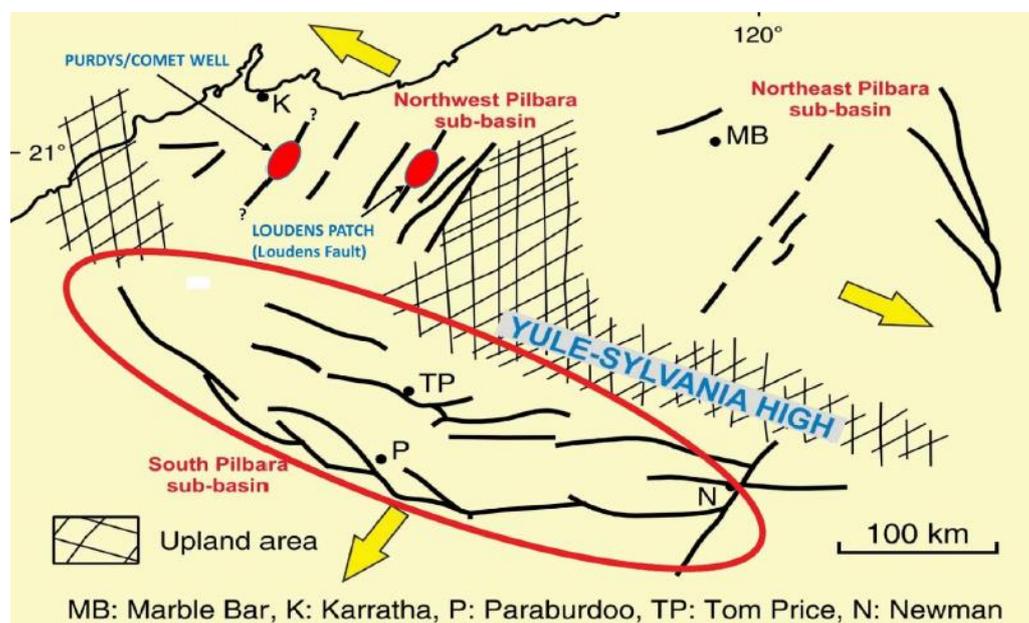


Figure 4. Fortescue Group – Pilbara Craton Rifting

Source: DEG, GSWA

Future Work

- An initial program of Works (POW) has been submitted for each area. The program will include ongoing detailed mapping, stream sediment sampling and metal detecting along the remaining 12km target strike length. Heritage clearance over the three priority targets will be required, for which DEG are in the final phases of planning.
- Subject to gaining heritage clearance DEG intend to undertake earthworks to allow for good exposure of the conglomerate; undertake better mapping to understand the stratigraphy and controls and undertake a bulk sampling program to determine the gold distribution.

Our view

Over the coming weeks, Novo will be releasing its much-anticipated results from its bulk sampling program on its Pilbara tenements. DEG is also about to embark on the next phase of its evaluation of its conglomerate gold mineralisation. Both companies have seen a resurgent share price over the last few weeks as activity increases and results are anticipated. We believe the dormant conglomerate gold sector could receive increased interest driven by macro tailwinds for gold generally, increased interest in the Australian gold sector from overseas investors and, although still at a very early stage, specific interest in the potential for a significant gold discovery in the Pilbara.

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SPECULATIVE BUY – Potential 10% or more outperformance, high risk

BUY – Potential 10% or more outperformance

HOLD – Potential 10% underperformance to 10% over performance

SELL – Potential 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

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