



BEACON ROCK RESEARCH

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RESEARCH NOTE

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Disclosures 1,2,3,4

5956 N.W. 213th, Portland, Oregon 97229

NovaGold Resources Inc. (AMEX, TSX: NG, US\$15.81)

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Barrick Increases Tender Offer to Market

Barrick Gold Corporation (NYSE: ABX) announced the fourth extension of its tender offer for NovaGold Resources Inc. (AMEX, TSX: NG). This time the tender offer was increased to US\$16.00 per share from US\$14.50 per share. Given the trading range of NG's stock since the tender offer on July 24, 2006, we see the increase as simply offering to buy shares at market. The increased tender offer price remains below the average closing price of NG's stock since the tender offer of about \$16.35 per share. The new expiry is November 7, 2006.

We were not surprised by the extension, but were surprised that ABX increased the tender offer price. Accounts in the press reported that ABX management was adamant that the price would not be increased because they saw no material improvement in NG since the tender offer was made in July of 2006. We believe the opposite to be true, that there have been numerous positive "material" events since the tender offer, but none since ABX management's recent comments that they would not increase the tender offer price. Oddly, with the latest extension, ABX management states the current offer "represents our best and final price for NovaGold." In our opinion, we would be surprised if this was either the last or the final price.

We believe that millions of shares have been purchased since the original tender offer above the original tender offer of US\$14.50. These holders may expect to receive a premium for their shares. In our opinion, NG's accomplishments should not be ignored. Numerous scheduled milestones have been passed that should have positively affected NG's stock price, and a number can be clearly identified in the upcoming 12 months. These might include receipt of a Feasibility Study for Galore Creek with securing permits and financing. In addition, NG's Nome projects are scheduled to move into production in the next 12 months. We might also expect to see drill results on all of NG's projects (including Donlin Creek) resulting in additional reserves or resources. Lastly, NG has a number of lawsuits against ABX that may provide upside for existing NG shareholders. This might include the potential transfer of management for Donlin Creek back to NG. For these reasons, seeing the upside in the next 12 months, we question whether a significant number of shares will be tendered at the current price by the current expiry.

We were initially surprised that upon extending the expiry at a higher price that the stock did to trade over US\$16.00 per share. We see this as an indication that investors with shorter investment horizons are out of the stock. As the price of NG is below the revised tender offer, we suspect there is doubt that a sufficient number of shares will be tendered to complete the acquisition. We suspect that should NG publish its Feasibility Study on Galore Creek it may become even more difficult to complete the acquisition. Should NG produce a Feasibility Study, NG may be viewed by the investment community in an entirely new way.

- Resources should be converted to reserves
- Copper resources will be quantified requiring inclusion in analyst comparisons
- Galore Creek should surpass Donlin Creek in both development and dominating valuation

One reason we thought NG's stock to trade above the tender offer is because we see the acquisition by ABX essential to maintain its growth profile. We note that ABX claims to be the largest gold producer and intends on pursuing a growth strategy. Recently ABX sold two large projects. While we do not provide research coverage on ABX, we understand they still have a large forward position that needs to be cleared. For these reasons we suspect that ABX may have no other choice but to extend and/or increase its tender offer by November 7, 2006. Should ABX withdraw the tender offer, we might expect the stock to decline before moving up and toward our 12-month target price. We suspect this could be the reason for the stock currently trading below the revised tender offer.

Interest Increasing in World-Class Copper Projects:

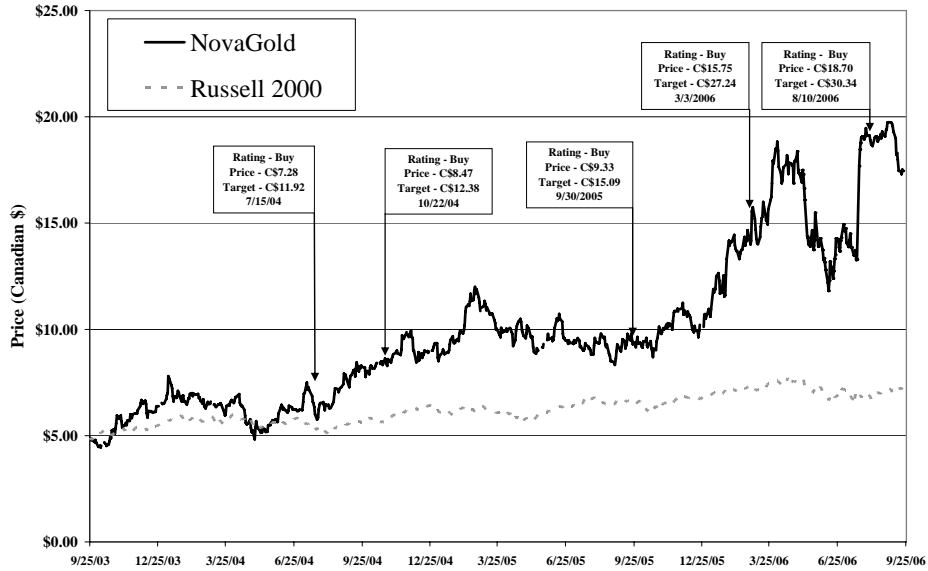
On October 18, 2006 Rio Tinto (TSX: RTP) announced an equity investment of up to US\$1.5 billion in Ivanhoe Mines. (NYSE: IVN). IVN's primary project is the Oyu Tolgoi copper-gold mining complex in Mongolia's South Gobi region. RTP agrees to a standstill, with full investment with exercise of warrants, in which its maximum ownership position is limited to 40% for five years. It is worth mentioning that RTP has a joint venture with NG on the Ambler project in Alaska.

The Oyu Tolgoi project has measured and indicated copper resources of 36.3 billion pounds of copper and 20.2 million ounces of gold. In addition, IVN's project has inferred resources of 36.4 billion pounds of copper and 13.9 million ounces of gold. The project has two stages in development, an open pit and underground operation. The open-pit resources have been converted to copper reserves of 8.9 billion pounds of copper and gold reserves of 7.6 million ounces. By comparison, Galore Creek has measured and indicated resources of 8.5 billion pounds of copper, 7.4 million ounces of gold, and 117.1 million ounces of silver. The second stage of Oyu Togo is deep underground which is more problematic.

The investment by RTP acquiring at most 40% of IVN provides another interesting comparable for the ABX tender offer for NG. We suspect that the Feasibility Study on Galore Creek may move a substantial portion of measured and indicated resources into reserves. While IVN's project includes substantial other resources and assets, much of the resource at Oyu Tolgoi is very deep and the project exposed to unique political risk. In addition, NG's assets extend beyond Galore Creek to include Donlin Creek, the Nome project, and Ambler resources as well as other assets. This is just one more market reference that causes us to be skeptical of the fairness of either ABX's original or revised tender offer.

Conclusion:

We retain our **Buy** recommendation and 12-month price target of **\$27.00** per share. Our target price is based on our belief that NG will complete its milestones on schedule. We also reiterate our **High** risk rating due to the potential for volatility with sustained declines in commodity markets or the potential that ABX may not extend the tender offer. Considering ABX's production pipeline, and uncertain ownership disposition of Donlin Creek, we don't see them backing away. In addition, we also see the ongoing litigation between NG and ABX providing potential additional upside to NG shareholders, though difficult to quantify.



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This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Chartered Financial Analyst Institute (CFAI). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on a recovery in the U.S. economy, and relative multiples, were employed. The target price was calculated on comparative EPS, sales and book value multiples, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

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- Buy** Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
- Hold** Holding the stock is recommended because the share price's appreciation potential is less than or equal to the market.
- Sell** The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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- High** The security is more volatile than the market and/or the company is more leveraged than its peer group.
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