



BEACON ROCK RESEARCH

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RESEARCH NOTE

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Disclosures 1,2,3,4

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NovaGold Resources Inc. (AMEX, TSX: NG, US\$15.75)

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Tender of NovaGold Shares Still Unsupportable and Premature

We offered our opinion that Barrick Gold Corporation's (NYSE: ABX) tender offer of US\$14.50 per share for NovaGold Resources Inc. (AMEX, TSX: NG) was unsupportable in our Special Report dated August 10, 2006. Now that NG has received a bankable-Feasibility Study on its Galore Creek project and initiated construction of its Rock Creek project in Nome, we find the revised tender offer of US\$16.00 per share to be even more unsupportable.

The revised US\$16.00 per share offer should cause investors to revisit the reason for ABX's numerous extensions. It is recognized that Donlin Creek will not be in construction until 2010. ABX acknowledged in court that the project is 2-3 years behind schedule to begin construction. This is a plausible and obvious motivation for ABX launching the hostile takeover. The tender offer benefits ABX as it would eliminate the contract terms of the Donlin Creek agreement. Should they fail to produce a bankable Feasibility Study and make a "meaningful" construction decision on Donlin Creek by November 2007, ABX would be subject to NG declaring that they had failed to complete the earn-back requirements to increase their ownership to 70%. We believe NG's investors, as a minority partners in Donlin Creek, should be entitled to compensation from the manager of the project, Placer Dome or ABX, for failing to keep to the agreed upon schedule.

Investors should consider the consequences of accepting a US\$16.00 per share cash offer. Long term investors may suffer a potential tax impact of accepting an all cash offer, as well as losing their ability to participate in the revaluation of NG's assets as they move to production. This was fundamental to our original investment thesis. In addition, recent investors should consider the opportunity cost of not being able to locate an investment with a better risk adjusted prospect in the near and long-term within the gold and copper sector. Our 12-month target price of US\$27.00 per share is based upon completing scheduled milestones in the next 12 months. It conservatively does not include the upside of resource expansion, reclassification of additional reserves, or locating third-party investors.

Given NG's record of delivering on their timelines, we believe the current price of NG's stock provides an attractive entry point from a fundamental and technical point of view based on our investment horizon of 12 months. While we suspect ABX may have to extend the latest tender offer expiry, there is good reason to suspect that ABX may grudgingly increase the tender offer. Since the Denver Gold Forum we have noted an increase in unsolicited comments from institutional and retail investors who clearly recognize the upside in holding onto their shares. We find it interesting that some investors have grown weary of revised circulars.

Investors Require Comprehensive Update of Donlin Creek Status to Determine Fairness of Offer:

Now that NG has produced a Feasibility Study on Galore Creek, it is entirely appropriate that investors turn their attention to the status of Donlin Creek and evaluate its contribution in determining the fairness of the tender offer. ABX has been completing a \$56 million, 80,000 meter drill program for 2006 at the Donlin Creek project.

We believe the disclosure of in-fill and exploration drill results by ABX is critical for an investor, analyst, or knowledgeable person to render an informed opinion as an appropriate assessment of value. Ethical questions persist as to ABX having what amounts to inside information in making their hostile tender offer. We see investors asked to tender shares at the US\$16.00 tender offer price as surrendering their upside which is potentially known only to ABX. We see opinions offered by analysts suggesting fairness of the revised tender offer to be questionable in their completeness being offered without this relevant information. Our understanding is that the intent of the program was targeted to convert at least 22 million ounces to Measured and Indicated resources.

We understand that ABX intends to expand its drill program in 2007 at Donlin Creek with 10-12 drill rigs. This would be targeted at converting in-pit Inferred resources to the Measured and Indicated. We believe this could lead to at least a 30 million ounce Measured and Indicated gold resource. With the completion of a feasibility study these resources would be converted to Proven and Probable reserves which would lead to revaluation. This also does not include the exploratory drill results at Donlin Creek that suggest the potential for an increase to 40 million ounces. One could speculate that the reclassification and increase in resources is made less speculative based upon the manner in which ABX has conducted the hostile take-over offer and reluctance to release their drill results.

An additional interesting nuance is that while the 2007 deadline looms for ABX, NG would not be required to contribute any significant capital until construction begins on the project, which based on court testimony by ABX, is not likely until 2010 or later. This effectively gives NG shareholders a nearly free call option on its share of potentially 30 million plus ounces of gold over the next 4 years. This also minimizes concerns expressed by some analysts about NG's ability to contribute its share of the project capital as by the time NG needs to contribute capital, Galore Creek may be in operation, which could provide NG with ongoing cash flow to fund its share of equity in the Donlin project.

Lawsuits Easy to Forget But Hard to Ignore:

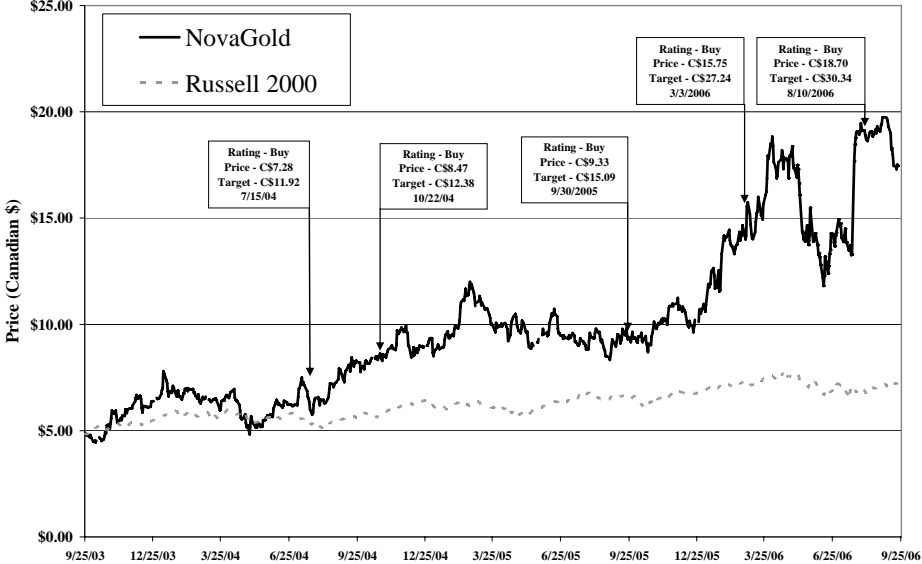
We believe that NG's lawsuits represent a significant risk to ABX. A lawsuit is in process which alleges that ABX misused confidential information in its takeover bid for NG. In addition, the court has determined a "genuine dispute" exists in NG's other lawsuit alleging ABX cannot complete the requirements in the earn-back agreement and has failed in its fiduciary duty. We believe the consequences may be quite real to ABX if they survive as derivative lawsuits by minority shareholders should the tender offer eventually be successful.

Conclusion:

We believe tendering shares of NG at the unsupportable tender offer price of US\$16.00 to be premature. We have not found a contrary opinion to ours which assigns any value for NG's 6.6 billion pounds of copper reserves at Galore Creek, the gold resource expansion potential on ABX's 2006 and 2007 drill programs, conversion to reserves at Donlin, production from the Nome assets, or other assets providing support to our opinion.

We retain our **Buy** recommendation and 12-month price target of **\$27.00** per share. We believe that what is presently known from NG on the progress of Galore Creek and Rock Creek, and the lack of potentially material information on Donlin Creek is sufficient to render ABX's revised tender offer of US\$16.00 as unsupportable. We further believe the offer does not compensate existing shareholders for lost investment opportunity should they tender shares.

We reiterate our **High** risk rating due to the potential for volatility in the commodity markets or the potential that ABX may not extend the tender offer. We would expect short term volatility should ABX withdraw its tender offer. While we do not anticipate that ABX will back away, we would expect that if they do it would provide an excellent accumulation point based on our 12-month investment horizon.



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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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