



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\$16.06)

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Barrick's Fifth Extension Set to Expire Tuesday

We retain our **Buy** recommendation for shares of NovaGold Resources Inc. (AMEX, TSX: NG) and 12-month price target of **US\$27** per share. We maintain our opinion that the tender offer by Barrick Gold Corporation (NYSE: ABX) at US\$16 per share is unsupportable. We also believe the manner in which the tender offer for NG has been conducted demonstrates hostility toward NG shareholders and NG management's efforts to create value. We see the number of shares to be acquired as a nuisance, much in the same manner as we view ABX's acquisition of Pioneer Metals Corporation's (TSX: PSM), a matter that should be settled at some point in the future.

We find it interesting that the one with the perspective of "fairness" of the tender offer is the only party with full access to undisclosed results of the Donlin Creek 2006 drill program. The value of NG's Nome and Ambler assets, or the combined value of the world-class assets of Donlin Creek and Galore Creek, is also routinely overlooked in calculating value. There is also their dismissal of lawsuits alleging misuse of confidential information, inability to meet earn-back deadlines, and fiduciary duty.

They presume a clear vision of NG's challenges, routine to those facing any mining company, with intense granularity. We understand that it is from this point of view that the tender offer is considered to be "fair." The offer at the current price would be "fair" for a buyer working to eliminate risk by acquiring NG at an attractive discount. This is the same risk investors accept today at the current price. This point of view does not respect current or longstanding shareholders who bought NG shares at market, understanding the risks inherent in advancing deposits to production, with only the benefit of public information.

A Brief Review: Donlin Creek, the elephant in the room

NG acquired a 70% interest in Donlin Creek by completing the necessary exploration and development expenditures. This began a five year period in which the Placer Dome had 5 years to advance the project to construction of a mine capable of producing 600,000 ounces of gold annually. In addition, Placer Dome was required to produce documentation sufficient for NG to finance its share of the project's capital cost. Testimony provided in court suggests Placer Dome failed to keep to a schedule necessary to meet the earn-back requirements by the November 2007 deadline to increase its ownership position to 70%.

Placer Dome was subsequently acquired by ABX who was alleged to have structured a transaction allowing ABX to increase ownership of Donlin Creek to 70% and acquire a position in Galore Creek for the swap of producing assets. The transaction would have been favorable to all parties. When NG management left for vacation, ABX made an offer for PSM, clouding development of Galore Creek, and launched an unwelcome offer for NG at US\$14.50 per share.

Barrick Positions Itself to Become a Significant Investor in NovaGold

Barrick Gold Corporation announced the fifth extension of its tender offer for NovaGold Resources Inc. The latest tender offer expiry is now set for November 21, 2006. The previous extension of the expiry increased the tender offer price to US\$16.00 per share from US \$14.50 per share and was coined by ABX management as representing their “best and final price for NovaGold.”

About 20.6 million shares, or 19% of NG’s fully diluted shares, were tendered to ABX. We understand some investors may have pulled back their shares or sold them at market with the price trading above US\$16 per share. We expect some may hold out for any increase necessary for ABX to gain control of NG. With the announcement that ABX has waived its minimum tender condition, ABX is now willing to pay US\$16 per share for NG without gaining control of the company. This is apparently a concession by ABX that a tender offer price of US\$16 per share is insufficient. It is difficult to understand what real advantage could be gained by acquiring a potentially small number of shares.

We Maintain ABX Tender Offer Not Supportable:

We maintain our opinion that the tender offer price is not supportable at US\$16.00 per share. The Galore Creek Feasibility Study’s sensitivity matrix utilizing current metal prices indicates an after-tax 0% NPV of \$5.1 billion (assuming \$2.50 copper, \$600 gold, and \$8.50 silver), or about \$49 per share. The Feasibility Study base case after-tax 0% NPV is \$1.7 billion (assuming \$1.50 copper, \$550 gold, and \$8.00 silver), or about \$17 per share. We believe estimated value at base metal and current metal assumptions sets the range of value for Galore Creek.

The upper end of this range may seem excessive. But in a previous note we explained, using ABX’s own acquisition of Placer Dome and relying on ABX comments, that the copper component of Galore Creek could at production be valued at \$0.65 per pound. This would infer that NG’s copper reserves of 6.6 billion pounds, could be valued at over \$4 billion would equate to US\$38 per share. In addition we noted Rio Tinto’s (TSX: RTP) equity investment of up to US\$1.5 billion in Ivanhoe Mines (NYSE: IVN). Simplistically, we suggested that if both projects could be compared straight across, a \$1.5 billion investment for 40% of NG would imply a total market capitalization of \$3.75 billion, or US\$36 per share.

In a previous note we compared NG’s Nome projects to the acquisition of Viceroy Exploration Ltd (AMEX: XVE) by Yamana Gold Inc. (AMEX: AUU) announced August 16, 2006. We concluded that by rough comparison that the NG’s Nome project could be valued at US\$375 to US\$500 million.

Deutsche Bank in a September 13, 2006 report on ABX offered its opinion that ABX would spin-off its share of the Ambler project. Their preliminary estimate for value was US\$450 million at a 10% discount rate. We note that with zinc and lead near \$2 and \$0.75 per pound, respectively, this asset is getting more attention.

We believe what is known about Galore Creek, Nome assets, and the Ambler project is more than sufficient to support our conclusion that the tender offer is not supportable. If only the three assets, Galore Creek, Nome, and Ambler were considered, using values of US\$1.7 billion, US\$375 million, and US\$450 million, respectively, one could foresee an acquisition of NG at US\$2.5 billion, or about US\$25 per share. If either a 30% or 70% position in Donlin Creek were considered, the transaction would be even less supportable. This could provide substantial upside for NG shareholders as ownership issues play out. In addition, we believe Donlin Creek has outstanding expansion potential. We understand that only about 30% of the drill results have been released to NG, ABX holds considerable information on the upside potential of Donlin not available to NG shareholders.

NG Conference Call Outlines Development:

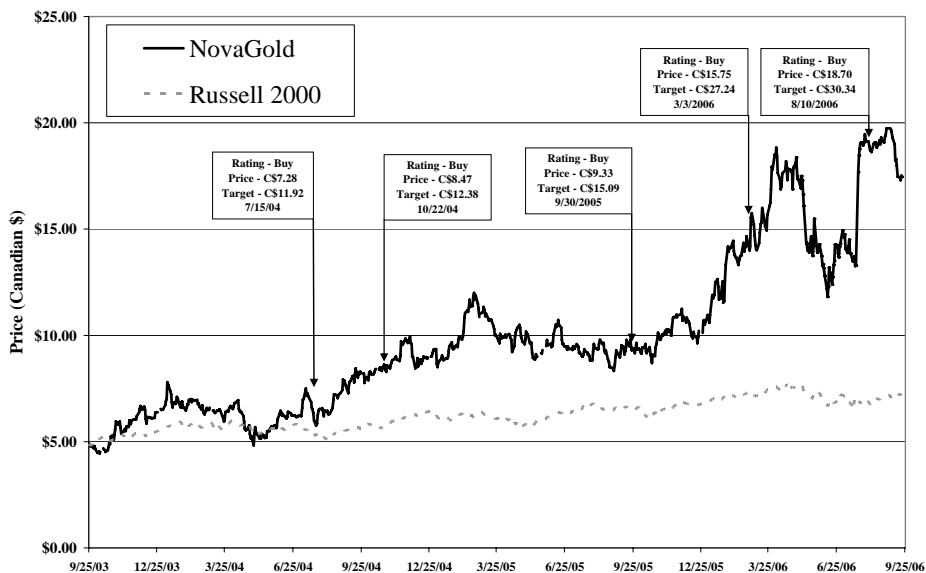
NG held a conference call following the latest tender offer expiry and provided its outlook on financing requirements for both Galore Creek and Donlin Creek. Under the agreement with ABX, NG is not required to contribute capital to advance Donlin Creek until it reaches construction which is not believed to be until 2010 or later. NG believes at that time Galore Creek would be operating and cash flow would be available to advance Donlin Creek.

NG also estimated that with project loans and a partner, their capital contribution for Galore Creek would likely be US\$300 to US\$400 million over four years with little or no contribution at Donlin Creek for several years. We see the possibility that NG upon raising its US\$300 to US\$400 million in equity capital for Galore Creek may never need to raise additional capital for its remaining projects. In addition, the Nome assets should provide over US\$30 million in cash flow for overhead and exploration which should further assist to reduce additional equity dilution.

Conclusion:

We retain our **Buy** recommendation and 12-month price target of **US\$27.00** per share. We also reiterate our **High** risk rating due to the potential for sustained declines in commodity markets or the potential that ABX may not extend the tender offer. With the recent 20% to 30% increase in the gold and copper indexes since the July and October market lows, it would indicate that NG may be trading near its unaffected market levels when considering the substantial increases in gold and copper resources since the bid was announced. More importantly, NG has materially improved the company since the tender offer in July with the completion of the Galore Creek feasibility study and the start of construction at Rock Creek.

While we believe that ABX is likely to acquire some NG shares on November 21st we do not see the absorption of these shares as negative for NG since these likely would represent the most likely sellers of the stock. We expect that with higher seasonal gold prices, NG may re-assert its stronger than average market performance as the company reassumes trading based on fundamentals. We remain confident that the current trading levels provide an attractive point of accumulation 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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- 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.
- Moderate** The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.
- Low** The security is less volatile than the market and/or the company is less leveraged than its peer group.

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