



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\$15.16)

Mike Niehuser, 503-307-3188

mniehuser@beaconrockresearch.com

NovaGold and Teck Cominco to Build Galore Creek Mine

NovaGold (AMEX,TSX: NG) announced the formation of a partnership allowing Teck Cominco (NYSE: TCK) to earn a 50% interest in the Galore Creek copper-gold project in British Columbia. It was expected that NovaGold would secure a partner for Galore Creek in 2007. We see the partnership with Teck, one of the industry's most credible companies, as clear validation of the feasibility of the Galore Creek project and the work of NovaGold's management team.

For many reasons, based on several components in the announcement, we believe this announcement will assure the market of the certainty for the development of a world-class copper-gold mine at Galore Creek. We see this as an inflection point for investors who should look on the partnership as a grand slam. Teck has validated management guidance providing clarity and assurance in three critical areas including financing, economics, and permitting.

It appears that NovaGold may be able to complete the financing of its share of the project without additional equity dilution. The project is estimated to cost roughly US\$2 billion (C\$2.2 billion). In simplest terms, NovaGold and Teck will contribute US\$500 million each from debt financing with Teck agreeing to assist NovaGold in 2008 to secure its project loans. Certainly Teck could contribute their share from cash but we are attempting to keep the math simple. Teck will contribute the next US\$478 million in addition to the US\$128 million that NovaGold has spent to date. The remaining US\$394 will be split equally between NovaGold and Teck. NovaGold reports it has about US\$262 million cash on hand, sufficient cash to meet its contribution requirement without equity dilution. This also does not include available marketable securities or cash flow from Nome over the next 4 years.

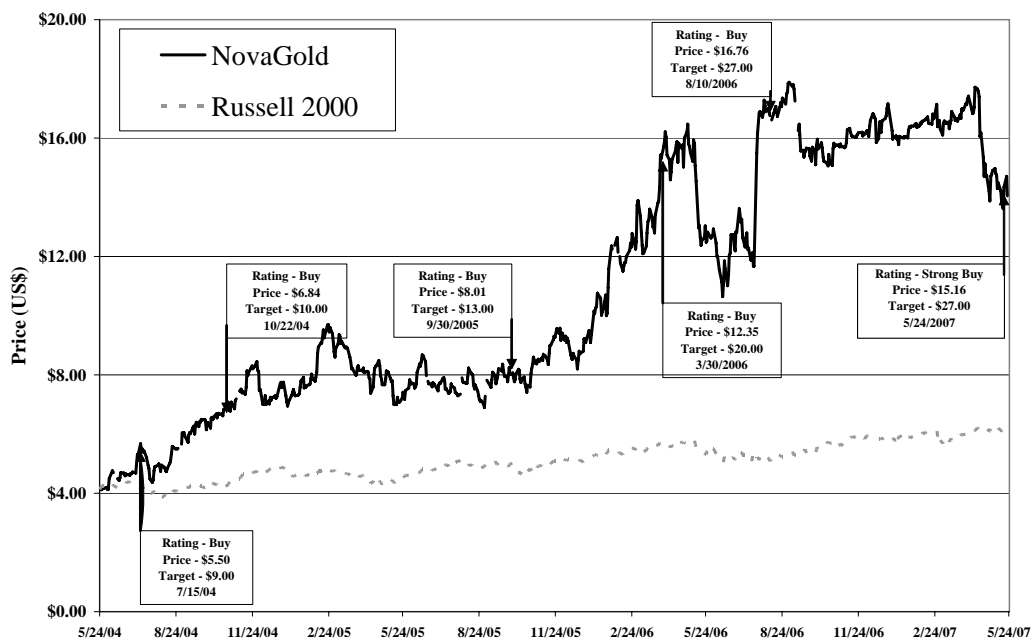
NovaGold may be able to look at other ways to maximize value of the project or to accelerate payback of its project loans by selling the silver production from the property or to possibly issue a copper note tied to its copper production. In addition, if NovaGold was to sell a copper note at \$2.50/lb on its half of the project's first year of copper production it could potentially raise over \$500 million and payback its entire project loan. More important than the risk of dilution for NovaGold is the commitment of a major mining company which supports the economic feasibility of Galore Creek and credibility of NovaGold management.

NovaGold completed a Feasibility Study and resource upgrade on Galore Creek. Presently there remains about one billion tonnes of resource that we believe has a good likelihood to be added onto the identified reserve with additional drilling and optimization. The company noted that US\$8.5 million has been budgeted for exploration at Galore Creek in 2007. We see drill results in late 2007 and the potential for a resource update in early 2008 as very likely. In addition, we believe the metals assumptions (\$1.50 Cu, \$450 Au, and \$8.00 Ag) are very conservative. While these may satisfy banker's models for debt financing given low metal prices over the last couple decades, they are inconsistent with real metal prices over the prior century. From a historic viewpoint it is difficult to reconcile the widely held perception of global growth with these assumptions. The partnership with Teck also appears to support our view of the increased resource potential and/or long term prices.

We were also pleasantly surprised by the announcement that all of the key provincial permit approvals have been received over the past month including the surface lease over the area for tailings disposal. Apparently only the Federal permit approvals for bridges remains outstanding but is anticipated to be issued shortly. The timing of these permits is important to optimize the construction season and maintain the current schedule. Once again, and a credit to several years of work by NovaGold with the Tahltan First Nation and the Province of British Columbia, for timely advancing permits that would facilitate a timely announcement of the partnership with Teck. It also provides further support to management's position that litigation over the Pioneer property should not have any impact on development, with support from both the Province of British Columbia and Teck for NovaGold's position.

Conclusion: Increase Rating to Strong Buy

With the partnership with Teck several remaining issues related to financing, economics, and permitting are answered. We are increasing our rating to **Strong Buy** from Buy and retain our 12-month price target of **\$27.00** per share. NovaGold also remains on our "top pick" list for the resource sector. We see the initiation of construction at Nome and resolution of issues relating to ownership at Donlin Creek as potential catalysts in 2007. The change in rating is consistent with improving fundamentals for NovaGold and a reduction in company and project risk. We also reiterate our **High** risk rating due to the potential for sustained declines in commodity markets.



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