



# 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

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**NovaGold Resources Inc.** (AMEX, TSX: NG, US\$10.00)

Mike Niehuser, 503-307-3188

[mike@beaconrockresearch.com](mailto:mike@beaconrockresearch.com)

## **NovaGold Regrouping at Galore (but Donlin Creek's the Story in 2008)**

NovaGold Resources Inc. (AMEX: NG) and Teck Cominco Ltd. (NYSE: TCK) placed the Galore Creek project in British Columbia on hold until construction costs are brought into balance with conservative long-term copper metal price assumptions. NovaGold's share price closed down about 50% on the announcement. Clearly, this was difficult news, but it was not as catastrophic as implied by market trading. We believe this may be the case as the industry is beginning to recognize Donlin Creek as one of the world's largest undeveloped gold projects.

### *Galore Creek Placed in Holding Pattern by NovaGold/Teck Cominco*

On the conference call following the announcement, NovaGold and Teck Cominco discussed the decision to place the Galore Creek project on hold. They intend on completing a comprehensive review of the engineering approach and potentially revisiting their long-term copper/gold metal price assumptions. Both companies were concerned with the longer construction schedule leading to higher labor costs in completing the tailings dam and water diversion structures. This was recognized as the primary reason for the increase in the budget to upwards of \$5 billion. Some concerns were noted with the strength of the Canadian dollar, but this was more of a concern relating to operating rather than capital costs.

We were expecting an updated construction budget in 1Q08 reflecting increased construction costs and currency issues. We were surprised by the magnitude of the increase as elements of the tailings and waste facility were underestimated in the original Hatch 2006 feasibility study. We see management's actions of putting construction on hold as prudent while they look at engineering alternatives and capital reduction. This is consistent with recent actions of other companies when faced with the same types of capital increases.

Teck Cominco indicated that they were using long term metal prices around the analyst's consensus for copper in the neighborhood of \$1.50 per pound. We note that the real price of copper over the last 130 years has averaged about \$2.10 per pound and that this figure was reduced in part due to low metal prices experienced over the last twenty years. Incidentally, these current "long-term" assumptions appear to be from the perspective of low metal prices over the past couple of decades. We believe a long-term view on metals should include periods of industrialization earlier in the last century when real prices ranged between \$3.00 and \$5.00 per pound.

We found additional comments by both company's management noteworthy. They observed that "in the last few years more than \$20 billion has been spent worldwide by the mining industry on exploration with very little success." This may easily justify spending an additional \$150 million on the project by Teck Cominco to find a way to bring Galore Creek into production. In addition, demand for natural resources by China and India may proceed unabated while analyst's optimism for increased copper production worldwide may not be realized. This position appears to be shared by other investors bullish on metal prices.

We find it interesting that both companies were in agreement that the NPV was "positive at both copper and gold prices that are significantly below where they are today." We believe, using the market's forward curve pricing for 2012 and 2013 with copper of \$2.60 per pound, that the project is viable. Consequently, neither company is interested in selling their position in Galore Creek. In addition, while both may consider writing down some portion of their investment, both appear intent on devoting resources to considering all alternatives to return the Galore Creek project to feasibility. As Galore Creek is one of the world's largest undeveloped copper/gold deposits, some carrying value appears justified, as the project is on hold and not terminated.

It is obvious that the decision placing the Galore Creek on hold had an immediate and adverse impact on investors, project stakeholders (First Nations and BC Government), contractors and employees all devoted to success of the project. In this situation, we find the speed in which both companies were able to take the project in a new direction without casting blame to be an important indicator of unrecognized value. This also provides us a level of confidence that all concerned have good reason to work toward a constructive solution.

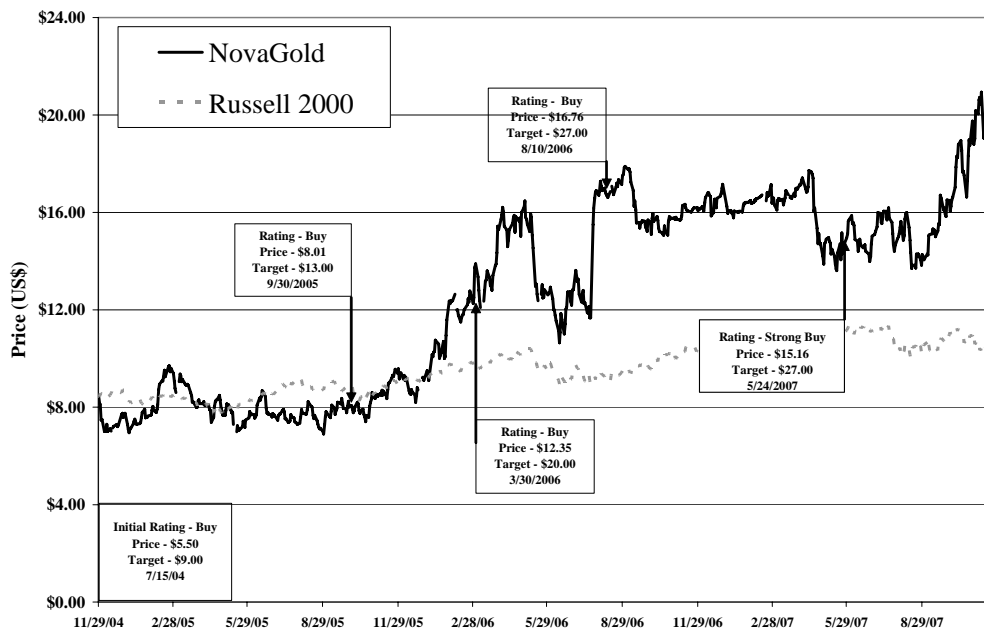
#### *NovaGold/Barrick Move Forward Together at Donlin Creek*

NovaGold Resources and Barrick Gold Corporation (NYSE: ABX) have set their differences aside and formed the Donlin Creek LLC to develop Donlin Creek on a 50/50 basis, one of the world's largest undeveloped gold projects. While investors were pleased by the elimination of a cloud of litigation, we believe this constructive arrangement should lead to significant optimization and expansion of the gold resources at Donlin Creek. Because of the lack of development by Placer Dome/Barrick, followed by the distraction of the failed takeover attempt, we have reason to believe that Donlin Creek is not fully understood by the market.

Donlin Creek will benefit from the same team which advanced Galore Creek through the permitting process, as well as the same geologists who discovered Donlin Creek a decade earlier. Doug Nicholson, VP NovaGold Resources Alaska, has been appointed by NovaGold and Barrick to be the initial General Manager of Donlin Creek LLC. Mr. Nicholson will be focusing on completing studies and incorporating Barrick's 2007 drill results to update resources, complete a final feasibility, and initiate the permitting process. It would appear that resolution of delivering power to Donlin Creek by connection with the Alaska power grid may lead to significant containment of capital costs. (Located in Alaska, Donlin Creek is not subject to currency risk assumptions which impacted Galore Creek.) In addition, further exploration will be conducted to follow up on newly identified targets outside the conceptual pit which may lead to substantial expansion of the current resource of 33.7 million ounces of gold.

Donlin Creek LLC should be publishing in-fill and step-out drill results which will form the basis for an updated resource study. Based on NovaGold's current market capitalization and 50% of the identified resource at Donlin Creek (not including NovaGold's Nome, Ambler, Galore Creek, or other assets) these ounces alone are valued at less than \$60 per ounce. We contend that with an increase and upgrade of resources, NovaGold's share of Donlin Creek is not fully reflected in the price of NovaGold's shares.

We expect that with news coming from the Donlin Creek project, gold production from Nome, and an initial economic assessment at the Ambler project with Rio Tinto plc (NYSE: RTP), NovaGold should rebuild market value and confidence. Also, with Teck Cominco allocating an additional \$150 million toward Galore Creek, there is potential for progress to demonstrate value now unrecognized. Though NovaGold lost 50% of its market value measured by its stock price on the decision to place the Galore Creek on hold, we believe the company's assets are more severely undervalued based on the recent closing price and represent a buying opportunity for investors.



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