

RESOURCE OPPORTUNITIES

...Discovering value in natural resource stocks

NovaGold, Copper Fox and Romios

The following is extracted from the November 2007 Interim Update

News that NovaGold and Teck Cominco were suspending work on their Galore Creek development project in northwestern British Columbia resulted in share prices dropping for NovaGold and a couple of other companies with projects in that area.

The decision to defer development of the mammoth project came after expenditures of \$C663 million by the two companies to date. The reason for the deferral is due to sharply higher estimates for capital and operating costs. The partners estimated that the capital cost could be as much as twice the \$2 billion figure used in the feasibility study, with operating costs also projected to be higher than originally estimated.

Reasons for the rising costs include:

- Changes to the scope of the original design, in particular related to water diversion and tailings;
- General inflationary pressures worldwide in the mining industry;
- The sharp rise in the Canadian dollar relative to the U. S. dollar;

Particularly strong cost pressures in the construction industry in Western Canada.

The economy is strong in Western Canada, leading to a very tight labor situation and high labor costs. Workers are being brought in from across the country

in response to a construction boom driven in large measure by a booming resource sector. In that situation, it has been hard to attract workers to the remote project site at Galore Creek.

While the Galore Creek project is burdened with rising costs, the long-term projections for metal prices presently being used to evaluate the project seem out-of-step with reality. The feasibility study used a copper price of \$1.25 and a gold price of \$450 for the life of the project. From the conference call, it appears that the partners considered a somewhat higher copper price, perhaps \$1.50, but nothing beyond that.

NovaGold and its major company partner have indicated that they continue to see long-term value in Galore Creek and will maintain the project on care and maintenance and expect to resume development at some time in the future.

After today's announcement, NovaGold shares immediately lost half of their value. Copper Fox (CUU-TSXV), which has a similar but earlier stage project in that region, was down almost as much. Romios Gold (RG-TSXV), which has exploration properties in the immediate area, was down 30% on the day.

Clearly, it would have been nice to get out of all of those stocks last week. At the present prices, they

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