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Rec'd from
PW - Feb. 5/07

**FAX WITHOUT ENCLOSURES
EMAIL and COURIER**

December 28, 2006

Integrated Land Management Bureau
Ministry of Agriculture and Lands
BAG 5000
Smithers, B.C.
V0J 2N0

Attention: Ian Smythe (Section Head Crown Land Adjudication – Smithers)

Dear Sirs:

Re: NovaGold Canada Inc. Surface Lease Application for Galore Creek Property

Pioneer Metals Corporation (“Pioneer”) hereby gives notice pursuant to Section 63 of the *Land Act* of its objection to the Crown Land Tenure (Lease) Application of NovaGold Canada Inc. (“NovaGold”) dated June 21, 2006 (the “Application”) covering lands described in Part 2 of the Application as being 150 km northwest of Stewart, British Columbia and 3 km south from the confluence of the Scud River and Galore Creek in the Cassiar Land District, BCGS104G013.

I. INTRODUCTION & SUMMARY

NovaGold submitted the Application on or about June 21, 2006. At approximately the same time, it filed an application for a certificate of approval of an environmental assessment for the Galore Creek Project (the “Project”). Pioneer’s understanding is that Provincial authorities have agreed to review the two applications concurrently, as one might anticipate given the fact that the Application has no purpose independent of the Project.

The Application seeks a surface use lease for the Project’s proposed tailings/waste disposal facilities. The proposed lease would cover a large portion of the Grace Claims owned by Pioneer. If granted, the Grace Claims would be effectively destroyed and further investment in or exploration or development of those claims would be effectively precluded. Consequently, Pioneer objects to the Application, as more particularly described herein.

At the time it filed the Application, NovaGold knew that Pioneer owned the Grace Claims and knew that the value of such claims would be effectively destroyed by the construction and operations of NovaGold's proposed tailings/waste disposal facilities. It also knew that to convince the Province to issue such a lease it would need to demonstrate that Pioneer's Grace Claims were sterile and worthless. However, inexplicably, despite recognizing Pioneer's very direct interest in the Application as well as its unique position to provide the Province of British Columbia relevant geologic information and perspective regarding the Grace Claims, neither NovaGold nor the Province notified Pioneer of the Application or any information submitted in support of the Application on a timely basis.

After independently learning of the Application at a later date, Pioneer initiated an exchange of correspondence with the Province regarding the Application. In particular, Pioneer inquired as to the factual basis for the Application. Pioneer repeatedly expressed its concern to the Province that the information provided to the Province by NovaGold in support of the Application may be neither accurate nor complete, and Pioneer requested full and immediate access to such information.

On September 26, 2006 – and well before Pioneer received any response to its inquiries - the Metals & Mining Division of the Ministry of Energy, Mines and Petroleum Resources (the "M&M Division") notified the Integrated Land Management Bureau ("ILMB") that the M&M Division had reviewed certain information submitted to it by NovaGold¹ and had concluded that "sufficient condemnation work has been done to extinguish the probability of an economic resource underlying the area of the proposed tailings facility".

On September 27, 2006 the ILMB invited NovaGold (and certain other parties potentially directly affected by the Application) to submit comments on the pending Application. It established a deadline of October 20, 2006 for such comments. On October 17th Pioneer responded to that request by submitting *preliminary* comments², noting that before it could submit a final response it would need to examine all of the materials submitted by the Applicant, including, particularly the materials specifically relied upon by the M&M Division. The ILMB agreed with Pioneer that it could defer its comments until it had received the report upon which the M&M Division relied. In the ensuing three months Pioneer has been unable to obtain a complete copy of that report from the Applicant or the Province, despite repeated requests, including a request under the Freedom of Information Act. Consequently, to date Pioneer has been unable to finalize its comments in response to the ILMB referral.

While Pioneer has been trying in vain to identify the information that the M&M Division identified as the factual basis for its conclusion that the Grace Claims were sterile, the Provincial

¹ Ms Pardoe of the M&M Division identified an internal file memorandum of NovaGold entitled "The Exploration and Subsequent Condemnation of the Galore Creek Valley Tailings Disposal Facility and Plant Site", by Scott Petsel, as the basis for the Division's conclusions. This file memorandum was apparently not submitted with the Application and was not made available to the ILMB or Pioneer.

² See letter from Howard Shapray to Ian Smythe et al, dated October 17, 2006, including, particularly, the attached "Preliminary Comments of Pioneer Metals Corporation on Application of NovaGold Inc. for Surface Use Lease on Grace Claims." ("Pioneer's Preliminary Comments") A copy of Pioneer's Preliminary Comments are attached hereto as Appendix 1 and incorporated herein.

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environmental assessment process has apparently continued to move forward -- as if no issues have been raised relating to the fact that NovaGold does not own or control the land necessary for the project as presently proposed. As part of that process, the Provincial Environmental Assessment Office ("EAO") has solicited and received comments from scores of parties. Such comments – and NovaGold's responses to such comments – have then been posted on the website of the EAO, as required by provincial guidance. However, despite the fact that the Province has committed to the concurrent review of the Application and its related application for an environmental assessment, and the fact that all relevant correspondence between Pioneer and the Province has all been directed to the EAO as well as the ILMB, the EAO has neither publicly acknowledged such correspondence nor posted any of Pioneer's comments, questions or correspondence regarding the Application on the Project's website. Consequently, the environmental assessment process has not been informed by any of the important issues raised by Pioneer to date and the participants in the process – both public and private - are largely unaware of the facts, issues, information – and questions - submitted by Pioneer concerning the Project.

In view of the risk that the concurrent environmental assessment/Application process for the Project will continue to proceed without being fully informed by Pioneer's submissions Pioneer has determined that it is necessary to file formal Objections under Section 63 of the *Mineral Tenure Act*. In that way Pioneer can ensure that the serious issues it has raised are addressed in that context while it concurrently takes appropriate action to ensure that its various submissions will also be properly recognized in the environmental assessment process.³

The basis for Pioneer's Objections may be summarized as follows:

1. Pioneer objects to the Province's consideration of the Application at this time because the Applicant has failed to adequately develop and disclose the information necessary to fully evaluate the Application.
2. Pioneer objects the consideration of the Application or the granting of a surface lease because the information that has been submitted by the Applicant is incomplete, unreliable and in many important respects, simply wrong.
3. Pioneer objects to the Application because the data that is available – from the Applicant and otherwise – illustrate that the Grace Claims in fact have significant value and potential. Consequently, it would not be in the public interest to grant an Application that destroys that potential unless and until the planned exploration activities of Pioneer are completed.
4. Pioneer objects to the granting of the Application during the pendency of its exploration efforts because the *Mineral Tenure Act* provides Pioneer, as the owner of the claims, the right of access to the claims for the purpose of exploring and exploiting the claims.

³ See section IV (5), *infra*.

Feb. 22/07⁵.

Pioneer notes that the environmental review process for the Galore Creek Project is ongoing and that a determination on the Application cannot legally be made until an Environmental Assessment Certificate is issued.

6. Pioneer notes that it would not be in the public interest for the Application to be considered during the course of pending litigation regarding whether the information on which the Application is predicated has been obtained by NovaGold by misrepresentation or other inappropriate means.
7. Pioneer notes that under the circumstances presented here it would be a denial of natural justice to Pioneer for the Application to be finally determined without a public hearing at which time the Province and the affected parties can address and fully develop the contested factual issues that form the basis for the Application.

II. OUTCOME SOUGHT

Pioneer is seeking the following outcome in response to its objections (the "Objections") to the Application:

1. Pioneer requests that the Minister of Agriculture and Lands defer any action on the Application pending resolution of the issues raised in these Objections, including but not limited to complete disclosure by the Applicant of all data it references in the reports it has submitted in support of the Application, and if required, remove the Application from the Provincial concurrent permitting process. Pioneer and other interested parties should have an opportunity to comment on the additional disclosure by the Applicant and only then should the Minister make a decision.
2. In the alternative, a hearing should be convened pursuant to subsection 63(2) of the *Land Act* so that the serious issues raised in these Objections can be properly considered; or
3. In the alternative, Pioneer requests that the Minister of Agriculture and Lands deny the Application.

III. BACKGROUND FACTS REGARDING THE GRACE CLAIMS AND THIS APPLICATION.

Pioneer is the recorded holder and owner of the Grace Claims, as more specifically and legally described as follows:

Tenure Number ID	Claim Name	Owner	Map Number	Good to Date	Status	Mining Division	Area (hectares)	Tag Number
404921	Grace 4	138222, 100%	104G013	2014/Dec/01	Good	Liard	500	242520

Tenure Number ID	Claim Name	Owner	Map Number	Good to Date	Status	Mining Division	Area (hectares)	Tag Number
404922	Grace S	138222, 100%	104G013	2014/Dec/01	Good	Liard	500	242521
516161		138222, 100%	104G	2014/Dec/01	Good		543.835	
516163		138222, 100%	104G	2014/Dec/01	Good		1244.967	
517480	Grace G	138222, 100%	104G	2007/Jul/12	Good		52.637	

The Grace Claims are located immediately north and east of the Galore Creek property (presently owned by the Stikine Joint Venture), upon which NovaGold has announced its intention to develop a large gold/copper mine. Since March 2004 NovaGold has conducted limited activities on the Grace Claims under the purported authority of a March 26, 2004 Option Agreement (the "Option Agreement") between Pioneer and NovaGold. Since 2005 Pioneer and NovaGold have been engaged in litigation regarding the Grace Claims and the Option Agreement. The litigation involves Pioneer's allegations of misrepresentation by NovaGold in connection with acquisition of information in support of NovaGold's Application.

To date no mineral resource or mineral reserve estimates have been completed in respect of the Grace Claims – nor could an estimate properly be based on the limited drilling conducted by NovaGold under the Option Agreement. However, the field activities in 2004 and 2005 have identified, in five of the sixteen boreholes drilled, significant gold silver and copper mineralization.⁴ Six additional holes, publicly described by NovaGold as "condemnation holes" were apparently drilled in June 2006. Full results of those holes have not been presented to Pioneer.

It is important for the Province to focus clearly on the effect of granting this Application; it would totally destroy the prospective value of the Grace Claims. This is not a case where an applicant is seeking a surface lease for purposes that will not interfere with or that will only minimally impair the rights of the mineral tenure owner. In this case, the very purpose of the Application is for the Applicant to bury the land embraced within the Grace Claims with a billion+ tons of waste and tailings and otherwise utilize the space for its own construction and operating activities. There is no doubt that if the Application is granted further investment in the Grace Claims, and further exploration and potential development activities on the Grace Claims, is effectively precluded. All of Pioneer's interest and value in the claims will be destroyed.

Figure no. 3 in a report authored by Brown, Ispolatov and Mann (the "Brown Report") attached hereto illustrates that the projected tailings and waste rock facilities would consume a significant portion of the Grace Claims. Whatever part of the proposed lease that would not be covered in waste would apparently be available for other NovaGold facilities. Whatever remnants would be left of the Grace Claims – outside of the proposed NovaGold leasehold – are located in the higher slopes of the valley, on three sides of the proposed

⁴ See Brown (December 2006) attached hereto as Appendix 2.

leasehold. Those remaining pieces would be rendered effectively useless for mineral development, as access would be significantly impaired and none of the remnants would be large enough to permit significant or economic mineral development.

IV. OBJECTIONS

Pioneer objects to the Application on the following grounds:

1. **Pioneer objects to the Province's consideration of the Application at this time because the Applicant has failed to adequately develop and failed to adequately disclose information necessary to fully evaluate the Application.**

An applicant to the Province for a discretionary surface use lease has the burden of demonstrating that any mineral claim that would be affected has been adequately condemned and sterilized. This should be a particularly heavy burden in a context such as this when that conclusion is extremely controversial, contested, and when the result of the issuance of a surface lease for waste disposal would be to destroy the multi-million dollar investment of a mineral claimant – a claimant which has a plan, the capacity, the resources and the intention to promptly fully explore and, if feasible, develop its claims.⁵

To Pioneer's knowledge, the only information submitted by the Applicant to the Province of British Columbia as the technical foundation in support of the Application are two internal reports of NovaGold: The first, apparently submitted with the Application on June 21, 2006, is a 41-page report entitled "**Summary of Exploration on the Pioneer Metals Tenures in Galore Creek Valley.**" The author of the report is not identified but it is printed on NovaGold Canada Inc. letterhead. This report (the "Summary Public Report") was posted on the website of the EAO on July 7, 2006.

The second report, also dated June 21st, 2006, is ostensibly an internal "file" memorandum of NovaGold, authored by Scott Petsel, entitled "**The Exploration and Subsequent Condemnation of the Galore Creek Valley Tailings Disposal Facility and Plant Site**" (the "Petsel Report"). This report was apparently submitted by Mr. Petsel to the M&M Division in connection with its consideration of the pending Application. However, to Pioneer's knowledge, the Petsel Report has never been provided to the ILMB or other Provincial agencies. Nor has it been posted for public review or comment on the EAO website as part of the concurrent surface lease application process or the environmental impact assessment process.

The Summary Public Report and the Petsel Report are similar⁶ but not identical. The Petsel Report includes some 10 pages of material that is omitted from the Summary Public Report submitted with the Application. As a result of Pioneer's ongoing complaints about inadequate disclosure, NovaGold recently provided an incomplete copy of the Petsel Report. On

⁵ Regarding Pioneer's planned 2007 exploration program please see section IV (3), *infra*.

⁶ While the titles of the two reports are different, the text of the Summary Public Report appears to be identical to the text of the Petsel Report provided to Pioneer, with the exception that NovaGold has "redacted," i.e., deleted, 10 pages of text – or nearly 1/3 of the body of the report, as well as deleting all appendices except Appendix No. 1.

Still?
True.

the incomplete copy NovaGold had “redacted” the same 10 pages that were missing from the Summary Public Report. NovaGold explained to Pioneer that the “redacted” 10 pages “... relates solely to work completed on other NovaGold controlled properties outside of the Grace claims”⁷. Pioneer cannot assess whether that is true or whether the information is otherwise material because such information has been withheld from it and the public and the other agencies reviewing the Application – despite the recommendation of the Ministry of Energy, Mines and Petroleum Resources that the full Petsel Report be circulated for review.⁸

While Pioneer (and the public) obviously cannot comment on a report that it has not seen, it appears that the *unredacted* text of both the Summary Public Report and the Petsel Report is essentially identical. (The two reports will be referred to herein collectively as the “Reports.”) **Pioneer’s review of the Reports reveals that they are vague, summary and conclusory and largely consist of opinions of the Applicant, which obviously is extremely self-interested in the result.** While the Reports allude to much additional information and data upon which the Reports are ostensibly based, the information and data are conspicuously absent. The Applicant has submitted virtually none of the data upon which its opinions are ostensibly predicated, effectively precluding any fully informed assessment by the Province or others of the adequacy of the foundation for those opinions.⁹

Had all of the information and data that ostensibly forms the foundation for the Reports been presented with the Application there still likely would not be an adequate foundation upon which to conclude that the Grace Claims have been condemned and sterilized. The foundation would be deficient because existing information is inadequate to resolve whether the Grace Claims are sterile and because much additional information about the Grace Claims is reasonably available to resolve the issues posed by the Application. Rather than aggressively acquiring the necessary information, the Applicant acquired control of the Grace Claims under false pretenses¹⁰ and then conducted very limited additional work.¹¹ The Applicant failed to follow-up on promising data regarding mineralization in the Grace Claims and other information available to it.¹² And then it prematurely declared itself satisfied that the Grace Claims had been condemned.

To understand why the information presently available for NovaGold’s Application is so limited one must briefly review the historical context of the Application. In March 2004 the Applicant entered into an Option Agreement with Pioneer to explore and exploit the Grace Claims. It announced its enthusiasm for the high exploration potential of such claims.¹³

⁷ See letter dated November 21, 2006 from Paul Brackstone to Howard Shapray, attached as Exhibit A.

⁸ See memorandum dated September 26, 2006 from Jill Pardoe of the Metals & Mining Division of the Ministry of Energy, Mines and Petroleum Resources to Ann Currie, Project Director, Environmental Assessment Office.

⁹ See discussion at notes 24-54, *infra*.

¹⁰ See text at notes 11 to 22, *infra*.

¹¹ To appreciate how little it did relative to other projects see text at note 19 to 22. See also Brown; Pioneer’s Preliminary Comments at 12-13.

¹² See text at note 62 *infra*.

¹³ See correspondence from NovaGold to Pioneer dated May 31, 2004 attached under Exhibit A and Petsel at 3. The Petsel Report acknowledges this potential (see e.g., at pp. 4) but conveniently concludes that such potential has been exhausted.

However, according to NovaGold, shortly after entering into the Option Agreement it received some bad news: Potential tailings disposal sites at More Creek and Contact Creek that NovaGold had apparently hoped to use for tailings disposal for the Galore Creek Project were determined unsuitable.¹⁴ Then, according to NovaGold's own startling admission, the "... **focus for tailings disposal was re-trained on the Galore Creek valley.**"¹⁵

When NovaGold publicly announced its proposed timetable for development of the Galore Creek Project, it also announced that it was preparing "a formal environmental assessment document and key permit applications for submission by the end of 2005."¹⁶ This, of course, was a problem for NovaGold as it was supposed to be exploring the Grace Claims for eventual exploitation of such claims for the mutual benefit of Pioneer and NovaGold. So, while ostensibly conducting *exploration* on the Grace Claims as part of a joint venture arrangement with Pioneer, it actually began working for its sole benefit to *condemn* the Grace Claims¹⁷ – as quickly as possible - with an enormous imperative that its "exploration" on those claims find nothing of interest.

The timetable announced by NovaGold for submitting permit applications was both wildly aggressive and wildly unrealistic. To stay "on schedule," however, NovaGold had to complete its design and engineering work for the waste disposal facilities on the Grace Claims, then prepare an environmental analysis of such facilities, condemn the Grace Claims and acquire the surface of the claims from the Province as soon as possible. One might have thought this would cause NovaGold to immediately initiate an ambitious and comprehensive exploration program so that it would have an adequate foundation for this Application. Rather, as will be discussed more fully below, NovaGold did very little to properly explore the claims. Rather, it began to develop its self serving arguments why further exploration would be futile. Today, the Reports submitted by NovaGold in support of its Application simply make the best case NovaGold can that the Grace Claims have been condemned with the little information it now has to work with. It is relying on the limited information it chose to acquire during an artificially constrained schedule of its own creation. Indeed, perversely, it is now trying to use the *lack of information* concerning mineralization – *information that it intentionally declined to develop* - to support its conclusion that the Grace Claims have been condemned.

¹⁴ This is NovaGold's characterization of these events as set forth in the Petsel Report. Petsel at 4. Pioneer disputes this version of events.

¹⁵ *Id.* Please note that Pioneer believes, and various documents illustrate, that NovaGold's focus on Grace Claims for waste disposal actually predates this period and in fact predates the entering into of the Option Agreement between Pioneer and NovaGold.

¹⁶ *See* NovaGold Resources Inc. Annual Report (2004), at 5. *See also* NovaGold's press release dated April 13, 2005. During the 2005 season NovaGold did not even begin drilling in earnest until July. By that point the decision to inundate the Grace Claims with waste had apparently long since been made. Given that timetable and the engineering etc. necessary for the applications and environmental analysis, NovaGold had effectively committed to putting its waste on the Grace Claims in a fashion which would destroy forever the exploration potential of those claims.

¹⁷ *See, e.g.*, "Geology and Resource Potential of the Galore Creek Property, prepared by Hatch et al, May 18, 2005. "Condemnation drilling is required in both the proposed plant site and tail and waste disposal areas." At 78.

It is important to put in perspective NovaGold's meager efforts at "exploration" of the Grace Claims following its decision to "re-train" its focus on using Grace Claims for waste disposal. To do so, one need only consider the total amount of drilling it conducted on the Grace Claims in 2004 and 2005 in relation to its drilling efforts at other areas at the Galore Creek Project during the same period. Or, compare its drilling efforts at the Grace Claims in 2005 to its drilling efforts at the Galore Creek Project in 2006, or to the drilling conducted during 2006 at its Donlin Creek Project in Alaska.

For example, despite plans for 45 exploration drill holes on the Grace Claims for the two-year period 2004-2005¹⁸ NovaGold completed only 18 – a little more than one-third for a total of less than **3200** meters of exploration drilling at the Grace Claims. *This limited progress occurred in part because NovaGold redirected drilling capacity from exploration to geotechnical drilling for its planned waste facilities on the Grace Claims and increased its drilling activities on adjacent lands.* For comparative purposes, on nearby ground at Galore Creek it drilled some **57,700** meters during 2005 alone. During 2006 it drilled a total of another **36,000** meters at Galore Creek.¹⁹ At its Donlin Creek Project, some **80,000** meters were drilled during 2006 alone.²⁰ NovaGold knew how to get the information it needed *if it wanted it*. It obviously had the drills in place and people on-site to acquire the information.²¹ Its efforts on the Grace Claims in 2004 and 2005 were not just half-hearted – they were, relatively speaking, virtually no effort at all. In effect, NovaGold simply *elected* to go forward with this Application on an expedited basis (of its own creation) with as little new information as possible. That, of course, explains why the information supporting its Application is so limited while information concerning surrounding properties is so extensive.

With this background, two things are clear:

- First, NovaGold should – indeed NovaGold must – present in support of its Application *all* of the information available to it – meager as it may be. Without all of the information upon which it ostensibly relies in the Reports, the public and affected parties such as Pioneer, and the Province itself, cannot conclude a fully informed analysis and the Province cannot properly consider acting on the Application; and
- Second, if the information presently available is not sufficient to conclusively sterilize and condemn the Grace Claims then the Province must insist that before the Application is considered it is supported by such additional information as is reasonably available to ensure that the public's interest in the exploration and development of the Province's mineral resources is fully protected. In this

¹⁸ See Notices of Work Applications submitted to the Inspector of Mines by Spectrum Gold (2004) and NovaGold (2005).

¹⁹ See NovaGold Press Release, December 14, 2006.

²⁰ See NovaGold website.

²¹ Indeed, during the course of 2005 NovaGold increased its proposed drilling at the Galore Creek Project from 50,000 to 60,000 meters (see Press Release dated August 30, 2005) while simultaneously reducing the holes actually drilled on the Grace Claim in 2005 from 30 to 10.

instance additional information *is* reasonably available and Pioneer is planning to acquire it forthwith.²²

2. Pioneer objects to the consideration of the Application or the granting of a surface lease because the information that has been submitted by the Applicant is incomplete, unreliable and in many important respects, simply wrong.

A. The Reports do not support the conclusion that the Grace Claims are sterilized and condemned because the Reports are incomplete and cannot be viewed as reliable in this particular context.

The “Reports” are, to Pioneer’s knowledge, the only information submitted by the Applicant in support of the Application.²³ **Unfortunately, the Reports themselves are so incomplete and highly conclusory that they do not lend themselves to any meaningful critical analysis.** With few exceptions the narrative in the Reports does not include meaningful references to the underlying sources of information presented nor are any specific data typically provided. The result is a mishmash of sweeping conclusions that extend well beyond any obvious factual foundation. For example:

(1) The Reports omit fifty years of data. The Reports repeatedly emphasize that the conclusions are predicated on 50 years of data. (“Based on ... a large body of work conducted between 1957 and the present, the tailings disposal and plant site facilities can be considered of very low exploration potential and therefore condemned.”²⁴ “Of over 700 holes drilled in the Valley since 1957...”²⁵ “... holes have been spotted using best possible geologic practices over the course of 50 years of exploration on the project...”²⁶ “...geophysical data has been collected in the area of the tailings impoundment ... to build on the surveys conducted historically²⁷.”) But, despite all the “historical” references, virtually none of those data are presented in the Reports – nor are the conclusions of the Reports even tied to meaningful references to underlying historical source material. The reader is asked to simply uncritically accept that the historical information – if it exists at all – is relevant and supports the conclusions for which it is offered.²⁸ No legitimate technical analysis or decision can be predicated on such a foundation.

(2) The Reports omit essentially all data regarding adjacent properties. The Reports also emphasize that their conclusions are predicated on important insights arising from information about adjacent properties. (“Much data, in the vaults of Kennecott’s data

²² Please see the discussion in Section IV (3), *infra* and Brown in Appendix 2.

²³ See letter to Howard Shapray from Ian Smythe dated September 27, 2006 which encloses “all material submitted by NovaGold to ILMB”.

²⁴ Petsel at 29.

²⁵ Petsel at 31.

²⁶ Id.

²⁷ Petsel at 8.

²⁸ If the historical information regarding the lack of mineralization on the Grace Claims is so complete and so compelling one might reasonably ask why NovaGold entered into an exploration arrangement with Pioneer in March 2004 and touted the potential of the Grace Claims?

room, was reviewed on surrounding properties.”²⁹ NovaGold received “... a small portion of an airborne geophysical survey conducted over the Trophy claims that crossed a small portion of the Grace Claims.”³⁰ NovaGold also released proprietary airborne data for Galore itself to aid Pioneer in their assessment.”³¹ “NovaGold geologists have had the luxury few previous workers have had – a consolidated property package consisting of the Copper Canyon deposit, the Grace Claims and Galore Creek property. This has allowed comprehensive analysis of the geology in a larger context.”³² Indeed, 10 pages (or almost one-third of the narrative) in the Petsel Report are apparently devoted to the subject of data from adjacent properties. But, again, almost no data regarding the adjacent properties are included in the Reports. Or, if such data exist they apparently have intentionally been withheld.³³ Instead, the reader is again left to simply uncritically accept the conclusions drawn by NovaGold from this unidentified and undisclosed information.

One would have to assume that NovaGold thinks that the data from the adjacent properties are extremely relevant to its conclusions regarding condemnation. If not, why else spend one-third of the text of the Petsel Report describing it? Why else would the text of the Petsel report tout the “luxury” of being able to conduct a “... comprehensive analysis of the geology in a larger context?” However, NovaGold cannot have it both ways. It cannot selectively disclose only a portion of the foundation for its sweeping conclusions about the condemnation of Pioneer’s claims while withholding the rest. That would be a denial of natural justice as it relates to Pioneer and would lead to an arbitrary and capricious decision of the ILMB --should it permit that to occur.

(3) The Reports are based on wholly uninformative references to unidentified drilling “targets”. The narrative descriptions and conclusions in the Reports generally refer to otherwise unidentified “targets.”³⁴ The conclusions of the Reports are, in substance, that all worthy “targets” have been identified, tested and condemned. However, one can only guess how many targets there are, where the targets are located, why something is identified as a target, or the size or depth or characteristics of the target. Then one can try in vain to tie the target to specific identifiable drill holes and results.

Similarly, the Reports refer vaguely to NovaGold’s exploration “strategy” and “philosophy”³⁵ and allude to numerous drill “targets” for 2004 and 2005 and refer to “disappointing” results.³⁶ However, throughout the Reports there is utterly no basis to critically

²⁹ Petsel at 2. Indeed, according to NovaGold it was data from adjacent properties that originally “piqued the [NovaGold] geologist’s interest” in the Grace Claims. *Id.* At 3.

³⁰ Petsel at 3.

³¹ Petsel at 5.

³² Petsel at 6. Note also NovaGold’s emphasis on “700 holes drilled in the Valley.” Petsel at 31.

³³ Pages 20-29 of the Petsel Report have been ‘redacted’ by NovaGold.

³⁴ See, e.g., Petsel at 11, 13, 30, 31.

³⁵ Petsel at 1.

³⁶ Petsel at 4, 5 10. It is also difficult to understand NovaGold’s frequent references to “disappointing” or “dismal” (Petsel at 31) drill results, as the majority of the drilling it did was *after* it had concluded that it preferred to use the Grace Claims as a tailings and waste repository. Clearly the results it vaguely alludes to weren’t “disappointing” or

examine how many “targets” were originally identified, the original basis for having been identified as a target, how many targets were drilled, how many drill holes tested a given target, whether the drill holes were deep enough to test the target, whether the drill hole actually intersected the target, whether new targets were generated from activities on the ground, etc.

The drilling data associated with the targets are generally not presented in the Reports, even if you could guess which drill hole went with which target.³⁷ In other words, again the reader is left to uncritically accept the conclusions that all targets on the Grace Claims were properly and completely identified and then that all were adequately condemned.

(4) “Figure 1” misrepresents the condemnation drilling conducted on the Grace Claims. Rather than explain the standards for identifying or excluding a “target” and then presenting data tied to specific results that is adequate to evaluate that decision – and presenting data adequate to evaluate the adequacy of the condemnation of each target – NovaGold directs the reader to Figure 1, where it says it has “summarized” the “adequacy of the work undertaken”:

“Figure 1 below shows the pits, tailings and waste impoundment and plant site facilities *along with the drilling done to date on the property.* Those holes that are within or bounding the facilities are identified with a larger circle of a 200 m radius. This diagram will be the basis of the discussion going forward.”³⁸

On its face, Figure 1 is very a very impressive summary of the “work undertaken” and the “drilling done.” It depicts some 40 “drill holes” which NovaGold characterizes as the “basis of the discussion going forward.” What it does not clearly say – and what the Reports never tell you, is that many of these “holes” are not exploration drill holes at all. It does not tell you that some of the holes depicted were not finished,³⁹ and that not one of the holes was drilled to a depth arguably adequate to test for deeper mineralization similar to the Bountiful zone recently discovered by NovaGold at depth near to the Central Zone.

If the diagram in Figure 1 is meant to be “the basis of the discussion going forward” it would have been helpful for the Reports to explain the supposed relevance of the 200-meter radius prominently drawn around all of the “drill holes.” We imagine that no explanation is provided because it is hard to attribute *any* significance to most of the 40 “holes” so depicted without revealing that many are actually geotechnical holes drilled to a very modest depth and for which no assays were ever conducted. Apparently it is better to be silent and leave the impression that the holes mean something from a condemnation standpoint and that the Grace Claims are riddled with exploration drilling.

“dismal” to NovaGold – quite the contrary. In view of NovaGold’s clear bias for drilling to find *nothing*, it is particularly inappropriate for the Reports to substitute NovaGold’s “subjective” but uninformative conclusions for hard data – be it drilling, geochemical, geophysical, etc.

³⁷ The summary discussion at pages 16-19 of the Petsel Report of nine drill holes drilled in 2005 on Pioneer’s Grace Claims adds virtually nothing of substance.

³⁸ Petsel at 1, (emphasis added).

³⁹ See e.g., October 2005 monthly report referenced in January 11, 2006 press release at page 6.

(5) **It is impossible to understand the limitations of the opinions offered in the Reports on technical issues, particularly the geotechnical data, which is ostensibly the key driver of the entire NovaGold exploration program.** Because the Reports contain no *data* of any consequence it is impossible for the reader to ascertain the limitations of any of the Reports' conclusions. An important example of this shortcoming is the treatment of geophysical surveys. NovaGold emphasizes geophysical surveys as its "major" and "best" tool to explore the area⁴⁰ and upon which all of its "targets" were predicated. However, upon examining the Reports one is simply left to guess, based on vague references, as to the nature of the surveys.⁴¹ One is also required to guess the orientation, the depth, and the quality or the area covered by any of the geophysical work to which the Reports refer.

The Reports are not *entirely* silent as to the geographic coverage of the surveys. However, the information which is reported does not support the Reports' sweeping conclusions concerning condemnation. The Reports note in passing that "The IP survey was limited in scope from steep topography such that the survey was oriented *just down the axis of the valley*. "Significant land remains to be explored away from the easier accessible axis of the valley."⁴² Or, the Reports note that IP surveys reached "almost all" of the "accessible ground" ... "in this rugged and challenging terrain"⁴³. But there is no further elaboration or basis to conclude what part of the Grace Claims was actually accessible or covered by the geophysical surveys or whether the geophysics that were commissioned were appropriate and complete so as to identify all of the potential targets on the Grace Claims. In contrast, expert analysis available to Pioneer and submitted with these Objections confirms that the geophysics were incomplete⁴⁴ -- and that additional IP work is needed for a reliable geophysical evaluation of the Grace Claims.⁴⁵

The Applicant's apparent single-minded reliance on incomplete geophysical data to generate targets on the Grace Claims is not supported by the circumstances of the project or the Reports themselves. Not only was the data generated from geophysical surveys inadequate in their coverage and quality but the Reports themselves acknowledge

"After the completion of many surveys and analyses, *Geophysical techniques at Galore have in general been poor indicators of mineralization* as mineralization at Galore Creek occurs over a large area in a variety of geophysical settings and has a broad range of geophysical responses."⁴⁶

In short, the Reports confirm that the meager extant geophysical data are, at best, a very imperfect indicator where mineralization might or might not be present on the Grace Claims, and

⁴⁰ Petsel at 8

⁴¹ There are numerous different IP techniques, some of which are more suitable than others, depending on a variety of considerations.

⁴² Petsel at 4 (emphasis supplied).

⁴³ Petsel at 9. Later in the Reports NovaGold acknowledges that "much" of the lower part of Galore Creek area is "difficult to access". *Id* at 13.

⁴⁴ For example, it was ineffective for anything west of Galore Creek. Brown at 7.

⁴⁵ See Brown at 6.

⁴⁶ Petsel at 9 (Emphasis supplied).

can't rationally be used as the basis for the Applicant to declare that all worthy targets on such claims have been identified and condemned.

(6) Inadequate information on non-geophysical data. Because the Reports contain no data of any consequence, it is also impossible to ascertain what NovaGold did (or didn't do) to generate targets beyond the vague references to its use of geophysics. For example, there is no reference to whether geochemical data is available in respect of the Grace Claims or if it is available, what it illustrates. Pioneer can report that geochemical data *are* available and illustrate that soil data exists only for a very limited area, and that it is totally insufficient to fully assess the potential of the property.⁴⁷

(7) Inadequate information regarding exploration drilling. Because the Reports contain no data of any consequence, it is also impossible to ascertain how much exploration drilling has actually been conducted, or what it shows. The Reports vaguely reference 50 years of experience and 70 holes. But hard data is provided only with respect to 9 holes drilled on the Grace Claims in 2005 following NovaGold's decision to use the area for waste dumping.⁴⁸ Historical (pre-NovaGold) results, 2004 results, 2006 results and results from adjacent properties all are conspicuously lacking – as are drill logs and assays for the vast majority of holes ostensibly drilled. The reader cannot tell whether the drill holes were completed, whether the cores were logged and assays were taken⁴⁹ The reader cannot ascertain the depth of the holes, the down-hole orientation of the drilling, the nature of the drilling or what sort of QA/QC procedures were employed to insure the integrity of the drilling and assaying data. In short, apart from whatever inference arises from NovaGold's silence about 61 of the 70 holes, the Reports tell you essentially nothing about them.⁵⁰

Further, while suggesting it has data for 70 holes, NovaGold inexplicably says it is presenting the results only of the “twenty-one holes drilled in the area since 2003.”⁵¹ But even the reference to 21 holes is overstated. In fact, as noted above, there is no *data* with respect to many of those 21 holes and only limited data with respect to the 9 holes on the Grace Claims that are directly identified. Apart from Figure 1, which provides a crude depiction of where holes were drilled in 2004, the only 2004 drilling “results” in the Report appears to be the summary opinion that the 2004 drilling program was “disappointing.”⁵² None of holes that were drilled in 2006 are reported in the Reports. While NovaGold might like to limit any consideration of the mineral potential solely to its limited efforts in 2005, historic information, and reasonably available information, is every bit as relevant -- and perhaps far less tainted by NovaGold's 2005

⁴⁷ See Brown at 7.

⁴⁸ Appendix 1 of the Reports includes data from 11 holes, two of which (GC05-0554 and GC05-0572) are *not* located on the Grace Claims.

⁴⁹ This is an important point as NovaGold did not, to Pioneer's knowledge, even assay the geotechnical holes it presented on Figure 1.

⁵⁰ One cannot even ascertain the location of the exploration holes, as NovaGold's graphics – as depicted on the EAO website – are incomprehensible in black and white and, in any event, appear to mix shallow geotech holes with exploration holes to create an illusion of extensive exploration.

⁵¹ Petsel at 31.

⁵² Petsel at 4.

imperative to declare the property to be condemned as quickly as possible so as not to adversely affect the unrealistic development schedule it had publicly imposed on itself.

B. The Reports do not support the conclusion that the Grace Claims are condemned because the exploration/condemnation efforts and conclusions drawn from available data were artificially constrained to yield a particular result.

The NovaGold condemnation effort and the Reports are incomplete because they fail to yield/present information adequate for the reader to critically evaluate whether the Grace Claims have been sterilized and because they also are predicated on a variety of assumptions that artificially constrained NovaGold's exploration and tainted its conclusions. For example, the Reports are apparently based on the premises that NovaGold only needed to concern itself with (1) "monster"-sized (2) "porphyry-style" deposits that are (3) located in "the lower valley" (4) in certain stratigraphy (5) at a shallow depth. All of these constraints are artificial, imposed by NovaGold to rationalize a result that NovaGold was desperate to reach. As is discussed below, none of the limitations imposed on NovaGold's exploration effort or the conclusions in the Reports are appropriate.

(1) **NovaGold only looked for "monster" deposits.** NovaGold's efforts, the Reports, and the conclusions of the Reports, all appear to have been predicated on the notion that the only targets of consequence on the Grace claims would be a "Galore Creek porphyry-style, disseminated mineralized body."⁵³ Indeed, NovaGold reports that, based on the 2004 drilling:

It was quite obvious that a Central Zone-sized deposit (2.5kmx 600m) would not likely be found, given the [then-] current drill spacing and the size of the potassic alteration. Anything less would have challenges in development; the steep valley slopes acting to increasing (sic) the strip ratio and the thick section of overburden material in the area requiring shallower pit angles make the economics of a discovery in the valley bottom highly questionable.⁵⁴

As discussed below⁵⁵, postulating that a deposit has to be "Central Zone-sized" to be economic is nonsense, even if the size is "limited" to 2.5 km x 600m, as the Reports imply in the text quoted

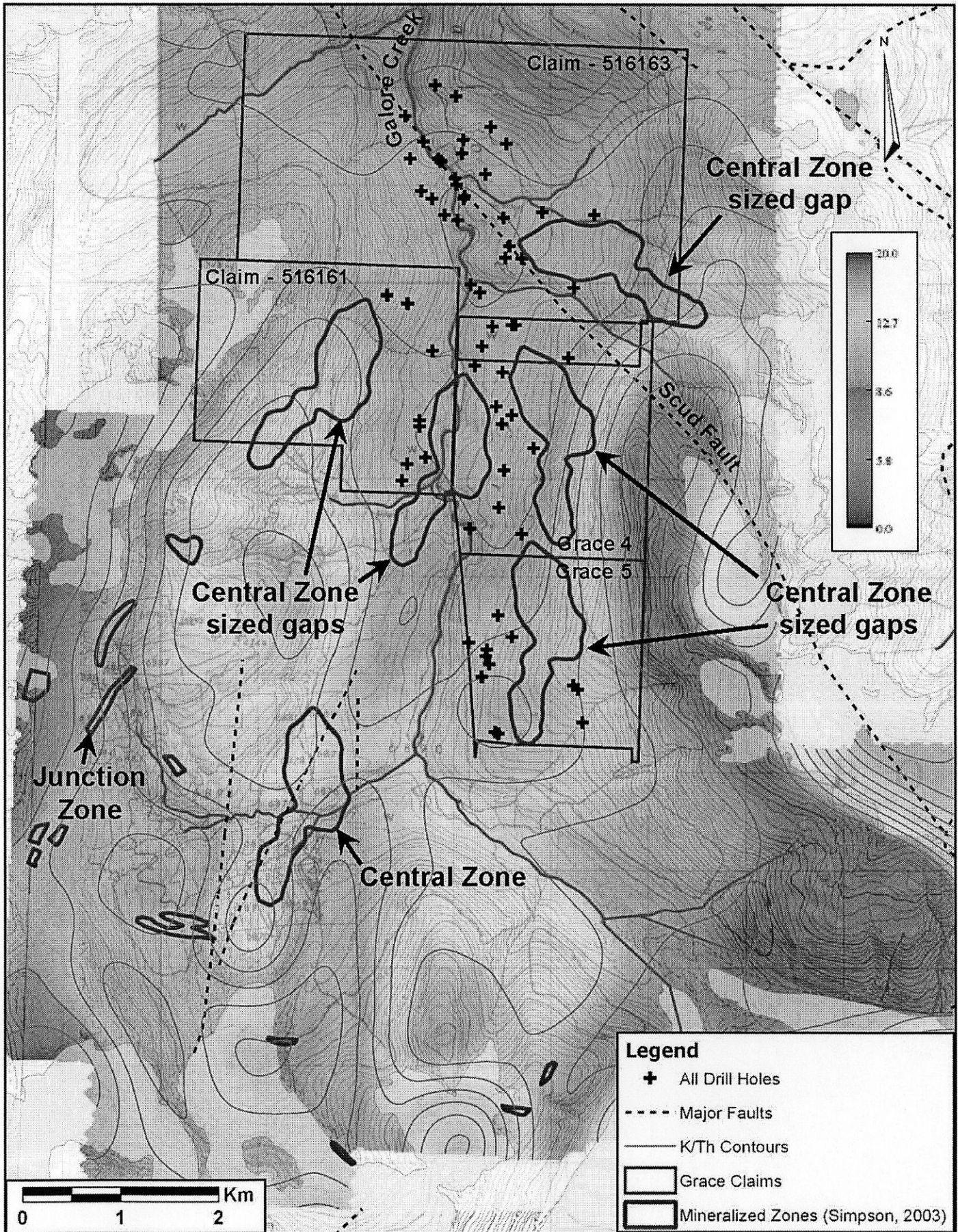
⁵³ Petsel at 8. Worse still, a prospective deposit apparently had to be large enough to "displace the [proposed NovaGold tailings] dam into another valley" to be considered. *Id.* at 5. There is no indication in the Reports of how large that had to be or what economic criteria were ostensibly being applied by Mr. Petsel to make such a judgment. But, read in context, it is clear that that he was not saying that the Grace Claims had been condemned as much as he was saying that if a deposit was discovered on the Grace Claims that was smaller than the Galore Creek deposit, NovaGold would not allow it "displace" NovaGold's planned use! While that may be a fine exploration criterion for NovaGold it is not the criterion that the Province can or should apply and it does not protect the legal rights of Pioneer.

⁵⁴ Petsel at 5. See also Petsel at 31, where Petsel concludes that even a "buried Central-zone analog" would "likely not be economic." Again, the presumed project economics are missing.

⁵⁵ See Brown regarding other types of deposits and smaller deposits.

above.⁵⁶ In any event, it is clear from the diagram below that there is adequate room within the current drilling for not less than five “Central Zone deposits” within the unexplored portions of several highly prospective areas on the Grace Claims.

⁵⁶ Apparently, just to be on the safe side, NovaGold subsequently argues that its drill spacing only needs to test for a system that is *3km x 1.5 km in size!* Petsel at 5.



Legend

- + All Drill Holes
- Major Faults
- K/Th Contours
- Grace Claims
- Mineralized Zones (Simpson, 2003)

(2) **NovaGold only looked for porphyry-style copper deposits and only considered potential deposits if they could be processed in NovaGold's proposed copper processing plants.** To identify potential drilling targets on the Grace Claims NovaGold developed an exploration model looking for a "simple Galore Creek *porphyry-style disseminated*" copper ore body.⁵⁷ The exploration criteria for such a deposit largely precluded finding another type of deposit with the limited drilling conducted.⁵⁸ Indeed, despite the fact that NovaGold acknowledges that other types of deposits may be present,⁵⁹ this artificial constraint on its exploration allowed NovaGold to rationalize its failure to follow-up on drill results and assays that it acknowledged were "spectacular"⁶⁰ based on vague references to the fact that such deposits would surely be "non-economic" or "uneconomic."⁶¹

(3) **NovaGold's exclusive focus on "the valley" was wrong.** It is clear from the Reports that NovaGold's efforts were focused virtually exclusively on "the valley" and particularly, the "lower" valley or even just the "Galore Creek tailings disposal area"⁶². For example, the Reports' conclusions are apparently limited to "The Potential for Mineralization *in the Lower Galore Valley area of the Tailings Impoundment.*" See discussion at pages 13-20 of the Petsel Report. Similarly, the 2005 drilling – which is the only drilling for which data is presented in the Reports in any semi-meaningful way – is clearly driven by and limited to "the valley."⁶³

This *very* material limitation on NovaGold's exploration/sterilization effort is not fully explained in the Reports. The reasoning behind it, to the extent that one can guess at it, appears to have to do with the presumed economics of stripping overburden from an open pit mine.⁶⁴ Based on those presumed economics NovaGold apparently decided to limit its exploration to the "lower valley"⁶⁵ and ignore the rest (i.e., the majority) of the area of the Grace Claims. Pioneer is aware of no geologic reason to ignore everything but the valley. Indeed many of the great

⁵⁷ Petsel at 8, 13, 29. NovaGold also assumed that a deposit could only be economic if it was produced as part of a copper concentrate. See Petsel at 14-15.

⁵⁸ NovaGold understood that different exploration models would be required for different types of deposits at the Grace Claims. ("Other mineralized systems can be identified with differing exploration models..." Petsel at 8.) Nevertheless, the Reports reflect NovaGold's singular focus on massive disseminated porphyry-style deposits.

⁵⁹ Petsel at 30 (re breccia and high grade vein deposits). Petsel concludes these types of deposits are not present because NovaGold didn't find them. That is hardly surprising with its limited exploration model that confined exploration (both geophysics and drilling) to Galore Creek sized disseminated porphyry deposits in the lower valley.

⁶⁰ As stated in NovaGold's July 2005 Monthly Report to Pioneer, a description which has been excised from Petsel (at 18).

⁶¹ See e.g., Petsel at 30 (summary conclusions 3 and 4). NovaGold also eliminated large areas and types of deposits by reference to what might be economic as part of a copper concentrate or with NovaGold's copper processing facilities. Again, the economic and geologic criteria for these judgments are not explained.

⁶² Petsel at 13. See, e.g., the Summary and Discussion at page 29 of the Petsel Report: "...*the tailings disposal and plant site facilities* can be considered of very low exploration potential and therefore condemned."

⁶³ See e.g., Petsel at 5 "During the 2005 field season ... drilling continued to explore the remaining targets *in the valley.*" Or, Petsel at 8 "An extensive amount of geophysical data has been collected *in the area of the tailings impoundment* during the last three years..." Or Petsel at 31, "In conclusion, based on the results of the work programs on the property between 1957 and present and a combination of geologic factors discussed above *the tailings disposal and plant site areas* have been adequately explored..."

⁶⁴ See Petsel at 5, 20, 30, 31, 32,.

⁶⁵ It is impossible to tell from the Reports what the "lower valley" refers to.

copper mines in the world are located in mountainous terrain. How NovaGold can draw a conclusion about project economics of a mine before knowing the dimensions or grade or character of a deposit or the proposed mining method is quite a puzzle. But, in any event, one cannot tell from the Reports what criteria were applied by NovaGold to avoid exploration of the majority of the Grace Claims. Nor can you tell whether the person offering the opinion regarding project economics on a hypothetical mine had the requisite skills to do so. If the basis for NovaGold's artificial focus solely on "the valley" cannot be validated, the Province cannot indulge it.

Significantly, clearly NovaGold believes that open pit mining is not the only option available for deposits discovered in the area as it continues to emphasize its results in the Bountiful Zone, which features deposits at a depth that would require underground mining to exploit.

(4) NovaGold's focus only on V-1 and V-2 lithology was wrong. As the Reports explain, there are several different lithologies present within the Grace Claims. NovaGold itself acknowledges that the V-3 stratigraphic group can host commercial mineralization⁶⁶ and its most recent discovery at the Bountiful zone at Galore Creek appears to be hosted in the V-3 category.⁶⁷ However, at the Grace Claims NovaGold's exploration model⁶⁸ and its drilling program⁶⁹ were both apparently constrained to generate targets only in the "receptive" V-1 and V-2 lithologies.⁷⁰ This limitation, in turn, appears to be predicated on the first two artificial limitations noted above, i.e., that only "monster" "porphyry-style" deposits should be considered of interest.⁷¹

(5) NovaGold's focus on conducting only shallow drilling was wrong. NovaGold also appears to have limited its assessment of potentially viable deposits to those within 250 meters of the surface.⁷² Assuming, hypothetically, for a moment, that 250 meters is an appropriate depth limitation, we note that virtually none of the holes drilled by NovaGold on the Grace Claims reach that depth.⁷³ So, no one reading the Reports has any idea what one might find at 250 meters for virtually all of the area in question. Indeed, the average depth of the 9 exploration holes on the Grace Claims actually reported in Appendix 1 of the Petsel Report is approximately 180 meters and most if not all of the geotechnical holes it drilled are measure in tens of meters.

In fact, Pioneer does *not* accept that 250 meters is an appropriate depth limitation on the exploration of its claims. In comparison, according to NovaGold, the average depth of its

⁶⁶ See Petsel at 7.

⁶⁷ See NovaGold press release dated December 14, 2006.

⁶⁸ Petsel at 8, 13-14

⁶⁹ Petsel at 13, 15, 20, 30.

⁷⁰ Petsel at 13, 20, 29.

⁷¹ See also Petsel at 5, commenting on the size of "potassic alteration" as a limiting factor on NovaGold's exploration. Potassic alteration is, according to NovaGold, associated with the V-2 lithography. Id at 7-8. See also Petsel at 13-14.

⁷² Petsel at 31.

⁷³ Petsel, Appendix 1.

exploration drilling at the Galore Creek Project during 2006 was approximately 550 meters. (36,000 meters of drilling in 65 holes.) Much like NovaGold's notion that it only needed to explore "the lower valley", the depth limitation appears to be predicated on undisclosed assumptions about waste stripping and project economics for an imaginary open pit mine.⁷⁴ In any event, again, the underlying assumptions that NovaGold uses to ignore all deeper targets on the Grace Claims are not known to anyone except NovaGold. Consequently, reliance on those assumptions would be arbitrary and capricious.

In summary, in 2004 NovaGold described the exploration potential of the Grace Claims as "exciting".⁷⁵ Quickly, however, (and before any exploration drilling even started in 2005) it apparently became far more excited about using the Grace Claims for waste dumping⁷⁶. Consequently, it developed "exploration criteria" to govern where, why and to what depth it would drill. Those criteria turned the Grace exploration efforts largely into a paper exercise to illustrate the property had been condemned. The alleged "condemnation" was not the product of drilling so much as it was the product of defining away the potential of the claims on paper using artificial constraints NovaGold developed following its decision that it preferred to use the Grace Claims for waste dumping. (These exacting "exploration criteria" certainly were not explained to Pioneer prior to it entering into the 2004 Option Agreement.) Significantly, the criteria obviously were not the same criteria applied by NovaGold to the nearby Galore Creek property where drilling in the Bountiful Zone near the Central Deposit has encountered mineralization at 500 meters.⁷⁷ In any event, Pioneer, the owner of the Grace Claims, is not obliged to respect these artificial constraints and it would be a capricious act if the Province were to do so.

3. Pioneer objects to the Application because the data that are available – from the Reports and otherwise – illustrate that the Grace Claims in fact have significant potential. Consequently it would not be in the public interest to grant an Application that destroys that potential unless and until the planned exploration activities of Pioneer are completed.

While the data submitted with the Application are wholly inadequate to condemn and sterilize the Grace Claims there are significant data available to illustrate that the Grace Claims are mineralized and that additional exploration is warranted. To properly assess the Grace Claims' potential Pioneer requested that existing information available to Pioneer be reviewed by senior exploration personnel at Barrick Gold Corporation, Pioneer's new corporate parent. Barrick, of course, has excellent credentials to evaluate the existing information. It is the world's largest gold mining company and one of the world's most successful mining companies. In the last decade it has been associated with numerous significant discoveries and the successful development of at least ten new mines.

⁷⁴ Petsel at 15.

⁷⁵ See footnote 13.

⁷⁶ In fact Pioneer believes that even before NovaGold entered into the Option Agreement it was secretly considering the Grace Claims for tailing and waste rock disposal. This is clear from a April 5-6, 2004 NovaGold presentation in Smithers where, less than 10 days after entering into the Option Agreement, NovaGold confirmed that the Grace Claims were already under consideration for tailings and waste rock disposal.

⁷⁷ NovaGold Press Release, December 14, 2006.

A memorandum summarizing the results of Barrick's evaluation of the exploration potential of the Grace Property and describing the proposed exploration program is attached to this submission as Appendix 1 and incorporated herein. The "Brown Report" was authored by Robert Brown, Vladimir Ispolatov and Richard Mann, with significant oversight and input from Alex Davidson, Rob Krcmarov and Peter Kowalczyk. The credentials of the various individuals to evaluate the underlying materials identified in the Brown Report, draw the various conclusions set forth on the face of the Brown Report, and comment on the adequacy of information for various propositions addressed in the Brown Report are attached to that report. It is sufficient to note that several of these gentlemen are among the more experienced and successful geologists in the mining industry.

The Brown Report is distinguishable from the Reports submitted by NovaGold in that it actually reflects or references in a meaningful way the data sources upon which the conclusions in that report are predicated. Significantly, it notes with specificity where data are missing or are inadequate to support firm (or any) conclusions about the Grace Claims. It notes what types of deposits other than porphyry deposits may exist on the property and provides specific examples of such deposits. It reviews in detail the "exploration criteria" formulated by NovaGold, as well as the NovaGold interpretation of how these criteria are manifested on the Grace Claims. It provides Barrick's interpretations of how and why the current knowledge base is insufficient to properly test the potential of those claims.

The Brown Report is based upon the data described at page 3 of that report. In short, the Brown Report concludes that the work done to date by NovaGold is inadequate to explore, let alone condemn, the property, and significant areas prospective for mineralization within the Grace Claims remain untested. The Brown Report recommends an exploration program of geological mapping, geochemical and geophysical surveys, and 40, 000 meters of diamond core drilling. The proposed program, to be initiated by Pioneer in 2007, is estimated to cost \$11.4 million. Pioneer has carefully reviewed the Brown Report and Barrick's recommendations as to a proposed program for exploration of the Grace Claims and accepts it. It plans to initiate that program as soon as site conditions permit.

Nothing speaks louder about Pioneer's conviction regarding the demonstrated potential of the Grace Claims than its willingness to spend \$11.4 million to explore it. Pioneer is pleased to provide the results of its exploration activities to NovaGold and the Province as the various planned activities are completed, as may be required to continue to address the outstanding Application. Pioneer anticipates that in view of its conflict of interest NovaGold may try to prevent Pioneer from conducting proper exploration on the Grace Claims, just as it was unwilling to conduct it itself. However, Pioneer intends to persevere – in the courts or otherwise – until the Grace Claims have been properly explored.

4. Pioneer objects to the granting of the Application during the pendency of its exploration efforts because the *Mineral Tenure Act* provides Pioneer, as the owner of the claims, the right of access to the claims for the purpose of exploring and exploiting the claims. The use of the property by the Applicant for waste disposal would irreparably compromise Pioneer's planned exercise of such rights.

Subsection 14(1) of the *Mineral Tenure Act*, provides as follows:

14. (1) Subject to this Act, a recorded holder may use, enter and occupy the surface of a claim or lease for the exploration and development or production of minerals or placer minerals, including the treatment of ore and concentrates, and all operations related to the exploration and development or production of minerals or placer minerals and the business of mining.

Subsection 16(3) of that Act provides as follows:

(3) If a disposition is made of surface rights to Crown land, whether surveyed or unsurveyed, and at the time of disposition there is a valid mineral title over the Crown land, the disposition of surface rights does not diminish the rights of the recorded holder except to the extent otherwise determined

(a) by order of the chief gold commissioner under section 13,

(b) by order of the minister under section 17,

(c) by order of the Mediation and Arbitration Board in a settlement under section 19(4), or

(d) by a quit claim agreement between a recorded holder and a subsequent holder of the surface rights.

The policy of the *Mineral Tenure Act* is clear from these provisions – holders of recorded mineral tenures are to have access to the surface and that right cannot be taken away from them except in very limited circumstances (and even then, only where an order is issued or consent of the recorded holder is obtained).

In view of the fact that the placement of the proposed tailings and waste rock impoundment area would impair Pioneer's ability to explore and develop the Grace Claims, in effect destroying all prospective value of the mineral claims, a decision by the Minister granting the Application would be in direct conflict with this statutory regime.

Pioneer has indicated its intention to initiate an \$11 million+ exploration program on the Grace Claims in 2007 as soon as weather conditions permit access to its claims. That program will quickly yield important information that bears on the Application - information that has been reasonably available to NovaGold for the last three years - but which it has declined, for its own reasons, to obtain. In Pioneer's Preliminary Comments submitted to the ILMB and EAO in October 2006, Pioneer elaborated on why Provincial consideration of a surface use lease was premature prior to the completion of Pioneer's planned exploration program. Pioneer respectfully directs the attention of the ILMB to that discussion, particularly in view of the conclusions and recommendations of the Brown et al Report.

Feb. 22/07

5. Pioneer notes that the environmental review process for the Galore Creek Project is ongoing and that a determination on the Application cannot legally be made until an Environmental Assessment Certificate is issued by the Province.

Pioneer's understanding is that the B.C. Environmental Assessment Office ("EAO") initially established a 180-day Application review timeline which, unless terminated or extended, would end on December 27, 2006.

Pioneer also understands that the EAO suspended the time limit for completion of the review for a period of 2 days, to December 29, 2006, at NovaGold's request. It is possible then, that on December 29, the EAO intends to refer the Application and the EAO's Assessment Report to Provincial Ministers, who then theoretically have 45 days to make a decision on whether to issue a provincial EA certificate. It is possible, however, to extend any timelines under the B.C. Environmental Assessment Act. The circumstances relevant to any decision to extend the timelines presumably include an evaluation of what other authorizations are required, whether serious issues have been raised in the environmental assessment process that will require additional information or attention, and the likely timing of consideration of other required permits. In the present circumstances, and in view of the various significant information and issues outstanding (including but not limited to the Application), the Ministers may reasonably be expected to do so.

Apart from any decision on the environmental assessment process, the individual Ministers can (and often do) extend the timeline for their own decisions on each permit or licence, as required to properly address the issues. Again, under present circumstances, Pioneer believes this is likely to occur. For example, the required waste management permit under the Environmental Management Act requires a separate public notification process and opportunity for objections, and, like the required Water Act licence, is subject to appeal to the Environmental Appeal Board. The permit required under the Mines Act is not undergoing concurrent review, and is therefore not subject to timelines. And, of course, the time period for a final decision on a surface lease application is uncertain and has been significantly delayed by NovaGold's incomplete submission to the EAO and ILMB and its withholding from Provincial agencies and the public of data necessary to address that Application. Moreover, Provincial, federal and U.S. regulators have all identified (as part of their comments in the environmental assessment process) additional information that is required or analyses that should be conducted before permits should be issued. See e.g., Pioneer's Preliminary Comments at pp 6-10.

The federal environmental assessment process has no timelines and, historically speaking, predictions of how long that process will take in a project such as the Galore Creek Project have little value. The EAO plans to use its Assessment Report to serve as the Comprehensive Study Report ("CSR") under the federal Canadian Environmental Assessment Act. The federal regulators must provide the CSR to the federal Minister of the Environment and the CEA Agency, and a minimum 30-day national public comment period must follow. The federal Minister must then consider the comments received and the CSR and decide on the significance of the potential environmental adverse effects and the public concern, and decide whether

additional impact information is necessary and whether there are public concerns that need to be further addressed. The Minister must then issue an environmental assessment decision statement setting out her opinion on whether the project is likely to cause significant adverse effects and refer the project back to the responsible authorities for their decisions on the potential environmental effects of the project and whether or not to issue their respective federal authorizations. The federal fisheries habitat authorization requires completion of a detailed fisheries habitat compensation agreement. If fish are found in the area proposed for the tailings and waste rock impoundment facility, an amendment of the federal Metal Mining Effluent Regulations will be required; this process has taken up to two years in the past.

In view of the above considerations it is clear that the conclusion of the environmental review processes for the Galore Creek Project is not imminent, and appeals of many of the permits appear to be a virtual certainty. Consequently, there is no compelling reason to truncate proper exploration of the Grace Claims based upon a false sense of urgency based on an unrealistic schedule that the Applicant has created for itself with its various public pronouncements.

Section 9 of the *Environmental Assessment Act* reads as follows:

9. (1) Despite any other enactment, a minister who administers another enactment, or an employee or agent of the government or of a municipality or regional district, must not issue an approval under another enactment for a person to

(a) undertake or carry on an activity that is a reviewable project, or

(b) construct, operate, modify, dismantle or abandon all or part of the facilities of a reviewable project,

unless satisfied that

(c) the person has a valid environmental assessment certificate for the reviewable project, or

(d) there is in effect a determination under section 10(1)(b) that an environmental assessment certificate is not required for the project.

(2) Despite any other enactment, an approval under another enactment is without effect if it is issued contrary to subsection (1).

Plainly, the Minister of Agriculture and Lands is statutorily prohibited from granting the land lease until the environmental assessment process is completed by the issuance of a valid EA Certificate for the Galore Creek Project. As must be apparent from the outline of the environmental approval process outlined above, that process is likely to take a considerable period of time, particularly when the federal component is factored into the equation.

Given that the Ministry of Agriculture and Lands cannot issue a land lease before an EA Certificate is issued, and that it is not expected for a considerable period of time, consideration of the Application is premature.

6. Pioneer notes that the Application should not be dealt with during pending litigation regarding whether the information on which the Application is predicated has been obtained by misrepresentation and other inappropriate means.

Pioneer commenced its lawsuit on October 17, 2005 over 9 months prior to NovaGold submitting its Application. Central to the lawsuit are allegations that through misrepresentations and other inappropriate and actionable means NovaGold gained access to the Grace Claims under the auspices that it planned to explore them for economic mineralization. Pioneer intends to show that even prior to the entering of the Option Agreement NovaGold had designs on using the Grace Claims for tailings and waste rock and further that NovaGold kept this "hidden agenda" from Pioneer. As a result of this actionable conduct Pioneer is asking the Supreme Court of British Columbia to award damages for misrepresentation, breach of contract and breach of fiduciary duty and further to order that the Option Agreement be rescinded and grant such other equitable relief as may be appropriate. The trial of this matter is scheduled to be heard over 15 days beginning September 24, 2007.

Pioneer further submits that NovaGold has been attempting to delay the hearing of the litigation by twice canceling scheduled examinations for discovery of NovaGold CEO Rick Van Nieuwenhuysse. Pioneer believes that NovaGold is attempting to have the Provincial authorities consider its Application prior to the Court's determination of the impropriety of NovaGold's conduct. The potential result is that the Provincial authorities would be acting on the basis of information supplied by NovaGold that is at the center of the pending litigation and further is information which the Court may ultimately hold was obtained by way of misrepresentations and other inappropriate means. Should the Court determine that NovaGold obtained the information for this Application under false pretenses it is unlikely to allow such information to be used by NovaGold or the Province to Pioneer's detriment, nor should the Province consider the use of such tainted information either reliable or proper. Such a result would not only compromise Pioneer's right to the proper exploration of the Grace Claims but it would also subvert the judicial process (which in this case was initiated long before the Application). Neither situation is procedurally fair nor in the public interest.

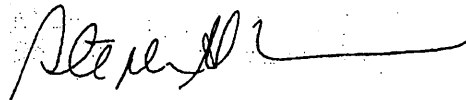
7. Pioneer notes that under the circumstances presented here it would be a denial of procedural fairness to Pioneer for the Application to be finally determined without a hearing at which time the Province and the affected parties can address and fully develop the contested factual issues that form the basis for the Application.

The granting of NovaGold's request would, if there was jurisdiction to *lawfully* grant it, (which is not conceded- see Section IV (4) *supra*) destroy Pioneer's rights with respect to the Grace Claims. Accordingly, Pioneer's rights are entitled to the full protection of principles of procedural fairness. The potential adverse consequences to Pioneer also demand a high degree of

administrative transparency as well as due process. NovaGold's application ought to be summarily rejected as supported only by flawed, self serving and otherwise inadmissible "evidence" that would never pass careful scrutiny in a quasi-judicial setting. If it is not, a proper evidentiary hearing is required in due course to test the conflicting facts and the credibility of the assertions relied upon by NovaGold. Such a hearing is the only process that will provide Pioneer a proper opportunity to protect its legal interests from the confiscatory process that NovaGold's Application has engaged.

Yours truly,

PIONEER METALS CORPORATION

A handwritten signature in black ink, appearing to read "A. Currie", with a long horizontal flourish extending to the right.

President

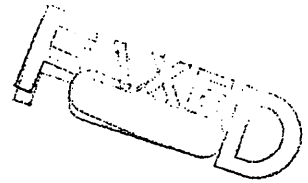
cc: Anne Currie, Environmental Assessment Office
Jill Pardoe, Ministry of Energy, Mines and Petroleum Resources

SHAPRAY CRAMER

BARRISTERS & SOLICITORS

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REPLY ATTENTION OF Howard Shapray
OUR FILE No. 51232

DIRECT LINE (604) 681-6644
E-MAIL howard@shapraycramer.com

October 17, 2006

Via Fax and Email

Mr. Ian Smythe
(Section Head Crown Land Adjudication
– Smithers)
Integrated Land Management Bureau
Ministry of Agriculture and Lands
BAG 5000
Smithers, B.C. V0J 2N0

Dear Mr. Smythe:

**Re: NovaGold Canada Inc. surface lease application for Galore Creek Property
and Pioneer Metals Corp ("Pioneer")**

Please find attached hereto the *preliminary* comments of Pioneer Metals in response to your September 27, 2006 letter that established a deadline of October 20th. We have asked for an extension of the time to provide more complete comments, which extension we expect you will provide to us as a matter of good faith and fair dealing for the reasons set out in my letter.

Again, please treat these comments as merely preliminary. Once we have received all of NovaGold's filings and subjected them to the appropriate scrutiny of a thorough and technical review, we expect to have, in the fullness of time, much more to say in opposition to this application.

Yours truly,

SHAPRAY CRAMER

Howard Shapray, Q.C.

HS/bb
Encl.
cc: Client
cc: Anne Currie via facsimile
17/51232/LT/139

**Preliminary Comments of Pioneer Metals Corporation on
Application of NovaGold Inc.
for Surface Use Lease on Grace Claims**

On September 27, 2006 the Province sent a letter to Pioneer informing it of NovaGold's June 2006 surface use lease application and solicited Pioneer's comments on that application – to be received by October 20th. Pioneer respectfully submits the following preliminary¹ comments on that application for a surface use lease, reserving the right to make a further, more comprehensive submission in due course.

Background information:

Pioneer Metals Corporation (“Pioneer”) is a publicly owned and listed company, incorporated and with its head office in British Columbia. It is in the exploration and mining business. Pioneer is the registered owner of 100% interest of five mining claims collectively known as the Grace Claims, nos. 1-5. It staked the Grace Nos. 1 and 2 claims in 1987 and restaked them in 1989. It acquired the Grace Nos. 3-5 claims in 2003. After conversion to the new British Columbia cell-based claims system in 2005 the five claims are now listed as 516161, 516163, 517480, and “legacy” claims Grace 4 and Grace 5.

NovaGold Resources Inc. (“NovaGold”) is also a publicly owned and listed company, incorporated in Nova Scotia. It too is in the exploration and mining business. NovaGold is exploring and has announced its intention to develop the Galore Creek Project (the “GC Project”). NovaGold holds an option to acquire mining claims at the GC Project upon payment of some US \$20 million to its current owner, Stikine Copper Limited, a joint venture between QIT – Fer et Titane Inc. (a subsidiary of Anglo American PLC) and Hudson Bay Mining and Smelting Co., Ltd. (a former subsidiary of Rio Tinto PLC, now a publicly-traded company). The Grace claims are immediately adjacent to the Galore Creek property.

¹ As described in these comments, the information necessary to comment on the adequacy of NovaGold's application and, particularly, the adequacy of its representations regarding the potential for commercial mineralization of the Grace claims, is not presently available to Pioneer or the public, despite Provincial guidance providing for its disclosure. Pioneer has separately requested an extension of time for the submission of comments that are more fully informed once the applicant's basis for the application has been made publicly available. In view of other matters regarding timing discussed in these comments it is clear that any such extension will not prejudice any party or affect the course of any proposed development activities.

After acquiring an option on the Galore Creek claims NovaGold, as optionee was successful in extending the area of known mineralization and expanding the size of the known resource. It is now thought to be one of the largest undeveloped copper and gold deposits in North America. With the recent increase in metals prices, this expanded deposit has become potentially economically developable.

At some point in or about early 2004 (or perhaps at an earlier time), NovaGold began to look for a place to dispose of the tailings and waste from the GC Project.² Despite the existence of at least 11 alternatives that NovaGold considered, one or more of which NovaGold considers viable³, NovaGold settled on the surface of Pioneer's Grace claims. As presently proposed, such tailings/waste disposal would effectively sterilize and destroy Pioneer's Grace claims, precluding any further exploration or commercial development of such claims. NovaGold has neither sought nor obtained Pioneer's consent for such use, nor has it consulted with Pioneer in an effort to try to accommodate the concurrent or sequential use of the property by both parties. It did not inform Pioneer of the fact that it had filed a surface lease application nor did it inform Pioneer that it had submitted technical information to the British Columbia government in an effort to persuade the Province to condemn Pioneer's Grace claims.

NovaGold apparently filed its application for a surface use lease on or about June 21, 2006. At approximately the same time it filed an application for a certificate of approval of an environmental assessment. Pioneer's understanding is that Provincial authorities have agreed to review the two applications (and other provincial applications) concurrently. The Provincial environmental assessment (EA) process is underway and initial comments on the proposed GC Project have been made to Provincial authorities by several dozen parties. The initial comments received from key Provincial and federal regulatory authorities indicate that significant additional data gathering, modeling and analysis will be required to address those comments and satisfy regulatory requirements.⁴

² The exact date that NovaGold identified Pioneer's Grace claims as its preferred site for waste disposal is the subject of some dispute between the parties. The matter is presently in litigation in the Supreme Court of British Columbia (Vancouver Registry No. SO 55575).

³ As recently as July 15, 2006, NovaGold's CEO, Rick Van Nieuwenhuyse, reassured a NovaGold shareholder that "If we found an orebody [on the Grace claims] the size of the Central Zone (500 million tonnes) we would use one of the other 11 sites studied." E-mail from Rick Van Nieuwenhuyse to John H. Mesrobian Esq., July 15, 2006 at 17:34.

⁴ See e.g., comments of: Natural Resources Canada regarding ground water modeling, hydraulic conductivities, tailings seepage, pit dewatering modeling, rain-on-snow and snow melt data; or Fisheries and Oceans Canada regarding modeling of metals in aqueous solution and contingency planning for failure of tailings impoundment.

The federal comment period on the EA is not expected to commence until 2007. For a variety of reasons which are discussed below the permitting process is, in Pioneer's view, unlikely to be completed until sometime in mid-2008, at the earliest.

At this early stage in the process NovaGold has not, to Pioneer's knowledge, completed a feasibility study that indicates that the GC Project is economically viable. Nor has it obtained financing commitments for the potential development of the GC Project. The timing of potential development of the project obviously also remains subject to the continuation of historically high copper and gold prices.

Comments

- 1. The surface use lease application referral process should be suspended until the applicant has provided the Province and all affected parties *all* of the information necessary to make fully informed comments on the application.**

A Provincial decision on a surface use lease should not be made unless and until both the Province *and the parties to which the referral was made* have *all* of the information necessary to make fully informed comments. Here, significant information relevant to the application has apparently been withheld from Pioneer and the public. To date, it appears that the application process has been conducted in a manner that has effectively precluded fully informed input into key issues such as: (1) the underlying mineral potential of the land that is the subject of the application; and (2) the potential for concurrent or sequential uses of the property to preserve its value for all parties. Consequently, remedial measures must be taken immediately to ensure that the referral process is meaningful and that the procedural rights of the parties are respected.

At the time it filed the application for a surface use lease, NovaGold knew that Pioneer owned the Grace claims and knew that all of the value of such claims would be destroyed by the construction and operation of NovaGold's proposed tailings/waste disposal facilities. NovaGold also knew that the Province would have to address whether the Grace claims had been adequately explored such that it could consider issuing a surface lease for tailings/waste disposal. However, inexplicably, neither NovaGold nor the

Province informed Pioneer in a timely manner that a surface lease application had been filed.

Subsequently, the application and some supporting information submitted by the applicant were made publicly available (when posted on the website of the EAO). However, other critical information – upon which certain Provincial authorities subsequently relied – was neither publicly acknowledged nor posted. Indeed, the key technical report submitted by the applicant that evaluated the mineral potential of the Grace claims (the June 21, 2006 report entitled “The Exploration and Subsequent Condemnation of the Galore Creek Valley Tailings Disposal Facility and Plant Site, by Scott Petsel (the “Petsel Report”) was withheld – and still has not been made available to Pioneer or the public. Consequently, Pioneer (and other third parties) have had no opportunity to identify and assess what has been submitted in support of the application nor are they in a position to submit fully informed comments on the application.

After learning of the application, on August 25, 2006 Pioneer wrote the Integrated Land Management Bureau (and others) expressing its concern about the proposed destruction of its Grace claims. In that letter, Pioneer expressed its concern that the information provided to the Province by NovaGold in support of the application may be neither accurate nor complete, and requested full and immediate access to all information submitted by the applicant. It received no answer to that request until October 2, 2006 when it received the letter of referral dated September 27, 2006. The letter of September 27 assured Pioneer that all information submitted by NovaGold in support of the application had been provided to Pioneer as an attachment to that letter. But clearly that was not the case. For example, Pioneer did not receive, and has still not received, the Petsel Report. Pioneer remains concerned that there is also other information submitted in support of NovaGold’s application that has not been provided.

As a matter of fundamental procedural fairness it is essential that Pioneer be able to evaluate and comment on the applicant’s entire submission. That is particularly true as it relates to the Petsel Report upon which the Province has indicated it has relied. Once it is fully informed, Pioneer is in a unique position to assist the Province in its evaluation of the surface lease application. Pioneer is the owner of the claims in question. As such, Pioneer has historical exploration and drilling data that it believes have not been provided to the Province. It has interpretive information that it believes

has not been provided to the Province. It has extensive knowledge of the property in question that it believes puts Pioneer in a better position than any other party to provide a critical analysis of any submission of the applicant. Indeed, Pioneer is the *only* party that can advise the Province whether the Province has all of the available technical information and data before it – as opposed to a subset of information carefully selected by NovaGold to support its application. However, the relevant geological information and data must be reviewed as a whole. A report that considers less than all the relevant information and data – or that does so without key interpretative information – is potentially very misleading.

Pioneer is not aware of any principled basis upon which it could be denied the opportunity to review the Petsel Report that apparently is the foundation of the applicant's efforts to condemn the Grace claims. It certainly cannot be considered confidential *vis a vis* Pioneer. Pioneer – not NovaGold – owns the Grace claims. Any information generated from the claims is the property of Pioneer. It would be a gross violation of Pioneer's rights for the Province to address the condemnation of Pioneer's claims based on a secret report where NovaGold selectively presents a limited subset of Pioneer's own information about Pioneer's claims.

Only after Pioneer has obtained access to *all* of the information submitted in support of the application can it provide the Province informed technical comments to this referral. Until then, what Pioneer can say with confidence is that the information that Pioneer does have is certainly not adequate to conclude that the exploration and development potential of the entirety of the Grace claims has been exhausted. Quite the contrary. Additional exploration is both warranted and planned. As action speaks louder than words, it is Pioneer's intention to conduct an aggressive exploration program on the Grace claims during the 2007 drilling season to follow-up on several significant results obtained, and targets identified, by prior drilling. It is exploration drilling that NovaGold could have and should have done in 2004, 2005 and 2006. However, the drilling was not done. Pioneer has alleged in litigation with NovaGold that the reason the more comprehensive drilling was not done was because NovaGold had a conflict of interest that precluded it from an unbiased assessment of where and how deep to drill before considering the property condemned. NovaGold managed to drill only 21 exploration holes of limited depth in three drill seasons. Now that Pioneer understands NovaGold's longstanding secret plan for tailings/waste disposal on the Grace claims, it seems apparent that the limited drilling that

was conducted was done in a fashion that would avoid the “complications” to the current application that would have arisen with positive drilling results.

2. Consideration of the surface use lease application should be suspended (for at least 12 months) until it is more “ripe,” more drilling information is available, and efforts to work out any conflicts with the mineral estate owner have been exhausted.

NovaGold’s surface use application process is premature and should be deferred until it is more certain that the GC Project will be developed, and that it can be developed with the tailings/waste disposal facilities in their current design and in the locations proposed by NovaGold.

Under section 9 of the *Environmental Assessment Act*, a surface lease cannot be granted prior to the completion of the EA process. Despite recent public statements by NovaGold to the contrary,⁵ there is no realistic expectation that the permitting process for the GC Project will be completed in the first quarter of 2007 – or in Pioneer’s view, *at any point in 2007*. While the initial provincial public comment period has been completed, the number and nature of the comments received suggest that NovaGold has enormous work ahead of it to complete a proper EA.⁶ Initially, the most aggressive possible timetable for Provincial referral of the EA application to Provincial Ministers for their consideration was thought to be December 27, 2006. However, during the provincial comment period many of the parties commenting on the application (including Provincial and federal agencies with jurisdiction over important permits and approvals) noted significant inadequacies in the information presented and impacts described in the Galore Creek EA. Consequently, the chance of the December 27th timetable being met appears *nil* – unless NovaGold ignores the various shortcomings of its initial efforts and can persuade the relevant agencies to do the same.

The federal comment period on the NovaGold application for an EA certificate will not even begin until 2007. Once that comment period is completed and the comments digested, the federal Minister of the

⁵ See for example, NovaGold’s News Release, October 13, 2006, page 2, enclosed.

⁶ See note 3, *infra*. See also the links listed below “Under Review” at:
http://www.eao.gov.bc.ca/epic/output/html/deploy/epic_project_home_239.html.

Environment must then issue an environmental assessment decision statement. The Minister will then refer the project to the responsible federal authorities to make a decision as to whether or not to issue the federal authorizations required for the project. There are no statutory deadlines for the federal authorities to make their decisions and history indicates that predictions as to when all such decisions will be forthcoming have little value.

In addition, and significantly from a timing standpoint, NovaGold has applied to use what both Provincial and federal authorities believe may be a natural fish-bearing body of water for its tailings impoundment area on the Grace claims. The federal *Fisheries Act* prohibits such use unless Schedule 2 of the *Metal Mining Effluent Regulations* is amended by the federal government. Pioneer's understanding is that federal officials have stated that the expected timetable for such an amendment - *if one is going to be forthcoming - is 6-18 months after the CEEA approval is obtained.*⁷

Then, there is the prospect of further delay associated with appeals and litigation should anyone feel that an amendment of the effluent regulations – or any other authorization – has been improvidently issued. Stated differently, obviously there is no urgency to address this application.

In a similar vein, in the absence of the requisite financing to proceed with the GC Project, there can be no need to consider the matter at this time. It is quite clear that NovaGold does not currently have the financial means to build the project that it has proposed. Consequently the fate of the project – and the need to address the surface lease application *at all* – remains contingent on NovaGold securing massive amounts of financing required to develop the project. That, in turn, is largely dependent on the completion of a final feasibility study that demonstrates that the project is economic. To Pioneer's knowledge that feasibility study does not presently exist. NovaGold initially said a feasibility study would be released in the "first half" of 2006. Then it said "mid" 2006. Then the "third quarter". Then in the "second half" of 2006. Then, in the "fourth quarter". Finally, "before the year end." The fact that it has apparently been delayed no less than five

⁷ Pioneer's understanding is that the time period for such an amendment on a given project is affected, *inter alia*, by the need to negotiate and conclude a fish habitat mitigation and compensation agreement with Fisheries and Oceans Canada before any amendment can be considered and by the required formal regulation amendment process. That process involves multiple opportunities for public notice and comment. The proposed amendment must include a detailed justification, including extensive consideration of alternatives to the use of fish-bearing waters as a tailings impoundment area.

times since the start of 2005 may possibly indicate that NovaGold has been unable to identify a viable project.

Should NovaGold ultimately *ever* finalize a feasibility study that indicates that the GC Project is economic, it must then either obtain bank financing, bring in a senior mining company as a financing partner, or somehow rely on the capital markets to raise an enormous amount of money to actually build a project that is expected to cost more than a billion dollars. None of those things are, to Pioneer's knowledge, presently underway. Given NovaGold's lack of financial resources (relative to the size of the project), its *negative cash flow*, and its utter lack of any development track record as a mining company, NovaGold's financing and eventual development of a large project is highly questionable. Indeed, we are not aware of any junior mining company that has ever successfully developed a project of this size.

Financing, of course, is also dependent on the price of copper and gold. It is impossible to predict where the prices of those commodities will be one-and-one-half to two years from now when NovaGold could theoretically have completed a feasibility study, completed provincial **and** federal permitting, amendment of Schedule 2 of the federal effluent guidelines, and financing and be ready to begin construction. What can be said with confidence is that the commodity prices presently enjoyed by the mining industry are near the top of the cycle, historically speaking. Consequently, a project that appears to be economic today may not be economic in two years. It is entirely appropriate for the Province to take into account the economic viability of the GC Project based on conditions that exist when construction is imminent. The Province should not rush to make an irretrievable commitment to a surface lease on the Grace claims that would prevent proper, more thorough exploration and entirely destroy their value.

Ignoring NovaGold's unrealistic public projections of when it will begin development of the GC Project, the fact is that there may *never* be an irreconcilable conflict between NovaGold and Pioneer regarding a surface lease. This is so for several reasons:

1. In view of Pioneer's planned exploration drilling programs (discussed below) it is possible that Pioneer's further exploration may justify the condemnation of the Pioneer claims before the NovaGold feasibility, permitting, financing etc., processes run their regular course. Alternatively, Pioneer's further exploration may result in the

confirmation of one or more economic mineral deposits within the claims, including in the large areas that have not had any drilling.

2. It is possible that the facilities necessary for the proposed placement of tailings/waste on the Grace claims will not be approved, either for environmental or legal⁸ reasons. It is also possible – even likely – that the GC Project will not get built at all – due to the myriad of issues relating to financing, permitting, commodity prices, etc., that normally delay or kill prospective mining projects.
3. If history is a guide, it is also possible that the only way that the GC Project will become economic and get built is by incorporating additional resources from adjacent claims, including, potentially, the Grace claims.
4. It is also possible that NovaGold and Pioneer may, with time, reach some settlement or accommodation to permit the continued exploration and potential development of portions of the Grace claims while accommodating some portion of NovaGold's proposed tailings or waste disposal plans – at some future time. Such an accommodation would avoid the need for the Province and the parties to adjudicate and litigate a proposed surface lease.

Barrick?

Had NovaGold consulted with Pioneer to explore whether some accommodation was possible, we would know if there is a path forward that would protect both parties' interests. For example, the parties could have discussed an agreed program of exploration and condemnation drilling. They could have discussed modification of Pioneer's planned 2007 drilling program or NovaGold's waste dumping and tailings disposal designs. They could have agreed on compensation for whatever diminution of the prospective value of Pioneer's claims was appropriate. But NovaGold decided to continue to pursue its hidden agenda and not to even inform Pioneer of its surface lease application or the technical foundation for it. Rather than seeking an accommodation that respects both parties' interests or plans, NovaGold allegedly chose a surreptitious route to gain access to Pioneer's Grace claims under the pretext that it was interested in finding economic mineralization. Then it began encouraging the Province to rush through a surface lease application and destroy the value of Pioneer's claims

⁸ See e.g., the Pioneer litigation referenced in note 1.

– all before any of the material uncertainties associated with the GC Project discussed above are resolved favorably and before the project, in its current iteration, is demonstrated to be economically, technically, legally and politically viable.

The bottom line is that apart from NovaGold's unrealistic public projections concerning the timing of its feasibility study, its permitting schedule and its project, there is no compelling reason for the Ministry of Agriculture and Lands ("MAL") to address today a surface lease application that is both hotly contested and would destroy the entire prospective value of claims adjacent to a large mineral deposit -- just as Pioneer is poised to initiate a significant exploration program on those claims. It is entirely appropriate for MAL to acknowledge that there are still very material uncertainties about whether and when NovaGold's project will move forward and, if it moves forward, whether and when the federal government will act on any requirement to change its regulations to permit waste disposal facilities to be located in or affecting a natural fish-bearing body of water. Those issues and contingencies will get sorted out during 2007 or 2008. However, at this point there is no need for the Province to assist NovaGold to totally destroy any potential value of the Grace claims by prematurely precluding the proper exploration and evaluation of one of the most prospective pieces of exploration ground in British Columbia.

3. There is no point in considering a surface use lease application until the exploration of the Grace claims is completed. No construction of a tailings facility or waste dump is possible while Pioneer is exploring its Grace claims.

Section 14(1) of the *Mineral Tenure Act* provides for the use and occupancy of the surface of a claim for exploration, development and production. The granting of a surface use lease does not diminish the mineral owner's rights except in very limited circumstances not applicable here. Irrespective of the granting of a surface use lease to NovaGold, Pioneer will continue to be entitled to conduct exploration on its claims and otherwise advance the potential development of its claims – activities which will effectively preclude NovaGold's construction of waste and tailings facilities until they are completed.

Pioneer has every intention to fully explore the Grace claims. Its interest in doing so – and the potential for delineating valuable minerals – has been dramatically enhanced by the success of NovaGold on the adjacent property.

It is well accepted in the mining industry that the best place to look for mineral deposits is in immediate proximity to a known deposit and /or operating mine. This is true because of the likelihood that the geologic setting that hosts one deposit may well continue onto other adjacent claims or host other deposits. It is also true because the development of a mine on an adjacent property dramatically lowers the threshold for the size of deposit which will have economic value. This is so because the initial mine that is constructed bears the very significant costs associated with the development of infrastructure, access, processing capacity, etc. In contrast, subsequent discoveries on adjacent properties can be economic when added to the first mine, even if they may not be economic solely on their own account. Adjacent satellite deposits can provide mill feed for the first mine but do not need to bear the enormous development costs of an entire mine and processing complex. That means that small discrete deposits can have enormous value. Consequently, the success of NovaGold's efforts to expand the known resource inside its claims, and its proposal to construct a mine, both dramatically increase the prospective value of the adjacent Grace claims.

To explore the Grace claims Pioneer initially enlisted the assistance of NovaGold, which was having success with its exploration on the Galore claims. Pioneer entered into an option arrangement with NovaGold whereby NovaGold could acquire certain interests in the Grace claims by conducting legitimate, grassroots exploration on the Grace claims. In Pioneer's view, NovaGold did just the opposite of what it agreed. While allegedly concealing its true agenda it appears NovaGold principally set about to conduct a limited *condemnation* program -- designed to facilitate its surface use lease application. That, of course, was directly contrary to Pioneer's interests and the objectives of the exploration agreement between the parties. Not surprisingly, Pioneer has sued NovaGold, alleging willful misrepresentation and breach of fiduciary duty, and the matter is now before the courts.

Pioneer now intends to do what NovaGold was supposed to do; that is, to explore the Grace claims. As noted earlier, the prospect of the discovery of one or more deposits has been significantly enhanced by NovaGold's

success. The likelihood that any deposit, regardless of size, can be economically extracted is also significantly enhanced by the prospect that a mine and processing facilities will be built nearby. Pioneer is delighted that NovaGold is moving forward with its project. However, such efforts cannot be at the expense of the proper exploration and development of the Grace claims.

Barrick
#58M
Paid
for 90% of
Pioneer's shares

Pioneer plans an aggressive exploration program on the Grace claims in 2007. It now has the support of its principal shareholder, Barrick Gold Corporation, which just paid some CDN \$58 million to buy approximately 90% of the shares of Pioneer – due to its location adjacent to one of the largest undeveloped copper and gold deposits in North America. It is not surprising that Barrick was willing to acquire a property based principally on its proximity to a large discovery. The first time that Barrick did that was some twenty years ago. It spent US\$60 million to buy the Goldstrike property in Nevada. The principal attribute of the Goldstrike property was that it was next door to Newmont Gold's Carlin mines, which were then the toast of the gold industry. Barrick's 1986 investment in an undeveloped property with the "right address" turned out very well – Barrick's aggressive exploration program struck gold within three months of completing the acquisition. Goldstrike became one of the largest and most profitable gold mines in the world. Larger, in fact, than those of its neighbor Newmont, which had a much more negative view of Goldstrike's prospective value. Fortunately, despite Newmont's view, Goldstrike was not prematurely relegated to a waste disposal site by Nevada authorities.

There are dozens of other examples of significant deposits that have been discovered within close proximity of operating mines – sometimes decades after the initial discovery. NovaGold would have the Province believe that its limited drilling – 21 shallow holes – on a small portion of the Grace claims – has eliminated all the potential for future discoveries. Pioneer vehemently disagrees – and plans aggressively to explore the claims to their full potential.

Again, the Goldstrike example is telling. Barrick's 1987 drilling was deeper than all of the known commercial deposits on the Carlin Trend. But the deeper drilling paid off and the main discovery was made at a level well deeper than surrounding deposits that were being mined. NovaGold's relatively shallow drilling in one area on the Grace claims does not begin to condemn the property. To give one a sense of NovaGold's motivation, it

terminated a drill hole on the Grace claims in an interval of material that was in excess of five grams per tonne of gold⁹ -- and never went back to follow it up.

So long as Pioneer is conducting its exploration in good faith NovaGold cannot use the surface in any manner that diminishes its exploration and development prospects – a surface use lease notwithstanding. Should it try to do so there is no doubt that Pioneer will resist that effort in the courts with vigor. It appears likely that Barrick will do the same, given the size of its recent investment in this property.

⁹ Hole no. PC 04-14. In comparison, the average grade of the gold in the Galore Creek deposit is less than 0.3 grams per tonne.



News Release

TSX, AMEX Symbol: NG

NovaGold Announces Q3 Financial Results and Project Update

October 13, 2006 - Vancouver, British Columbia - NovaGold Resources Inc. (TSX/AMEX: NG) is pleased to report its financial and operating results for the three months and nine months ended August 31, 2006, together with an update of the Company's development activities. Details of the Company's financial results are described in the unaudited consolidated financial statements and Management's Discussion and Analysis which, together with further details on each of the Company's projects including resource estimates, can be found on the Company's website at www.novagold.net and on SEDAR at www.sedar.com. All amounts are in Canadian dollars unless otherwise stated.

PRESIDENT'S REPORT TO SHAREHOLDERS

NovaGold is pleased to reports its financial and operating results for the three and nine month period ended August 31, 2006, together with an update of the Company's activities and coming milestones.

Since NovaGold's last quarterly report, released in July, the Company achieved several important milestones as part of the Company's continued rapid growth. We completed the acquisition of Coast Mountain Power, securing a run-of-river hydroelectric project to deliver "green" low-cost power to the Galore Creek project and demonstrating our continued commitment to environmental sustainability. We updated resource estimates using 2005 drilling results and current economic parameters and released 2006 drilling results, increasing our Measured and Indicated resources and showing potential for resource expansion and conversion of Inferred Resources to Measured and Indicated Resources. A particularly exciting achievement was the receipt of final permits and the start of construction at Rock Creek mine, with gold production targeted for May 2007. Other project-specific achievements are outlined below.

Each milestone we achieve moves NovaGold one step closer to becoming a gold producer, a transition that should considerably increase shareholder return with a market revaluation. Major upcoming milestones for increased shareholder value include:

- Q4 2006
 - Galore Creek Feasibility Study scheduled for completion
 - Completion of Donlin Creek and Galore Creek 2006 drilling programs
 - Galore Creek resource update based on 35,000 meters of drilling in 2006
- Q1 2007
 - Donlin Creek resource update based on 80,000 meters of drilling in 2006
 - Galore Creek Environmental Assessment Certificate expected to be issued
 - Anticipate selection of financing partner for Galore Creek
- Q2 2007
 - Board decision to start construction at Galore Creek, upon receipt of permits
 - Anticipated start of gold production at Rock Creek mine in Nome, Alaska
- Q4 2007
 - Barrick back-in deadline for Donlin Creek

Project Review

Donlin Creek Project

NovaGold owns a 70% interest in the Donlin Creek deposit in a joint venture with Barrick Gold Corporation (30%). The deposit, located in southwestern Alaska, is one of the largest undeveloped gold resources in the world. As currently envisioned, Donlin Creek would be one of only a handful of gold mines worldwide that produce over 1 million ounces of gold per year, making it a true world-class asset.

An Independent Preliminary Economic Assessment of the project completed by SRK Consulting (US), Inc. was released on September 25th, confirming the economics of potentially one of the world's largest open-pit gold mines (for further details on the SRK study see NovaGold's September 25, 2006

news release and associated technical report on NovaGold's website at www.novagold.net or on SEDAR at www.sedar.com).

The Donlin Creek Joint Venture approved an 80,000 meter drill program for 2006, including infill drilling targeting conversion of Inferred Resources to Measured and Indicated Resources, exploration expansion drilling, geotechnical drilling and carbonate resource drilling. Through mid-September, just over 56,500 meters of drilling has been completed, and Barrick has provided results for 74 of 171 completed drill holes. Historic drilling at Donlin Creek has converted more than 80% of targeted Inferred Resources to Measured & Indicated Resources. Under the Donlin Creek Mining Venture Agreement, NovaGold has requested that Barrick provide the Company with information on the project from its exploration and development activities. Additional drill results will be released from the program as they are made available to NovaGold. The Company plans to complete an independent update of the Donlin Creek resource estimates once all the results from the 80,000 meter program have been received. These results are anticipated to convert a significant portion of the in-pit Inferred resources to Measured and Indicated resources.

Under the terms of a back-in arrangement outlined in the Mining Venture Agreement, Barrick has an option to earn an additional 40% interest (bringing its total to a 70% interest) in the joint venture. NovaGold believes it will not be possible for Barrick to meet the terms and conditions of the Agreement, and on August 25th filed a lawsuit against Barrick in the United States District Court of Alaska seeking, among other remedies, a declaratory judgment to clarify the requirements Barrick must satisfy to earn an additional 40% interest in Donlin Creek, and an order to the effect that it is impossible for Barrick to satisfy these requirements, in which case NovaGold expects to be appointed as manager of the project in place of Barrick. The Court concluded there is a "genuine dispute" as to Barrick's ability to meet the conditions required to earn a 70% interest in Donlin Creek, and the Company's litigation is still pending.

Galore Creek Project

Located within the Stikine Gold Belt of northwestern British Columbia, Galore Creek is one of the largest undeveloped copper-gold-silver projects worldwide. As envisioned, the Galore Creek deposit would be developed by conventional open-pit mining methods at a 65,000 tonnes-per-day processing rate over a minimum 20-year mine life. A final Feasibility Study for the project, prepared by Hatch Ltd., is scheduled for completion this quarter.

The Galore Creek environmental assessment process was initiated in February 2004. As part of the environmental assessment review process, a series of public meetings were held in various communities in the Galore Creek region, with the public and regulator comment periods running from July 10th to September 8th and 22nd, respectively. The Galore team is preparing responses to the comments, and will also be consulting with regulators and the Tahltan First Nation on the process. Provincial regulators have indicated that the permitting process is on schedule and the Environmental Assessment Certificate decision is anticipated in the first quarter of 2007, with construction targeted to begin in the second quarter of 2007.

As part of the concurrent permitting process, NovaGold has filed an application with the B.C. Government to obtain a surface lease over a portion of the Grace claims, under option from Pioneer Metals, where NovaGold intends to build a tailings and waste rock storage facility for the Galore Creek project. A recent report from the British Columbia Ministry of Energy, Mines and Petroleum Resources has concurred that NovaGold's drilling on the Grace property over the past 3 years is sufficient to confirm that there is no economic mineralization in the area proposed for a tailings and waste storage facility. The Ministry's findings are an important confirmatory step in the development of the Galore Creek project. A final decision on granting a surface lease from the B.C. Government would be expected after issuance of the Environmental Assessment certificate in the first quarter of 2007.

NovaGold is nearing completion of its 2006 expansion drilling program at Galore Creek. Additional results from this 35,000 meter program are expected over the coming weeks. Drilling to date has shown significant potential to expand the open pit resource. An updated resource estimate based on this season's drilling will be completed in the fourth quarter of 2006, along with the Galore Creek Feasibility Study.