

NOVAGOLD

NOVAGOLD RESOURCES INC.

**Management's Discussion & Analysis
Year-End Financial Statements**

November 30, 2013

For full Annual Report on Form 10-K, please visit www.novagold.com
Or call Investor Relations at 1-866-669-6227

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the years ended November 30, 2013, 2012 and 2011. This discussion should be read in conjunction with the consolidated financial statements and notes thereto contained elsewhere in this report.

Overview

Our operations primarily relate to the delivery of project milestones, including the achievement of various technical, environmental, sustainable development, economic and legal objectives, obtaining necessary permits, completion of feasibility studies, preparation of engineering designs and the financing to fund these objectives.

In 2013, we successfully delivered on the key goals established at the beginning of the year. Highlights of our accomplishments include:

Advancement of the Donlin Gold project

Permitting of the Donlin Gold project continued to advance:

- The Notice of Intent to prepare an EIS was published by the Corps in the Federal Register in December 2012, commencing the public scoping process.
- Public scoping meetings were held in 13 villages and communities in Western Alaska and in Anchorage to provide information and insight about the project.
- A data gap analysis to address questions and concerns that arose from the scoping meetings was prepared.
- EIS Scoping Summary report completed and made available to the public (www.donlingoldeis.com).
- Strong working relationships were maintained with the agencies and we continue to provide input throughout the permitting process.
- Ongoing baseline data review was conducted including:
 - follow-up technical workshops highlighting core components of baseline environmental and social studies; and
 - completion of 2013 supplemental field studies.
- EIS Alternatives Development occurred, including:
 - reasonable range of alternatives that are feasible, practicable and permissible to address key issues (i.e.: power – gas pipeline vs. diesel) has been defined; and
 - the initial screening of potential alternatives has been completed.
- Preliminary Draft EIS preparation was commenced, initial draft chapters are in review by the Cooperating Agencies.
- A strong safety record was maintained.
- Several villages were engaged in work force development planning.
- Donlin Gold was named "Employer of the Year" by the National Association of State Workforce Agencies.

Galore Creek project

The 2013 drilling program was completed under budget and exceeded program objectives with 11,600 meters drilled:

- Significant intercepts encountered on follow-up drilling from the Legacy zone discovery in 2012, a 700-meter long mineralized zone, adjacent to the Central Pit.
- Extensions of the Legacy zone mineralization were identified to the south, west and at depth and provided information that will be useful to assess its impact on future mine design.
- Results from the 2012 and 2013 drilling programs will be incorporated into a capital efficient work plan for 2014 that will advance the project.

Strengthened our financial position

- Reduced cash flow used in continuing operations to \$19.5 million in 2013 from \$28.6 million in 2012.
- Our cash used in operations and funding of the Donlin Gold and Galore Creek projects totaled \$38.3 million, \$2.7 million lower than our budget of \$41 million.
- Received proceeds of \$54.4 million upon exercise of the remainder of our outstanding warrants.
- Completed a tender offer for our Notes and subsequently purchased additional Notes
 - Reduced the principal obligation of the Notes from \$95.0 million to \$15.8 million.
 - Reduced associated interest expense.
- We have sufficient cash available to repay the remaining \$15.8 million of the outstanding Notes due in May 2015 and to advance the Donlin Gold project through the remaining expected permitting process.

Outlook

Our goals for 2014 include:

- Advance permitting of the Donlin Gold project.
- Maintain a healthy balance sheet.
- Undertake Galore Creek technical studies to build on successful 2012 and 2013 drill results.
- Evaluate opportunities to monetize the value of Galore Creek.
- Maintain an effective corporate social responsibility program.

We do not currently generate operating cash flows. At November 30, 2013, we had cash and cash equivalents of \$81.3 million and term deposits of \$110.0 million. At present, we believe that these balances are sufficient to cover the anticipated funding at the Donlin Gold and Galore Creek projects in addition to general and administrative costs through completion of permitting at the Donlin Gold project. Additional capital will be necessary if permits are received at the Donlin Gold project and a decision to commence construction is reached. Future financings to fund construction are anticipated through debt financing, equity financing, project specific debt, or other means. Our continued operations are dependent on our ability to obtain additional financing or to generate future cash flows. However, there can be no assurance that we will be successful in our efforts to raise additional capital. For further information, see section Item 1A, Risk Factors - Our ability to continue the exploration, permitting, development, and construction of the Donlin Gold and Galore Creek projects, and to continue as a going concern, will depend in part on our ability to obtain suitable financing, above. In 2014, we expect to spend approximately \$15 million to fund our share of expenditures at the Donlin Gold and Galore Creek projects and \$15 million for general and administrative costs, interest, working capital and other corporate purposes.

Summary of Consolidated Financial Performance

(\$ thousands, except per share)	Years ended November 30,		
	2013	2012	2011
Loss from operations	\$ (55,776)	\$ (79,942)	\$ (115,996)
Income (loss) from continuing operations	\$ (62,760)	\$ (7,586)	\$ 78,235
Net income (loss) attributable to shareholders	\$ (62,760)	\$ (11,829)	\$ 64,767
Net income (loss) per common share			
Basic	\$ (0.20)	\$ (0.05)	\$ 0.19
Diluted	\$ (0.20)	\$ (0.05)	\$ 0.07

Results of Operations

2013 compared to 2012

Loss from operations decreased 30% from \$79.9 million in 2012 to \$55.8 million in 2013. The decrease resulted from lower general and administrative expenses and a lower share of losses from equity investments in the Donlin Gold and Galore Creek projects. General and administrative expenses decreased 30% due to the corporate reorganization costs that were incurred in 2012 for severance and recruiting. Our share of losses at the Donlin Gold project decreased by \$2.3 million, as 2013 activities were focused

primarily on permitting. At the Galore Creek project, our share of losses decreased by \$10.0 million due to a smaller drilling program that focused on the 2012 Legacy zone discovery.

Net loss attributable to shareholders increased from \$11.8 million (\$0.05 per share – basic) in 2012 to \$62.7 million (\$0.20 per share – basic) in 2013. In 2012, the fair value of U.S. dollar denominated warrants and the Notes decreased and we recorded a gain of \$76.2 million compared to a gain of \$1.4 million in 2013, partially offset by the \$24.1 million reduction in the loss from operations in 2013 compared to 2012. We also had a \$3.9 million tax expense in 2013 compared to a \$7.7 million income tax recovery and a \$4.2 million net loss from discontinued operations in 2012.

2012 compared to 2011

In 2011, the results of operations and presentation in the financial statements were impacted by the deconsolidation of the Galore Creek project. Teck earned its 50% interest in the Galore Creek project upon completion of its funding commitment of C\$373.3 million in June 2011 (the “Reconsideration Event”). The Reconsideration Event resulted in a loss of our primary beneficiary status upon Teck completing its earn-in obligations under the Partnership Agreement. Prior to the completion of its earn-in, if Teck had failed to meet their obligations, we would have had the power to exercise control over the Partnership. Following the Reconsideration Event, we share joint control of the Galore Creek Partnership with Teck, costs are funded equally between the partners and we equity account for our investment.

We determined the fair value of the Partnership at the reconsideration date, deconsolidated the Galore Creek Partnership and subsequently equity accounted for our share of the investment. We determined that the fair value of the Galore Creek project was \$354.4 million at May 31, 2011 using estimated discounted future cash flows. As a result, we recognized a gain of \$154.2 million for the excess value over the book value of \$200.2 million. The determination of the estimated fair value of the equity investment in the Galore Creek Partnership required management to make estimates and assumptions of future events. These estimates and assumptions affect the reported amount of the investment and the reported amount of the gain recognized upon fair valuing the equity investment in the Galore Creek Partnership. Significant assumptions included gold, copper and silver prices of \$1,100 per ounce, \$2.66 per pound, and \$18.50 per ounce, respectively, and a 7% discount rate. Other estimates included future foreign exchange rates, various operational assumptions and metal recovery rates. Actual results could differ materially from those reported.

Loss from operations decreased 31% from \$116.0 million in 2011 to \$79.9 million in 2012. The decrease was primarily due to \$39.6 million in write-downs related to power transmission rights and mobile equipment at the Galore Creek project. General and administrative costs increased by \$12.9 million in 2012 as a result of the corporate reorganization which included severance and recruiting costs. Our share of losses at the Donlin Gold project decreased by \$4.7 million as permitting activities commenced. At the Galore Creek project, our share of losses increased by \$6.0 million due to an expanded drilling program which resulted in the Legacy zone discovery.

Net loss from discontinued operations in 2012 and 2011, includes the financial results associated with NovaCopper Inc. and the Ambler assets, and the former operations of Alaska Gold Company LLC (AGC) and the Rock Creek project. On April 30, 2012, we completed a plan of arrangement under the Companies Act (Nova Scotia) pursuant to which we spun-out NovaCopper Inc., a wholly-owned subsidiary of the Company which held the Ambler assets in Alaska, to our shareholders. On November 1, 2012, we completed the sale of our wholly owned subsidiary, AGC, which owns the Rock Creek project and other assets in and around Nome, Alaska to Bering Straits Native Corporation. The loss decreased from \$33.1 million in 2011 to \$4.2 million in 2012, primarily due to a partial year of expenses at Ambler due to the spin-out of NovaCopper Inc. and a write-down of inventory and reclamation expense at Rock Creek in 2011.

Net income attributable to shareholders decreased from \$64.8 million (\$0.19 per share – basic) in 2011 to a loss of \$11.8 million (\$0.05 per share – basic) in 2012. The decrease was due to the gain recognized in 2011 on deconsolidation of the Galore Creek Partnership, partially offset by the decrease in Loss from operations, the decrease in Net loss from discontinued operations and a \$7.7 million deferred income tax recovery in 2012 compared to an expense of \$15.4 million in 2011.

Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Years ended November 30,		
	2013	2012	2011
Cash used in continuing operations	\$ (19,491)	\$ (28,570)	\$ (27,731)
Cash used in investing activities of continuing operations	\$ (128,846)	\$ (34,842)	\$ (41,279)
Cash provided from (used in) financing activities of continuing operations	\$ (24,812)	\$ 323,585	\$ 21,565
	As of November 30,		
	2013	2012	
Cash and cash equivalents	\$ 81,262	\$ 254,667	
Term deposits	\$ 110,000	\$ —	

Cash and cash equivalents decreased by \$173.4 million to \$81.3 million at November 30, 2013 compared to \$254.7 million at November 30, 2012. The decrease in cash is primarily related to the investment of \$110.0 million in term deposits, \$19.5 million used in operating activities, \$18.8 million to fund Donlin Gold and Galore Creek, and \$79.2 million to repurchase Notes, partially offset by proceeds of \$54.4 million from warrants exercised. We have sufficient working capital available to repay the remaining \$15.8 million of outstanding Notes due in May 2015 and to advance the Donlin Gold project through the expected remaining permitting process.

2013 compared to 2012

Cash used in continuing operations decreased from \$28.6 million in 2012, to \$19.5 million in 2013. The decrease resulted from the successful reorganization of the Company in 2012 encompassing the spin-out of NovaCopper Inc., the sale of AGC, which included Rock Creek, as well as a reduction in corporate overhead and administrative costs. Interest payments were lower due to the \$79.2 million repurchase of Notes in 2013. Cash used in discontinued operations in 2012 included \$25.5 million in 2012 to fund the operations of NovaCopper Inc. and the Rock Creek project.

Cash used in investing activities of continuing operations in 2013 included an investment of \$110.0 million in term deposits with original terms of six to nine months to earn a higher return while maintaining adequate liquidity. The U.S. dollar denominated term deposits are held at two major Canadian financial institutions. Cash funding of investments in affiliates decreased by \$14.1 million due to lower project activity during permitting at the Donlin Gold project and a reduced exploration program at the Galore Creek project.

Cash used in financing activities of continuing operations in 2013 included the repurchase of \$79.2 million of our Notes, partially offset by the receipt of \$54.4 million in net proceeds from the exercise of all outstanding warrants. In 2012, we received net proceeds of \$318.0 million from the completion of an equity financing of 35 million common shares at \$9.50 per share and \$5.6 million from the exercise of warrants. Cash used in financing activities of discontinued operations in 2012 included \$40 million to fund the spin-out of NovaCopper Inc.

2012 compared to 2011

Cash used in continuing operations increased from \$27.7 million in 2011, to \$28.6 million in 2012. The increase resulted from reorganization costs including severance in 2012, partially offset by the inclusion of 100% of spending at the Galore Creek project in the first half of 2011, prior to deconsolidation. Cash used in discontinued operations increased from \$22.0 million in 2011 to \$25.5 million in 2012 to fund the operations of NovaCopper Inc. and the remediation of the Rock Creek project.

Cash used in investing activities of continuing operations in 2011 included \$4.1 million for the acquisition of Copper Canyon. Cash funding of investments in affiliates increased by \$1.7 million due to the expanded drilling program at the Galore Creek project that resulted in the discovery of the Legacy zone, partially offset by lower spending at the Donlin Gold project as permitting commenced in 2012. Cash provided from investing activities of discontinued operations resulted primarily from the sale of equipment at the Rock Creek project.

Cash used in financing activities of continuing operations in 2012 included net proceeds of \$318.0 million from the completion of an equity financing and \$5.6 million from the exercise of warrants and stock options. In 2011, we received proceeds of \$14.2 million from the exercise of warrants and stock options and \$7.4 million from Teck to fund the Galore Creek project prior to the completion of Teck's earn-in on the project. Cash used in financing of discontinued operations included \$40 million to fund the spin-out of NovaCopper Inc. in 2012 and \$24.0 million to repay the Ambler note in 2011.

Contractual Obligations

Our contractual obligations as of November 30, 2013 were as follows:

(\$ thousands)	Total	Less	1-3	3-5	More than
		than 1	years	years	5 years
Reclamation and remediation	\$ 861	\$ 861	\$ —	\$ —	\$ —
Office and equipment leases	1,622	440	846	336	—
Convertible notes - principal	15,829	—	15,829	—	—
Convertible notes - interest	1,306	871	435	—	—
Promissory note	71,728	—	—	—	71,728

Off-Balance Sheet Arrangements

The Company does not have any material off-balance sheet arrangements required to be disclosed in this Annual Report on Form 10-K.

Outstanding share data

As of February 6, 2014, we had 317,297,868 common shares issued and outstanding. As of February 6, 2014, we had 13,950,134 stock options with a weighted-average exercise price of \$5.71, 2,281,692 restricted share units and 134,090 deferred share units outstanding. Following the Company's purchases of the Notes, \$15,829 of the principal amount of the Notes remain outstanding and due on May 1, 2015 and 1,639,370 common shares remain issuable upon conversion.

Related party transactions

The Company provided exploration and management services to Donlin Gold for \$258 in 2013, \$236 in 2012 and \$600 in 2011; office rental and services to Galore Creek for \$423 in 2013, \$796 in 2012 and \$886 in 2011; and management and office administration services to NovaCopper Inc. for \$168 in 2013 and \$83 in 2012.

As of November 30, 2013, the Company has accounts receivable from Donlin Gold of \$1,750 (2012: \$nil) and from Galore Creek Galore Creek of \$1,690 (2012: \$138) included in other current assets and a receivable of \$4,132 (2012: \$4,417) from Galore Creek included in other long-term assets.

Fourth quarter results

During the fourth quarter of 2013, we incurred a net loss of \$20.0 million compared to \$30.2 million for the comparable period in 2012. The decrease in net loss in 2013 compared to 2012 was primarily due to a loss on derivative liabilities in 2012. We also incurred lower general and administrative expenses and interest expense in 2013, offset by increased deferred income tax expense.

Accounting Developments

For a discussion of Recently Issued Accounting Pronouncements, see Note 2 to the Consolidated Financial Statements.

Critical Accounting Policies

We believe the following accounting policies are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported.

Investment in affiliates

Our investments in the Donlin Gold project and the Galore Creek project are accounted for using the equity method. The equity method is a basis of accounting for investments whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the investor's pro rata share of post-acquisition earnings or losses of the investee, as computed by the consolidation method. Cash funding increases the carrying value of the investment. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

These investments are non-publicly traded equity investees in advanced exploration projects. Therefore, we assess whether there has been a potential impairment triggering event for other-than-temporary impairment by testing the underlying assets of the

equity investee for recoverability and assessing whether there has been a change in the development plan or strategy for the project. If we determine underlying assets are recoverable and no other potential impairment conditions are identified, then our investment in the equity investee is carried at cost. If the other underlying assets are not recoverable, we record an impairment charge equal to the difference between the carrying amount of the investee and its fair value. We determined fair value based on the present value of future cash flows expected to be generated by the project. If reliable cash flow information is not available, we determine fair value using a market comparable approach.

Mineral properties and exploration and evaluation expenditures

Mineral property acquisition costs, including directly related costs, are capitalized when incurred, and mineral property exploration and evaluation costs are expensed as incurred. Mine development costs include engineering and metallurgical studies, drilling and other related costs to delineate an ore body and the removal of overburden to initially expose an ore body at open pit surface mines. Capitalization of mine development project costs, that meet the definition of an asset, begins once mineralization is classified as proven and probable reserves as defined by SEC Industry Guide 7. Capitalized costs will be amortized using the units-of-production method over the estimated life of the proven and probable reserves. If mineral properties are subsequently abandoned or impaired, any unamortized costs will be charged to loss in that period.

The recoverability of the carrying values of our mineral properties is dependent upon economic reserves being discovered or developed on the properties, permitting, financing, start-up, and commercial production from, or the sale/lease of, or other strategic transactions related to these properties.

Income taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

Share-based compensation

We operate a stock option plan and a performance share unit plan, under which the entity receives services from employees as consideration for equity instruments (options or shares) of the Company. The fair value for the options and share units are recognized in earnings over the related service period. The total amount to be expensed related to options is determined by reference to the fair value of the options granted including any market performance conditions and the impact of any non-vesting conditions; and excluding the impact of any service and non-market performance vesting conditions.

The fair value of stock options is estimated at the time of grant using the Black-Scholes option pricing model, and the fair value of the PSUs is measured at the grant date using a Monte Carlo simulation, which takes into account, as of the grant date, the fair market value of the shares, expected volatility, expected dividend yield and the risk-free interest rate over the life of the PSU, to generate potential outcomes for stock prices which are used to estimate the probability of the PSUs vesting at the end of the performance measurement period.

We grant our board members deferred share units (DSUs), whereby each DSU entitles the directors to receive one common share of the Company when they retire from service with the Company. The fair value of the DSUs is measured at the date of the grant in amounts ranging from 50% to 100% of directors' annual retainers at the election of the directors. The fair value is recognized in consolidated statement of income (loss) over the related service period.

Derivative Instruments

All financial instruments that meet the definition of a derivative are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded in the consolidated statements of income. Management applies judgment in estimating the fair value of instruments that are highly sensitive to assumptions regarding market volatilities, foreign currency exchange rates and interest rates. Variations in these factors could materially affect amounts credited or charged to earnings to reflect the changes in fair value of derivatives.

Net income (loss) per common share

Basic and diluted income (loss) per share is presented for Net income (loss) and for Income (loss) from continuing operations. Basic income (loss) per share is computed by dividing Net income (loss) or Income (loss) from continuing operations by

the weighted-average number of outstanding common shares for the period, including the warrants and the convertible notes. Diluted income per share reflects the potential dilution that could occur if securities or other contracts that may require the issuance of common shares in the future were converted. Diluted income per share is computed by increasing the weighted-average number of outstanding common shares to include the additional common shares that would be outstanding after conversion and adjusting net income for changes that would result from the conversion. Only those securities or other contracts that result in a reduction in earnings per share are included in the calculation.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our financial instruments are exposed to certain financial risks, including currency, credit and interest rate risks.

Currency risk

We are exposed to financial risk related to the fluctuation of foreign exchange rates. We operate in Canada and the United States and a portion of our expenses are incurred in Canadian dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the U.S. dollar could have an effect on our results of operations, financial position or cash flows.

We have not hedged our exposure to currency fluctuations. At November 30, 2013, we are exposed to currency risk through our investment in the Galore Creek project, mineral properties, deferred income taxes and cash balances held in Canadian dollars.

Based on the above net exposures as at November 30, 2013, and assuming that all other variables remain constant, a 1% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of \$3.5 million in our consolidated comprehensive income (loss).

Credit risk

Concentration of credit risk exists with respect to our cash and cash equivalents and term deposit investments. All deposits are held through two large Canadian financial institutions with high investment-grade ratings and have maturities of less than one year.

Interest rate risk

The Notes are not subject to interest rate risk because they are at fixed rates. The interest rate on the promissory note owed to Barrick is variable with the U.S. prime rate. Based on the amount owing on the promissory note as at November 30, 2013, and assuming that all other variables remain constant, a 1% change in the U.S. prime rate would result in an increase/decrease of \$0.7 million in the interest accrued by us per annum.

Item 8. Financial Statements and Supplementary Data

Supplementary Data

For the required supplementary data, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Summary of Quarterly Results” above.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of our assets are made in accordance with management’s authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted its evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control — Integrated Framework (2013) by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 30, 2013.

The effectiveness of our assessment of internal control over financial reporting as of November 30, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ Gregory A. Lang

/s/ David Ottewell

Gregory A. Lang

David Ottewell

President and Chief Executive Officer

Vice President and Chief Financial Officer

February 12, 2014

Report of Independent Registered Public Accounting Firm

To the Shareholders of NOVAGOLD RESOURCES INC.

We have audited the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows and statements of equity present fairly, in all material respects, the financial position of NOVAGOLD RESOURCES INC. and its subsidiaries ("NOVAGOLD") at November 30, 2013 and November 30, 2012, the results of their operations and their cash flows for each of the three years in the period ended November 30, 2013. We also have audited NOVAGOLD's internal control over financial reporting as of November 30, 2013, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our integrated audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that:

- i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NOVAGOLD as of November 30, 2013 and 2012 and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 2013 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, NOVAGOLD maintained, in all material respects, effective internal control over financial reporting as of November 30, 2013, based on criteria established in Internal Control - Integrated Framework issued by COSO.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC

Canada

February 12, 2014

CONSOLIDATED BALANCE SHEETS

(US dollars in thousands)

	At November 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 81,262	\$ 254,667
Investments (note 4)	110,000	—
Other assets	5,549	4,203
Current assets	196,811	258,870
Investments (note 4)	1,280	2,900
Investment in affiliates (note 5)	307,455	339,271
Mineral properties (note 6)	54,813	59,100
Deferred income taxes (note 10)	9,728	15,679
Other assets	8,599	9,422
Total assets	\$ 578,686	\$ 685,242
LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,492	\$ 5,708
Debt (note 7)	—	73,606
Derivative liabilities (note 8)	—	33,210
Other liabilities	861	1,000
Current liabilities	4,353	113,524
Debt (note 7)	85,298	68,106
Derivative liabilities (note 8)	83	—
Deferred income taxes (note 10)	23,303	26,546
Other liabilities	—	255
Total liabilities	113,037	208,431
Commitments and contingencies (note 20)		
EQUITY		
Common shares		
Authorized - 1,000,000,000 shares, no par value		
Issued and outstanding – 316,661,000 and 279,927,000 shares		
issued less 9,000 and 9,000 treasury shares, respectively	1,933,953	1,462,102
Contributed surplus	66,811	454,260
Accumulated deficit during exploration stage	(1,599,619)	(1,536,859)
Accumulated other comprehensive income	64,504	97,308
Total equity	465,649	476,811
Total liabilities and equity	\$ 578,686	\$ 685,242

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

/s/ Gregory A. Lang

/s/ Anthony P. Walsh

CONSOLIDATED STATEMENTS OF INCOME
(US dollars in thousands, except per share amounts)

	Years ended November 30,			From Inception
	2013	2012	2011	
Operating expenses:				
Exploration and evaluation	\$ —	\$ 363	\$ 7,404	\$ 237,145
General and administrative (note 11)	26,991	39,145	26,218	271,117
Equity loss of affiliates (note 5)	27,972	40,330	39,100	163,832
Care and maintenance	—	—	2,525	34,735
Reclamation and remediation	—	—	—	1,150
Depreciation	37	104	1,106	3,905
Write-down of assets (note 12)	776	—	39,643	40,419
	<u>55,776</u>	<u>79,942</u>	<u>115,996</u>	<u>752,303</u>
Loss from operations	(55,776)	(79,942)	(115,996)	(752,303)
Other income (expense):				
Interest income	942	572	383	17,775
Interest expense	(12,607)	(15,305)	(14,143)	(75,153)
Foreign exchange gain (loss)	10,448	2,987	7,490	(17,434)
Gain (loss) on derivative liabilities (note 8)	1,356	76,246	61,684	(564,970)
Gain on deconsolidation of Galore Creek (note 5)	—	—	154,173	154,173
Gain on disposition of assets	—	—	—	47,467
Write-down of marketable securities	(3,227)	—	—	(3,227)
Other	—	108	—	108
	<u>(3,088)</u>	<u>64,608</u>	<u>209,587</u>	<u>(441,261)</u>
Income (loss) before income taxes	(58,864)	(15,334)	93,591	(1,193,564)
Income tax recovery (expense) (note 10)	(3,896)	7,748	(15,356)	6,724
Net income (loss) from continuing operations	(62,760)	(7,586)	78,235	(1,186,840)
Net loss from discontinued operations (note 14)	—	(4,243)	(33,094)	(491,063)
Net income (loss)	(62,760)	(11,829)	45,141	(1,677,903)
Net loss attributable to non-controlling interest	—	—	(19,626)	(78,284)
Net income (loss) attributable to shareholders	<u>\$(62,760)</u>	<u>\$(11,829)</u>	<u>\$ 64,767</u>	<u>\$(1,599,619)</u>
Net income (loss) attributable to shareholders:				
Continuing operations	\$(62,760)	\$ (7,586)	\$ 97,861	\$(1,108,556)
Discontinued operations	—	(4,243)	(33,094)	(491,063)
	<u>\$(62,760)</u>	<u>\$(11,829)</u>	<u>\$ 64,767</u>	<u>\$(1,599,619)</u>
Income (loss) per common share (note 16)				
Basic:				
Continuing operations	\$ (0.20)	\$ (0.03)	\$ 0.33	
Discontinued operations	—	(0.02)	(0.14)	
	<u>\$ (0.20)</u>	<u>\$ (0.05)</u>	<u>\$ 0.19</u>	
Diluted:				
Continuing operations	\$ (0.20)	\$ (0.03)	\$ 0.21	
Discontinued operations	—	(0.02)	(0.14)	
	<u>\$ (0.20)</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(US dollars in thousands)

	Years ended November 30,			From Inception
	2013	2012	2011	
Net income (loss)	\$(62,760)	\$(11,829)	\$45,141	\$(1,677,903)
Other comprehensive loss:				
Change in fair value of marketable securities, net of \$32, \$59, \$64 and \$(184) tax recovery (expense), respectively				
Net change from periodic revaluations	(855)	(1,474)	(1,635)	(2,196)
Net amount reclassified to income	2,738	—	—	2,409
Net unrecognized gain (loss)	1,883	(1,474)	(1,635)	213
Foreign currency translation adjustments	(34,687)	7,235	(29,825)	64,291
	<u>(32,804)</u>	<u>5,761</u>	<u>(31,460)</u>	<u>64,504</u>
Comprehensive income (loss)	<u>\$(95,564)</u>	<u>\$(6,068)</u>	<u>\$13,681</u>	<u>\$(1,613,399)</u>
Comprehensive income (loss) attributable to:				
Shareholders	(95,564)	\$(6,068)	33,307	\$(1,535,115)
Non-controlling interest	—	—	(19,626)	(78,284)
	<u>\$(95,564)</u>	<u>\$(6,068)</u>	<u>\$13,681</u>	<u>\$(1,613,399)</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(US dollars in thousands)

	Years ended November 30,			From Inception
	2013	2012	2011	
Operating activities:				
Net income (loss)	\$ (62,760)	\$ (11,829)	\$ 45,141	\$ (1,677,903)
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation	37	104	1,106	3,905
Deferred income taxes	3,606	(7,748)	15,356	(7,014)
Foreign exchange (gain) loss	(10,448)	(2,987)	(7,490)	29,664
Loss from discontinued operations	—	4,243	33,094	491,063
Share-based compensation	12,304	19,862	8,987	69,403
Equity losses of affiliates	27,972	40,330	39,100	163,832
Gain on deconsolidation of Galore Creek	—	—	(154,173)	(154,173)
Loss (gain) on derivative liabilities	(1,356)	(76,246)	(61,684)	564,970
Write-down of assets	4,003	—	39,643	43,646
Other	9,358	9,062	9,103	18,079
Withholding tax on share based compensation	(619)	(2,960)	—	(5,897)
Net change in operating assets and liabilities (note 13)	(1,588)	(401)	4,086	3,603
Net cash used in continuing operations	(19,491)	(28,570)	(27,731)	(456,822)
Net cash used in discontinued operations (note 14)	—	(25,488)	(22,015)	(219,010)
Investing activities:				
Additions to property and equipment	(78)	(100)	—	(218,301)
Purchases of marketable securities	(110,000)	—	(273)	(110,273)
Funding of affiliates	(18,793)	(34,742)	(36,467)	(160,531)
Acquisitions, net	—	—	(4,139)	(4,645)
Proceeds from sale of assets	25	—	—	26,445
Other	—	—	(400)	(4,780)
Net cash used in investing activities of continuing operations	(128,846)	(34,842)	(41,279)	(472,085)
Net cash provided from (used in) investing activities of discontinued operations (note 14)	—	483	4,306	(328,507)
Financing activities:				
Proceeds from share issuance, net	54,359	323,585	14,182	1,217,437
Proceeds from debt issuance, net	—	—	—	92,200
Repayment of debt	(79,171)	—	—	(82,706)
Proceeds from non-controlling interest	—	—	7,383	343,073
Net cash provided from (used in) financing activities of continuing operations	(24,812)	323,585	21,565	1,570,004
Net cash provided from (used in) financing activities of discontinued operations (note 14)	—	(40,000)	(24,000)	(12,923)
Effect of exchange rate changes on cash	(256)	132	729	605
Increase (decrease) in cash and cash equivalents	(173,405)	195,300	(88,425)	81,262
Cash and cash equivalents at beginning of period	254,667	59,367	147,792	—
Cash and cash equivalents at end of period	<u>\$ 81,262</u>	<u>\$ 254,667</u>	<u>\$ 59,367</u>	<u>\$ 81,262</u>

See note 21 for supplemental cash flow information.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY
(US dollars in thousands)

	Common shares		Contributed surplus	Accumulated deficit during exploration stage	Accumulated other comprehensive income	Non-controlling Interest	Total equity
	Shares	Amount					
From inception							
December 5, 1984	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net loss from inception to November 30, 2010	—	—	—	(1,589,797)	—	(58,658)	(1,648,455)
Other comprehensive income	—	—	—	—	123,007	—	123,007
Acquisition of non-controlling interest	—	—	—	—	—	348,248	348,248
Common share issuance	151,844	766,271	7,935	—	—	—	774,206
Warrants issued /exercised	29,682	82,275	—	—	—	—	82,275
Convertible debt issuance	18,551	19,771	—	—	—	—	19,771
Share-based compensation and related share issuances	10,774	27,367	27,007	—	—	—	54,374
Acquisitions	15,150	89,285	—	—	—	—	89,285
November 30, 2010	226,001	\$ 984,969	\$ 34,942	\$(1,589,797)	\$ 123,007	\$ 289,590	\$ (157,289)
Net income (loss)	—	—	—	64,767	—	(19,626)	45,141
Other comprehensive loss	—	—	—	—	(31,460)	—	(31,460)
Disposition of non-controlling interest	—	—	—	—	—	(269,964)	(269,964)
Warrants exercised	8,925	127,258	(24,103)	—	—	—	103,155
Conversion of foreign currency warrants	—	—	469,694	—	—	—	469,694
Share-based compensation and related share issuances	888	3,032	6,773	—	—	—	9,805
Acquisition	4,171	43,512	—	—	—	—	43,512
November 30, 2011	239,985	\$ 1,158,771	\$ 487,306	\$(1,525,030)	\$ 91,547	\$ —	\$ 212,594
Net loss	—	—	—	(11,829)	—	—	(11,829)
Other comprehensive income	—	—	—	—	5,761	—	5,761
Common share issuance	35,000	317,841	—	—	—	—	317,841
Warrants exercised	3,891	54,282	(48,539)	—	—	—	5,743
Share-based compensation and related share issuances	1,051	4,095	16,186	—	—	—	20,281
Return of capital - NovaCopper	—	(72,887)	(693)	—	—	—	(73,580)
November 30, 2012	279,927	\$ 1,462,102	\$ 454,260	\$(1,536,859)	\$ 97,308	\$ —	\$ 476,811
Net loss	—	—	—	(62,760)	—	—	(62,760)
Other comprehensive loss	—	—	—	—	(32,804)	—	(32,804)
Warrants exercised	36,529	469,150	(397,052)	—	—	—	72,098
Share-based compensation and related share issuances	205	2,701	9,603	—	—	—	12,304
November 30, 2013	316,661	\$ 1,933,953	\$ 66,811	\$(1,599,619)	\$ 64,504	\$ —	\$ 465,649

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – THE COMPANY

NOVAGOLD RESOURCES INC. and its affiliates and subsidiaries (collectively, “NOVAGOLD” or the “Company”) operates in the mining industry, focused on the exploration for and development of gold and copper mineral properties. The Company has no operations or realized revenues from its planned principal business purpose, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 915 “Development Stage Entities” and Securities and Exchange Commission (SEC) Industry Guide 7, presents its financial information as an Exploration Stage Company.

The Company’s principal assets include a 50% interest in the Donlin Gold project in Alaska, U.S.A. and a 50% interest in the Galore Creek Project in British Columbia, Canada.

The Company’s primary focus is on the Donlin Gold project, which advanced to the permitting phase in 2012. The Donlin Gold project is owned and operated by Donlin Gold LLC, a limited liability company that is owned equally by wholly owned subsidiaries of NOVAGOLD and Barrick Gold Corporation (“Barrick”).

The Company is currently exploring opportunities to sell, in whole or in part its interest in the Galore Creek Partnership. The Galore Creek project is owned by the Galore Creek Partnership (“Partnership”) a partnership in which wholly owned subsidiaries of NOVAGOLD and Teck Resources Limited (“Teck”) each own a 50% interest. Galore Creek Mining Corporation (GCMC) is owned by the Partnership and manages Galore Creek operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP). Previously, the Company prepared its financial statements under International Financial Reporting Standards (IFRS) for reporting as permitted by security regulators in Canada, as well as in the United States under the status of a foreign private issuer as defined by the United States Securities and Exchange Commission (SEC). At the end of the second quarter of 2013, the Company determined that it no longer qualified as a foreign private issuer under the SEC rules. As a result, beginning December 1, 2013 the Company is required to report with the SEC on domestic forms and comply with domestic company rules in the United States. The transition to US GAAP was made retrospectively for all periods from the Company’s inception.

References in these Consolidated Financial Statements and Notes to \$ refer to United States currency and C\$ to Canadian currency. Dollar amounts are in thousands, except for per share amounts.

Use of estimates

The preparation of the Company’s Consolidated Financial Statements in accordance with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions related to: estimates of gold and copper production that are the basis for future cash flow estimates utilized in impairment calculations; environmental, reclamation and closure obligations; estimates of fair value for asset impairments (including impairments of mineral properties and investments); valuation allowances for deferred tax assets; reserves for contingencies and litigation; and the fair value and accounting treatment of financial instruments including marketable securities and derivative instruments. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results will differ from these amounts estimated in these financial statements.

Principles of consolidation

The Company’s Consolidated Financial Statements include NOVAGOLD RESOURCES INC. and its wholly owned subsidiaries. The Company’s wholly-owned subsidiaries include NOVAGOLD Canada Inc., Copper Canyon Resources Inc., NOVAGOLD US Holdings Inc., NOVAGOLD Resources Alaska Inc., NOVAGOLD USA Inc., and AGC Resources Inc. All inter-company transactions and balances are eliminated on consolidation. The Company also consolidates variable interest entities when the Company is the primary beneficiary.

The functional currency for the Company’s Canadian operations is the Canadian dollar (“C\$”) and the functional currency for the Company’s U.S. operations is the U.S. dollar. Therefore, gains and losses on US dollar denominated transactions and balances of Canadian operations are recorded on the Consolidated Statements of Income.

Cash and cash equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company's cash equivalent instruments are valued based on quoted market prices in active markets classified within Level 2 of the fair value hierarchy established by FASB guidance for Fair Value Measurements. Restricted cash is excluded from cash and cash equivalents and is included in other long-term assets.

Mineral properties

Mineral property expenditures are expensed as incurred except for expenditures associated with the acquisition of mineral property assets through a business combination or asset acquisition.

Investment in affiliates

Investments in unconsolidated ventures that we have the ability to exercise significant influence over, but not control, are accounted for under the equity method and include the Company's investments in the Donlin Gold project and the Galore Creek project. The Company identified Donlin Gold LLC and the Galore Creek Partnership as Variable Interest Entities (VIEs) as these entities are dependent on funding from their owners. All funding, ownership, voting rights and power to exercise control is shared equally on a 50/50 basis between the owners of each VIE. Therefore, the Company has determined that it is not the primary beneficiary of either VIE. The Company's maximum exposure to loss is its investment in Donlin Gold LLC and Galore Creek Partnership.

The equity method is a basis of accounting for investments whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the investor's pro rata share of post-acquisition earnings or losses of the investee, as computed by the consolidation method. Cash funding increases the carrying value of the investment. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

Donlin Gold LLC and the Partnership are non-publicly traded equity investees in exploration and development projects. Therefore, the Company assesses whether there has been a potential impairment triggering event for other-than-temporary impairment by testing the underlying assets of the equity investee for recoverability and assessing whether there has been a change in the development plan or strategy for the project. If we determine underlying assets are recoverable and no other potential impairment conditions are identified, then our investment in the equity investee is carried at cost. If the other underlying assets are not recoverable, we record an impairment charge equal to the difference between the carrying amount of the investee and its fair value. We determine fair value based on the present value of future cash flows expected to be generated by the project. If reliable cash flow information is not available, we determine fair value using a market comparable approach.

Share-based payments

The Company operates a stock option plan and a performance share unit plan, under which the Company receives services from employees as consideration for equity instruments (options or shares) of the Company. The fair value for the options and share units are recognized in earnings over the related service period. The total amount to be expensed related to options is determined by reference to the fair value of the options granted including any market performance conditions and the impact of any non-vesting conditions; and excluding the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit and loss, with a corresponding adjustment to equity. The fair value of stock options is estimated at the time of grant using the Black-Scholes option pricing model, and the fair value of the PSUs is measured at the grant date using a Monte Carlo simulation, which takes into account, as of the grant date, the fair market value of the common shares, expected volatility, expected dividend yield and the risk-free interest rate over the life of the PSU, to generate potential outcomes for share prices which are used to estimate the probability of the PSUs vesting at the end of the performance measurement period.

The cash subscribed for the common shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

The Company grants its directors deferred share units (DSUs), whereby each DSU entitles the directors to receive one common share of the Company when they retire from the Company. The fair value of the DSUs is measured at the date of the grant in amounts ranging from 50% to 100% of directors' annual retainers at the election of the directors. The fair value is recognized in consolidated statement of income (loss) over the related service period.

Net income (loss) per common share

Basic and diluted income (loss) per share are presented for Net income (loss) and for Income (loss) from continuing operations. Basic income (loss) per share is computed by dividing Net income (loss) or Income (loss) from continuing operations by the weighted-average number of outstanding common shares for the period. Diluted income per share reflects the potential dilution that could occur if securities or other contracts that may require the issuance of common shares in the future were converted. Diluted income per share is computed by increasing the weighted-average number of outstanding common shares to include the additional common shares that would be outstanding after conversion and adjusting net income for changes that would result from the conversion. Only those securities or other contracts that result in a reduction in earnings per share are included in the calculation.

Recently issued accounting pronouncements

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued guidance related to the financial statement presentation of an unrecognized tax benefit, a similar tax loss, or a tax credit carryforward. The new standard requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward unless certain circumstances exist. The standard is effective for the Company as of December 1, 2014, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Foreign Currency Matters

In March 2013, ASC guidance was issued related to Foreign Currency Matters to clarify the treatment of cumulative translation adjustments when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. The updated guidance also resolves the diversity in practice for the treatment of business combinations achieved in stages in a foreign entity. The update is effective prospectively for the Company's fiscal year beginning December 1, 2015. The Company does not expect the updated guidance to have an impact on the consolidated financial position, results of operations or cash flows.

Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued guidance related to items reclassified from accumulated other comprehensive income. The new standard requires either in a single note or parenthetically on the face of the financial statements: (i) the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its sources; and (ii) the income statement line items affected by the reclassification. The standard will be effective for the Company as of December 1, 2013. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities

In November 2011, ASC guidance was issued related to disclosures about offsetting assets and liabilities. The new standard requires disclosures to allow investors to better compare financial statements prepared under US GAAP with financial statements prepared under IFRS. In January 2013, an update was issued to further clarify that the disclosure requirements are limited to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (i) offset in the financial statements or (ii) subject to an enforceable master netting arrangement or similar agreement. The update is effective prospectively for the Company's fiscal year beginning December 1, 2015. The Company does not expect the updated guidance to have an impact on the consolidated financial position, results of operations or cash flows.

NOTE 3 – SEGMENTED INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. The Company has one operating segment in exploration and development of mineral properties. The Chief Executive Officer considers the business from a geographic perspective considering the performance of our investments in affiliates. Segment information is provided on each of the material projects individually in Note 5.

NOTE 4 – INVESTMENTS

	At November, 2013			Fair Value Basis
	Cost Basis	Unrealized		
		Gain	Loss	
Current:	<u>\$ 110,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 110,000</u>
Long-term:				
Marketable equity securities	<u>\$ 1,067</u>	<u>\$ 213</u>	<u>\$ —</u>	<u>\$ 1,280</u>

	At November 30, 2012			Fair Value Basis
	Cost Basis	Unrealized		
		Gain	Loss	
Long-term:				
Marketable equity securities	\$ 4,067	\$ 552	\$ (2,222)	\$ 2,397
Other investments, at cost	503	—	—	503
	<u>\$ 4,570</u>	<u>\$ 552</u>	<u>\$ (2,222)</u>	<u>\$ 2,900</u>

Marketable debt securities include term deposits held at two large Canadian financial institutions with original maturities of less than 12 months.

Marketable equity securities include available-for-sale investments in mineral exploration companies. During 2013, the Company recognized impairments for other-than-temporary declines in value of \$2,738 for marketable equity securities and to write-off \$489 of other investments, at cost. At November 30, 2013 all unrealized losses were in a continuous loss position for less than 12 months.

NOTE 5 – INVESTMENT IN AFFILIATES

	At November 30,	
	2013	2012
Donlin Gold LLC, Alaska, USA	\$ 1,720	\$ 4,185
Galore Creek Partnership, British Columbia, Canada	305,735	335,086
	<u>\$ 307,455</u>	<u>\$ 339,271</u>

In July 2012, the Board of Directors approved the commencement of permitting of the Donlin Gold project as contemplated in the NI 43-101 compliant technical report entitled “Donlin Creek Gold Project, Alaska, USA, NI 43-101 Technical Report on Second Updated Feasibility Study” dated effective November 18, 2011. The Company has not realized any revenue from operations. The Company will be primarily engaged in development of the Donlin Gold project and exploration and evaluation of the Galore Creek project until the Company commences the production stage at the Donlin Gold project.

Donlin Gold LLC

On December 1, 2007, together with Barrick Gold US Inc., the Company formed Donlin Gold LLC to advance the Donlin Gold project in Alaska. Donlin Gold LLC has a board of four directors, with two nominees selected by each company. All significant decisions related to Donlin Gold LLC require the approval of both companies. The Company has a 50% interest in Donlin Gold LLC.

Changes in the Company’s investment in Donlin Gold LLC are summarized as follows:

	Years ended November 30,		
	2013	2012	2011
Balance – beginning of period	\$ 4,185	\$ 2,675	\$ 1,970
Funding	12,155	18,439	22,382
Share of losses	(14,620)	(16,929)	(21,677)
Balance – end of period	<u>\$ 1,720</u>	<u>\$ 4,185</u>	<u>\$ 2,675</u>

The following amounts represent the Company’s 50% share of the assets and liabilities of Donlin Gold LLC. Donlin Gold LLC capitalized the initial contribution of the Donlin Creek property with a carrying value of \$64,000. The 50% share of Donlin Gold LLC’s assets and liabilities is shown on this basis below. Therefore, the Company’s investment in the Donlin Gold project does not equal 50% of the net assets recorded by Donlin Gold LLC:

	At November 30,	
	2013	2012
Current assets: Cash, prepaid expenses and other receivables	\$ 3,390	\$ 4,836
Non-current assets: Property and equipment	541	732
Non-current assets: Mineral property	32,692	32,692
Current liabilities: Accounts payable and accrued liabilities	(2,211)	(1,383)
Non-current liabilities: Reclamation	(692)	(692)
Net assets	<u>\$ 33,720</u>	<u>\$ 36,185</u>

Galore Creek Partnership

The Galore Creek Partnership was formed in May 2007. Teck earned its 50% interest in the Galore Creek project upon completion of its funding commitment of C\$373,300 in June 2011 (“reconsideration event”). Commencing June 2011, the partners funded the project costs on a 50/50 basis.

Under ASC guidance, upon a reconsideration event, an entity is required to reassess whether an entity is a Variable Interest Entity (VIE) when the holders of the entity lose power to direct the activities that most significantly impact the entity’s economic performance and whether a variable interest holder is a primary beneficiary. The reconsideration event resulted in a loss of the Company’s primary beneficiary status upon Teck completing their earn-in obligations under the partnership agreement. Prior to the completion of the earn-in, if Teck had failed to meet their obligations, the Company would have had the power to exercise control. Following the reconsideration event, the Company and Teck share joint control of the Partnership. All future costs are funded equally between the partners. The Company determined the fair value of the Partnership at the date of the reconsideration event, deconsolidated the Partnership and commenced equity accounting for its share of the investment. The fair value represented the net present value at May 31, 2011 of the discounted projected future cash flow of the Galore Creek project assuming gold, copper and silver prices of \$1,100 per ounce, \$2.66 per pound, and \$18.50 per ounce, respectively and a discount rate of 7%. As a result, the Company recognized a gain of \$154,173 on deconsolidation of its investment in the Partnership.

	At June 1, 2011
Company’s fair value for 50% of Galore Creek Partnership	\$ 354,429
Company’s book value for 50% of Galore Creek Partnership	200,256
Gain on deconsolidation	<u>\$ 154,173</u>

The determination of the estimated fair value of the equity investment in the Partnership required management to make estimates and assumptions of future events. These estimates and assumptions affect the reported amount of the investment and the reported amount of the gain recognized upon fair valuing the equity investment in the Partnership. Significant estimates include future commodity prices, future foreign exchange rates, various operational assumptions, and recovery rates. Actual results could differ materially from those reported.

Changes in the Company’s investment in the Partnership are summarized as follows:

	Years ended November 30,		
	2013	2012	2011
Balance – beginning of period	\$ 335,086	\$ 333,380	\$ —
Fair value of 50% interest on deconsolidation	—	—	354,429
Funding	6,638	16,303	14,149
Share of losses	(13,352)	(23,401)	(17,423)
Foreign currency translation	(22,637)	8,804	(17,775)
Balance – end of period	<u>\$ 305,735</u>	<u>\$ 335,086</u>	<u>\$ 333,380</u>

The following amounts represent the Company’s 50% share of the assets and liabilities of the Partnership. As a result of the gain on deconsolidation, the carrying value of the Company’s 50% interest in the Partnership was higher than 50% of the book value of the Partnership. Therefore, the Company’s investment in the Partnership does not equal 50% of the net assets recorded by the Partnership:

	At November 30,	
	2013	2012
Current assets: Cash, prepaid expenses and other receivables	\$ 377	\$ 1,516
Non-current assets: Property and equipment	263,797	281,073

Current liabilities: Accounts payable and accrued liabilities	(483)	(1,245)
Non-current liabilities: payables and decommissioning liabilities	(8,533)	(9,087)
Net assets	<u>\$ 255,158</u>	<u>\$ 272,257</u>

Equity loss of affiliates:

	Years ended November 30,		
	2013	2012	2011
Donlin Gold LLC:			
Mineral property expenditures	\$ 14,412	\$ 16,753	\$ 21,563
Depreciation	208	176	114
	<u>14,620</u>	<u>16,929</u>	<u>21,677</u>
Galore Creek Partnership:			
Mineral property expenditures	4,580	11,984	11,526
Care and maintenance expense	2,444	4,952	1,167
Depreciation	6,328	6,465	4,730
	<u>13,352</u>	<u>23,401</u>	<u>17,423</u>
	<u>\$ 27,972</u>	<u>\$ 40,330</u>	<u>\$ 39,100</u>

NOTE 6 – MINERAL PROPERTIES

	At November 30,	
	2013	2012
Copper Canyon, B.C., Canada	\$ 54,813	\$ 58,587
San Roque, Argentina	—	513
	<u>\$ 54,813</u>	<u>\$ 59,100</u>

Copper Canyon

On May 20, 2011, under a plan of arrangement the Company acquired all of the issued and outstanding common shares of Copper Canyon Resources Inc. (“Copper Canyon”). Copper Canyon owns 40% of the Copper Canyon property in B.C., Canada adjacent to the Galore Creek project. The remaining 60% of the Copper Canyon property is owned by the Partnership. Consideration for the purchase included 0.0735 of a NOVAGOLD common share and \$0.001 in cash for each common share of Copper Canyon. The Company issued 4,171,303 common shares to Copper Canyon shareholders valued at a price of C\$10.15 per share, the closing price of the Company’s shares on the TSX on the closing date of the transaction, and paid the shareholders of Copper Canyon \$58.

The excess of consideration over book value acquired attributed to mineral properties allocated as follows:

	At May 20, 2011
Issuance of 4,171,303 NOVAGOLD common shares	\$ 43,512
Cost of subscription of shares in Copper Canyon	2,382
Cash consideration	58
Total consideration	<u>45,952</u>
Less: net working capital acquired	(493)
Add: deferred income tax liability	14,813
	<u>\$ 60,272</u>

San Roque

The Company recorded a write-down of \$514 related to its San Roque, Argentina mineral property in the third quarter of 2013.

NOTE 7 – DEBT

	At November 30,	
	2013	2012
Convertible notes	\$ 13,570	\$ 73,606
Promissory note	71,728	68,106
	85,298	141,712
Less: current portion	—	(73,606)
	<u>\$ 85,298</u>	<u>\$ 68,106</u>

Scheduled minimum debt repayments are \$nil in 2014, \$15,829 in 2015, \$nil in 2016 through 2018, and \$85,298 thereafter. The carrying value of the debt approximates fair value.

Convertible notes

On March 26, 2008, the Company issued \$95,000 in 5.5% unsecured senior convertible notes (“Notes”) maturing on May 1, 2015, and incurred a 3.0% underwriter’s fee and other expenses aggregating \$2,800, for net proceeds of \$92,200. Interest is payable semi-annually in arrears on May 1 and November 1 of each year, beginning November 1, 2008. The conversion rate and accordingly the number of shares issuable were adjusted as a result of the NovaCopper Inc. (“NovaCopper”) spin-out which reduced the conversion rate from \$10.61 to \$9.656 per common share. On conversion, at the Company’s election, holders of the Notes will receive cash, if applicable, or a combination of cash and shares.

On May 2, 2013, the Company purchased \$72,821 of the principal amount of its Notes, pursuant to the terms and indenture governing the Notes which provided Holders the opportunity to require the Company to purchase for cash all or a portion of their Notes (the “Put Option”) on May 1, 2013. On September 16, 2013, the Company accepted Holders’ offers to purchase another \$6,350 of the principal amount of the Notes. Following the Company’s purchases of the Notes, \$15,829 of the principal amount of the Notes remain outstanding and due on May 1, 2015 and 1,639,370 common shares remain issuable upon conversion. Additional common shares may become issuable following the occurrence of certain corporate acts or events. The terms and other provisions of the indenture governing the Notes remain unchanged.

As the conversion price of the Notes is denominated in U.S. dollars, a currency different from the functional currency of the Company, an embedded derivative is recognized as a liability. The embedded derivative is recorded at fair value and re-measured each period with the movement being recorded as a gain or loss in net income (loss). The Notes are classified as a liability, less the portion relating to the embedded derivative feature. As a result, the recorded liability to repay the Notes is lower than its face value. Using the effective interest rate method and the 17.3% rate implicit in the calculation, the remaining difference of \$3,700, characterized as the Note discount, is being charged to interest expense and accreted to the liability over the term of the Notes.

The Notes included two embedded derivatives which have been recorded on the balance sheets at fair value. Prior to May 1, 2013, the embedded derivative was measured with regard to both the Put option and the conversion feature. Subsequent to this date, the measurement of the embedded derivative is based solely on the conversion feature.

Changes in the carrying values of the Notes are summarized as follows:

	Years ended November 30,		
	2013	2012	2011
Balance – beginning of period	\$ 73,606	\$ 66,966	\$ 61,342
Repurchases of Notes	(65,137)	—	—
Accretion expense	5,101	6,640	5,624
Balance – end of period	<u>\$ 13,570</u>	<u>\$ 73,606</u>	<u>\$ 66,966</u>

The following table provides the net amounts recognized in the Consolidated Balance Sheets related to the Notes:

	At November 30,	
	2013	2012
Principal amount	\$ 15,829	\$ 95,000
Unamortized debt discount	(2,259)	(21,394)
	13,570	73,606
Embedded derivative	83	17,934
Net carrying amount	<u>\$ 13,653</u>	<u>\$ 91,540</u>

Promissory note

As part of the Donlin Gold LLC agreement, the Company agreed to reimburse Barrick over time approximately \$64,300, representing 50% of Barrick's expenditures of \$128,600 on the Donlin Gold Project from April 1, 2006 to November 30, 2007. The Company reimbursed Barrick for \$12,700 of project development costs during 2008. A promissory note for the remaining \$51,600 plus interest at a rate of US prime plus 2% will be paid out of NOVAGOLD's share of future mine production cash flow. The Company has recorded \$20,128 in accrued interest since the inception of the promissory note. At November 30, 2013, the promissory note had a carrying value of \$71,728. Interest of \$3,622 (2012: \$3,400) for the year ended November 30, 2013 was expensed. Both parties are currently sharing development costs on a 50/50 basis.

NOTE 8 – DERIVATIVE LIABILITIES

	At November 30,	
	2013	2012
Convertible notes – Embedded derivative	\$ 83	\$ 17,934
Warrants – Derivative	—	15,276
	83	33,210
Less: current portion	—	(33,210)
	\$ 83	\$ —

Convertible notes – Embedded derivative

The conversion price of the Notes is denominated in U.S. dollars, a currency different from the functional currency of the Company. Therefore, an embedded derivative liability is recorded at fair value and re-measured each period with the movement being recorded as a gain or loss in Net income (loss). The fair value of the embedded derivative is composed of the conversion feature of the Note and the Put Option. The Company had assessed the embedded derivative within the Note to be the difference between the fair value of the Note and the discounted value of the cash flows resulting from the potential exercise of the Put Option. The derivative was accounted for in this manner until the May 1, 2013 put option expired as described above. Subsequent to this date, the measurement of the embedded derivative is based solely on the conversion feature.

	Years ended November 30,		
	2013	2012	2011
Balance – beginning of period	\$ 17,934	\$ 57,493	\$ 88,138
Gain on embedded derivative liability for the period	(3,817)	(39,559)	(30,645)
Repurchases of Notes	(14,034)	—	—
Balance – end of period	\$ 83	\$ 17,934	\$ 57,493

Warrants – Derivative

The Company's functional currency is the Canadian dollar and it had issued and outstanding warrants with an exercise price denominated in U.S. dollars. The Company determined that such warrants with an exercise price denominated in a currency that is different from the entity's functional currency were classified as a derivative liability based on the evaluation of the warrant's settlement provisions, and carried at their fair value. Any changes in the fair value from period to period have been recorded as a gain or loss in net income (loss).

In January 2011, an agreement was entered into between the Company and the holder of 37.1 million warrants to amend the currency that the exercise price was denominated in from U.S. dollars to Canadian dollars. The exercise price was amended from \$1.50 to C\$1.479 at the prevailing spot rate on the date of the agreement. The expiry date remained unchanged at January 21, 2013. The conversion of the exercise price of these warrants to U.S. dollars permanently crystallized the fair value of these warrants, for purposes of determining future transfers to share capital upon exercise of these warrants. The terms of the remaining 5.1 million warrants were unchanged.

In the first quarter of 2013, all of NOVAGOLD's remaining warrants were exercised and the Company realized a loss on derivative liability of \$2,461 for the year ended November 30, 2013.

Years ended November 30,

	2013	2012	2011
Balance – beginning of period	\$ 15,276	\$ 51,963	\$ 641,895
Loss (gain) on derivative liability	2,461	(36,687)	(31,039)
Foreign exchange revaluation	—	—	(469,694)
Conversion of warrants to equity	(17,737)	—	(89,199)
Balance – end of period	\$ —	\$ 15,276	\$ 51,963

NOTE 9 – FAIR VALUE ACCOUNTING

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the significance of the inputs used in making the measurement. The three levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 — Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

	Fair value at November 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 81,262	\$ —	\$ 81,262	\$ —
Marketable debt securities	110,000	—	110,000	—
Marketable equity securities	1,280	1,280	—	—
Liabilities:				
Embedded derivative liabilities	83	—	—	83

	Fair value at November 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 254,667	\$ —	\$ 254,667	\$ —
Marketable equity securities	2,900	2,900	—	—
Liabilities:				
Derivative liabilities	15,276	—	—	15,276
Embedded derivative liabilities	17,934	—	—	17,934

The Company's cash equivalents and marketable debt securities are held with two large Canadian chartered banks with an S&P rating of AA- and are classified as Level 2 of the fair value hierarchy as they are owed to the Company by the Canadian banks and are not traded in an active market.

The Company's marketable equity securities are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of the marketable equity securities is calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

The derivative and embedded derivative had been valued using the Black-Scholes pricing model and are considered Level 3 financial instruments in the fair value hierarchy because the value models have significant unobservable inputs (note 8).

NOTE 10 – INCOME TAXES

The Company's Income tax expense (recovery) consisted of:

	Years ended November 30,		
	2013	2012	2011
Current:			
Canada	\$ —	\$ —	\$ —
Foreign	290	—	—
	<u>\$ 290</u>	<u>\$ —</u>	<u>\$ —</u>
Deferred:			
Canada	3,606	(7,748)	15,356
Foreign	—	—	—
	<u>3,606</u>	<u>(7,748)</u>	<u>15,356</u>
Income tax expense (recovery)	<u>\$ 3,896</u>	<u>\$ (7,748)</u>	<u>\$ 15,356</u>

The Company's Income (loss) before income tax consisted of:

	Years ended November 30,		
	2013	2012	2011
Canada	\$ (42,077)	\$ 6,528	\$ 118,285
Foreign	(16,787)	(21,862)	(24,694)
	<u>\$ (58,864)</u>	<u>\$ (15,334)</u>	<u>\$ 93,591</u>

Effective January 1, 2011, the Canadian Federal corporate tax rate decreased from 18% to 16.5% and the British Columbia provincial tax decreased from 10.5% to 10%. Effective January 1, 2012 the Canadian federal corporate tax rate decreased from 16.5% to 15%. Effective April 1, 2013 the British Columbia provincial corporate tax rate increased from 10% to 11%.

The Company's Income tax expense (recovery) differed from the amounts computed by applying the Canadian statutory corporate income tax rates for the following reasons:

	Years ended November 30,		
	2013	2012	2011
Income (loss) before income taxes	\$ (58,864)	\$ (15,334)	\$ 93,591
Combined federal and provincial statutory tax rate	<u>25.67%</u>	<u>25.13%</u>	<u>26.67%</u>
Income tax expense (recovery) based on statutory income tax rates	(15,110)	(3,853)	24,961
Increase (decrease) attributable to:			
(Non-deductible) taxable expenditures	2,913	(3,717)	9,334
Non-taxable unrealized gain (loss) on derivative financial instruments	615	(9,253)	(7,673)
Effect of different statutory tax rates on earnings of subsidiaries	(2,773)	(3,471)	5,696
Effect of statutory rate change	(1,916)	54	(3,040)
Change in valuation allowance	20,248	13,271	(6,302)
Non-controlling interest	—	—	4,906
Tax benefit generated on tax planning	—	—	(15,026)
Other	(81)	(779)	2,500
Income tax expense (recovery)	<u>\$ 3,896</u>	<u>\$ (7,748)</u>	<u>\$ 15,356</u>

Components of the Company's deferred income tax assets (liabilities) are as follows:

	At November 30,	
	2013	2012
Deferred tax income assets:		
Asset retirement obligation	\$ 3,257	\$ 1,886
Net operating loss carry forwards	215,346	203,176
Capital loss carry forwards	40,180	41,774
Mineral properties	20,278	19,447
Property and equipment	381	4,226
Investment in affiliates	40,200	34,887
Share issuance costs	2,168	3,109
Unpaid interest expense	3,044	3,043
Investment tax credit	3,553	3,201
Other	2,322	1,496
	<u>330,729</u>	<u>316,245</u>
Valuation allowances	<u>(276,630)</u>	<u>(260,492)</u>
	54,099	55,753
Deferred income tax liabilities:		
Convertible debt	(197)	(516)
Investment in affiliates	(51,601)	(50,349)
Mineral properties	(14,224)	(14,733)
Capitalized assets & other	(719)	(166)
Unrealized gain on investments	(19)	(55)
Investment tax credit	(914)	(801)
	<u>(67,674)</u>	<u>(66,620)</u>
Net deferred income tax liabilities	<u>\$ (13,575)</u>	<u>\$ (10,867)</u>
Net deferred income tax asset, as presented in the balance sheet	<u>\$ 9,728</u>	<u>\$ 15,679</u>
Net deferred income tax liability, as presented in the balance sheet	<u>\$ (23,303)</u>	<u>\$ (26,546)</u>

Net operating losses available to offset future taxable income are as follows:

Year of Expiry	U.S.	Canada (C\$)
2014	\$ —	\$ 5,661
2015	—	17,704
2024	1,032	—
2025	1,246	—
2026	13,382	30,803
2027	18,493	4,948
2028	85	653
2029	11,223	15,387
2030	10,916	22,138
2031	16,212	20,770
2032	306,661	36,388
2033	11,646	55,454
	<u>\$ 390,896</u>	<u>\$ 209,906</u>

Future use of U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period, and are further dependent upon the Company attaining profitable operations. Ownership changes occurred on January 22, 2009 and on December 31, 2012 and the U.S. tax losses related to NOVAGOLD Resources Alaska Inc. and its investment in Donlin Creek LLC for the prior three year periods prior to the change in control may be subject to limitation under Section 382. Accordingly, the Company's ability to use these losses may be limited or may expire un-utilized. Losses incurred to date may be further limited if a subsequent change in control occurs.

Uncertain Tax Position

There were no unrecognized tax benefits at November 30, 2013, 2012 and 2011. The Company recognizes any interest and penalties related to uncertain tax positions, if any, as interest expense. At November 30, 2013, 2012 and 2011, there were no interest and penalties related to uncertain tax positions. The Company is subject to income taxes in Canada and the United States. The Company is currently under audit by the Canada Revenue Agency regarding transactions undertaken by one of the Company's Canadian entities. The Company is currently not under audit by any other taxing jurisdiction. With few exceptions, the tax years that remain subject to examination as of November 30, 2013 are 2008 to 2013 in Canada and 1998 to 2013 in the United States.

The Company has recognized \$9,728 (2012: \$15,679, 2011: \$14,550) of deferred tax assets that are dependent on the reversal of existing taxable temporary differences. In addition, the Company has suffered a loss in the current and prior period in the tax jurisdictions to which the deferred tax assets relate. The Company has undertaken a tax planning strategy in the current and prior period to merge their Canadian entities when required to access the deferred tax assets to offset future increases in taxable income of their Canadian entities.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax asset. Significant pieces of objective negative evidence evaluated included the cumulative loss incurred as at December 31, 2013 and the decline in metal prices. Such objective evidence limits the ability to consider other subjective evidence such as managements' projections for future growth. On the basis of this evaluation, as of December 31, 2013, a valuation allowance of \$276,630 (2012: \$260,492, 2011: \$225,127) inclusive of valuation allowance for investment tax credits has been recorded in order to measure only the portion of the deferred tax asset that more likely than not will be realized. The amount of the deferred tax asset considered realizable; however, could be adjusted if estimates of future taxable income during the carry forward period are reduced or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as Management's projections for growth.

NOTE 11 – GENERAL AND ADMINISTRATIVE EXPENSES

	Years ended November 30,		
	2013	2012	2011
Salaries	\$ 6,067	\$ 9,658	\$ 9,295
Share-based compensation (note 15)	12,304	19,862	8,987
Office expense	4,462	4,891	2,834
Professional fees	2,889	3,871	4,613
Corporate development	1,269	863	489
	<u>\$ 26,991</u>	<u>\$ 39,145</u>	<u>\$ 26,218</u>

NOTE 12 – WRITE-DOWN OF ASSETS

In 2013, the Company recorded write-downs of \$514 related to its mineral property and \$262 for other assets at its San Roque Project in Argentina. In 2011, prior to the deconsolidation of Galore Creek, the Company recorded a write-down of \$39,643 related to power transmission rights at the Galore Creek Project due to the approval of a federal and provincial government plan to build a high-capacity transmission line in northwestern British Columbia.

NOTE 13 – CHANGE IN OPERATING ASSETS AND LIABILITIES

	Years ended November 30,		
	2013	2012	2011
Decrease (increase) in receivables and other assets	\$ (89)	\$ (12,339)	\$ 5,505
Increase (decrease) in accounts payable and accrued liabilities	(1,231)	11,938	(1,419)
Decrease in reclamation and remediation liabilities	(268)	—	—
	<u>\$ (1,588)</u>	<u>\$ (401)</u>	<u>\$ 4,086</u>

NOTE 14 – DISCONTINUED OPERATIONS

On April 30, 2012, the Company completed a plan of arrangement under the Nova Scotia Companies Act pursuant to which it spun-out NovaCopper, a wholly-owned subsidiary of the Company which held the Ambler assets in Alaska, to the Company's shareholders (the "Arrangement"). Under the Arrangement, each shareholder of the Company received one share of NovaCopper for every six common shares held of the Company. The Company did not realize any gain or loss on the transfer of the Ambler assets including \$40,200 of working capital and the Upper Kobuk Mineral Project.

On November 1, 2012, the Company completed the sale of its wholly owned subsidiary, Alaska Gold Company (AGC), which owned the Rock Creek Project and other assets in and around Nome, Alaska to Bering Straits Native Corporation (BSNC) for \$5,965. The Company received \$1,000 cash and a \$4,965 (face value) note receivable bearing 3% interest payable over five years. The Company also transferred the remaining Rock Creek closure reclamation deposit of \$13,400 to BSNC, which assumed full responsibility and liability for the remainder of the Rock Creek reclamation activities as requested by the State of Alaska.

The Company has accounted for the financial results associated with the spin-out of NovaCopper and the Ambler assets and the former operations of AGC and the Rock Creek Project as discontinued operations in these consolidated financial statements and has reclassified the related amounts for prior years.

The following tables illustrate the results related to discontinued operations.

	Years ended November 30,		
	2013	2012	2011
Revenues	\$ —	\$ 1,914	\$ 913
Operating expenses:			
Cost of sales	—	194	219
Depreciation	—	228	306
Exploration and evaluation	—	1,425	7,925
General and administrative	—	3,647	4,832
Care and maintenance	—	5,498	12,622
Write-down of inventory	—	—	7,022
Reclamation and remediation	—	1,456	20,788
	<u>—</u>	<u>12,448</u>	<u>53,714</u>
Loss from operations	—	(10,534)	(52,801)
Gain on sale of assets	—	5,351	19,109
Other income	—	940	598
Loss from discontinued operations	<u>\$ —</u>	<u>\$ (4,243)</u>	<u>\$ (33,094)</u>

	Years ended November 30,		
	2013	2012	2011
Net cash used in discontinued operations:			
Loss from discontinued operations	\$ —	\$ (4,243)	\$ (33,094)
Items not affecting cash:			
Depreciation	—	228	306
Reclamation and remediation	—	1,456	20,788
Write-down of inventory	—	—	7,022
Gain on sale of assets	—	(5,351)	(19,109)
Net change in operating assets and liabilities	—	(10,742)	(2,072)
Increase in reclamation bond	—	(6,836)	—
	<u>\$ —</u>	<u>\$ (25,488)</u>	<u>\$ (22,015)</u>
Net cash provided from (used in) investing activities of discontinued operations:			
Proceeds from sale of assets	\$ —	\$ 1,045	\$ 11,879
Additions to property, plant and equipment	—	(561)	(3,573)
Acquisition of mineral property	—	—	(4,000)
	<u>\$ —</u>	<u>\$ 483</u>	<u>\$ 4,306</u>
Net cash used in financing activities of discontinued operations:			
Funding of NovaCopper spin-out	\$ —	\$ (40,000)	\$ (24,000)
	<u>\$ —</u>	<u>\$ (40,000)</u>	<u>\$ (24,000)</u>

NOTE 15 – SHARE-BASED COMPENSATION

Share incentive awards include a stock option plan for directors, executives and eligible employees, a Performance Share Unit (PSU) plan for executives and eligible employees and a Deferred Stock Unit (DSU) plan for directors of the Company. Options granted to purchase common shares have exercise prices not less than fair market value of the underlying share at the date of grant. At November 30, 2013, 17.7 million common shares were available for future share incentive plan awards.

The Company recognized share-based compensation as follows:

	Years ended November 30,		
	2013	2012	2011
Stock options	\$ 8,135	\$ 14,240	\$ 6,773
Performance share unit plan	3,935	2,660	2,080
Deferred share unit plan	234	193	134
Incentive shares	—	2,769	—
	<u>\$ 12,304</u>	<u>\$ 19,862</u>	<u>\$ 8,987</u>

At November 30, 2013, the non-vested stock option and PSU expense not recognized was \$2,854 (2012: \$6,692) to be recognized over the next two years.

Stock Options

Stock options granted under the Company's share-based incentive plans vest over periods of two years are exercisable over a period of time not to exceed five years from the grant date. The value of each option award is estimated at the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option award and share price volatility. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination experience. Expected volatility is based on the historical volatility of the Company's shares at the grant date. These estimates involve inherent uncertainties and the application of

management's judgment. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. As a result, if other assumptions had been used, our recorded share-based compensation expense would have been different from that reported. The Black-Scholes option pricing model used the following weighted-average assumptions:

	Years ended November 30,		
	2013	2012	2011
Weighted average share price	C\$4.40	C\$8.68	C\$13.91
Average risk-free interest rate	1.07%	0.99% - 1.53%	1.05% - 2.11%
Exercise price	C\$4.40	C\$8.68	C\$13.91
Expected life (years)	3	2.5 - 3.5	2.5 - 3.5
Expected volatility	56%	55% - 66%	70% - 81%
Expected dividends	Nil	Nil	Nil

The following table summarizes annual activity for all stock options for each of the three years ended November 30:

	2013		2012		2011	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	13,903	C\$7.08	10,849	C\$7.06	11,338	C\$6.09
Granted	3,218	C\$4.40	4,613	C\$8.68	1,280	C\$13.91
Exercised	(121)	C\$2.23	(1,027)	C\$3.13	(1,475)	C\$4.61
Forfeited and expired	(1,777)	C\$7.22	(532)	C\$10.86	(294)	C\$11.69
Outstanding at end of year	15,223	C\$6.54	13,903	C\$7.08	10,849	C\$7.06

The weighted-average fair value per share of options granted during the year was C\$4.40 in 2013, C\$8.68 in 2012 and C\$13.91 in 2011.

At November 30, 2013, there were 2,507,193 (2012: 2,964,920) non-vested options outstanding with a weighted average exercise price of C\$5.92 (2012: C\$7.08). During the year ended November 30, 2013, 3,385,320 (2012: 2,166,160) options vested.

The following table summarizes information about stock options outstanding and exercisable at November 30, 2013:

Range of price	Stock options - issued and outstanding			Stock options - exercisable	
	Number of outstanding options	Weighted average years to expiry	Weighted average exercise price	Number of exercisable options	Weighted average exercise price
C\$ 2.23 to \$ 3.99	1,272,480	0.10	C\$2.23	1,272,480	C\$2.23
C\$ 4.00 to \$ 5.99	7,642,052	2.57	C\$4.78	6,039,914	C\$4.83
C\$ 6.00 to \$ 7.99	2,110,300	2.74	C\$6.56	1,554,966	C\$6.38
C\$ 8.00 to \$ 9.99	560,000	1.13	C\$8.07	560,000	C\$8.07
C\$10.00 to \$11.99	2,092,382	2.97	C\$10.22	1,742,661	C\$10.23
C\$12.00 to \$13.99	1,395,400	2.11	C\$13.08	1,395,400	C\$13.08
C\$14.00 to \$15.04	150,000	3.54	C\$14.89	150,000	C\$14.89
	15,222,614	2.36	C\$6.54	12,715,421	C\$6.66

Performance share units

The Company has a PSU plan that provides for the issuance of PSUs in amounts as approved by the Company's Compensation Committee. Each PSU entitles the participant to receive a common share of the Company at the end of a specified period. The Compensation Committee may adjust the number of common shares for the achievement of certain performance and vesting criteria. The actual performance against each of these criteria generates a multiplier that varies from 0% to 150%. Thus, the common shares that may be issued vary between 0% and 150% of the number of PSUs granted, as reduced by the amounts for participants no longer with the Company on vesting date.

The following table summarizes annual information about the number of PSUs outstanding:

	Years ended November 30,		
	2013	2012	2011
Outstanding at beginning of year	805,300	347,350	135,700
Granted	706,150	584,800	244,000
Vested	(167,735)	(154,746)	—
Performance adjustment	(72,765)	38,396	—
Forfeited	(2,500)	(10,500)	(32,350)
Outstanding at end of year	<u>1,268,450</u>	<u>805,300</u>	<u>347,350</u>

The PSUs outstanding at November 30, 2013 are scheduled to vest over the next two years.

For the year ended November 30, 2013, the Company recognized a share-based compensation charge against income of \$3,935 (2012: \$2,660; 2011: \$2,080) for PSUs. Under the PSU plan, the Company issued 96,497 common shares in 2013 (2012: 86,949; 2011: nil). The difference between the PSUs vested and the common shares issued were settled in cash to cover employee withholding taxes. The Company also issued 197,076 common shares to the Company's former CEO in January 2012 and 81,310 common shares to the Company's former COO in December 2012 plan for severance.

Deferred share units

The Company has a DSU plan that provides for the issuance of DSUs in amounts where the Directors receive half of their annual retainer in DSUs and have the option to elect to receive all or a portion of the other half of their annual retainer in DSUs. Each DSU entitles the Directors to receive one common share when they retire from the Company.

For the year ended November 30, 2013, the Company recognized a share-based payment charge against income of \$234 (2012: \$193 and 2011: \$134) for the DSUs granted to Directors during the year. Under the DSU plan, the Company issued 7,750 common shares in 2013 and 4,261 common shares in 2012 and nil common shares in 2011. The common shares were issued at the date of the DSU vesting and the valuation was deemed to be the opening TSX common share price of the vesting date.

Incentive shares

The Company recognized share-based payment charge against income of \$2,769 in 2012 for incentive shares issued to new employees. The Company issued 224,740 common shares in 2012 and paid \$1,152 for employee withholding taxes. The common shares were issued at the date of the new executive officers' employment agreements and the valuation was deemed to be the opening TSX common share price on the date of issuance.

NOTE 16 – SHARE CAPITAL AND INCOME (LOSS) PER SHARE

Common shares

The Company has authorized 1,000,000,000 no par value common shares of which 316,661,000 were issued and outstanding as of November 30, 2013.

Preferred shares

Pursuant to the Company's Notice of Articles filed pursuant to the Business Corporations Act (British Columbia), the Company is authorized to issue 10,000,000 preferred shares. The authorized but unissued preferred shares may be issued in designated series from time to time by one or more resolutions adopted by the Directors. The Directors have the authority to determine the preferences, limitations and relative rights of each series of preferred shares. At November 30, 2013 and 2012, no preferred shares were issued or outstanding.

Net income (loss) per common share

Basic income (loss) per common share is computed by dividing income (loss) available to the Company's common shareholders by the weighted average number of common shares outstanding for the period. Diluted income per common share is computed similarly to basic income per common share except that income from continuing operations is adjusted to exclude gains that would be eliminated if potentially dilutive common shares had been issued and the weighted average common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

	Years ended November 30,		
	2013	2012	2011
Net income (loss):			
Continuing operations	\$ (62,760)	\$ (7,586)	\$ 78,235
Discontinued operations	—	(4,243)	(33,094)
	<u>\$ (62,760)</u>	<u>\$ (11,829)</u>	<u>\$ 45,141</u>
Continuing operations	\$ (62,760)	\$ (7,586)	\$ 78,235
Add: Interest on convertible debt	n/a	n/a	10,849
Less: Gain on derivative liability	n/a	n/a	(31,039)
Diluted income from continuing operations	<u>\$ (62,760)</u>	<u>\$ (7,586)</u>	<u>\$ 58,045</u>
Weighted average common shares (thousands):			
Basic	313,372	272,243	236,124
Effect of employee share-based awards	n/a	n/a	4,809
Effect of convertible debt	n/a	n/a	195
Effect of warrants	n/a	n/a	36,448
Diluted	<u>313,372</u>	<u>272,243</u>	<u>277,576</u>
Income per common share			
Basic:			
Continuing operations	\$ (0.20)	\$ (0.03)	\$ 0.33
Discontinued operations	—	(0.02)	(0.14)
	<u>\$ (0.20)</u>	<u>\$ (0.05)</u>	<u>\$ 0.19</u>
Diluted:			
Continuing operations	\$ (0.20)	\$ (0.03)	\$ 0.21
Discontinued operations	—	(0.02)	(0.14)
	<u>\$ (0.20)</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>

NOTE 17 – WARRANTS

	Years ended November 30,					
	2013		2012		2011	
	Number of warrants (thousands)	Weighted average exercise price	Number of warrants (thousands)	Weighted average exercise price	Number of warrants (thousands)	Weighted average exercise price
Balance – beginning of year	36,529	\$1.48	40,420	\$1.49	49,345	\$1.65
Exercised	(36,529)	\$1.48	(3,891)	\$1.48	(8,925)	\$1.48
Balance – end of year	<u>—</u>	<u>—</u>	<u>36,529</u>	<u>\$1.48</u>	<u>40,420</u>	<u>\$1.49</u>

Share purchase warrants were exercised for total proceeds of \$54,359, \$5,743 and \$13,477 in 2013, 2012 and 2011, respectively. At November 30, 2013 there were no share purchase warrants outstanding.

NOTE 18 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	At November 30,	
	2013	2012
Unrealized loss on marketable securities, net of \$29 and \$61 tax expense, respectively	\$ 184	\$ (1,731)
Foreign currency translation adjustments	64,320	99,039
	<u>\$ 64,504</u>	<u>\$ 97,308</u>

NOTE 19 – RELATED PARTY TRANSACTIONS

The Company provided exploration and management services to Donlin Gold LLC for \$258 in 2013, \$236 in 2012 and \$600 in 2011; office rental and services to the Partnership for \$423 in 2013, \$796 in 2012 and \$886 in 2011; and management and office administration services to NovaCopper for \$168 in 2013 and \$83 in 2012.

As of November 30, 2013, the Company has accounts receivable from Donlin Gold LLC of \$1,750 (2012: \$nil) and from the Partnership of \$1,690 (2012: \$138) included in other current assets and a receivable of \$4,132 (2012: \$4,417) from the Partnership included in other long-term assets.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

General

The Company follows ASC guidance in determining its accruals and disclosures with respect to loss contingencies. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

Obligations under operating leases

The Company leases certain assets, such as office equipment and office facilities, under operating leases expiring at various dates through 2017. Future minimum annual lease payments are \$440 in 2014, \$445 in 2015, \$401 in 2016, \$336 in 2017, totaling \$1,622. Rent expense for 2013, 2012 and 2011 was \$740, \$589 and \$554, respectively.

NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended November 30,		
	2013	2012	2011
Interest received	\$ 630	\$ 588	\$ 580
Interest paid	3,164	5,180	5,361
<i>Non-cash investing activities</i>			
Note receivable from BSNC from sale of AGC (note 14)	—	4,965	—
Issuance of 4,171,303 common shares for the acquisition of Copper Canyon (note 6)	—	—	43,512

NOTE 22 – UNAUDITED SUPPLEMENTARY DATA

Quarterly data

The following is a summary of selected quarterly financial information (unaudited):

	2013			
	Q1	Q2	Q3	Q4
Operating income (loss)	\$ (14,509)	\$ (12,225)	\$ (15,871)	\$ (13,171)
Income (loss) from continuing operations	\$ (13,776)	\$ (9,833)	\$ (19,962)	\$ (19,189)
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ —
Net income (loss)	\$ (13,776)	\$ (9,833)	\$ (19,962)	\$ (19,189)
Income (loss) per common share				
Basic:				
Continuing operations	\$ (0.05)	\$ (0.03)	\$ (0.06)	\$ (0.06)
Discontinued operations	—	—	—	—
	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>
Diluted:				
Continuing operations	\$ (0.05)	\$ (0.03)	\$ (0.06)	\$ (0.06)
Discontinued operations	—	—	—	—
	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>
	2012			
	Q1	Q2	Q3	Q4
Operating income (loss)	\$ (22,415)	\$ (17,315)	\$ (23,851)	\$ (16,361)
Income (loss) from continuing operations	\$ 21,292	\$ 20,979	\$ (14,716)	\$ (35,141)
Income (loss) from discontinued operations	\$ (5,514)	\$ (5,966)	\$ 2,320	\$ 4,917
Net income (loss)	\$ 15,778	\$ 15,013	\$ (12,396)	\$ (30,224)
Income (loss) per common share				
Basic:				
Continuing operations	\$ 0.09	\$ 0.08	\$ (0.05)	\$ (0.13)
Discontinued operations	(0.02)	(0.02)	0.01	0.02
	<u>\$ 0.07</u>	<u>\$ 0.06</u>	<u>\$ (0.04)</u>	<u>\$ (0.11)</u>
Diluted:				
Continuing operations	\$ 0.03	\$ 0.03	\$ (0.06)	\$ (0.12)
Discontinued operations	(0.02)	(0.02)	0.01	0.02
	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.10)</u>

Significant after-tax items were as follows:

Fourth quarter 2013:	(i) Income tax expense \$3,896 (\$0.01 per share, basic and diluted).
Third quarter 2013:	(i) Write-down of marketable securities \$2,645 (\$0.01 per share, basic and diluted).
Second quarter 2013:	(i) Gain on derivative liabilities \$3,667 (\$0.01 per share, basic and diluted).
First quarter 2013:	(i) Loss on derivative liabilities \$3,276 (\$0.01 per share, basic and diluted); (ii) gain from discontinued operations \$4,917 (\$0.02 per share, basic and diluted).
Fourth quarter 2012:	(i) Loss on derivative liabilities \$9,001 (\$0.03 per share, basic and diluted).
Third quarter 2012:	(i) Gain on derivative liabilities \$10,052 (\$0.04 per share, basic and \$0.03, diluted).
Second quarter 2012:	(i) Gain on derivative liabilities \$31,156 (\$0.11 per share, basic and \$0.10 per share, diluted); (ii) loss from discontinued operations \$5,966 (\$0.02 per share, basic and diluted).
First quarter 2012:	(i) Gain on derivative liabilities \$44,039 (\$0.18 per share, basic and \$0.15 per share, diluted); (ii) loss from discontinued operations \$5,514 (\$0.02 per share, basic and diluted).