



NovaGold Resources Inc.

**Second Quarter 2012
Interim Condensed Consolidated Financial Statements
with Management's Discussion & Analysis**

May 31, 2012

(Unaudited)

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Management's Discussion and Analysis

General

This Management's Discussion and Analysis ("MD&A") of NovaGold Resources Inc. ("NovaGold" or "the Company") is dated July 12, 2012 and provides an analysis of NovaGold's unaudited financial results for the quarter ended May 31, 2012 compared to the same period in the previous year.

The following information should be read in conjunction with the Company's May 31, 2012 unaudited consolidated financial statements and related notes which were prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on December 1, 2011 with a transition date of December 1, 2010. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with previous Canadian generally accepted accounting principles ("previous Canadian GAAP") to the current Canadian GAAP, which has adopted IFRS is set out in note 21 to the interim consolidated financial statements. The MD&A should also be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended November 30, 2011, which were prepared in accordance with previous Canadian GAAP and the Company's interim consolidated financial statements for the quarter ended February 29, 2012, prepared in accordance with IFRS. The Company's IFRS accounting policies were disclosed in note 3 of the condensed interim consolidated financial statements for the period ended February 29, 2012. All amounts are in Canadian dollars unless otherwise stated.

Heather White, B.Sc., P. Eng, an employee to the Company and a "qualified person" under National Instrument 43-101 ("NI 43-101") Standards of Disclosure for Mineral Projects, Heather approved the scientific and technical information in this MD&A.

The Company's shares are listed on the Toronto Stock Exchange and the NYSE-MKT (formerly NYSE-AMEX) under the symbol "NG". Additional information related to NovaGold is available on SEDAR at www.sedar.com, on EDGAR at www.sec.gov and the Company's website at www.novagold.net.

Description of business

NovaGold is a precious metals company engaged in the exploration and development of mineral properties in Alaska, U.S.A. and British Columbia, Canada. The Company conducts its operations through wholly-owned subsidiaries, partnerships, limited liability companies and joint ventures. The Company has 50% interests in two of the world's largest known undeveloped gold and copper projects — Donlin Gold and Galore Creek. The Company is primarily focused on gold properties, some of which also have significant copper, silver and zinc resources. In addition, NovaGold's principal properties are located in Alaska and British Columbia, regions with low geopolitical risk that have a long history of mining, established permitting standards, and governments supportive of resource development. NovaGold has drawn on the expertise of its management and that of our partners, Barrick Gold Corporation ("Barrick") on the Donlin Gold project and Teck Resources Limited ("Teck") on the Galore Creek project.

Corporate developments

Corporate restructuring

On March 28, 2012, the Company's securityholders voted in favor of the special resolution approving the announced spin-out of NovaCopper Inc. ("NovaCopper"). NovaCopper, through its wholly-owned subsidiary NovaCopper US Inc., owns the Ambler project located in Northwestern Alaska (the "Arrangement"). On April 30, 2012 the effective date of the Arrangement, the shares of NovaCopper were distributed to NovaGold shareholders as a return of capital such that each NovaGold shareholder received one NovaCopper Share for every six common shares held of NovaGold.

Corporate governance

On March 26, 2012, the Company announced the appointment of Anthony P. Walsh to the Company's Board of Directors and the resignation of James Philip from the Board of Directors. Mr. Walsh has held such senior positions as President and Chief Executive Officer of Miramar Mining Corporation, which in 2007 was sold to Newmont Mining Company, President and Chief Executive Officer of Sabina Gold and Silver Corporation from 1999 until retirement in Nov 2011 and Senior Vice President and Chief Financial Officer of International Corona Corporation. Prior to joining the industry, he had a twelve-year tenure with Deloitte, Haskins & Sells, where he earned his Chartered Accountant designation. Mr. Walsh currently serves on several boards of Canadian exploration and development companies.

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On April 18, 2012, the Company announced the appointments of Gregory A. Lang, the Company's President and CEO, and Sharon Dowdall to the Company's Board of Directors. Ms. Dowdall served in senior legal capacities for Franco-Nevada Corporation ("Franco-Nevada"), a major gold-focused royalty company, and Newmont Mining Corporation. Prior to joining Franco-Nevada, she practiced law with a major Canadian legal firm specializing in natural resources. Ms. Dowdall was the recipient of the 2011 Canadian General Counsel Award for Business Achievement. She currently serves on several boards of Canadian exploration and development companies.

Property review

Donlin Gold

Donlin Gold is one of the world's largest known undeveloped gold deposits. Donlin Gold is owned and operated by Donlin Gold LLC (formerly Donlin Creek LLC), a limited liability company that is owned equally by wholly-owned subsidiaries of NovaGold and Barrick. The deposit is located entirely on private, Alaska Native-owned land and Alaska state mining claims totaling 81,431 acres (32,954 hectares). Donlin Gold LLC has a good working relationship with Calista Corporation ("Calista") and The Kuskokwim Corporation ("TKC"), owners of the mineral and surface rights to Donlin Gold. The property has estimated proven and probable mineral reserves of 505 million tonnes grading 2.09 grams per tonne gold representing 33.8 million ounces of gold. This represents an approximate 16% increase from the mineral reserve estimate outlined in the 2009 Feasibility Study and is broadly comparable to the March 2010 mineral reserve and resource update released by NovaGold. The property hosts estimated measured and indicated mineral resources (inclusive of mineral reserves) of 541 million tonnes grading 2.24 grams per tonne gold representing 39 million ounces of gold and inferred mineral resources of 92 million tonnes grading 2.02 grams per tonne gold representing 6.0 million ounces of gold.

On December 5, 2011, NovaGold announced the completion of the updated Feasibility Study for the Donlin Gold project ("Study"). This updated Study revised the original Feasibility Study which had been completed in April 2009 (the "2009 Feasibility Study") with updated mineral reserves and resources, capital cost, and operating cost estimates and formed the basis of the "Donlin Gold Project, Alaska, USA NI 43-101 Technical Report on Second Updated Feasibility" with an effective date of November 18, 2011.

Donlin Gold, if put into production in accordance with the Study, would produce an average of 1.5 million ounces of gold per year in its first five years of operation at an average cash cost of US\$409 per ounce, and an average of 1.1 million ounces of gold per year at average cash cost of US\$585 per ounce over its projected 27-year mine life. Current proven and probable mineral reserves are estimated at 33.8 million ounces, which represents three kilometers along an eight kilometer long established mineralized corridor.

The Study utilizes natural gas rather than the original diesel option for power generation. Natural gas would be delivered to site via a 500-kilometer-long pipeline. The change to utilizing natural gas is an important modification that improved certain project parameters including lowering power operating costs, potentially simplifying environmental management; and providing flexibility for future operational modifications.

The total project capital cost was estimated at US\$6.7 billion including US\$834.0 million for the natural gas pipeline that would deliver natural gas from the Cook Inlet to the mine site, and a contingency of US\$984.0 million. NovaGold would be responsible for 50% of the total project capital costs. The resultant after-tax net present value ("NPV") using the three-year trailing average of US\$1,200 per ounce of gold for the base case displays a positive NPV of US\$547 million using a 5% discount rate. Importantly, the resultant NPV sensitivity analysis shows a more than eight-fold expansion to US\$4.6 billion at US\$1,700 per ounce of gold, and then a nearly 50% increase again to US\$6.7 billion at US\$2,000 per ounce of gold.

On July 11, 2012, NovaGold announced that the Donlin Gold LLC's Board of Directors ("Donlin Gold Board") had approved the updated Feasibility Study, which forms the basis of the Technical Report filed by the Company earlier this year. The Donlin Gold Board has also given authorization to file the Donlin Gold permit applications. A project of this scale has a structured environmental evaluation process through the National Environmental Policy Act ("NEPA") which requires the preparation of an Environmental Impact Statement ("EIS"). Submission of permit applications will trigger the start of the NEPA process. During this period, Donlin Gold will be working to accentuate project returns by looking at various avenues to reduce capital costs and further de-risk the Project.

The Donlin Gold deposit is located on Calista mineral lands and the project operates under a mining lease with Calista. Calista is one of 13 regional Alaska Native corporations established as part of the Alaska Native Claims Settlement Act ("ANCSA") of 1971. The mining lease agreement provides Calista with payments, royalties and other rights.

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Donlin Gold LLC, through native lease agreements, holds a significant portion of the surface rights that will be required to support mining operations in the proposed mining area. ANCSA established TKC, which is the owner of the surface rights estate for most of the project lands. Donlin Gold operates under a surface use agreement with TKC. Donlin Gold is negotiating a restructuring of the TKC agreement to, among other things, add additional lands and extend the term. The surface use agreement provides TKC with payments for lands used and protection of subsistence activities.

Donlin Gold has an approved 2012 budget of approximately US\$37.2 million of which half of the expenditures will be funded by NovaGold. During the second quarter ended May 31, 2012, the project has spent US\$9.5 million in preparation for the permitting application process. The 2012 work program includes expenditures for permitting activities and community development.

Due to the accounting rules under International Accounting Standards 31 ("IAS 31"), NovaGold continues to record its interest in the Donlin Gold project as an equity investment, which results in all of NovaGold's funding being recorded in the income statement as equity loss, and any unspent funding to Donlin Gold LLC being recorded in the balance sheet on the equity investment line.

Galore Creek

Galore Creek, a large copper-gold-silver project located in northwestern British Columbia, is held by a partnership, in which wholly-owned subsidiaries of NovaGold and Teck each own a 50% interest, and is managed by Galore Creek Mining Corporation ("GCMC"). The 293,838 acre (118,912 hectare) property holds a large undeveloped porphyry-related copper-gold-silver deposit. On July 27, 2011 NovaGold announced the results of the prefeasibility study ("PFS") on the project. The PFS confirmed the technical and economic viability of the Galore Creek project. NovaGold announced its intention to investigate opportunities to sell all or part of its interest in the Galore Creek in November 2011, and commenced a formal process in that regard in March 2012.

Galore Creek has an approved 2012 budget of \$35.4 million of which half of the expenditures will be funded by NovaGold. In the second quarter ended May 31, 2012, the project spent \$5.3 million on environmental and engineering studies in preparation for the 2012 drilling season in support of the enhanced engineering plan. The 2012 program includes approximately 20,000 meters of exploration drilling and 5,000 meters of geotechnical drilling program, additional engineering studies and site care and maintenance costs. Preparation activities during the second quarter were focused on hiring staff for the upcoming 2012 drilling season. NovaGold is responsible to fund 50% of the Galore Creek expenditures, although the 2012 budget expenditures are contingent on the timing and success of its divestment process.

Due to the accounting rules under IAS 31, NovaGold records its interest in the Galore Creek project as an equity investment, which results in all of NovaGold's funding being recorded in the income statement as equity loss, and any unspent funding to GCMC is being recorded in the balance sheet on the equity investment line.

Other properties

On May 30, 2012, the Company signed a Purchase and Sale Agreement (the "Agreement") to transfer the Rock Creek property in Nome, Alaska to Bering Straits Native Corporation ("BSNC"). Under the Agreement, the Company will transfer all Rock Creek assets, a minimum of US\$14.0 million in reclamation bond for the remainder of the decommissioning obligation, and a one-time payment of US\$250,000. As consideration, BSNC will provide a net profits interest which entitles the Company to receive 5% of all future net profits generated from ore extracted from the property. Prior to the transfer of the assets, the Company is required to complete phase one of the reclamation activities and satisfy a number of other conditions. After the transfer, BSNC will assume full responsibility and liability for the remainder of the reclamation plan and any future reclamation activities requested by regulatory authorities.

Management's Discussion & Analysis

Discussion of operations

*in thousands of Canadian dollars,
except for per share amounts*

	Three months ended May 31, 2012 \$	Three months ended May 31, 2011 \$	Six months ended May 31, 2012 \$	Six months ended May 31, 2011 \$
Decommissioning expense	2,203	-	3,854	-
Finance expense	3,815	3,575	7,620	7,284
Foreign exchange gain	(17,199)	(254)	(18,610)	(26,837)
Gain on derivative liability	(13,696)	(15,640)	(32,239)	(34,990)
Gain on embedded derivative liability	(17,421)	(16,191)	(45,199)	(23,105)
Gain on sale of land	-	(16,110)	-	(16,110)
Gain on distribution of assets to shareholders	(71,641)	-	(71,641)	-
Project care and maintenance	2,340	2,300	4,914	4,883
Salaries, severance and payroll taxes	3,171	2,075	6,396	4,544
Share-based payments	2,469	1,702	12,557	5,539
Share of losses – Donlin Gold	4,676	5,561	8,299	10,183
Share of losses – Galore Creek	4,287	5,076	8,352	22,620
Income for the period	94,238	24,596	111,007	45,440
Basic income per share	0.34	0.11	0.42	0.19
Diluted income (loss) per share	0.26	(0.01)	0.26	(0.13)

For the three-month period ended May 31, 2012, the Company reported net income of \$94.2 million (or \$0.34 basic income per share and \$0.26 diluted income per share) compared to a net income of \$24.6 million (or \$0.11 basic income per share and \$0.01 diluted loss per share) for the corresponding period in 2011. This variance was primarily due to the gain of \$71.6 million the Company recognized on the transfer of assets realized as a result of the Arrangement. The non-cash gain was the differential between the fair value and the book value of the Ambler assets and liabilities, with no comparable gain during the same period in 2011.

For the six-month period ended May 31, 2012, the Company reported net income of \$111.0 million (or \$0.42 basic income per share and \$0.26 diluted income per share) compared to a net income of \$45.4 million (or \$0.19 basic income per share and \$0.13 diluted loss per share) for the corresponding period in 2011. This variance was primarily due to the non-cash gain recognized as part of the accounting for the Arrangement. Further, share-based payments increased during the year, as the Company recorded a \$12.6 million share-based compensation charge compared to \$5.5 million in the same period in 2011, since the Company elected to focus its annual share-based compensation on granting stock options to its employees instead of granting a combination of stock options and performance share units, as in prior years. Accounting for the two share-based compensation methods differs in that stock options result in higher expenses during the early portion of the vesting periods, whereas performance share units result in equally distributed expense over the entire vesting period.

The main expenses variances for the three-month period ended May 31, 2012 compared to the same period in 2011 are as follows: (a) \$4.6 million share of losses from Donlin Gold for permitting preparation expenditures, compared to \$5.6 million in the same period in 2011 for the completion of the gas pipeline studies; (b) \$17.2 million foreign exchange gain in 2012 compared to \$0.3 million in 2011, due to an increase in the value of the U.S. dollar against the Canadian dollar, which strengthened the value of the Company's U.S. dollar cash holdings; (c) \$17.4 million non-cash gain on embedded derivative liability in 2012 compared to \$16.2 million in 2011, due to a decrease in the Company's share price during the quarter ended May 31, 2012, which equates to a decrease in the fair value of the convertible feature of the convertible debt resulting in a non-cash embedded derivative gain in 2012; and (d) \$13.7 million non-cash gain on derivative liability in 2012 compared to \$15.6 million in 2011, due to the decrease in the Company's share price which decreased the fair value of the Company's U.S. dollar warrants.

The significant expenses variances for the six-month period ended May 31, 2012 compared to the same period in 2011 are as follows: (a) \$8.3 million share of losses from Donlin Gold for permitting preparation expenditures, compared to \$10.2 million for the same period in 2011 for the completion of the gas pipeline studies; and (b) \$8.4 million share of losses from the Galore Creek project compared to \$22.6 million in 2011, primarily due to a 2011 non-cash asset impairment on the power transmission rights. The impairment was as a result of the Canadian Federal and British Columbia Provincial Governments approval of construction of its high-capacity 287-kV transmission line in northwestern British Columbia that would follow roughly the same route as Galore Creek's power transmission rights thus eliminating the need for GCMC to construct its own transmission lines.

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Selected financial data

Quarterly information

The following unaudited quarterly information is prepared in accordance with IFRS and previous Canadian GAAP.

*in thousands of Canadian dollars,
except per share amounts*

	05/31/12	02/29/12	11/30/11	8/31/11	5/31/11	2/28/11	11/30/10 ⁽¹⁾	8/31/10 ⁽¹⁾
	\$	\$	\$	\$	\$	\$	\$	\$
Net revenues	51	(25)	170	(305)	774	150	172	334
Earnings (loss) for the quarter	94,238	16,769	(99,512)	(52,102)	24,596	20,844	(21,481)	(147,598)
Earnings (loss) per share – basic	0.34	0.07	(0.41)	(0.21)	0.11	0.09	(0.12)	(0.66)
Earnings (loss) per share – diluted	0.26	(0.01)	(0.41)	(0.21)	(0.01)	(0.15)	(0.12)	(0.66)

- (1) Financial information for quarters in the 2010 fiscal year has been prepared in accordance to previous Canadian GAAP and is not comparable to the financial data prepared in accordance with IFRS.

Factors that can cause fluctuations in the Company's quarterly results include the timing of stock option grants, foreign exchange gains or losses related to the Company's U.S. dollar-denominated debt when the Canadian dollar exchange rate fluctuates, and fluctuations of the Company's share price that effects the fair value of the derivatives (U.S. denominated warrants) and embedded derivatives (U.S. denominated convertible debt), disposal of assets or investments, and subsequent activities related thereto. During the third quarter of 2010, the Company recorded an impairment loss on the Rock Creek project of \$116.4 million and a \$7.5 million inventory write-down. During the last quarter of fiscal 2010, the Company incurred a total of \$17.9 million in care and maintenance and exploration activities. During the first quarter of 2011, the Company recorded a share of loss from Galore Creek of \$17.5 million due to impairment loss of the Galore Creek's power transmission rights. During the second quarter of 2011, the Company had a gain on disposition of its alluvial gold properties and recorded a gain of \$16.1 million. During the third quarter of 2011, the Company had recorded an adjustment to its decommissioning liabilities of \$20.4 million and inventory write-down of \$6.9 million to reflect the Company's decision to proceed with closure activities at the Rock Creek project. During the fourth quarter of 2011, the Company incurred a \$2.7 million in compensation expenses as a result of the corporate reorganization. During the first quarter of 2012, the Company recorded a gain on embedded derivative liability of \$27.8 million from the decrease of the Company's share price which reduced the fair value of the convertible feature of the convertible debt (embedded derivatives). During the second quarter of 2012, the Company recorded a gain on transfer of assets of \$71.6 million for the Arrangement. The Company's properties are not yet in production; consequently, the Company believes that its loss (and consequent loss per share) is not a primary concern to investors in the Company.

Liquidity and capital resources

At May 31, 2012, the Company had \$301.2 million in cash and cash equivalents.

The Company expended \$2.4 million on operating activities during the three-month period ended May 31, 2012, compared to expenditures of \$10.8 million for operating activities for the same period in 2011. The Company made cash funding of \$6.6 million and \$3.3 million for the operations at the Donlin Gold and Galore Creek projects respectively for the quarter ended May 31, 2012, compared to a \$6.2 million in cash funding for the Donlin Gold project in the same period in 2011. The funding was offset by the collection of a note receivable in the amount of \$10.1 million relating to the last payment from an alluvial land sale in the prior year. Also during the three-month period, the Company expended \$38.5 million net in cash from financing activities compared to generating \$1.1 million for the same period in 2011. The decrease is mainly due to the US\$40.0 million cash transferred to NovaCopper as part of the Arrangement for the distribution of assets to shareholders. During the quarter, the Company expended \$0.6 million on investing activities compared with \$7.6 million in 2011. The decrease is mainly due to the acquisition of Copper Canyon in the second quarter of 2011 which the Company expended \$4.0 million cash as part of the acquisition with no comparative amounts for the same period in 2011.

The Company expended \$26.4 million on operating activities during the six-month period ended May 31, 2012, compared with expenditures of \$32.5 million for operating activities for the same period in 2011. The Company had contributed \$10.0 million to the Donlin Gold project for their pre-permitting preparation during the six months ended May 31, 2012, compared with \$11.7 million funding in the same period in 2011. The Company also funded \$4.9 million for the Galore Creek project during the six month period for their 2012 drilling season, with no comparable amount in the same period in 2011 as Teck was completing their earn-in of the project in the first half of 2011. Also during the six-month period, the Company generated net proceeds of

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\$281.0 million in cash from financing activities compared with \$0.2 million for the same period in 2011. The Company received net proceeds of \$316.4 million from an equity financing in February 2012, \$5.8 million from the exercise of warrants and contributed US\$40.0 million to NovaCopper as part of the Arrangement. During the six months ended May 31, 2012, the Company expended \$14.2 million on investing activities compared with \$7.6 million in 2011. The increase in 2012 is due to the Company funding an increase to its Rock Creek reclamation bond of \$13.6 million for a total reclamation bond of \$20.9 million as required by regulatory authorities for the closure activities with no comparative amounts for the same period in 2011.

The Company has no material off-balance sheet arrangements.

Contractual obligated undiscounted cash flow requirements, excluding operating leases, as at May 31, 2012 are as follows.

*in thousands of Canadian dollars,
unless otherwise specified*

	Total	< 1 Year	1–2 Years	2–3 Years	3–4 Years	Thereafter
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	9,029	9,029	-	-	-	-
Asset retirement obligations	27,526	26,441	1,085	-	-	-
Convertible notes – interest (a)	US\$15,675	US\$5,225	US\$5,225	US\$5,225	-	-
Convertible notes – holders option (a)	US\$95,000	-	-	-	US\$95,000	-
Promissory note	US\$66,364	-	-	-	-	US\$66,364

(a) The Convertible notes (“Notes”) mature on May 1, 2015. The holders of the Notes have the right to require the Company to repurchase all or part of their Notes on May 1, 2013 and upon certain fundamental corporate changes at a price equal to 100% of the principal amount of such Notes plus any accrued and unpaid interest.

The future minimum payments under operating leases at May 31, 2012 are approximately as follows.

in thousands of Canadian dollars

	Operating leases
	\$
2012	308
2013	576
2014	580
2015	662
2016	776
Thereafter	582
Total	3,484

The Company has a non-cancellable sublease for an office location and the future minimum sublease payments expected to be received as at May 31, 2012 are approximately as follows:

in thousands of Canadian dollars

	Operating subleases
	\$
2012	128
2013	260
2014	270
2015	270
2016	270
Thereafter	203
Total	1,401

Related party transactions

The Company has arms-length market based agreements to provide certain services to TintinaGold Resources Inc. (“TintinaGold”), Alexco Resource Corp. (“Alexco”), and NovaCopper. Under the agreements exploration and management services were provided to the following companies for the six-month period ended May 31, 2012: \$3,000 (2011: \$10,000) to Alexco, a related party having two common directors; \$4,000 (2011: \$6,000) to TintinaGold, a related party having one director

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in common; US\$102,000 (2011: US\$400,000) to Donlin Gold LLC; \$251,000 (2011: Nil) to NovaCopper, a related party having common directors; and office rental and services totaling \$474,000 (2011: \$384,000) to GCMC. At May 31, 2012, the Company had \$4.2 million receivable from related parties of which \$4.1 million is a non-current receivable from GCMC.

Financial instruments

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

(a) Currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States and a portion of its expenses are incurred in U.S. dollars. A significant change in the currency exchange rates between the Canadian dollar relative to the U.S. dollar could have an effect on the Company's financial performance, financial position, or cash flows.

The Company has not hedged its exposure to currency fluctuations. At May 31, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars.

	<i>in thousands of U.S. dollars</i>	
	May 31, 2012	November 30, 2011
Cash and cash equivalents	288,109	55,204
Accounts receivables	70	13,200
Assets held for sale	20,272	-
Reclamation deposits	-	6,845
Accounts payable and accrued liabilities	(4,663)	(6,008)
Deferred liability	-	(3,950)
Decommissioning liabilities	(227)	(29,175)
Liabilities directly associated with assets classified as held for sale	(25,372)	-
Amounts payable to Barrick – non-current	(51,576)	(64,666)
Convertible notes	(67,133)	(66,061)
Derivative liability	(22,393)	(54,818)
Embedded derivative liability	(12,997)	(57,493)
Total	124,090	(206,922)

Based on the above net exposures, and assuming that all other variables remain constant, a 4% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of \$5.0 million in the Company's net profit or loss

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash equivalents and short-term investments are held through large Canadian financial institutions. Current and non-current investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks and companies with high investment-grade ratings. These investments mature at various dates over the current operating period. The Company's accounts receivables consist of general sales tax due from the Federal Government of Canada and amounts due from related parties.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

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(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure and financial leverage. Accounts payable, accrued liabilities and coupon interest on the Notes are due within one year from the balance sheet date.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited because these investments, although available-for-sale, are generally held to maturity. In respect of financial liabilities, convertible notes and capital leases are not subject to interest rate risk because they are at fixed rates. 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 May 31, 2012, and assuming that all other variables remain constant, a 1% change in the U.S. prime rate would result in an increase/decrease of \$0.6 million in the interest accrued by the Company per annum.

(e) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken. The Company does not currently have any hedging or other commodity-based risk management programs with respect to its operations.

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of previous Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing previous Canadian GAAP. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's adoption date was December 1, 2011 with a transition date of December 1, 2010. The Company has now substantially completed its IFRS changeover plan, with the post-implementation phase currently ongoing.

The post-implementation phase will involve continuous monitoring of IFRS changes in future periods. It has been noted that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRS or Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), as well as the International Accounting Standards Board which is also currently working on an extractive industries project, which could significantly impact the financial statements of the Company. Processes are in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS and IFRIC Interpretations will be evaluated as they are drafted and published.

Critical accounting estimates

The most critical accounting estimates upon which the Company's financial status depends are those requiring estimates of the recoverability of carrying amount of investments, assets held for sale, mineral properties, derivatives, embedded derivatives, stock-based compensation, income taxes, and decommissioning liabilities.

Investment in joint ventures

The Company's investments in the Donlin Gold project and the Galore Creek project are jointly controlled entities. All jointly controlled entities 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, 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. Management reviews and evaluates the carrying value of each of its investments when events or changes in circumstances indicate that the carrying amounts of the related investment may not be recoverable. As at May 31, 2012, management concluded that there have been no events or changes in circumstances since the last impairment review which indicated that any of the carrying amounts of the Company's investment may not be recoverable.

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Mineral properties and assets held for sale

The Company capitalizes mineral property acquisition costs and expenses mineral property exploration expenditures when incurred. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against future production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned. There can be no assurances that the subsequent decision to sell or reclaim the project would result in a material gain on sale or accrual of closure costs, which would be incurred when a decision is made.

The acquisition of title to mineral properties is a complicated and uncertain process. The Company has taken steps, in accordance with industry standards, to verify title to mineral properties in which it has an interest. Although the Company has made efforts to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

Derivatives, embedded derivatives, stock-based compensation

The fair value of the U.S. denominated warrants, U.S. denominated convertible debt convertible feature, share options, and performance share units are computed to determine the relevant charge to the statement of comprehensive income and balance sheet. In order to compute this fair value, the Company uses different option pricing models that inherently require management to make various estimates and assumptions in relation to the expected life of the award, expected volatility, and the risk-free rate.

Income taxes

The determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters.

Decommissioning liabilities

The amounts recorded for reclamation costs are estimates based on independent third party engineering studies and the Company's assessment of the work that is anticipated to remediate old mine workings of the Company's Nome Gold properties and the Rock Creek mine site. The decommissioning liabilities are recognized initially at fair value and are charged to operations. The Rock Creek decommissioning liabilities have not been discounted as the closure is currently in process. Actual costs incurred during reclamation and the timing of when the costs will be incurred could be materially different from these estimates. The Rock Creek decommissioning liabilities have been adjusted in this quarter ended May 31, 2012, to reflect the updated closure activities at Rock Creek.

New accounting pronouncements

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after December 1, 2013, except IFRS 9 which is after December 1, 2015 and IAS1 which is after December 1, 2012, with earlier application permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- IFRS 9 Financial Instruments was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the

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extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

- IFRS 10 Consolidated Financial Statements requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.
- IFRS 11 Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Nonmonetary Contributions by Venturers.
- IFRS 12 Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- IFRS 13 Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- There have been amendments to existing standards, including IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- IAS 1 Presentation of Financial Statements has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- IFRS 7 Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

Risk factors

The Company and its future business, operations and financial condition are subject to various risks and uncertainties due to the nature of its business and the present stage of exploration and development of its mineral properties. Certain of these risks and uncertainties are under the heading "Risk Factors" in NovaGold's Annual Information Form for the year ended November 30, 2011 available on SEDAR at www.sedar.com, EDGAR at www.sec.gov and on the Company's website at www.novagold.net.

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Other

On March 14, 2012, the U.S. Environmental Protection Agency ("USEPA") notified Alaska Gold Company by letter that it intends to seek penalties for alleged violations of the Clean Water Act at the Rock Creek Mine. These alleged violations relate to storm water discharges during 2009-2011. The letter afforded NovaGold the opportunity to enter into discussions with USEPA regarding a potential administrative settlement prior to the government formally pursuing an enforcement action. NovaGold has been in communications with the USEPA with the goal of reaching such an administrative settlement. The maximum penalty for all of the alleged violations in an administrative settlement is US\$177,500.

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in the rules of the US Securities and Exchange Commission and Canadian Securities Administration, as at the end of the current reporting period. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted by the Company under United States and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, 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.

Changes in internal control over financial reporting

There have been no changes in the Company's internal controls over financial reporting during the six month period ended May 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Cautionary notes

Forward-looking statements

This Management's Discussion and Analysis contains statements of forward-looking information. These forward-looking statements may include statements regarding perceived merit of properties, exploration results and budgets, mineral reserves and resource estimates, work programs, capital expenditures, operating costs, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, timelines, strategic plans, including the Company's plans and expectations relating to its Donlin Gold and Galore Creek, completion of transactions, and the proposal to sell NovaGold's interest in the Galore Creek project, market prices for precious and base metals, or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Statements concerning mineral resource estimates may also be deemed to constitute "forward-looking statements" to the extent that they involve estimates of the mineralization that will be encountered if the property is developed.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

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Forward-looking statements are based on a number of material assumptions, including those listed below, which could prove to be significantly incorrect:

- our ability to achieve production at any of the Company's mineral exploration and development properties;
- estimated capital costs, operating costs, production and economic returns;
- estimated metal pricing, metallurgy, mineability, marketability and operating and capital costs, together with other assumptions underlying the Company's resource and reserve estimates;
- our expected ability to develop adequate infrastructure and that the cost of doing so will be reasonable;
- assumptions that all necessary permits and governmental approvals will be obtained;
- assumptions made in the interpretation of drill results, the geology, grade and continuity of the Company's mineral deposits;
- our expectations regarding demand for equipment, skilled labour and services needed for exploration and development of mineral properties; and
- our activities will not be adversely disrupted or impeded by development, operating or regulatory risks.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- uncertainty of whether there will ever be production at the Company's mineral exploration and development properties;
- uncertainty of estimates of capital costs, operating costs, production and economic returns;
- uncertainties relating to the assumptions underlying the Company's resource and reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;
- risks related to the Company's ability to commence production and generate material revenues or obtain adequate financing for its planned exploration and development activities;
- risks related to the Company's ability to finance the development of its mineral properties through external financing, strategic alliances, the sale of property interests or otherwise;
- risks related to the third parties on which the Company depends for its exploration and development activities;
- dependence on cooperation of joint venture partners in exploration and development of properties;
- credit, liquidity, interest rate and currency risks;
- risks related to market events and general economic conditions;
- uncertainty related to inferred mineral resources;
- risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of the Company's mineral deposits;
- risks related to lack of infrastructure;
- mining and development risks, including risks related to infrastructure, accidents, equipment breakdowns, labor disputes or other unanticipated difficulties with or interruptions in development, construction or production;
- the risk that permits and governmental approvals necessary to develop and operate mines on the Company's properties will not be available on a timely basis or at all;
- commodity price fluctuations;
- risks related to governmental regulation and permits, including environmental regulation;
- risks related to the need for reclamation activities on the Company's properties and uncertainty of cost estimates related thereto;
- uncertainty related to title to the Company's mineral properties;
- uncertainty related to unsettled aboriginal rights and title in British Columbia;
- the Company's history of losses and expectation of future losses;
- uncertainty as to the outcome of potential litigation;
- uncertainty inherent in litigation including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal;
- risks related to default under the Company's unsecured convertible notes;
- risks related to the Company's majority shareholder;
- risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;
- increased competition in the mining industry;
- the Company's need to attract and retain qualified management and technical personnel;

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- risks related to the Company's current practice of not using hedging arrangements;
- uncertainty as to the Company's ability to acquire additional commercially mineable mineral rights;
- risks related to the integration of potential new acquisitions into the Company's existing operations;
- risks related to unknown liabilities in connection with acquisitions;
- risks related to conflicts of interests of some of the directors of the Company;
- risks related to global climate change;
- risks related to adverse publicity from non-governmental organizations;
- uncertainty as to the Company's ability to maintain the adequacy of internal control over financial reporting as per the requirements of the Sarbanes-Oxley Act;
- increased regulatory compliance costs relating to the Dodd-Frank Act; and
- increased regulatory compliance costs related to the Company's loss of its foreign private issuer status in the event of a disposition of the Galore Creek project.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in NovaGold's Annual Information Form for the year ended November 30, 2011, filed with the Canadian securities regulatory authorities, NovaGold's annual report on Form 40-F filed with the United States Securities and Exchange Commission (the "SEC"), and other information released by NovaGold and filed with the appropriate regulatory agencies.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Reserve and resource estimates

This Management's Discussion and Analysis has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of U.S. securities laws. Unless otherwise indicated, all resource and reserve estimates included in this Management's Discussion and Analysis have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy, and Petroleum Definition Standards on Mineral Resources and Mineral Reserves. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and resource and reserve information contained herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. U.S. investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. Investors are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in-place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported by the Company in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by companies that report in accordance with U.S. standards.

Consolidated Balance Sheets – Unaudited

in thousands of Canadian dollars

	May 31, 2012 \$	November 30, 2011 \$	December 1, 2010 \$
Assets			
Current assets			
Cash and cash equivalents (note 7)	301,191	60,572	150,167
Trade and other receivables (note 8)	1,020	13,973	525
Deposits and prepaid amounts	1,155	1,637	1,702
Inventories (note 9)	497	491	7,690
Assets held for sale (note 6)	20,939	-	-
	324,802	76,673	160,084
Non – current assets			
Trade and other receivables (note 8)	4,137	4,137	4,262
Property, plant and equipment (note 10)	407	1,610	1,607
Mineral properties (note 11)	510	510	27,366
Assets held for distribution to the shareholders (note 5)	-	31,034	-
Equity investment – Donlin Gold (note 3)	4,405	2,596	1,889
Equity investment – Galore Creek (note 4)	383,038	386,525	364,839
Investments (note 12)	3,192	4,525	5,683
Investment tax credits	3,221	3,221	3,271
Reclamation deposits	1,917	8,900	8,944
Total assets	725,629	519,731	577,945
Liabilities			
Current liabilities			
Trade and other payables	9,029	14,802	7,523
Liabilities directly associated with assets classified as held for sale (note 6)	26,206	-	-
Current portion of decommissioning liabilities (note 15)	235	26,574	7,110
Current portion of non - current liabilities	-	-	12,245
	35,470	41,376	26,878
Non – current liabilities			
Convertible notes (note 13)	71,121	66,880	61,313
Embedded derivative liability – convertible notes (note 13)	12,997	58,660	90,465
Decommissioning liabilities (note 15)	1,085	2,602	2,326
Deferred liability	-	4,030	-
Derivative liability – warrants (note 14)	22,393	54,818	658,841
Promissory note (note 3)	68,547	65,979	63,034
Deferred income tax	4,776	6,887	16,752
Other liabilities	129	153	11,594
Total liabilities	216,518	301,385	931,203
Shareholders' equity			
Share capital (note 16)	1,518,141	1,288,917	1,117,870
Contributed surplus	7,935	8,629	8,629
Warrants (note 16)	391,574	440,221	-
Share-based payments (note 16)	48,951	38,013	31,453
Deficit	(1,507,832)	(1,618,839)	(1,512,662)
Accumulated other comprehensive income	50,342	61,405	1,452
Total equity	509,111	218,346	(353,258)
Total liabilities and equity	725,629	519,731	577,945
Nature of operations (note 1)			
Commitments (notes 3, 4 and 18)			

(See accompanying notes to condensed consolidated financial statements)

These consolidated financial statements are authorized for issue by the Board of Directors on July 9, 2012. They are signed on the Company's behalf by:

/s/ Gregory A. Lang, Director
Approved by the Board of Directors

/s/ Anthony Walsh, Director

Consolidated Statements of Comprehensive Income – Unaudited

*in thousands of Canadian dollars,
except for per share and share amounts*

	Three months ended May 31, 2012 \$	Three months ended May 31, 2011 \$	Six months ended May 31, 2012 \$	Six months ended May 31, 2011 \$
Decommissioning expense (note 15)	2,203	-	3,854	-
Corporate development and communication	164	208	236	316
Foreign exchange gain	(17,199)	(254)	(18,610)	(26,837)
General and administrative	2,440	1,548	3,955	2,345
Mineral property expenses	737	1,714	1,644	2,461
Professional fees	1,109	1,528	2,163	1,861
Project care and maintenance	2,340	2,300	4,914	4,883
Salaries	3,171	2,075	6,396	4,544
Salaries – share-based payments (note 16)	2,469	1,702	12,557	5,539
Share of losses – Donlin Gold (note 3)	4,676	5,561	8,299	10,183
Share of losses – Galore Creek (note 4)	4,287	5,076	8,352	22,620
Other gain	(76)	(138)	(51)	(104)
Operating loss	6,321	21,320	33,709	27,811
Finance income (note 20)	(542)	(581)	(1,171)	(715)
Finance expense (note 20)	3,815	3,575	7,620	7,284
Finance costs – net	3,273	2,994	6,449	6,569
Gain on sale of land	-	(16,110)	-	(16,110)
Gain on derivative liability (note 14)	(13,696)	(15,640)	(32,239)	(34,990)
Gain on embedded derivative liability (note 13)	(17,421)	(16,191)	(45,199)	(23,105)
Gain on transfer of assets (note 5)	(71,641)	-	(71,641)	-
Income for the period before income taxes	93,164	23,627	108,921	39,825
Income tax recovery	1,074	969	2,086	5,615
Income for the period	94,238	24,596	111,007	45,440
Other comprehensive income (loss)				
Unrealized loss on available-for-sale investments (note 12)	(1,335)	(1,732)	(1,334)	(82)
Exchange gains (loss) on translating foreign subsidiaries	(12,367)	622	(9,755)	3,177
Income tax recovery	22	396	26	40
Other comprehensive income (loss) for the period	(13,680)	(714)	(11,063)	3,135
Total comprehensive income for the period	80,558	23,882	99,944	48,575
Income (loss) per share				
Basic	0.34	0.11	0.42	0.19
Diluted	0.26	(0.01)	0.26	(0.13)
Basic weighted average number of shares (thousands)	278,936	233,995	264,676	233,050
Diluted weighted average number of shares (thousands)	310,256	277,616	299,258	278,657

(See accompanying notes to condensed consolidated financial statements)

Consolidated Statements of Changes in Shareholders' Equity - Unaudited

*in thousands of Canadian dollars,
except share amounts*

	Share capital		Contributed surplus	Warrants	Share - based payments	Accumulated deficit	Accumulated other comprehensive income	Total
	Shares (thousands)	Amount \$						
Balance, December 1, 2010	225,992	1,117,870	8,629	-	31,453	(1,512,662)	1,452	(353,258)
Income for the period	-	-	-	-	-	45,440	-	45,440
Other comprehensive income	-	-	-	-	-	-	3,135	3,135
Issuance for acquisition of Copper Canyon	4,171	42,339	-	-	-	-	-	42,339
Exercise of warrants	7,550	106,492	-	-	-	-	-	106,492
Conversion of foreign currency warrants	-	-	-	457,401	-	-	-	457,401
Exercise of options	344	1,471	-	-	(1,060)	-	-	411
Share-based payments	-	-	-	-	4,508	-	-	4,508
Performance share unit ("PSU") expense	-	-	-	-	1,002	-	-	1,002
Deferred share unit ("DSU") grant	-	-	-	-	66	-	-	66
Balance, May 31, 2011	238,057	1,268,172	8,629	457,401	35,969	(1,467,222)	4,587	307,536
Shares held by a wholly-owned subsidiary	9	-	-	-	-	-	-	-
Balance, May 31, 2011	238,066	1,268,172	8,629	457,401	35,969	(1,467,222)	4,587	307,536
Balance, November 30, 2011	239,976	1,288,917	8,629	440,221	38,013	(1,618,839)	61,405	218,346
Return of Capital on Plan of Arrangement	-	(144,858)	-	-	-	-	-	(144,858)
Net income for the period	-	-	-	-	-	111,007	-	111,007
Other comprehensive loss	-	-	-	-	-	-	(11,063)	(11,063)
Issued pursuant to financing	35,000	316,417	-	-	-	-	-	316,417
Exercise of options	258	201	-	-	(201)	-	-	-
Exercise of warrants	3,892	54,401	-	(48,647)	-	-	-	5,754
Issued for vested PSU	87	177	-	-	(317)	-	-	(140)
Issued for vested deferred share unit ("DSU")	4	-	-	-	-	-	-	-
Excess value over fair value - performance share unit	-	-	(694)	-	-	-	-	(694)
Share-based payments	313	2,886	-	-	10,292	-	-	13,178
PSU expense	-	-	-	-	1,079	-	-	1,079
DSU grants	-	-	-	-	85	-	-	85
Balance, May 31, 2012	279,530	1,518,141	7,935	391,574	48,951	(1,507,832)	50,342	509,111
Shares held by a wholly-owned subsidiary	9	-	-	-	-	-	-	-
Balance, May 31, 2012	279,539	1,518,141	7,935	391,574	48,951	(1,507,832)	50,342	509,111

(See accompanying notes to condensed consolidated financial statements)

Consolidated Statements of Cash Flows – Unaudited

in thousands of Canadian dollars

	Three months ended May 31, 2012 \$	Three months ended May 31, 2011 \$	Six months ended May 31, 2012 \$	Six months ended May 31, 2011 \$
Cash flows used in operating activities				
Net income for the period	94,238	24,596	111,007	45,440
Items not affecting cash				
Depreciation	111	88	248	129
Decommissioning liabilities	2,203	-	3,854	-
Finance costs	1,301	1,973	4,563	5,664
Deferred income tax recovery	(1,097)	(1,365)	(2,112)	(6,011)
Foreign exchange (loss) gain	(4,585)	2,927	(9,020)	(30,787)
Share-based payments	2,469	1,702	12,557	5,539
Gain on assets distributed to the shareholders	(71,641)	-	(71,641)	-
Gain on derivative liability	(13,696)	(15,640)	(32,239)	(34,990)
Gain on embedded derivative liability	(17,421)	(16,191)	(45,199)	(23,105)
Gain on sale of land	-	(16,110)	-	(16,110)
Share of losses – Donlin Gold (note 3)	4,676	5,561	8,299	10,182
Share of losses – Galore Creek (note 4)	4,287	5,076	8,352	22,620
Cash funding – Donlin Gold (note 3)	(6,607)	(6,203)	(10,028)	(11,650)
Cash funding – Galore Creek (note 4)	(3,275)	-	(4,866)	-
Net change in non-cash working capital				
(Increase) decrease in trade and other receivables, deposits and prepaid amounts	(1,112)	875	(1,442)	(452)
Decrease in note receivable	10,057	-	10,057	-
(Decrease) increase in trade and other payables and current decommissioning liabilities	(2,309)	1,933	(8,812)	1,030
	(2,401)	(10,778)	(26,422)	(32,501)
Cash flows from financing activities				
Cash transferred to NovaCopper	(40,359)	-	(40,359)	-
Proceeds from issuance of common shares – net	-	350	316,417	411
Proceeds from warrant exercises – net	2,071	666	5,754	11,359
Payroll and withholding tax on issuance of performance share units	(203)	-	(831)	-
Payment of note payable for acquisition of Ambler	-	-	-	(11,921)
	(38,491)	1,016	280,981	(151)
Cash flows used in investing activities				
Acquisition of property, plant and equipment	(571)	(3,260)	(571)	(3,292)
Increase in reclamation bonds	-	(66)	(13,625)	(66)
Purchase of marketable securities	-	(269)	-	(269)
Acquisition of Copper Canyon	-	(4,007)	-	(4,007)
	(571)	(7,602)	(14,196)	(7,634)
Effect of foreign exchange rate on cash & cash equivalents	78	(634)	256	(85)
Increase (decrease) in cash and cash equivalents during the period	(41,385)	(17,998)	240,619	(40,371)
Cash and cash equivalents – beginning of period	342,576	127,794	60,572	150,167
Cash and cash equivalents – end of period	301,191	109,796	301,191	109,796
Supplemental disclosure				
Interest received	185	102	271	236
Interest paid	2,581	2,483	2,581	2,483

(See accompanying notes to condensed consolidated financial statements)

Notes to Condensed Consolidated Financial Statements

1 Nature of operations

NovaGold Resources Inc. (“NovaGold” or “the Company”) was incorporated under the Companies Act (Nova Scotia) on December 5, 1984. NovaGold is a precious metals company engaged in the exploration and development of mineral properties primarily in North America. The Company has a portfolio of mineral properties located principally in Alaska, U.S. and British Columbia, Canada.

The Donlin Gold project in Alaska is held by a limited liability company owned equally by wholly-owned subsidiaries of NovaGold and Barrick Gold Corporation (“Barrick”). The Galore Creek project is held by a partnership (“Galore Creek Partnership” or “the Partnership”) owned equally by wholly-owned subsidiaries of NovaGold and Teck Resources Limited (“Teck”).

The Company has its primary listing on the Toronto Stock Exchange and a secondary listing on the NYSE-MKT (formerly NYSE-AMEX). The Company’s head office is located at 2300 – 200 Granville Street, Vancouver, BC, Canada V6C 1S4.

2 Basis of preparation and adoption of IFRS

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with previous Canadian generally accepted accounting principles (“Previous Canadian GAAP”). In 2010, the Handbook of the Canadian Institute of Chartered Accountants was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards for years beginning on or after January 1, 2011. Accordingly, the Company has prepared its consolidated interim financial statements effective as of July 9, 2012 in accordance with the current Canadian GAAP, which has adopted IFRS as if the accounting policies had always been in effect subject to certain transition elections. Note 21 discloses the impact of the transition to IFRS, including the nature and effect of significant changes in accounting policies from those disclosed in our consolidated annual financial statements for the year ended November 30, 2011.

The interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements and the notes thereto for the year ended November 30, 2011, prepared in accordance with previous Canadian GAAP, and the Company’s interim consolidated financial statements for the quarter ended February 29, 2012, prepared in accordance with IFRS, current Canadian GAAP. The Company’s IFRS accounting policies were disclosed in Note 3 of the condensed interim consolidated financial statements for the period ended February 29, 2012.

Statement of compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with and using accounting policies in full compliance with the IFRS issued by the International Accounting Standards Board (“IASB”) and IFRIC interpretations applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting (“IAS 34”) and IFRS 1, First-Time Adoption of International Financial Reporting Standards (“IFRS 1”).

Notes to Condensed Consolidated Financial Statements

3 Equity investment - Donlin Gold

On December 1, 2007, together with Barrick Gold U.S. Inc., the Company formed a limited liability company (“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. As part of the Donlin Gold LLC agreement, the Company agreed to reimburse Barrick over time approximately US\$64.3 million, representing 50% of Barrick’s expenditures of US\$128.6 million at the Donlin Gold project from April 1, 2006 to November 30, 2007. Reimbursement has been partially made by the Company paying US\$12.7 million of Barrick’s share of project costs during 2008. A promissory note for the remaining US\$51.6 million plus interest at a rate of U.S. prime plus 2% will be paid out of NovaGold’s share of future mine production cash flow. The Company has recorded US\$14.8 million in accrued interest since the inception of the promissory note. As of May 31, 2012, the Company recorded \$68.5 million in promissory note with \$1.7 million in interest expense related to this promissory note for the quarter. Interest on this long-term debt is expensed. Both parties are currently sharing all project costs on a 50/50 basis.

Under IAS 31, the Company determined that Donlin Gold LLC is a jointly controlled entity and consequently accounts for its investment Donlin Gold LLC using the equity method of accounting. The equity method is a basis of accounting for investments whereby the investment is initially recorded at cost and the carrying value, adjusted thereafter to include the investor's pro rata share of post-acquisition earnings of the investee, is computed by the consolidation method. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

For the six months ended May 31, 2012, the Company and Barrick each contributed \$10.0 million. The investment in Donlin Gold LLC is accounted for using the equity method as follows:

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Balance – beginning of period	2,596	1,889
Funding	10,028	22,044
Share of losses	(8,299)	(21,353)
Foreign exchange	80	16
Balance – end of period	4,405	2,596

The following amounts represent the Company’s 50% share of the assets, liabilities, and results of operations of Donlin Gold LLC:

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Cash, prepaid and other receivables	5,383	3,544
Property, plant and equipment	104,034	102,737
Accounts payables and accrued liabilities	(1,587)	(1,521)
Net assets	107,830	104,760

in thousands of Canadian dollars

	Six months ended May 31, 2012	Six months ended May 31, 2011
	\$	\$
Depreciation	81	41
Mineral property expenditures	8,218	10,142
Total expenses	8,299	10,183

The Company’s share of commitments contracted by Donlin Gold LLC at May 31, 2012 is \$3.0 million.

Notes to Condensed Consolidated Financial Statements

4 Equity investment – Galore Creek

The Galore Creek Partnership was formed in May 2007, with Teck to advance the Galore Creek project in British Columbia, Canada. Teck was able to earn a 50% interest in the Galore Creek project by making funding contribution to project development cost. The Galore Creek Partnership original funding arrangement was amended following the November 2007 decision to suspend construction activities at the project, and again in February 2009. Under the amended agreement, Teck was responsible for funding all costs for the Galore Creek project up to approximately \$373.3 million, which was completed on June 2011. In July 2011, the Company and Teck have equally funded all costs for the project.

For the six months ended May 31, 2012, the Company and Teck each contributed \$4.9 million. The Galore Creek Partnership is a jointly controlled entity under IAS 31 accounted for under the equity method of accounting as follows:

in thousands of Canadian dollars

	May 31, 2012 \$	November 30, 2011 \$
Balance – beginning of period	386,524	364,839
Purchase of Copper Canyon	-	46,013
Funding	4,866	14,062
Share of losses	(8,352)	(38,389)
Balance – end of period	383,038	386,525

The following amounts represent the Company's 50% share of the assets, liabilities, and results of operations of the Galore Creek Partnership:

in thousands of Canadian dollars

	May 31, 2012 \$	November 30, 2011 \$
Cash, prepaid and other receivables	1,995	3,831
Property, plant and equipment, mineral properties, and reclamation bond	334,154	303,043
Accounts payables and accrued liabilities	(1,639)	(2,671)
Reclamation obligation LT and payable to related party	(8,897)	(9,079)
Net assets	325,613	295,124

in thousands of Canadian dollars

	Six months ended May 31, 2012 \$	Six months ended May 31, 2011 \$
Amortization	3,240	3,240
Care & maintenance expenses	1,934	3,260
Mineral property expenditures	3,178	2,341
Impairment of power transmission rights	-	13,779
Total expenses	8,352	22,620

The Company's share of commitments contracted by the Galore Creek Partnership's operating entity, the Galore Creek Mining Corporation, at May 31, 2012 is \$0.1 million.

5 Assets held for distribution to the shareholders

On April 30, 2012, the Company completed a plan of arrangement under the Nova Scotia Companies Act pursuant to which it spun-out NovaCopper Inc. ("NovaCopper"), a wholly-owned subsidiary of the Company which held the Ambler assets, to the Company's shareholders (the "Arrangement"). Under the Arrangement, each shareholder of the Company received one share of NovaCopper for every six shares held of the Company.

Notes to Condensed Consolidated Financial Statements

The Arrangement was approved by the Company's Board of Directors and the favourable vote of NovaGold's securityholders at a special meeting of securityholders held on March 28, 2012.

Upon completion of the Arrangement under IFRS, the Company recorded a non-taxable gain of \$71.6 million on the spin out of NovaCopper, as the Company was required to recognize the fair value of the Ambler project's net assets.

The fair value of the Ambler's net assets transferred under the Arrangement pursuant to IFRS is summarized in the table below:

	April 30, 2012
	\$
Cash	40,279
Deposits and prepaids	845
Due from related party	715
Long term assets:	
Plant and equipment	1,459
Mineral properties	103,030
Accounts payables and accrued liabilities	(1,470)
Fair value of the net assets distributed to shareholders	144,858

6 Assets held for sale and liabilities directly associated with assets classified as held for sale

On May 30, 2012, the Company signed a Purchase and Sale Agreement (the "Agreement") to transfer the Rock Creek property in Nome, Alaska to Bering Straits Native Corporation ("BSNC"). Under the Agreement, the Company will transfer all Rock Creek assets, a minimum of US\$14.0 million in reclamation bond for the remainder of the decommissioning obligation, and a one-time payment of US\$250,000. As consideration, BSNC will provide a net profits interest which entitles the Company to receive 5% of all future net profits generated from ore extracted from the property. Prior to the transfer of the assets, the Company is required to complete phase one of the reclamation activities and satisfy a number of other conditions. After the transfer, BSNC will assume full responsibility and liability for the remainder of the reclamation plan and any future reclamation activities requested by regulatory authorities. .

As a result of the Agreement, the Company has accounted for the Rock Creek project's reclamation bond as an asset held for sale and the decommissioning liabilities (note 15), as liabilities directly related to assets classified as held for sale at May 31, 2012.

7 Cash and cash equivalents

	May 31, 2012	November 30, 2011
	\$	\$
Cash at bank	301,191	60,572
Cash and cash equivalents	301,191	60,572

The Company's cash is held with a large Canadian bank with an S&P rating of AA-. As of May 31, 2012, the Company had US\$288.0 million in cash. Assuming that all variables remain constant, a 4% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of US\$11.5 million in the Company's net profit or loss.

Notes to Condensed Consolidated Financial Statements

8 Trade and other receivables

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Trade receivables	954	637
Note receivable	-	13,319
Receivables from related parties	4,203	4,154
	5,157	18,110
Current portion	1,020	13,973
Non-current portion: receivables	17	17
Non-current portion: receivables from related parties (a)	4,120	4,120
	5,157	18,110

(a) Funding used to secure reclamation bond held by the Galore Creek project.

9 Inventories

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Supplies (a)	-	-
Gold	481	481
Foreign exchange	16	10
Total inventories	497	491

(a) During the year ended November 30, 2011, management reviewed the valuation of its supplies inventory and recorded a net write down of \$6.9 million to reflect the decrease from cost to net realizable value. This write down is due to the decision to initiate closure of the Rock Creek project during the year ended November 30, 2011.

10 Property, plant and equipment

in thousands of Canadian dollars

	Land	Equipment	Office furniture and equipment	Leasehold improvements	Vehicle	Total
Costs:	\$	\$	\$	\$	\$	\$
Balance as at December 1, 2010	1,265	-	1,520	575	79	3,439
Additions	-	1,424	161	53	-	1,638
Disposals	(1,078)	-	-	-	(79)	(1,157)
Cumulative translation adjustment	(59)	47	-	-	-	(12)
Balance as at November 30, 2011	128	1,471	1,681	628	-	3,908
Additions	-	469	7	-	88	564
Disposal of assets distributed to shareholders	-	(1,899)	(88)	-	(88)	(2,075)
Cumulative translation adjustment	1	(41)	90	-	-	50
Balance as at May 31, 2012	129	-	1,690	628	-	2,447

Notes to Condensed Consolidated Financial Statements

	Land \$	Equipment \$	Office furniture and equipment \$	Leasehold improvements \$	Vehicle \$	Total \$
Depreciation:						
Balance as at December 1, 2010	-	-	(1,449)	(327)	(56)	(1,832)
Current period depreciation	-	(341)	(105)	(65)	-	(511)
Disposals	-	-	-	-	56	56
Cumulative translation adjustment	-	(11)	-	-	-	(11)
Balance as at November 30, 2011	-	(352)	(1,554)	(392)	-	(2,298)
Current period depreciation	-	(128)	(88)	(32)	-	(248)
Disposal of assets transferred on Plan of Arrangement	-	478	26	-	-	504
Cumulative translation adjustment	-	2	-	-	-	2
Balance as at May 31, 2012	-	-	(1,616)	(424)	-	(2,040)
Net book value:						
As at December 1, 2010	1,265	-	71	248	23	1,607
As at November 30, 2011	128	1,119	127	236	-	1,610
As at May 31, 2012	129	-	74	204	-	407

11 Mineral properties

in thousands of Canadian dollars

	Alaska, USA	Argentina	Total \$
	Exploration and evaluation – Ambler \$	Exploration and evaluation - San Roque \$	
Balance as at December 1, 2010	27,252	114	27,366
Additions	4,076	396	4,472
Cumulative translation adjustment	(294)	-	(294)
Reclassification to asset held for distribution (note 5)	(31,034)	-	(31,034)
Balance as at November 30, 2011	-	510	510
Balance as at May 31, 2012	-	510	510

12 Investments

in thousands of Canadian dollars

	May 31, 2012 \$	November 30, 2011 \$
Available-for-sale investments	3,192	4,525
Total investments	3,192	4,525

Investments classified as available-for-sale are recorded at fair value based on quoted market prices, with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. The total cost as at May 31, 2012 was \$4.6 million (2011: \$4.6 million) and total unrealized holding loss for the six months ended May 31, 2012 was \$1.3 million (2011: gain of \$0.1 million). The balance includes 3,125,000 shares in TintinaGold Resources Inc. (cost: \$1.4 million; fair value at May 31, 2012: \$1.0 million) and 3,125,000 shares in AsiaBaseMetals Inc. (cost: \$0.2 million; fair value at May 31, 2012: \$0.5 million), both companies have a director in common with NovaGold.

13 Convertible notes

On March 26, 2008, the Company issued US\$95.0 million (\$96.7 million) 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 US\$2.9 million (\$3.5 million), for net proceeds of US\$ 92.2 million (\$93.2 million). Interest is payable semi-annually in arrears on May 1 and November 1 of each year, beginning November 1, 2008. The Notes are convertible into the Company’s common shares at a fixed conversion rate. The conversion rate and accordingly the number of shares issuable were adjusted as a result of the NovaCopper spin out which reduced the conversion rate

Notes to Condensed Consolidated Financial Statements

from US\$10.61 to US\$9.656 per common share. A total of 9,838,442 common shares are issuable upon conversion and additional shares may become issuable following the occurrence of certain corporate acts or events. On conversion, at the Company's election, holders of the Notes will receive cash, if applicable, or a combination of cash and shares. Holders of the Notes have the right to require the Company to repurchase all or part of their Notes on May 1, 2013, or upon certain fundamental corporate changes, at a price equal to 100% of the principal amount of such Notes plus any accrued and unpaid interest.

As the Notes are 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 charged to net income. The Notes are classified as a liability, less the portion relating to the embedded derivative feature (\$49.5 million). As a result, the recorded liability to repay the Notes is lower than its face value. Using the effective interest rate method and the 17.78% rate implicit in the calculation, the difference of \$43.7 million, characterized as the note discount, is being charged to interest expense and accreted to the liability over the term of the Notes.

The fair value of the embedded derivative has been estimated using the Black-Scholes pricing model as it is considered as a Level 3 financial instrument in the fair value hierarchy with significant unobservable inputs. Assumptions used in the pricing model for each period are provided below.

	May 31, 2012 \$	November 30, 2011 \$
Average risk-free interest rate	1.11%	1.10%
Expected life	2.92	3.42
Expected volatility	60.06%	78.43%
Expected dividends	Nil	Nil

	<i>in thousands of Canadian dollars</i>	
	May 31, 2012 \$	November 30, 2011 \$
Beginning balance	66,880	61,313
Accretion expense of debt discount for the period	3,307	5,745
Foreign exchange revaluation	934	(178)
Convertible notes	71,121	66,880
Beginning balance	58,660	90,465
Gain on embedded derivative liability	(45,199)	(29,761)
Foreign exchange revaluation	(464)	(2,044)
Embedded derivative liability - convertible notes	12,997	58,660

14 Derivative liability – warrants

The Company's functional currency is the Canadian dollar and it has issued and outstanding warrants that have an exercise price denominated in U.S. dollars. The Company has determined that such warrants with an exercise price that is different from the entity's functional currency are 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 are recorded as a gain or loss in net income.

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 is denominated in from U.S. dollars to Canadian dollars. The exercise price was amended from US\$1.50 to \$1.479 at the prevailing spot rate on the date of the agreement. The expiry date remains unchanged at January 2013. The terms of the remaining 5.1 million warrants were unchanged. The conversion of the currency denomination on these warrants permanently crystallized the fair value of these warrants, for purposes of determining future transfers to share capital upon exercise of these warrants.

The fair value of the derivative for the warrants has been estimated using the Black-Scholes pricing model as it is considered as a Level 3 financial instrument in the fair value hierarchy with significant unobservable inputs. Assumptions used in the pricing model for each period are provided below.

Notes to Condensed Consolidated Financial Statements

	May 31, 2012	November 30, 2011
	\$	\$
Average risk-free interest rate	1.06%	1.01%
Expected life	0.64 years	1.15 years
Expected volatility	71.02%	59.38%
Expected dividends	Nil	Nil

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Derivative balance – beginning of the period	54,818	658,841
Gain on derivative liability for the period	(32,239)	(28,529)
Foreign exchange revaluation	(186)	(485,983)
Conversion of warrants to equity	-	(89,511)
Derivative balance – end of the period	22,393	54,818

15 Decommissioning liabilities

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Beginning balance	29,176	9,192
Increases to existing provisions	3,854	20,268
Expended during the period	(5,810)	(865)
Exchange differences	306	581
Reclassification to liabilities held for sale (note 6)	(26,206)	-
Total	1,320	29,176

Analysis of total provisions:

in thousands of Canadian dollars

	May 31, 2012	November 30, 2011
	\$	\$
Non-current	1,085	2,602
Current	235	26,574
Total	1,320	29,176

The Company's decommissioning liabilities consist of reclamation costs for Nome properties. The Nome properties were impaired in previous years, thus all additional estimates to the decommissioning liabilities are expensed directly to net income. The reclamation activities include land rehabilitation and other costs.

16 Share capital

Authorized

- 1,000,000,000 common shares, no par value
- 10,000,000 preferred shares issuable in one or more series

(a) Share capital

In January 2012, the Company issued 313,675 shares to the outgoing and incoming CEOs as part of their employment agreements.

On February 7, 2012, the Company completed an equity financing and issued 35,000,000 common shares at US\$9.50 per common share for gross proceeds of US\$332.5 million. The net proceeds to the Company, after deducting underwriters' fees and issuance expenses of \$14.6 million, were \$316.4 million.

Notes to Condensed Consolidated Financial Statements

(b) Stock options

The Company has a stock option plan providing for the issuance of options at a rolling maximum number that shall not be greater than 10% of the issued and outstanding common shares of the Company at any given time. The Company may grant options to its directors, officers, employees and service providers. The exercise price of each option cannot be lower than the market price of the shares at the date of the option grant. The number of shares optioned to any single optionee may not exceed 5% of the issued and outstanding shares at the date of grant. The options are exercisable for a maximum of five years from the date of grant, and may be subject to vesting provisions. The Company recognizes compensation cost over the tranche's vesting period over the respective vesting period for the stock options.

During the three months ended February 29, 2012, the Company granted 2,557,150 (2011: 1,064,700) stock options at a weighted average fair value of \$11.11 (2011: \$14.53) and recognized a share-based payments charge of \$8.4 million (2011: \$3.1 million) for options granted to directors, employees and consultants net of forfeitures in accordance with IFRS 2.

During the three months ended May 31, 2012, the Company granted 300,000 (2011: 170,000) stock options at a weighted average fair value of \$7.34 (2011: \$12.83) and recognized a share-based payments charge of \$2.5 million (2011: \$1.7 million) for options granted to directors, employees and consultants net of forfeitures in accordance with IFRS 2.

For the three months ended May 31, 2012, 281,667 options were exercised at a weighted average exercise price of \$3.88, the weighted average closing price based for the corresponding exercises was \$6.39. As of May 31, 2012, there were 1,888,494 non-vested options outstanding with a weighted average exercise price of \$9.41; the non-vested stock option and PSU expense not yet recognized was \$6.1 million (2011: \$7.7 million); and this expense is expected to be recognized over the next two years.

The fair value of the stock options recognized in the period has been estimated using an option pricing model. Assumptions used in the pricing model for the period are as provided below.

in thousands of Canadian dollars

	Three months ended May 31, 2012	Three months ended May 31, 2011
Weighted average share price	\$7.34	\$12.83
Average risk-free interest rate	1.32% - 1.53%	1.91% - 2.11%
Weighted average exercise price	\$7.34	\$12.83
Expected life	3.0 years	3.5 years
Expected volatility	57.03% - 58.45%	80.62% - 81.10%
Expected dividends	Nil	Nil

The Black-Scholes and other option pricing models require the input of highly subjective assumptions. The expected life of the options considered such factors as the average length of time similar option grants in the past have remained outstanding prior to exercise and the vesting period of the grants. Volatility was estimated based upon historical price observations over the expected term.

(c) Warrants

During the three months ended February 29, 2012, 2,491,600 share purchase warrants were exercised for total proceeds of \$3.7 million. In the three months ended May 31, 2012, 1,400,000 share purchase warrants were exercised for total proceeds of \$2.1 million.

A summary of the Company's share purchase warrants outstanding at May 31, 2012 is presented below:

Prices	Warrants outstanding and exercisable (thousands)	Weighted average exercise price \$	Weighted average remaining contractual life (years)
US\$ 1.50	5,192	1.55	0.64
\$1.48	31,337	1.48	0.64
	36,529	1.49	0.64

Notes to Condensed Consolidated Financial Statements

(d) Performance share units

The Company has a Performance Share Unit (“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 that number of common shares of the Company at the end of a specified period set by the Compensation Committee to be determined by the achievement of certain performance and vesting criteria. The performance criteria are based on the Company’s performance relative to a representative group of other mining companies and the TSX index. The actual performance against each of these criteria generates a multiplier that varies from 0% to 150%. Thus, the shares that may be issued vary between 0% and 150% of the number of PSUs granted, and is reduced by the amounts for recipients no longer at the Company on vesting date.

For the three months ended May 31, 2012, the Company recognized a share-based payment charge against income of \$0.5 million (2011: \$0.5 million) for PSUs granted to employees.

(e) Deferred share units

The Company has a deferred share unit (“DSU”) plan that provides for the issuance of DSUs in amounts ranging from 50% to 100% of directors’ annual retainers at the election of the directors. Each DSU entitles the directors to receive one common share of the Company when they retire from their position.

For the three months ended May 31, 2012, the Company had 4,261 DSUs converted into shares for one of its departing directors. The Company also recognized a share-based payment charge against income of \$0.04 million (2011: \$0.03 million) for the DSUs granted to directors during the period.

17 Related party transactions

Services rendered

During the six months ended May 31, 2012, the Company provided exploration and management services to the following companies: \$3,000 (2011: \$10,000) to Alexco, a related party having two common directors; \$4,000 (2011: \$6,000) to TintinaGold, a related party having one director in common; US\$102,000 (2011: US\$400,000) to Donlin Gold LLC; \$251,000 (2011: Nil) to NovaCopper, a related party having common directors; and office rental and services totaling \$474,000 (2011: \$384,000) to GCMC. At May 31, 2012, the Company had \$4.2 million in receivables from related parties of which \$4.1 million are non-current receivables from GCMC (note 8).

Key management compensation

Key management includes the executive officers of the Company which includes the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer. The compensation paid or payable to key management for employee services is shown below:

in thousands of Canadian dollars

	Six months ended May 31, 2012 \$	Six months ended May 31, 2011 \$
Salaries and other short term employee benefits	1,752	1,555
Share-based payment	4,401	2,565
Total	6,153	4,120

Notes to Condensed Consolidated Financial Statements

18 Commitments

Lease commitments

The Company is party to certain operating leases. These operating leases include the Company's leased head office location and certain office equipment with commitments ranging from one to ten years. The future minimum lease payments as at May 31, 2012 are approximately as follows.

in thousands of Canadian dollars

	May 31, 2012
	\$
2012	308
2013	576
2014	580
2015	662
2016	776
Thereafter	582

The Company has a non-cancellable sublease for an office location and the future minimum sublease payments expected to be received as at May 31, 2012 are approximately as follows:

in thousands of Canadian dollars

	May 31, 2012
	\$
2012	128
2013	260
2014	270
2015	270
2016	270
Thereafter	203

19 Segmented information

The Company has one operating segment in exploration development of mineral properties. The Chief Executive Officer considers the business from a geographic perspective for the performance of our business units. Segment information is provided on each of the material projects individually in notes 3, 4 and 5.

20 Net finance costs

in thousands of Canadian dollars

	Six months ended May 31, 2012	Six months ended May 31, 2011
	\$	\$
Interest received from bank account	(271)	(249)
Accretion income from note receivable	(900)	(466)
	(1,171)	(715)
Interest on notes receivable	-	482
Interest on promissory note (note 3)	1,706	1,583
Interest on convertible debt (note 13)	5,914	5,219
	7,620	7,284
Total	6,449	6,569

Notes to Condensed Consolidated Financial Statements

21 Transition to International Financial Reporting Standards

These are the Company's second interim consolidated financial statements prepared in accordance with IFRS. The IFRS accounting policies are presented in note 3 in the interim consolidated financial statements for the period ended February 29, 2012. The IFRS accounting policies have been applied in preparing the financial statements for the period ended May 31, 2012 and the comparative information.

The Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these first IFRS condensed consolidated financial statements.

(a) First-time adoption exemptions applied

IFRS 1, which governs the first time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening balance sheet at the Company's transition date, and allows certain exemptions on the transition to IFRS. The elections we have elected to apply and are considered significant to the Company include:

- **Foreign currency:** IFRS 1 allows the Company to exempt themselves from the retrospective application of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Cumulative translation differences that existed at the date of transition are recorded to opening retained earnings.
- **Deemed cost:** IFRS 1 allows the Company to individually measure items of property, plant and equipment, land, and mineral properties at fair value at transition or an event-driven valuation under prior GAAP. The Company has elected to apply this exemption to its Rock Creek property, as under the previous Canadian GAAP the value has previously been impaired.
- **Share-based payment transactions:** IFRS 1 allows the Company to exempt themselves from the retrospective application of IFRS 2 for all options vested at the transition date. Adjustments were made for all options unvested at transition to comply with the requirements of IFRS 2.

(b) Reconciliations of shareholders' equity

Reconciliations between the previous Canadian GAAP and IFRS Consolidated Balance Sheet at December 1, 2010, May 31, 2011 and November 30, 2011 are provided below:

<i>in thousands of Canadian dollars</i>				
	Note	December 1, 2010 \$	May 31, 2011 \$	November 30, 2011 \$
Total shareholders' equity under previous Canadian GAAP		611,214	604,851	510,780
Galore Creek Partnership	(i)	(198,666)	(183,894)	(172,217)
Derivative liability - warrants	(ii)	(658,841)	(45,930)	(54,819)
Convertible notes	(iii)	(89,896)	(61,907)	(58,138)
Future income tax	(iv)	(16,752)	(4,201)	(6,952)
Changes related to functional currency	(v)	(317)	(1,383)	(310)
Total shareholders' equity under IFRS		(353,258)	307,536	218,344

Notes to the reconciliations of equity at December 1, 2010, May 31, 2011 and November 30, 2011

i. Galore Creek Partnership

Under previous Canadian GAAP, the Company's 50% interest in the Galore Creek Partnership was accounted for as a Variable Interest Entity in which the Company was the primary beneficiary resulting in consolidation of Galore Creek. Under IFRS, it has been determined that the Galore Creek Partnership is a jointly controlled entity and is accounted for under the

Notes to Condensed Consolidated Financial Statements

equity method in accordance with the Company's policy. The Company has adjusted, through opening deficit, the difference in accounting as if the Partnership was accounted for under the equity method since its formation in 2007.

At December 1, 2010, total assets decreased by \$221.4 million, liabilities decreased by \$24.1 million, and equity decreased by \$198.7 million as a result of the change in method of accounting. The impact to opening deficit was \$98.6 million on transition date. The significant changes to the presentation of the balance sheet are a reduction in property, plant and equipment of \$346.4 million, a reduction in mineral properties of \$238.9 million, and the recognition of an equity investment in Galore Creek of \$364.8 million as at December 1, 2010.

At May 31, 2011, as a result of Galore Creek being accounted for under the equity method, total assets decreased by \$194.6 million, liabilities decreased by \$43.8 million, and equity decreased by \$150.8 million from the amounts previously disclosed under previous Canadian GAAP. For the period ended May 31, 2011, an equity loss of \$22.6 million was recognized for Galore Creek. Due to the change in accounting, exploration and development, project care and maintenance, and general and administrative expenses decreased by \$11.2 million for the same period. An asset impairment of \$52.7 million, as well as a corresponding impact to deferred income tax recovery of \$7.2 million was reversed relating to the impairment of the Galore Creek power transmission rights.

At November 30, 2011, total assets decreased by \$191.2 million, liabilities decreased by \$19.0 million, and equity decreased by \$172.2 million. For the year ended November 30, 2011, an equity loss of \$38.4 million was recognized for Galore Creek. Due to the change in accounting, exploration and development, project care and maintenance, and general and administrative expenses decreased by \$38.4 million for the same period. An asset impairment of \$61.0 million, as well as a corresponding impact to deferred income tax recovery of \$7.3 million, was reversed relating to the impairment of the Galore Creek power transmission rights and equipment recognized under Canadian GAAP.

The loss for the year attributable to non-controlling interest of \$37.1 million under previous Canadian GAAP was also removed.

ii. Derivative liability – warrants

The Company has outstanding warrants which are denominated in U.S. dollars. Under the previous Canadian GAAP, the Company's outstanding warrants were accounted for as an equity instrument at a historical value determined at the time of issuance. Under IFRS, as the warrants are denominated in a currency other than the functional currency of the Company, the warrants are a derivative liability, recorded at fair value and marked-to-market through the statement of loss.

At December 1, 2010, a derivative liability of \$658.8 million was recognized under IFRS with an increase to opening deficit on transition of \$666.7 million. Share capital increased by \$36.4 million to account for previously exercised warrants prior to transition, and warrants decreased by \$28.5 million upon the recognition of the liability.

As discussed in note 14, during the first quarter of 2011, 37.1 million warrants were amended to change the currency that the exercise price is denominated in from U.S. dollars to Canadian dollars. At the transaction date, the fair value of the warrants converted of \$463.0 million was transferred from the derivative liability to equity.

At May 31, 2011, the derivative liability under IFRS was \$45.9 million. The change from previous Canadian GAAP to IFRS resulted in an increase to share capital of \$127.2 million and an increase to warrants (equity) of \$433.3 million. For the six months ended May 31, 2011, a gain on derivative liability of \$35.0 million and a foreign exchange gain of \$25.4 million were recognized under IFRS.

At November 30, 2011, the derivative liability was \$54.8 million, and the change resulted in an increase to share capital of \$143.6 million and an increase to warrants (equity) of \$416.9 million. For the year ended November 30, 2011, a gain on derivative liability of \$28.5 million and a foreign exchange gain of \$23.0 million were recognized.

Notes to Condensed Consolidated Financial Statements

iii. Convertible notes

The Company has convertible notes outstanding which are denominated in U.S. dollars. As the Company's functional currency is Canadian dollars, under IFRS, the convertible notes host an embedded derivative liability which is recorded at fair value each period with changes recognized through the statement of loss. Under previous Canadian GAAP, the instrument was accounted for as a compound instrument with equity and liability components.

On transition, the impact to opening deficit was an increase of \$46.5 million along with the recognition of the embedded derivative liability of \$90.5 million, a reduction to the liability component of \$0.6 million, and a reduction to the equity component of \$43.4 million.

At May 31, 2011, the embedded derivative liability was \$62.4 million, the liability component decreased by \$0.5 million and the equity component of \$43.4 million was removed. For the six months ended May 31, 2011, a gain on the embedded derivative of \$23.1 million and a gain on foreign exchange of \$4.9 million were recognized under IFRS.

At November 30, 2011, the embedded derivative liability was \$58.7 million, the liability component decreased by \$0.5 million, and the equity component of \$43.4 million was removed. For the year ended November 30, 2011, a gain on the embedded derivative of \$29.8 million and a gain on foreign exchange of \$2.0 million were recognized under IFRS.

iv. Deferred income tax

Under previous Canadian GAAP, the Company recognized a future income tax liability on asset acquisitions where the accounting basis was greater than the tax basis. Under IFRS, the initial recognition exemption does not allow for the recognition of a deferred income tax liability on asset acquisitions.

In the second quarter of 2011, the Company acquired Copper Canyon Resources which resulted in the recognition of a future income tax liability under previous Canadian GAAP. Under IFRS, the deferred income tax liabilities and the corresponding asset of \$14.4 million were eliminated in the period ended November 30, 2011.

As discussed above under (a), the Galore Creek Partnership is accounted for as an equity investment under IFRS. Previously, under previous Canadian GAAP, the Partnership was accounted for using the inside basis method of accounting for deferred income tax. Under IFRS, as an equity investment, the Partnership is accounted for under the outside basis method.

Under IFRS, deferred income tax liabilities of \$16.8 million, \$4.2 million, and \$6.9 million were recognized for the Galore Creek Partnership as at December 1, 2010, May 31, 2011 and November 30, 2011, respectively. For the three months ended May 31, 2011, a deferred income tax recovery of \$1.3 million was recognized. And for the six months ended May 31, 2011, a deferred income tax recovery of \$5.7 million was recognized and for the year ended November 30, 2011, a deferred income tax recovery of \$9.9 million was recognized.

v. Changes in functional currency

Under previous Canadian GAAP, subsidiaries that were not self-sustaining were translated under the temporal method. Under IFRS, it was determined that the Company had several entities with a U.S. dollar functional currency. As a result of the change in functional currency, the impact to equity was \$0.3 million, \$1.4 million and \$0.3 million at December 1, 2010, May 31, 2011 and November 30, 2011, respectively.

vi. Flow-through shares

Under previous Canadian GAAP, the future income tax expense for the losses renounced to investors and the premium received on the equity offering of flow-through shares is recorded to share capital. Under IFRS, the deferred income tax expense and premium are recognized through the statement of loss. At December 1, 2010, a reclassification of \$4.2 million was recognized increasing share capital and decreasing opening retained earnings for historical flow-through share offerings.

Notes to Condensed Consolidated Financial Statements

vii. Share-based payments

Under IFRS, the Company's recognition of share-based payments has been accounted for under the graded vesting method. At transition, there is no impact to equity. For the three months ended and six months ended May 31, 2011 and for the year ended November 30, 2011, share-based payments expense increased by \$0.2 million, \$0.5 million and \$ 1.2 million, respectively.

(c) *Reconciliation of total comprehensive income*

Reconciliation between the previous Canadian GAAP and IFRS total comprehensive income for the three months and six months periods ended May 31, 2011 and year ended November 30, 2011 are provided below.

in thousands of Canadian dollars

	Note	Three months ended May 31, 2011 \$	Six months ended May 31, 2011 \$	Year ended November 30, 2011 \$
Comprehensive loss under previous Canadian GAAP		11,897	77,959	191,779
Loss (income) adjustments				
Galore Creek Partnership	(i)	(1,894)	(34,069)	(53,685)
Derivative liability - warrants	(ii)	(15,837)	(60,375)	(51,487)
Convertible notes	(iii)	(16,421)	(27,988)	(31,758)
Deferred income tax	(iv)	(1,269)	(5,655)	(9,800)
Changes in functional currency	(v)	76	4,243	61,478
Share-based payments	(vi)	188	487	1,179
Comprehensive loss (income) adjustments				
Changes related to functional currency	(v)	(622)	(3,177)	(61,485)
Comprehensive (income) loss under IFRS		(23,882)	(48,575)	46,221

(d) *Statement of cash flows*

The transition to IFRS did not have a material impact on the Company's net cash flows except for the presentation of its joint venture of GCMC which was deconsolidated under IFRS thus reducing the overall cash balance by GCMC's cash balance at the year ending November 30, 2011 and year beginning December 1, 2010.

22 Subsequent event

On June 8, 2012, the Company issued 500,000 stock options and 200,000 PSUs.