NOVAGOLD

NOVAGOLD Resources Inc.

Third Quarter 2012
Interim Condensed Consolidated Financial Statements
With Management's Discussion & Analysis

August 31, 2012

(Unaudited)

Table of Contents

Management's Discussion and Analysis 3

General 3

Description of business 3

Corporate developments 3

Discussion of operations 6

Selected financial data 7

Liquidity and capital resources 7

Related party transactions 8

Financial instruments 9

International Financial Reporting Standards 10

Critical accounting estimates 10

New accounting pronouncements 11

Risk factors 12

Other 13

Disclosure controls and procedures 13

Internal control over financial reporting 13

Changes in internal control over financial reporting 13

Cautionary notes 13

Consolidated Balance Sheets – Unaudited 17

Consolidated Statements of Comprehensive Income – Unaudited 18

Consolidated Statements of Changes in Shareholders' Equity - Unaudited 19

Consolidated Statements of Cash Flows – Unaudited 20

Notes to Condensed Consolidated Financial Statements 21

Management's Discussion and Analysis

General

This Management's Discussion and Analysis ("MD&A") of NOVAGOLD Resources Inc. ("NOVAGOLD" or "the Company") is dated October 11, 2012 and provides an analysis of NOVAGOLD's unaudited financial results for the three and nine month periods ended August 31, 2012 compared to the same periods in the previous year.

The following information should be read in conjunction with the Company's August 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 20 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.

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.com.

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 a 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 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 governance

On September 4, 2012, the Company announced the appointment of David Deisley to the position of Executive Vice President and General Counsel, effective November 1, 2012. In this executive role, Mr. Deisley will be responsible for NOVAGOLD's legal governance and support the Company's efforts to advance the permitting process on the Donlin Gold project. Mr. Deisley has over 25 years of experience in the mining industry in the Americas. He currently serves as Executive Vice President, Corporate Affairs and General Counsel for Goldcorp Inc. ("Goldcorp"). Mr. Deisley joined Goldcorp in September 2007 as General Counsel and was appointed to his current position in July 2010. During his tenure with Goldcorp, Mr. Deisley has played a leading role in the implementation of corporate development transactions and in the advancement of Goldcorp's corporate social responsibility policy and practices.

On September 19, 2012, the Company announced the appointment of David Ottewell to the position of Vice President and Chief Financial Officer effective November 13, 2012. In this senior role, Mr. Ottewell will be responsible for all aspects of NOVAGOLD's financial management as the Company advances permitting and financial optimization of its 50%-owned Donlin Gold Project. Mr. Ottewell has over 25 years of mining industry experience. He currently serves as Vice President and Controller for Newmont Mining Corporation ("Newmont"). During his tenure with Newmont, Mr. Ottewell led the global accounting functions for external reporting to shareholders and regulators in the U.S. and Canada.

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, 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 154,631 acres (62,577 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, respectively. 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[1] 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.

On August 7, 2012, NOVAGOLD announced that Donlin Gold LLC commenced permitting of the project. This announcement follows the Donlin Gold LLC Board of Directors approval of the Project's Updated Feasibility Study. Barrick and NOVAGOLD have expressed that they are committed to advance the project through permitting. Donlin Gold submitted a Plan of Operations and the Wetlands Permit Application under Section 404 of the U.S. Clean Water Act to the federal and state regulators, formally initiating the permitting process. This permit application is the driver for the start of the environmental review process under the National Environmental Policy Act ("NEPA") leading to the development of an Environmental Impact Statement ("EIS"). The U.S. Army Corps of Engineers, which is the lead agency for the NEPA process, has selected an independent contractor to prepare the EIS. It is anticipated that the Notice of Intent for the EIS will be filed over the coming weeks and will be followed by a public scoping as part of the NEPA process.

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.

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

[1] Does not include escalation for inflation.

restructuring of the TKC agreement to, among other things, add additional lands and clarify 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. For the nine months and three months ended August 31, 2012, the project has spent US$22.8 million and US$9.9 million respectively in preparation for the permitting application process. The 2012 work program includes expenditures for permitting activities and community development. The project's expenditure is targeting to be in line with its annual budget.

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.

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

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 pre-feasibility 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 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 nine months and three months ended August 31, 2012, the project spent $23.3 million and $15.8 million respectively on mostly exploration and geotechnical drilling for 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. The project's expenditure is targeting to be in line with its annual budget. NOVAGOLD is responsible to fund 50% of the Galore Creek expenditures, although future 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 in the Agreement. During the third quarter, the Company continued work on completing all phase one activities. Earlier in 2012, the Company covered the tailings in the tailings storage facility and breached the tailings dam thereby eliminating the primary source of water that has required ongoing treatment and injection since 2009. In this quarter, the Company has focused on eliminating the remaining sources of water that require treatment at Rock Creek as well as land reclamation and re-vegetation activities. Currently, phase one activities are nearly complete. After the property transfer, BSNC will assume full responsibility and liability for the remainder of the reclamation plan and any future reclamation activities requested by regulatory authorities.

Discussion of operations

in thousands of Canadian dollars, except for per share amounts

	Three months ended August 31, 2012 $	Three months ended August 31, 2011 $	Nine months ended August 31, 2012 $	Nine months ended August 31, 2011 $
Decommissioning expense (recovery)	(3,090)	20,572	764	20,572
Finance expense	3,994	4,035	11,614	11,319
Foreign exchange loss (gain)	8,422	5,382	(10,188)	(21,464)
Gain on derivative liability	(5,321)	(1,582)	(37,560)	(36,572)
Gain on embedded derivative liability	(4,844)	(9,356)	(50,043)	(32,461)
Gain on sale of inventory	(1,216)	-	(1,216)	-
Gain on sale of land and equipment	-	-	-	(17,200)
Gain on distribution of assets to shareholders	-	-	(71,641)	-
Project care and maintenance	1,790	3,831	6,704	8,714
Salaries and severance	4,717	2,442	11,113	6,986
Share-based payments	2,936	1,664	15,493	7,203
Share of losses – Donlin Gold	5,020	6,590	13,319	16,772
Share of losses – Galore Creek	9,513	7,578	17,865	30,198
Income (loss) for the period	(21,457)	(52,104)	89,550	(6,664)
Basic income (loss) per share	(0.08)	(0.22)	0.33	(0.03)
Diluted income (loss) per share	(0.08)	(0.22)	0.17	(0.03)

For the three-month period ended August 31, 2012, the Company reported net loss of $21.5 million (or $0.08 basic and diluted loss per share) compared to a net loss of $52.1 million (or $0.22 basic and diluted loss per share) for the corresponding period in 2011. This variance was primarily due to the recovery of a $3.1 million decommissioning expensein 2012 as a result in change in the Rock Creek closure costs compared with a $20.6 million expense for the corresponding period in 2011.

For the nine-month period ended August 31, 2012, the Company reported net income of $89.6 million (or $0.33 basic income per share and $0.17 diluted income per share) compared to a net loss of $6.7 million (or $0.03 basic and diluted loss per share) for the corresponding period in 2011. This variance was primarily due to the non-cash gain of $71.6 million recognized on the transfer of assets realized as a result of the spin-out of NovaCopper Inc. to shareholders during the second quarter with no comparable gain during the same period in 2011. Further, share-based payments increased during the year, as the Company recorded a $15.5 million share-based compensation charges compared to $7.2 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 per prior years. Accounting for the two share-based compensation programs differs in that stock options result in higher expenses during the early portion of the vesting periods, whereas performance share units result in an equally distributed expense over the entire vesting period.

The main expenses variances for the three-month period ended August 31, 2012 compared to the same period in 2011 are as follows: (a) $5.0 million share of losses from Donlin Gold for permitting preparation expenditures, compared to $6.6 million in the same period in 2011 for the completion of the gas pipeline studies; (b) $9.5 million share of losses from Galore Creek for enhanced engineering plan preparation, compared to $7.6 million in the same period in 2011 for the pre-feasibility study costs; (c) $8.4 million foreign exchange loss in 2012 compared to $5.4 million in 2011, due to a decrease in the value of the U.S. dollar against the Canadian dollar, which weakened the value of the Company's U.S. dollar cash holdings; (d) $4.8 million non-cash gain on embedded derivative liability in 2012 compared to $9.4 million in 2011, due to a decrease in the Company's share price during the quarter ended August 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 (e) $5.3 million non-cash gain on derivative liability in 2012 compared to $1.6 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 nine-month period ended August 31, 2012 compared to the same period in 2011 are as follows: (a) $13.3 million share of losses from Donlin Gold for permitting preparation expenditures, compared to $16.8 million for the same period in 2011 for the completion of the gas pipeline studies; and (b) $17.9 million share of losses from the Galore Creek project compared to $30.2 million in 2011, primarily due to a 2011 non-cash asset impairment on the Galore Creek project's 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 utilize the power transmission rights to construct its own transmission lines.

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

	08/31/12 $	05/31/12 $	02/29/12 $	11/30/11 $	8/31/11 $	5/31/11 $	2/28/11 $	11/30/10[(1)] $
Net revenues	179	51	(25)	170	(305)	774	150	172
Earnings (loss) for the quarter	(21,457)	94,238	16,769	(99,512)	(52,104)	24,596	20,844	(21,481)
Earnings (loss) per share – basic	(0.08)	0.34	0.07	(0.41)	(0.22)	0.10	0.09	(0.12)
Earnings (loss) per share – diluted	(0.08)	0.26	(0.01)	(0.41)	(0.22)	(0.01)	(0.15)	(0.12)

(1) Financial information for the last quarter 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 last fiscal quarter of 2010, the Company incurred a total of $17.9 million in care and maintenance costs 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 the impairment loss of 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 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 $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 realized as a result of the spin-out of NovaCopper Inc. to shareholders. During the third quarter of 2012, the Company recorded a recovery of decommissioning liabilities of $3.1 million as a result in change in the Rock Creek closure cost estimate and an $8.4 million foreign exchange loss. 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 August 31, 2012, the Company had $267.4 million in cash and cash equivalents.

The Company expended $22.3 million on operating activities during the three-month period ended August 31, 2012, compared to expenditures of $27.4 million for operating activities for the same period in 2011. The Company made cash funding of $5.5 million and $7.5 million for the activities at the Donlin Gold and Galore Creek projects respectively for the quarter ended August 31, 2012, compared to a $6.2 million and $7.9 million cash funding for the Donlin Gold project and Galore Creek projects respectively in the same period in 2011. Also during the three-month period, the Company had no expenditures on financing activities compared to expending $11.7 million on payment of note payable for the Ambler acquisition for the same period in 2011. During the quarter, the Company generated $1.7 million for sale of inventory on investing activities compared with $6.3 million on sale of the land and equipment in 2011.

The Company expended $58.3 million on operating activities during the nine-month period ended August 31, 2012, compared with expenditures of $54.7 million for operating activities for the same period in 2011. The Company had contributed $15.5 million and $12.4 million to the Donlin Gold and Galore Creek projects respectively during the nine months ended August 31, 2012, compared with $17.9 million and $7.9 million funding in the same period in 2011. Also during the nine-month period, the Company generated net proceeds of $281.0 million in cash from financing activities compared to expending $10.1 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 Inc. as part of the spin-out of that

company to shareholders. During the nine months ended August 31, 2012, the Company expended $12.5 million on investing activities compared with $1.3 million in 2011. The increase in 2012 is due to the Company funding an additional US$13.4 million for the Rock Creek reclamation bond for a total of US$20.3 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 August 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 $	4–5 Years $	Thereafter $
Accounts payable and accrued liabilities	14,478	14,478	-	-	-	-	-
Decommissioning liabilities	1,035	1,035	-	-	-	-	-
Liabilities directly associated with assets classified as held for sale – Rock Creek	16,634	16,634	-	-	-	-	-
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$67,231	-	-	-	-	-	US$67,231

(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 ("Put option") 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. As a result of the Put option, the Company may be required to repurchase all of the Notes within the next twelve months and thus the Company has classified the convertible debt and the related embedded derivative as current liabilities.

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

in thousands of Canadian dollars

	Operating leases $
2012	183
2013	664
2014	709
2015	795
2016	912
Thereafter	735
Total	**3,998**

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

in thousands of Canadian dollars

	Operating subleases $
2012	86
2013	261
2014	270
2015	270
2016	270
Thereafter	180
Total	**1,337**

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 Inc. Under the agreements exploration and management services were provided to the following companies for the nine-month period ended August 31, 2012: $12,000 (2011: $13,000)

to Alexco, a company having two common directors; $7,000 (2011: $12,000) to TintinaGold, a company having one director in common; US$155,000 (2011: US$500,000) to Donlin Gold LLC; $667,000 (2011: Nil) to NovaCopper, a company having common directors; and office rental and services totaling $587,000 (2011: $618,000) to GCMC. At August 31, 2012, the Company had $4.3 million in receivables from related parties of which $4.1 million are non-current receivables 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 August 31, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars.

in thousands of U.S. dollars

	August 31, 2012	November 30, 2011
Cash and cash equivalents	269,075	55,204
Accounts receivables	183	13,200
Assets held for sale	20,272	-
Reclamation deposits	-	6,845
Accounts payable and accrued liabilities	(6,980)	(6,008)
Deferred liability	-	(3,950)
Decommissioning liabilities	(1,050)	(29,175)
Liabilities directly associated with assets classified as held for sale	(17,925)	-
Amounts payable to Barrick – non-current	(67,231)	(64,666)
Convertible notes	(69,621)	(66,061)
Derivative liability	(16,183)	(54,818)
Embedded derivative liability	(7,682)	(57,493)
Total	**102,858**	**(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 $4.1 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.

(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 August 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 $0.7 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 projects.

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 August 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.

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 August 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 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.com.

As a result of recent officer appointments, we may lose our status as a foreign private issuer under U.S. federal securities laws, resulting in additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.

As a foreign private issuer, we are exempt from certain of the provisions of the U.S. federal securities laws. For example, the U.S. proxy rules and the Section 16 reporting and "short swing" profit rules do not apply to foreign private issuers. However, as a result of recent officer appointments (as described more fully above under the heading "Corporate Developments – Corporate Governance"), we may lose our status as a foreign private issuer as early as December 1, 2013. If we lose our status as a foreign private issuer the aforementioned regulations would apply and we would also be required to commence reporting on forms required of U.S. companies, such as Forms 10-K, 10-Q and 8-K, rather than the forms currently available to us, such as Forms 40-F and 6-K. Compliance with these additional disclosure and timing requirements under these securities laws would likely result in increased expenses and would require our management to devote substantial time and resources to comply with new regulatory requirements following a loss of our foreign private issuer status. Further, to the extent that we were to offer or sell our securities outside of the United States, we would have to comply with the more restrictive Regulation S requirements that apply to U.S. companies, and we would no longer be able to utilize the multijurisdictional disclosure system forms for registered offerings by Canadian companies in the United States, which could limit our ability to access the capital markets in the future.

Other

On March 14, 2012, the U.S. Environmental Protection Agency ("USEPA") notified Alaska Gold Company by letter that it intended to seek penalties for alleged violations of the Clean Water Act at the Rock Creek Mine. These alleged violations related to storm water discharges during 2009-2011. The letter afforded Alaska Gold Company the opportunity to enter into discussions with USEPA regarding a potential administrative settlement to resolve the alleged violations. Alaska Gold Company and the USEPA have reached an administrative settlement and the Company has paid US$177,500 to the USEPA subsequent to the period ended August 31, 2012. This administrative settlement resolves all past liabilities related to storm water discharges at the Rock Creek Mine.

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 nine month period ended August 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.
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;*
- *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

	August 31, 2012 $	November 30, 2011 $	December 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents (note 7)	267,437	60,572	150,167
Trade and other receivables (note 8)	858	13,973	525
Deposits and prepaid amounts	606	1,637	1,702
Inventories	-	491	7,690
Assets held for sale – Rock Creek project (note 6)	19,982	-	-
	288,883	76,673	160,084
Non – current assets			
Other receivables (note 8)	4,137	4,137	4,262
Property, plant and equipment (note 9)	368	1,610	1,607
Mineral properties (note 10)	510	510	27,366
Assets held for distribution to the shareholders (note 5)	-	31,034	-
Equity investment – Donlin Gold (note 3)	4,655	2,596	1,889
Equity investment – Galore Creek (note 4)	381,052	386,525	364,839
Investments (note 11)	2,683	4,525	5,683
Investment tax credits	3,221	3,221	3,271
Reclamation deposits	2,186	8,900	8,944
Total assets	**687,695**	**519,731**	**577,945**
Liabilities			
Current liabilities			
Trade and other payables	14,478	14,802	7,523
Liabilities directly associated with assets classified as held for sale – Rock Creek (note 6)	16,634	-	-
Current portion of decommissioning liabilities (note 14)	1,035	26,574	7,110
Current portion of other liabilities	-	-	12,245
Convertible notes (note 12)	69,621	-	-
Embedded derivative liability – convertible notes (note 12)	7,682	-	-
	109,450	41,376	26,878
Non – current liabilities			
Convertible notes (note 12)	-	66,880	61,313
Embedded derivative liability – convertible notes (note 12)	-	58,660	90,465
Decommissioning liabilities (note 14)	-	2,602	2,326
Deferred liability	-	4,030	-
Derivative liability – warrants (note 13)	16,183	54,818	658,841
Promissory note (note 3)	66,270	65,979	63,034
Deferred income tax	2,401	6,887	16,752
Other liabilities	117	153	11,594
Total liabilities	194,421	301,385	931,203
Shareholders' equity			
Share capital (note 15)	1,518,153	1,288,917	1,117,870
Contributed surplus	7,935	8,629	8,629
Warrants (note 15)	391,574	440,221	-
Share-based payments (note 15)	51,876	38,013	31,453
Deficit	(1,529,289)	(1,618,839)	(1,512,662)
Accumulated other comprehensive income	53,025	61,405	1,452
Total equity	493,274	218,346	(353,258)
Total liabilities and equity	**687,695**	**519,731**	**577,945**
Nature of operations (note 1)			
Commitments (notes 3, 4 and 17)			

(See accompanying notes to condensed consolidated financial statements)

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

/s/ Gregory A. Lang, Director

/s/ Anthony Walsh, Director

Approved by the Board of Directors

Consolidated Statements of Comprehensive Income – Unaudited

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

	Three months ended August 31, 2012 $	Three months ended August 31, 2011 $	Nine months ended August 31, 2012 $	Nine months ended August 31, 2011 $
Decommissioning (recovery) expense (note 14)	(3,090)	20,572	764	20,572
Corporate development and communication	375	87	611	403
Foreign exchange (gain) loss	8,422	5,382	(10,188)	(21,464)
General and administrative	1,067	1,213	5,022	3,568
Mineral property expenses	93	4,912	1,737	7,373
Professional fees	721	1,525	2,884	3,386
Project care and maintenance	1,790	3,831	6,704	8,714
Salaries and severance	4,717	2,442	11,113	6,986
Salaries – share-based payments (note 15)	2,936	1,664	15,493	7,203
Share of losses – Donlin Gold (note 3)	5,020	6,590	13,319	16,772
Share of losses – Galore Creek (note 4)	9,513	7,578	17,865	30,198
Other gain	(179)	(25)	(230)	(129)
Operating loss	31,385	55,771	65,094	83,582
Finance income (note 19)	(168)	(601)	(1,339)	(1,316)
Finance expense (note 19)	3,994	4,035	11,614	11,319
Finance costs – net	3,826	3,434	10,275	10,003
Gain on sale of inventory	(1,216)	-	(1,216)	-
Gain on sale of land and equipment	-	(1,090)	-	(17,200)
Gain on derivative liability (note 13)	(5,321)	(1,582)	(37,560)	(36,572)
Gain on embedded derivative liability (note 12)	(4,844)	(9,356)	(50,043)	(32,461)
Gain on transfer of assets (note 5)	-	-	(71,641)	-
Inventory write down	-	6,933	-	6,933
Income (loss) for the period before income taxes	**(23,830)**	**(54,110)**	**85,091**	**(14,285)**
Income tax recovery	2,373	2,006	4,459	7,621
Income (loss) for the period	**(21,457)**	**(52,104)**	**89,550**	**(6,664)**
Other comprehensive income (loss)				
Unrealized loss on available-for-sale investments (note 11)	(509)	(641)	(1,843)	(723)
Exchange gain (loss) on translating foreign subsidiaries	3,190	5,114	(6,565)	8,291
Income tax recovery	2	(99)	28	(59)
Other comprehensive income (loss) for the period	**2,683**	**4,374**	**(8,380)**	**7,509**
Total comprehensive income (loss) for the period	**(18,774)**	**(47,730)**	**81,170**	**845**
Income (loss) per share				
Basic	(0.08)	(0.22)	0.33	(0.03)
Diluted	(0.08)	(0.22)	0.17	(0.03)
Basic weighted average number of shares (thousands)	279,715	238,577	269,553	234,906
Diluted weighted average number of shares (thousands)	279,715	238,577	302,125	234,906

(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							
	Shares (thousands)	**Amount $**	**Contributed surplus $**	**Warrants $**	**Share - based payments $**	**Accumulated deficit $**	**Accumulated other comprehensive income $**	**Total $**
Balance, December 1, 2010	**225,992**	**1,117,870**	**8,629**	**-**	**31,453**	**(1,512,662)**	**1,452**	**(353,258)**
Loss for the period	-	-	-	-	-	(6,664)	-	(6,664)
Other comprehensive income	-	-	-	-	-	-	7,509	7,509
Issuance for acquisition of Copper Canyon	4,171	42,339						42,339
Exercise of warrants	8,785	123,756	-	-	-	-	-	123,756
Conversion of foreign currency warrants	-	-	-	441,969	-	-	-	441,969
Exercise of options	749	2,576	-	-	(2,165)	-	-	411
Share-based payments	-	-	-	-	5,665	-	-	5,665
Performance share unit ("PSU") expense	-	-	-	-	1,476	-	-	1,476
Deferred share unit ("DSU") grant	-	-	-	-	99	-	-	99
Balance, August 31, 2011	**239,697**	**1,286,541**	**8,629**	**441,969**	**36,528**	**(1,519,326)**	**8,961**	**263,302**
Shares held by a wholly-owned subsidiary	9	-	-	-	-	-	-	-
Balance, August 31, 2011	**239,706**	**1,286,541**	**8,629**	**441,969**	**36,528**	**(1,519,326)**	**8,961**	**263,302**
Balance, December 1, 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	-	-	-	-	-	89,550	-	89,550
Other comprehensive loss	-	-	-	-	-	-	(8,380)	(8,380)
Issued pursuant to financing	35,000	316,417	-	-	-	-	-	316,417
Exercise of options	515	213	-	-	(213)	-	-	-
Exercise of warrants	3,892	54,401	-	(48,647)	-	-	-	5,754
Issued for vested PSU	87	177	-	-	(316)	-	-	(139)
Issued for vested DSU	4	-	-	-	-	-	-	-
Excess value over fair value - performance share unit	-	-	(694)	-	-	-	-	(694)
Share-based payments	313	2,886	-	-	12,395	-	-	15,281
PSU expense	-	-	-	-	1,858	-	-	1,858
DSU grants	-	-	-	-	139	-	-	139
Balance, August 31, 2012	**279,787**	**1,518,153**	**7,935**	**391,574**	**51,876**	**(1,529,289)**	**53,025**	**493,274**
Shares held by a wholly-owned subsidiary	9	-	-	-	-	-	-	-
Balance, August 31, 2012	**279,796**	**1,518,153**	**7,935**	**391,574**	**51,876**	**(1,529,289)**	**53,025**	**493,274**

(See accompanying notes to condensed consolidated financial statements)

Consolidated Statements of Cash Flows – Unaudited

in thousands of Canadian dollars

	Three months ended August 31, 2012 $	Three months ended August 31, 2011 $	Nine months ended August 31, 2012 $	Nine months ended August 31, 2011 $
Cash flows used in operating activities				
Net income (loss) for the period	(21,457)	(52,104)	89,550	(6,664)
Items not affecting cash				
Depreciation	18	129	266	258
Decommissioning liabilities	(3,090)	20,572	764	20,572
Deferred income tax (recovery) expense	(2,348)	5,952	(4,459)	(59)
Finance costs	6,149	2,577	10,712	8,241
Foreign exchange (loss) gain	8,152	702	(10,529)	(24,842)
Share-based payments	2,936	1,664	15,493	7,203
Gain on assets distributed to the shareholders (note 5)	-	-	(71,641)	-
Gain on derivative liability	(5,321)	(1,582)	(37,560)	(36,572)
Gain on embedded derivative liability	(4,844)	(9,356)	(50,043)	(32,461)
Gain on sale of inventory	(1,216)	-	(1,216)	-
Gain on sale of land and equipment	-	(1,090)	-	(17,200)
Inventory write down	-	7,611	-	7,611
Share of losses – Donlin Gold (note 3)	5,020	6,590	13,319	16,772
Share of losses – Galore Creek (note 4)	9,513	7,578	17,865	30,198
Cash funding – Donlin Gold (note 3)	(5,485)	(6,239)	(15,513)	(17,889)
Cash funding – Galore Creek (note 4)	(7,527)	(7,880)	(12,392)	(7,880)
Net change in non-cash working capital				
(Increase) decrease in trade and other receivables, deposits and prepaid amounts	702	1,274	(740)	822
Decrease in note receivable	-	-	10,057	-
Decrease in trade and other payables and current decommissioning liabilities	(3,457)	(3,825)	(12,269)	(2,795)
	(22,255)	(27,427)	(58,336)	(54,685)
Cash flows from financing activities				
Cash transferred to NovaCopper (note 5)	-	-	(40,359)	-
Proceeds from issuance of common shares – net	-	-	316,417	411
Proceeds from warrant exercises – net	-	1,831	5,756	13,190
Payroll and withholding tax on issuance of PSU	-	-	(831)	-
Payment of note payable for acquisition of Ambler	-	(11,737)	-	(23,658)
	-	(9,906)	280,983	(10,057)
Cash flows from investing activities				
Proceeds from sale of inventory	1,690	-	1,690	-
Proceeds from sale of land and equipment	-	6,963	-	6,963
Acquisition of property, plant and equipment	-	(238)	(571)	(3,530)
Increase in reclamation bonds	-	-	(13,625)	(66)
Purchase of marketable securities	-	-	-	(269)
Expenditures on mineral properties	-	(392)	-	(392)
Acquisition of Copper Canyon	-	-	-	(4,007)
	1,690	6,333	(12,506)	(1,301)
Effect of foreign exchange rate on cash and cash equivalents	(13,189)	5,580	(3,276)	252
Increase (decrease) in cash and cash equivalents during the period	(33,754)	(25,420)	206,865	(65,791)
Cash and cash equivalents – beginning of period	301,191	109,796	60,572	150,167
Cash and cash equivalents – end of period	267,437	84,376	267,437	84,376
Supplemental disclosure				
Interest received	156	81	402	317
Interest paid	-	166	2,581	2,649

(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.A. 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 is listed on the Toronto Stock Exchange and on the NYSE-MKT (formerly NYSE-AMEX) under the symbol "NG". The Company's head office is located at Suite 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 October 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 20 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").

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 August 31, 2012, the Company recorded $66.3 million in promissory note with $2.6 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 nine months ended August 31, 2012, the Company and Barrick each contributed $15.5 million. The investment in Donlin Gold LLC is accounted for using the equity method as follows:

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Balance – beginning of period	2,596	1,889
Funding	15,513	22,044
Share of losses	(13,319)	(21,353)
Foreign exchange	(135)	16
Balance – end of period	**4,655**	**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

	August 31, 2012 $	November 30, 2011 $
Cash, prepaid and other receivables	6,199	3,544
Property, plant and equipment	99,314	102,737
Accounts payables and accrued liabilities	(2,159)	(1,521)
Net assets	**103,354**	**104,760**

in thousands of Canadian dollars

	Nine months ended August 31, 2012 $	Nine months ended August 31, 2011 $
Depreciation	126	75
Mineral property expenditures	13,193	16,709
Total expenses	**13,319**	**16,784**

The Company's share of commitments contracted by Donlin Gold LLC at August 31, 2012 is $2.8 million.

4 Equity investment – Galore Creek

The Galore Creek Partnership was formed with Teck in May 2007 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 contributions 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, the funding was completed on June 2011. Since July 2011, the Company and Teck have equally funded all project costs.

For the nine months ended August 31, 2012, the Company and Teck each contributed $12.4 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

	August 31, 2012 $	November 30, 2011 $
Balance – beginning of period	386,525	364,839
Purchase of Copper Canyon	-	46,013
Funding	12,392	14,062
Share of losses	(17,865)	(38,389)
Balance – end of period	**381,052**	**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

	August 31, 2012 $	November 30, 2011 $
Cash, prepaid and other receivables	3,126	3,831
Property, plant and equipment, mineral properties, and reclamation bond	332,408	303,043
Accounts payables and accrued liabilities	(2,900)	(2,671)
Reclamation obligation long term and payable to related party	(9,007)	(9,079)
Net assets	**323,627**	**295,124**

in thousands of Canadian dollars

	Nine months ended August 31, 2012 $	Nine months ended August 31, 2011 $
Amortization	4,860	4,860
Care & maintenance expenses	3,547	3,900
Mineral property expenditures	9,457	7,649
Impairment of power transmission rights	-	13,779
Total expenses	**17,864**	**30,188**

The Company's share of commitments contracted by the Galore Creek Partnership's operating entity, the Galore Creek Mining Corporation ("GCMC"), at August 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.

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 NOVAGOLD 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:

in thousands of Canadian dollars

	April 30, 2012 $
Cash	40,359
Deposits and prepaids	765
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. The Company expects to complete phase one activities and satisfy the other conditions in the Agreement during fourth quarter 2012. 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 14), as liabilities directly related to assets classified as held for sale at August 31, 2012.

7 Cash and cash equivalents

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Cash at bank	267,437	60,572
Cash and cash equivalents	**267,437**	**60,572**

The Company's cash is held with a large Canadian bank with an S&P rating of AA-. As of August 31, 2012, the Company had US$269.0 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$10.8 million in the Company's net profit or loss.

8 Trade and other receivables

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Trade receivables	670	637
Note receivable	17	13,319
Receivables from related parties (note 16)	4,308	4,154
	4,995	**18,110**
Current portion	670	13,939
Current portion: receivables from related parties (note 16)	188	34
Non-current portion: receivables	17	17
Non-current portion: receivables from related parties (a) (note 16)	4,120	4,120
	4,995	**18,110**

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

9 Property, plant and equipment

in thousands of Canadian dollars

Costs:	**Land $**	**Equipment $**	**Office furniture and equipment $**	**Leasehold improvements $**	**Vehicle $**	**Total $**
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)
Disposals	(3)	-	-	-	-	(3)
Cumulative translation adjustment	(4)	(41)	-	-	-	(45)
Balance as at August 31, 2012	**121**	**-**	**1,600**	**628**	**-**	**2,349**
Depreciation:	**Land $**	**Equipment $**	**Office furniture and equipment $**	**Leasehold improvements $**	**Vehicle $**	**Total $**
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)	(13)	(49)	-	(190)
Disposal of assets transferred on Plan of Arrangement	-	478	26	-	-	504
Cumulative translation adjustment	-	2	1	-	-	3
Balance as at August 31, 2012	**-**	**-**	**(1,540)**	**(441)**	**-**	**(1,981)**
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 August 31, 2012	**121**	**-**	**60**	**187**	**-**	**368**

10 Mineral properties

in thousands of Canadian dollars

	Alaska, USA	Argentina	
	Exploration and evaluation – Ambler $	Exploration and evaluation - San Roque $	Total $
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 August 31, 2012	**-**	**510**	**510**

11 Investments

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Available-for-sale investments	2,683	4,525
Total investments	**2,683**	**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 August 31, 2012 was $4.6 million (2011: $4.6 million) and total unrealized holding loss for the nine months ended August 31, 2012 was $1.8 million (2011: loss of $0.8 million). The balance includes 3,125,000 shares in TintinaGold Resources Inc. (cost: $1.4 million; fair value at August 31, 2012: $0.8 million) and 3,125,000 shares in AsiaBaseMetals Inc. (cost: $0.2 million; fair value at August 31, 2012: $0.3 million). Both companies have a director in common with NOVAGOLD.

12 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 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 ("Put option"), 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 a result of the Put option, the Company may be required to repurchase all of the Notes within the next twelve months and thus the Company has classified the convertible debt and the related embedded derivative as current liabilities.

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.

	August 31, 2012 $	November 30, 2011 $
Average risk-free interest rate	1.22%	1.10%
Expected life	2.67	3.42
Expected volatility	60.90%	78.43%
Expected dividends	Nil	Nil

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Beginning balance	66,880	61,313
Accretion expense of debt discount for the period	5,102	5,745
Foreign exchange revaluation	(2,361)	(178)
Convertible notes	**69,621**	**66,880**
Beginning balance	58,660	90,465
Gain on embedded derivative liability	(50,043)	(29,761)
Foreign exchange revaluation	(935)	(2,044)
Embedded derivative liability - convertible notes	**7,682**	**58,660**

13 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.

	August 31, 2012 $	November 30, 2011 $
Average risk-free interest rate	1.16%	1.01%
Expected life	0.39 years	1.15 years
Expected volatility	79.93%	59.38%
Expected dividends	Nil	Nil

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Derivative balance – beginning of the period	54,818	658,841
Gain on derivative liability for the period	(37,560)	(28,529)
Foreign exchange revaluation	(1,075)	(485,983)
Conversion of warrants to equity	-	(89,511)
Derivative balance – end of the period	**16,183**	**54,818**

14 Decommissioning liabilities

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Beginning balance	29,176	9,192
Increases to existing provisions	764	20,268
Incurred during the period	(11,510)	(865)
Exchange differences	(761)	581
Reclassification to liabilities held for sale (note 6)	(16,634)	-
Total	**1,035**	**29,176**

Analysis of total provisions:

in thousands of Canadian dollars

	August 31, 2012 $	November 30, 2011 $
Non-current	-	2,602
Current	1,035	26,574
Total	**1,035**	**29,176**

The Company's decommissioning liabilities consist of reclamation costs for Nome properties. The Nome properties were impaired in previous years, thus all changes to the decommissioning liabilities are recorded directly to net income.

15 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.

(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 per option of $11.11 (2011: $14.53) and recognized 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 per option of $4.54 (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.

During the three months ended August 31, 2012, the Company granted 895,500 (2011: 10,000) stock options at a weighted average fair value per option of $7.34 (2011: $4.99) and recognized a share-based payments charge of $2.5 million (2011: $1.3 million) for options granted to directors, employees and consultants net of forfeitures in accordance with IFRS 2.

For the three months ended August 31, 2012, 306,296 options were exercised at a weighted average exercise price of $0.96, the weighted average closing price based for the corresponding exercises was $6.01. As of August 31, 2012, there were 2,474,525 non-vested options outstanding with a weighted average exercise price of $7.23; the non-vested stock option and PSU expense not yet recognized was $2.1 million (2011: $2.3 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 August 31, 2012	Three months ended August 31, 2011
Weighted average share price	$6.02	$4.99
Average risk-free interest rate	1.01% - 1.08%	1.27%
Weighted average exercise price	$6.02	$4.99
Expected life	3.0 years	3.5 years
Expected volatility	54.99% - 55.25%	81%
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 August 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	1.53	0.64
$1.48	31,337	1.48	0.64
	36,529	**1.49**	**0.64**

(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 August 31, 2012, the Company recognized a share-based payment charge against income of $0.8 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 August 31, 2012, the Company recognized a share-based payment charge against income of $0.03 million (2011: $0.02 million) for the DSUs granted to directors during the period.

16 Related party transactions

Services rendered

During the nine months ended August 31, 2012, the Company provided exploration and management services to the following companies: $12,000 (2011: $13,000) to Alexco, a company having two common directors; $7,000 (2011: $12,000) to TintinaGold, a company having one director in common; US$155,000 (2011: US$500,000) to Donlin Gold LLC; $667,000 (2011: Nil) to NovaCopper, a company having common directors; and office rental and services totaling $587,000 (2011: $618,000) to GCMC. At August 31, 2012, the Company had $4.3 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

	Nine months ended August 31, 2012 $	Nine months ended August 31, 2011 $
Salaries and other short term employee benefits	2,367	1,910
Share-based payment	6,845	3,484
Total	**9,212**	**5,394**

17 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 August 31, 2012 are approximately as follows.

in thousands of Canadian dollars

	August 31, 2012 $
2012	183
2013	664
2014	709
2015	795
2016	912
Thereafter	735

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

in thousands of Canadian dollars

	August 31, 2012 $
2012	86
2013	261
2014	270
2015	270
2016	270
Thereafter	180

18 Segmented information

The Company has one operating segment in exploration and 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.

19 Net finance costs

in thousands of Canadian dollars

	Nine months ended August 31, 2012 $	**Nine months ended August 31, 2011 $**
Interest received from bank account	(437)	(329)
Accretion income from note receivable	(902)	(987)
	(1,339)	(1,316)
Interest on notes receivable	-	956
Interest on promissory note (note 3)	2,583	2,383
Interest on convertible debt (note 12)	9,031	7,980
	11,614	11,319
Total	**10,275**	**10,003**

20 Transition to International Financial Reporting Standards

These are the Company's third 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 August 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, August 31, 2011 and November 30, 2011 are provided below:

in thousands of Canadian dollars

	Note	December 1, 2010 $	August 31, 2011 $	November 30, 2011 $
Total shareholders' equity under previous Canadian GAAP		611,214	553,426	510,780
Galore Creek Partnership	(i)	(198,666)	(184,461)	(172,217)
Derivative liability - warrants	(ii)	(658,841)	(44,868)	(54,819)
Convertible notes	(iii)	(89,896)	(53,186)	(58,138)
Future income tax	(iv)	(16,752)	(6,096)	(6,952)
Changes related to functional currency	(v)	(317)	(1,513)	(310)
Total shareholders' equity under IFRS		(353,258)	263,302	218,344

Notes to the reconciliations of equity at December 1, 2010, August 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 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 August 31, 2011, as a result of Galore Creek being accounted for under the equity method, total assets decreased by $199.8 million, liabilities decreased by $44.6 million, and equity decreased by $155.1 million from the amounts previously disclosed under previous Canadian GAAP. For the period ended August 31, 2011, an equity loss of $31.2 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 $23.1 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 13, 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 August 31, 2011, the derivative liability under IFRS was $44.9 million. The change from previous Canadian GAAP to IFRS resulted in an increase to share capital of $141.9 million and an increase to warrants (equity) of $418.6 million. For the nine months ended August 31, 2011, a gain on derivative liability of $36.6 million and a foreign exchange gain of $24.9 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.

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 August 31, 2011, the embedded derivative liability was $53.7 million, the liability component decreased by $0.5 million and the equity component of $43.4 million was removed. For the nine months ended August 31, 2011, a gain on the embedded derivative of $32.5 million and a gain on foreign exchange of $4.3 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 (i), 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, $6.1 million, and $6.9 million were recognized for the Galore Creek Partnership as at December 1, 2010, August 31, 2011 and November 30, 2011, respectively. For the three months ended August 31, 2011, a deferred income tax recovery of $1.9 million was recognized. And for the nine months ended August 31, 2011, a deferred income tax recovery of $7.6 million was recognized and for the year ended November 30, 2011, a deferred income tax recovery of $9.8 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, $1.5 million and $0.3 million at December 1, 2010, August 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.

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 and nine months ended August 31, 2011 and for the year ended November 30, 2011, share-based payments expense increased by $0.4 million, $0.9 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 nine months periods ended August 31, 2011 and year ended November 30, 2011 are provided below.

in thousands of Canadian dollars

	Note (note 20b)	**Three months ended August 31, 2011 $**	**Nine months ended August 31, 2011 $**	**Year ended November 30, 2011 $**
Comprehensive loss under previous Canadian GAAP		63,205	141,164	191,779
Loss (income) adjustments				
Galore Creek Partnership	(i)	(4,295)	(38,364)	(53,685)
Derivative liability - warrants	(ii)	(1,062)	(61,437)	(51,487)
Convertible notes	(iii)	(8,722)	(36,710)	(31,758)
Deferred income tax	(iv)	(1,895)	(7,550)	(9,800)
Changes in functional currency	(v)	5,244	9,487	61,478
Share-based payments	(vi)	369	856	1,179
Comprehensive loss (income) adjustments				
Changes related to functional currency	(v)	(5,114)	(8,291)	(61,485)
Comprehensive loss (income) under IFRS		**47,730**	**(845)**	**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 position by GCMC's cash balance at the year ending November 30, 2011 and year beginning December 1, 2010.