

Management's Discussion and Analysis

General

This Management's Discussion and Analysis ("MD&A") of NovaGold Resources Inc. ("NovaGold" or "the Company") is dated February 27, 2007 and provides an analysis of NovaGold's financial results for the year ended November 30, 2006 compared to the previous year. At February 27, 2007 the Company has 92 million common shares issued and outstanding.

The following information should be read in conjunction with the Company's November 2006 audited consolidated financial statements and related notes, which are prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). The accounting policies followed by the Company are set out in Note 2 to the audited consolidated financial statements. The Company's accounting policies have been consistently followed in preparation of these consolidated financial statements. All amounts are in Canadian dollars unless otherwise stated. Additional information related to NovaGold is available on the Company's website www.novagold.net or on SEDAR at www.sedar.com.

Description of Business

NovaGold is a precious metals company focused on the exploration and development of mineral properties in Alaska, USA and British Columbia, Canada, with three of its properties progressing towards development or in construction. The Company conducts its operations through wholly-owned subsidiaries and joint ventures. The Company is primarily focused on gold properties, some of which have significant copper and silver resources. In August 2006 the Company received its final permits and Board of Directors approval for construction of the Rock Creek/Big Hurrah mine which is anticipated to be completed in the latter half of 2007, with production expected to begin by the end of the year, subject to the successful resolution of litigation concerning the permits for the project. The Rock Creek and Big Hurrah projects are located near Nome, Alaska.

In addition, the Company is advancing three of the largest undeveloped resources in North America:

- the Galore Creek copper-gold property in Northwest British Columbia,
- the Donlin Creek gold project in Alaska in a joint venture with a subsidiary of Barrick Gold Corporation ("Barrick"),
- the Ambler copper-zinc-silver-gold property in Alaska in partnership with subsidiaries of Rio Tinto.

At February 27, 2007 NovaGold had \$56 million of unrestricted cash and \$30 million of marketable securities (at fair value) held for sale. The Company is listed on the Toronto Stock Exchange and the American Stock Exchange under the symbol "NG".

Galore Creek

Galore Creek is a large copper-gold deposit located in Northwestern British Columbia with proven and probable reserves estimated at 540.7 million tonnes containing 6.6 billion pounds of copper, 5.3 million ounces of gold and 92.6 million ounces of silver. These are within the

measured and indicated resources of 748.9 million tonnes containing 7.4 million ounces of gold, 117 million ounces of silver and 8.5 billion pounds of copper and in addition the property has inferred resources of 4.3 million ounces of gold, 66 million ounces of silver and 3.4 billion pounds of copper, including NovaGold's expected 80% share of the Copper Canyon deposit. NovaGold holds the Galore Creek project's known reserves and resources under two option agreements. NovaGold is earning a 100% interest in the main Galore Creek property, which consists of the Southwest, Central, Junction and West Fork deposits, and contains most of the project's known resources. NovaGold has a right to earn an 80% interest in the Copper Canyon property which is immediately east of the main Galore Creek property. The Copper Canyon deposit contains inferred resources of 2.8 million ounces of gold, 38 million ounces of silver and 1.2 billion pounds of copper included in the aforementioned inferred resources. Based on the Galore Creek Feasibility Study completed in October 2006, by the independent international engineering services firm Hatch Ltd., a nominal 65,000 tonnes per day milling operation could produce annually 432 million pounds of copper, 341,000 ounces of gold and 4 million ounces of silver during the first five years of mine life.

Donlin Creek

Donlin Creek, a joint venture with Barrick, is one of the largest known undeveloped gold deposits in the world with measured and indicated resources of 16.6 million ounces of gold and additional inferred resources of 17.1 million ounces of gold. The Company's 70% interest in Donlin Creek is held through a joint venture with Barrick who became manager of the joint venture effective November 2002, through Placer Dome Inc, as predecessor, and Barrick has an option to back in to an additional 40% interest (bringing its total to a 70% interest) in the joint venture. NovaGold believes it will not be possible for Barrick to meet the terms and conditions of the Agreement within the required timeline, and on August 25th filed a lawsuit against Barrick in the United States District Court of Alaska seeking, among other remedies, a declaratory judgment to clarify the requirements Barrick must satisfy to earn an additional 40% interest in Donlin Creek, and an order to the effect that it is impossible for Barrick to satisfy these requirements, in which case NovaGold is asking to be appointed as manager of the project in place of Barrick. The Court concluded there is a "genuine dispute" as to the meaning of the terms of the earn-in provisions and Barrick's ability to meet the conditions required to earn a 70% interest in Donlin Creek, and the Company's litigation is still pending. Under the Mining Venture Agreement ("MVA") Barrick must, in order to earn the extra 40% interest, expend US\$32 million on the property, complete a bankable feasibility study and make a board decision to construct a mine on the property that would produce at least 600,000 ounces of gold per annum, on or before November 13, 2007. The owner of the subsurface rights at Donlin, Calista Corporation, has a right within 90 days of issuance of the bankable feasibility study, to elect to acquire between a 5% and 15% participating operating interest in the project. In May 2006 Barrick provided notice to NovaGold that effective March 31, 2006 it had completed the expenditure requirement of US\$32 million as part of the back-in. Under the MVA, upon election by NovaGold, Barrick is funding NovaGold's entire share of current exploration and

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development budgets since March 31, 2006 and NovaGold is being charged interest at US prime rate plus 2% on 30% of the total cost although NovaGold is accruing 70% of the cost because it does not believe Barrick will meet its back-in requirements.

Nome Operations

The Nome Operations consist of three main projects located near the town of Nome, Alaska: the Rock Creek, Big Hurrah and Nome Gold projects. Each property is described below:

Rock Creek/Big Hurrah

Rock Creek is the Company's most advanced project which, together with anticipated production from Big Hurrah, is expected to produce gold at an average rate of approximately 100,000 ounces of gold per annum starting by late 2007. In August 2006 the Company received the permits to develop Rock Creek and Big Hurrah, and, following approval by the Board of Directors, construction commenced on a mine developing both projects. The main process facility and tailings will be located at Rock Creek and will process ore from Rock Creek and ore trucked from Big Hurrah. A group of individuals filed a lawsuit contesting the permits to conduct dredging and fill operations under the U.S. federal Clean Water Act and in December 2006 the U.S. Army Corps of Engineers suspended the permit pending review. NovaGold is continuing work in uplands and areas previously disturbed. NovaGold expects the permits to be reissued and that the lawsuit contesting it to be refiled. Successful resolution of the lawsuit is necessary for the timely completion of construction.

The Rock Creek property is located 8 miles north of Nome, Alaska. The Big Hurrah property is located 40 miles east of Nome, Alaska on the existing road system. The resources at Rock Creek and Big Hurrah total approximately 800,000 ounces of gold. The average grade at Big Hurrah is approximately three times the grade at Rock Creek.

Nome Gold

The Nome Gold property is located three miles north of Nome, Alaska on lands owned by the Company. The Nome Gold property contains a measured and indicated resource estimated at 1.6 million ounces of gold and an inferred resource estimated at 0.25 million ounces. The Company currently plans to complete engineering studies to evaluate the viability of restarting mining operations at the property.

Ambler

Ambler, in which NovaGold has an option to acquire a joint venture interest through an agreement with subsidiaries of Rio Tinto plc, is a large, high grade polymetallic massive sulphide deposit with an historic resource estimated in 1995 (which is not compliant with NI 43-101) of 36.3 million tonnes grading 4% copper, 5.5% zinc, 0.8% lead, 0.7 g/t gold and 54.9 g/t silver containing 817,000 ounces of gold, 62 million ounces of silver, 3.2 billion pounds of copper and 4.2 billion pounds of zinc. The Company is in the process of acquiring a 51% interest in the Ambler property through an option agreement with the Rio Tinto subsidiaries. In order to earn its 51% interest, the Company must expend US\$20 million

on the property by 2016, obtain memoranda of understanding with certain land owners in the region and complete a defined pre-feasibility study. The Rio Tinto subsidiaries have a one-time option after completion of a feasibility study to acquire an additional 2% interest in the project and assume management of construction and operation of the mine by making a payment to the Company based on net present value.

Other

In addition, NovaGold holds a portfolio of earlier stage exploration projects that have not advanced to the resource definition stage. The Company is also engaged in the sale of sand, gravel and land, and receives royalties from placer gold production, largely from its holdings around Nome, Alaska.

Results of Operations

The Company had a net loss of \$30.5 million (or \$0.33 per share) for the year ended November 30, 2006, compared with a net loss of \$5.8 million (or \$0.09 per share) in 2005 and a net loss of \$8.4 million (or \$0.14 per share) in 2004. On July 24, 2006, Barrick announced an unsolicited bid ("Barrick Bid") for the Company and announced a bid to purchase all the common shares of Pioneer Metals Corporation ("Pioneer"), thus frustrating a bid made by NovaGold for Pioneer on June 19, 2006. The Barrick Bid lasted for more than four months ending on December 7, 2006. The Company incurred legal, advisory and other professional costs related to Barrick's actions in 2006 of approximately \$19 million, and salaries and administrative costs related to staff working on matters related to the Barrick Bid estimated at an additional \$2 million for a total of \$21 million ("Barrick Costs"). The Barrick Costs were the main factor for the increase in net loss of \$24.6 million from 2005 to 2006. The Barrick costs include success fees paid to the Company's financial advisors.

Interest income increased to \$6.6 million for the year ended November 30, 2006 compared with \$1.5 million in 2005 and \$1.3 million in 2004 due to higher cash balances invested and generally higher interest rates, particularly for the US funds. Income from the Company's land and gravel sales, gold royalties and other revenues were \$1.7 million during the year ended November 30, 2006 compared with \$2.2 million in 2005 and \$2.5 million in 2004. The reduction in sales was caused primarily by a focus of efforts of the team in Nome, Alaska to the Rock Creek mine construction.

Expenses were \$40.3 million for the year ended November 30, 2006 compared with \$11.3 million in 2005 and \$12.0 million in 2004, including in those years \$4.2 million, \$3.4 million and \$5.8 million, respectively, for the non-cash stock-based compensation for which an equivalent amount was added to shareholders' equity. Overall general and administrative costs, salaries and benefits (other than the non-cash stock-based compensation), corporate development and communications, and professional fees have increased to \$34.2 million in 2006 compared with \$7.8 million in 2005 and \$6.1 million in 2004. Of the \$28 million increase in 2006 the single largest cost related to the Barrick Costs that totalled approximately \$21 million. General and administrative

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(G&A) costs increased by \$2.4 million from 2005 to 2006 mainly due to Barrick Costs, increases in occupancy costs and interest of \$0.7 million. Corporate development and communications increased by \$0.3 million to \$1.5 million in 2006. This increase was slightly larger than the \$0.3 million increase to \$1.1 million in 2005 because of increased shareholder presentations and more direct corporate development activities, particularly related to the Company's financial advisors for the Galore Creek project. Professional fees increased by \$21 million principally due to the unsolicited take-over attempt initiated by Barrick and related financial advisory fees and legal defense costs, and increased Sarbanes-Oxley compliance costs. Wages and benefits have increased by \$2.6 million to \$5.2 million in 2006 due to the expansion of staff resources in all areas of the Company required to meet the needs created by increased business including expenditures on mineral exploration and development.

The other item of significance in 2006 is a foreign exchange loss amounting to \$0.9 million. This compares to an exchange gain of \$0.5 million in 2005 and \$0.1 million in 2004. Strengthening of the Canadian dollar against the US dollar through much of 2006 resulted in the 2006 loss as investments, and amounts held in U.S. dollars to fund anticipated US dollar expenditures, lost value. The foreign exchange gain in 2005 was mainly due to gains on liabilities incurred in US dollars. The Company recorded expensed exploration and mineral property write-downs of \$0.5 million in 2006 compared with \$0.5 million in 2005 and \$0.3 million in 2004. In 2006 the costs related mainly to expensed generative exploration costs and in 2005 the costs related mainly to a write-down of exploration expenditures in 2005 and earlier on the Thunder Mountain property in Nevada as the option agreement on that property has been allowed to lapse because drilling results did not meet the Company's target expectations.

Selected Financial Data

The following annual and quarterly information is prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP").

Annual Information

Fiscal years ended November 30, 2006, 2005 and 2004, in \$000's except per share amounts:

	2006 \$	2005 \$	2004 \$
Net revenues	8,093	3,254	3,469
Expenses and other items ⁽¹⁾	(38,544)	(9,062)	(11,845)
Loss for the year	(30,451)	(5,808)	(8,376)
Loss per share - basic and diluted	(0.33)	(0.09)	(0.14)
Expenditures on mineral properties and related deferred costs ⁽²⁾			
USA	48,444	13,205	8,455
Canada	36,455	48,966	102,341 ⁽³⁾
Total assets	565,424	270,174	210,499
Total long term financial liabilities	(34,039)	-	(536)

Quarterly Information

In \$000's except per share amounts, for the fiscal quarters ended:

	11/30/06 \$	8/31/06 \$	5/31/06 \$	2/28/06 \$	11/30/05 \$	8/31/05 \$	5/31/05 \$	2/28/05 \$
Net revenues	2,080	2,391	2,213	1,409	1,256	1,074	409	515
Income (loss) for the quarter	(19,346)	(2,578)	(8,629)	102	2,577	(1,451)	(1,797)	(5,137)
Loss per share - basic and diluted	(0.20)	(0.03)	(0.10)	0.00	0.04	(0.02)	(0.03)	(0.08)
Expenditures on mineral properties and related deferred costs ⁽²⁾								
USA	16,088	27,461	3,254	1,641	4,221	4,636	2,735	1,613
Canada	18,081	11,501	1,599	5,274	17,433	22,232	6,442	2,859

⁽¹⁾ Expenses and other items include losses/gains on equity investments, and income taxes.

⁽²⁾ Expenditures on mineral properties and related deferred costs include fair value adjustments and stock-based compensation, net of recoveries, tax credits and adjustments, write-downs, disposals and option payments received.

⁽³⁾ An excess of purchase price over book value of \$84,958,000, including deferred tax provision of \$30,262,000, was allocated to Galore Creek on the acquisition of SpectrumGold Inc. in July 2004.

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The Company carries out exploration activities in Canada and the United States. The Company's exploration activities are seasonal in nature and programs tend to start late in the spring and complete by November. During the fourth quarter, the Company expended \$34.2 million on mineral properties and related deferred costs. Of this amount, \$17.9 million related to spending at the Galore Creek project, \$1.1 million related to spending at the Rock Creek project and \$12 million was recorded for expenditures related to the Donlin Creek project representing 70% of amounts incurred by Barrick U.S. pursuant to the Mining Venture Agreement. The loss for the quarter was \$19.3 million (\$0.20 per share) compared with an income of \$2.6 million in the last quarter of 2005. The increase in loss was largely due the Barrick Costs incurred in the fourth quarter of 2006 of approximately \$16 million and overall increases in general and administrative costs, and corporate development and communications of \$3.1 million as a result of expanded activities of the company in all areas.

Factors that can cause fluctuations in the Company's quarterly results are the timing of expenditures on exploration and development activities, the Nome land sales, stock option grants, income taxes and the write-offs of mineral property costs previously capitalized. In 2006 quarterly results were also affected by the nature and timing of the Barrick Costs. The Company's properties are not yet in production, consequently the Company believes that its loss (and consequent loss per share) is not a useful measure of the Company's value. Although the Company's sales revenues are denominated in US dollars and a portion of the expenses are denominated in US dollars, the Company's cash balances, which are significantly larger than those US amounts, are predominately in Canadian funds and therefore the Company has not been materially susceptible to currency variations in 2006.

Liquidity and Capital Resources

The Company expended \$3.1 million on net operating activities during the year ended November 30, 2006 compared with \$6.0 million in 2005 and \$3.2 million in 2004. The loss for 2006 was \$30.5 million but, for cash flow purposes, this was offset by an increase in accounts payable and accrued liabilities of \$26 million at the year-end. A substantial portion of these payables related to Barrick Costs, construction costs for the Rock Creek mine and Galore Creek pre-construction costs that were paid subsequent to the year-end.

The Company generated net proceeds from financing activities of \$196.3 million in 2006 compared with \$60.7 million in 2005 and \$25.9 million in 2004. On February 8, 2006 the Company issued 14,950,000 common shares at \$13.43 (US\$11.75) per common share for net proceeds of \$188.5 million after commissions and expenses of \$12.3 million.

On July 7, 2005 the Company issued 6,260,000 special warrants at \$10.00 per special warrant for net proceeds of \$58.8 million. Each special warrant was converted on August 18, 2005 into one common share and one-half share purchase warrant. A total of 3,130,000 share purchase warrants were issued and each share purchase warrant entitles the holder to acquire one common share of the Company at a price of \$12.10 on or before January 7, 2008. At November 30, 2006, 3,129,200 of these warrants remain outstanding.

On October 28, 2004 the Company issued by way of private placement 1,980,200 flow-through common shares at \$10.10 per flow-through common share for net proceeds of \$18.9 million. As part of this offering, certain directors and employees of the Company purchased 79,600 flow-through common shares. In addition, 99,010 warrants exercisable at \$10.10 per share were issued to the agents, all of which expired unexercised in 2005. An amount equivalent to the gross proceeds of \$20.0 million was renounced for Canadian tax purposes in 2005. Under CICA guidelines, approximately \$6.7 million was deducted from share capital and added to future income taxes in 2005 at the time of renunciation to reflect the tax deductions foregone by the Company.

The Company expended \$119.9 million on investing activities during 2006 compared with \$77.5 million during 2005 and \$26.4 million net in 2004. The Company expended \$50.3 million in 2006 on mineral properties and deferred costs compared with \$61.3 million in 2005 and \$23.4 million in 2004. The majority of the 2006 and 2005 mineral property expenditures occurred at the Galore Creek and Rock Creek projects. The expenditures on Donlin Creek of US\$28.8 million, including interest of US\$0.6 million, did not require the use of funds as these amounts were financed by Barrick under the terms of the MVA. In 2006 the Company carried out an extensive 36,000 metre drilling program at the Galore Creek project as well as environmental and engineering work, and completed a feasibility study for the project that was released in October 2006. In 2005 the Company carried out an extensive drilling program as well as environmental and engineering work at the Galore Creek project and carried out studies, design and permit work at Rock Creek together with a drilling program at Big Hurrah in anticipation of making a construction decision in 2006. In 2004 the Company significantly expanded the mineral resources at Galore Creek and undertook new studies on the potential of developing a mine at the Rock Creek property.

A total of \$57.5 million was spent on capital assets in 2006, including \$30.5 million on construction at Rock Creek and \$17.8 million on pre-construction at Galore Creek including costs related to tunnel and road infrastructure. In August 2006, the Company funded US\$6.8 million of reclamation bonds to cover future reclamation related to the Rock Creek and Big Hurrah projects. In addition the Company expended \$8.9 million on mining and milling equipment in 2006 and \$11.9 million in 2005 for the Rock Creek project. The Company commenced construction on site at Rock Creek immediately following receipt of permits and board approval in August 2006. Because of advance purchase of equipment and advance staging in Nome, the Company was able to complete significant work by the year end. In May 2006, Barrick provided notice to NovaGold that effective March 31, 2006 it had completed the expenditure requirement of US\$32 million as part of the back-in to a 70% interest in the Donlin Creek project. Currently NovaGold holds 70%. NovaGold does not believe it is possible for Barrick to meet its back-in requirements so NovaGold has been accruing 70% of the exploration and development costs subsequent to March 31, 2006, which amounted to US\$29.4 million, including interest, at November 30, 2006, and recording the costs in non-current liabilities. Barrick reported completing 92,800 metres of drilling at Donlin Creek in calendar 2006.

In 2006 the Company expended \$3.0 million on a further investment in shares of Alexco Resource Corporation ("Alexco"), bringing the

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Company's investment to \$5.5 million (including its share of Alexco's losses) with a market value of \$27.2 million at November 30, 2006. In 2005 the Company spent \$3.6 million on investments, the largest being a \$3.5 million purchase of shares in US Gold Corp which at November 30, 2006 had a market value of \$29.8 million (2005 - \$22.9 million).

On August 3, 2006 the Company completed the asset acquisition of Coast Mountain Power Corp. and its wholly-owned subsidiaries (collectively referred to as "Coast Mountain"). Under a plan of arrangement, Coast Mountain shareholders received 2,512,000 common shares of the Company, valued at \$44.4 million. The purchase price was allocated to the fair value of the assets and liabilities received, based on estimates by management. The allocation of the purchase price of the net assets acquired is preliminary and may vary based upon the completion of additional valuation procedures. An additional \$15.6 million has been recorded as a future income tax liability related to the fair value of assets acquired that do not have an income tax basis. A total of \$60.0 million is currently recorded for power generation and transmission.

The Company carries out substantial exploration and development activities in Canada. The expenditure related to those activities generate investment tax credits under Canadian tax legislation based on 10% of the related eligible exploration expenditures and NovaGold records those investment tax credits as a long term receivable and a deduction from the related mineral property expenditures with no income effect. For the year ended November 30, 2006 a total of \$6.1 million of investment tax credits was recognized.

The Company has no material off-balance sheet arrangements, no material capital lease agreements and no material long term obligations other than the Donlin Creek expenditures referred to above. The majority of the Company's expenditures on its properties are of a discretionary nature.

At November 30, 2006, the Company's aggregate commitments for operating leases totaled \$3.0 million. These operating leases include the Company's leased head office location and certain office equipment ranging from one to ten years. The Company also had commitments outstanding at November 30, 2006 in the amount of \$30.8 million for pre-construction activities related to tunnel and road infrastructure at the Company's Galore Creek project which started in the latter half of 2006 and \$4.6 million related to Rock Creek construction. The goods and services under these contracts are anticipated to be delivered and/or completed by the end of 2007. The amounts owed to Barrick related to Donlin Creek will be due after 2011 based on the expected production timeline. The future minimum payments at the year-end are approximately as follows:

in millions of Canadian dollars

	Operating Leases \$	Galore Creek \$	Rock Creek \$	Donlin Creek \$	Total \$
2007	0.5	30.8	4.6		35.9
2008	0.4				0.4
2009	0.4				0.4
2010	0.3				0.3
2011	0.3				0.3
Thereafter	1.1			33.6	34.7

Subsequent to November 30, 2006 the Company awarded contracts related to road, tunnel and support activities related to the Galore Creek project with minimum commitments of \$31.7 million as of February 27, 2007. As of February 27, 2007 the Company has cash and marketable securities for sale of \$86 million after having made payments of \$5.0 million under the Galore Creek commitments entered before and after November 30, 2006.

The Company has no significant financial or other instruments except that its cash balances are largely invested in high quality commercial or bank paper with terms of less than three months that can be easily liquidated.

Outlook

At November 30, 2006 the Company had cash and cash equivalents of \$106.6 million and marketable securities available for sale with a quoted market value of \$29.8 million. The Company has budgeted to expend \$37 million, net of revenues, on Rock Creek construction in fiscal 2007, plus an additional \$6 million on exploration and other costs at Rock Creek. The Company budgeted \$1.5 million for exploration and studies at the Ambler project and \$8.5 million for exploration at the Company's smaller Alaskan and British Columbia properties. A further \$2 million was budgeted for work on the assets obtained through the acquisition of Coast Mountain. At Donlin Creek, Barrick budgeted to expend US\$87 million in calendar 2007 including 70,000 metres of in-fill and in-pit exploration drilling, environmental baseline studies, studies of alternative power sources, permitting work, and feasibility and engineering work.

At the Galore Creek project, the Company is in the later stages of obtaining approval to construct a mine on the property that will have a nominal throughput of 65,000 tonnes per day (tpd) that is planned to produce when in operation annually 432 million pounds of copper, 341,000 ounces of gold and 4 million ounces of silver during the first five years of mine life.

On February 23, 2007 NovaGold announced that it had received its BC Provincial Environmental Assessment Certificate for Galore Creek. The certificate outlines the commitments and conditions required to ensure that the project can proceed without resulting in any significant adverse environmental impacts. The Canadian Environmental Assessment Agency initiated the final 30-day public review and comment period on January 19, 2007 when it filed a Public Notice inviting comments. The comment period closed on February 19th. The responsible Federal Government agencies will review all input and make a recommendation to the Federal Minister of the Environment for approval of the Comprehensive Study Report. Once this approval is granted, the Federal agencies can grant the necessary Federal authorizations associated with the project. Provincial permits to allow construction to proceed are now being reviewed and these are expected to be granted in the second quarter of 2007.

NovaGold has applied to the government of British Columbia for a surface lease on the adjacent Grace property, under option to NovaGold, for use as a tailings and waste rock storage facility. Pioneer Metals Corporation, which is controlled by Barrick and holds subsurface rights in the property, is contesting the application. The government of

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British Columbia is the owner of the surface rights and has the sole authority to issue a surface lease on the property. NovaGold anticipates that a surface lease for the tailings and waste facility approved by the government in the Environmental Assessment Certificate will be issued in a timely manner.

The Galore Creek Construction team is making final preparations to be able to commence construction with Board approval, upon receipt of permits. Installation of project information systems is continuing, as is the purchase of critical equipment required for rapid implementation and control of construction activities. Contracts are in various stages of negotiation for access road, tunnel, bridge building, helicopter support, design and engineering and other project-related activities as required within the project schedule.

Phase 1 construction, anticipated to take approximately 24 months, will focus on access infrastructure including a mine access road, a power transmission line and an access tunnel, and represents approximately 20% of the overall capital costs for the project. Electrical power will be supplied from a connection to the BC Hydro grid where the project access road meets Highway 37. Phase 2 construction will focus on mine facilities and valley infrastructure, with the largest portion of capital cost expended in this latter construction period. Phase 2 construction is expected to take approximately 36 months.

In the Galore Creek Feasibility Study a total of \$375 million (US\$303 million) was planned to be expended in 2007, and an additional \$50 million was expected to be spent in 2007 by Coast Mountain on power line construction necessary for Galore Creek operations, excluding any bonding costs. The NovaGold construction team has rescheduled and re-estimated costs for 2007 based on the longer development schedule contemplated above. This rescheduling contemplates a total of \$262 million being expended in 2007 and an unchanged overall construction budget of \$2.2 billion (US\$1.8 billion) with start-up of operations in 2012 rather than 2011.

NovaGold believes it would be able to cover all planned activities for 2007 that it needs to fund, excluding those related to Galore Creek, with its available cash and proceeds from its marketable securities held for sale. The Company plans to ultimately obtain a joint venture partner (or syndicate of partners) for Galore Creek that will share costs. NovaGold anticipates that construction permits will be received in April 2007 and it is currently entering into contracts to enable a smooth transition into construction without delay. Competition for contractors is currently extremely high in Western Canada and NovaGold is committing early in order to assure availability when needed. NovaGold plans to undertake financing in 2007 in the form of either debt, equity or a combination of debt and equity although there can be no assurance that NovaGold can obtain financing on terms favourable to it.

Related Party Transactions

In 2005, the Company sold 650399 BC Ltd (BC Ltd), which held the Company's Yukon and British Columbia assets other than the Galore Creek and adjacent properties. The purchaser was Alexco, a then newly formed company whose president is a director of

NovaGold. The proceeds from the sale of BC Ltd were shares in Alexco recorded at a fair value of \$2.75 million, plus a cash payment of \$600,000 equivalent to the cash existing in BC Ltd at the time of the sale. The sale proceeds were equivalent to the consolidated book value of the assets in BC Ltd and thus there was no gain or loss on the sale. Although no agreement has been concluded, the Company intends to option back certain exploration rights to the Brewery Creek property from Alexco.

Effective July 31, 2004, the Company entered into an option agreement with an officer of the Company for the Illinois Creek property located in Alaska, USA for an initial payment of US\$20,000. The Company has the option to acquire 100% of the property by making payments totalling US\$0.25 million by April 30, 2009, expending US\$1.5 million on exploration on the property and making a further payment of US\$1.0 million within 30 days of completion of the payments and expenditures, subject to certain extensions. The officer retains a 2% net smelter royalty on the property a portion of which may be purchased by the Company on fixed terms.

Critical Accounting Estimates

The most critical accounting principles upon which the Company's financial status depends are those requiring estimates of the recoverability of its capitalized mineral property expenditures, accounting for stock-based compensation and future income taxes.

Mineral Properties and Related Deferred Costs

The Company records its interest in mineral properties at cost. Exploration expenditures relating to properties that have resources or significant mineralization requiring additional exploration are deferred and will be amortized against future production following commencement of commercial production, or written off if the properties are sold, allowed to lapse, abandoned or become impaired.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired, it is written down to its estimated fair value in accordance with the CICA Handbook Section 3063 "Impairment of Long-Lived Assets".

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows expected to be generated from its properties.

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The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to continue operations and to complete the development of properties and upon future profitable production or proceeds from the disposition thereof. The discovery or establishment of adequate reserves is dependent on successful exploration. Competition for exploration resources at all levels is currently very intense, particularly affecting availability of manpower, drill rigs and helicopters. As a result of this, and other factors inherent in exploration, the Company has uncertainty that it will be able to carry out its planned exploration and development programs or on the schedules currently envisioned.

Stock options

The Company accounts for stock options at fair value pursuant to CICA Handbook section 3870 which established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model. The cost is recognized over the vesting period of the respective options and is capitalized to mineral properties and deferred costs for grants to individuals working directly on mineral projects.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

The Company's accounting policies are described in Note 2 to the consolidated financial statements.

Change in Accounting Policies

During the year the Company adopted a new accounting policy for the intangible assets, consisting of power generation and transmission rights, acquired by the Company. Intangible assets are recorded at cost and amortized over their expected useful lives on a straight line basis. Amortization will begin when the economic benefit of the intangible asset is consumed. The Company assesses the fair value of intangible assets and if there are indications of impairment, the carrying value would be written down.

New Accounting Pronouncements

Financial instruments – recognition and measurement

In January 2005, the Canadian Institute of Chartered Accountants (the "CICA") issued new Handbook Section 3855, "Financial Instruments – Recognition and Measurement" (CICA 3855), effective for annual and interim periods beginning on or after October 1, 2006. CICA 3855 establishes standards for recognizing and measuring financial

assets and liabilities and non-financial derivatives. All financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading, otherwise, they are measured at cost. Investments available for sale will be recorded at fair value with the unrealized gains or losses recorded through comprehensive income. For the interim period ending February 28, 2007, the Company expects a material impact on its financial statements similar to the impact on comprehensive income for U.S. GAAP purposes. See Note 16 to the consolidated financial statements.

Comprehensive income

In January 2005, the CICA issued new Handbook Section 1530, "Comprehensive Income" (CICA 1530) and Handbook Section 3251, "Equity" (CICA 3251) effective for interim and annual periods beginning on or after October 1, 2006. CICA 1530 establishes a standard for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available for sale securities, in a statement of comprehensive income. CICA 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements in CICA 1530. The Company will include a statement of comprehensive income upon adoption of these sections.

U.S. GAAP

For new U.S. GAAP accounting pronouncements, see Note 16 "Significant differences from United States accounting principles" to the consolidated financial statements.

Disclosure Controls and Internal Controls over Financial Reporting

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Company's Board and Audit Committee. The Company's chief executive officer (CEO) and chief financial officer (CFO) have evaluated and are satisfied with the effectiveness of these disclosure controls and procedures for the period ending November 30, 2006.

The CEO and CFO acknowledge responsibility for the design of internal control over financial reporting (ICFR), and confirm that there were no changes in these controls that occurred during the most recent interim period ended November 30, 2006 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Risk Factors

Exploration and Development

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration activities will result in any discoveries of new bodies of commercial ore. There is also no assurance that if commercial ore is discovered that ore body would be economical for commercial production. Discovery of mineral deposits is dependent upon a number of factors and significantly influenced by the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit is

also dependent upon a number of factors which are beyond the Company's control. Some of these factors are the attributes of the deposit, commodity prices, government policies and regulation and environmental protection.

The Company is earning an interest in certain of its key properties through option agreements and acquisition of title to the properties is only completed when the option conditions have been met. These conditions include making property payments, incurring exploration expenditures on the properties, and satisfactory completion of certain pre-feasibility studies and third party agreements. If the Company does not satisfactorily complete these option conditions in the time frame laid out in the option agreements, the Company's title to the related property will not vest and the Company will have to write-down its previously capitalised costs related to that property. The Company does not believe that Barrick will meet the back-in requirements on the Donlin Creek project and has thus provided for the 70% of the costs effective from April 1, 2006. If it is concluded that Barrick successfully completes the back-in requirements by November 13, 2007, leaving NovaGold with 30% of Donlin Creek, NovaGold's currently reported long term payables and mineral property and related deferred costs would reduce by US\$16.5 million.

Resource Estimates

There is a degree of uncertainty attributable to the calculation of reserves and resources and the corresponding grades. Reserve and resource estimates are dependent partially on statistical inferences drawn from drilling, sampling and other data. The measured and indicated and inferred resource figures and proven and probable reserves set forth by the Company are estimates, and there is no certainty that these levels of gold will be realized. Declines in the market price for gold may adversely affect the economics of a reserve or resource and may require the Company to reduce its estimates.

Price Volatility-Gold and Other Metals

The market price for gold and other metals is volatile and cannot be controlled. There is no assurance that if commercial quantities of gold and other metals are discovered, a profitable market may continue to exist for a production decision to be made or for the ultimate sale of the metals. As the Company is currently not in production, no sensitivity analysis for price changes has been provided or carried out.

Caution on Forward-Looking Statements

The Management's Discussion and Analysis contains forward-looking statements concerning anticipated developments in NovaGold's operations in future periods. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. These forward-looking statements are set forth under the heading "Outlook" and elsewhere in the Management's Discussion and Analysis. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of NovaGold may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors including those set forth under the heading "Risk Factors" in Management's Discussion and Analysis and under the heading "Preliminary Notes – Cautionary Statement Regarding Forward-Looking Statement" and "Risk Factors" in NovaGold's Annual Information Form for the year ended November 30, 2006. NovaGold's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and NovaGold does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada, and within the framework of the summary of significant accounting policies in these consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing and Public Company Accounting Oversight Board ("PCAOB") standards for 2006. The auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements.

Management's Report on Internal Control over Financial Reporting

The management of NovaGold Resources Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Securities and Exchange Act of 1934 in Rule 13a-15(f) and 15d-15(f) defines this as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transaction and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the company's assets that may have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of November 30, 2006. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based upon our assessment and those criteria, management concluded that the Company's internal control over financial reporting was effective as of November 30, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of November 30, 2006 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report which appears herein.

[signed: Rick Van Nieuwenhuysse]

Rick Van Nieuwenhuysse
President & Chief Executive Officer
February 27, 2007

[signed: R. J. (Don) MacDonald]

R. J. (Don) MacDonald
Senior V.P. & Chief Financial Officer

Independent Auditors' Report

To the Shareholders of NovaGold Resources Inc.

We have completed an integrated audit of the consolidated financial statements and internal control over financial reporting of NovaGold Resources Inc. as at November 30, 2006 and the audits of its November 30, 2005 and November 30, 2004 consolidated financial statements. Our opinions, based on our audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated balance sheets of NovaGold Resources Inc. as at November 30, 2006 and November 30, 2005, and the related consolidated statements of operations and deficit and consolidated statements of cash flows for each of the three years ended November 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit of the Company's financial statements as at November 30, 2006 and for the year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audits of the Company's financial statements as at November 30, 2005 and November 30, 2004 and for each of the two years ended November 30, 2005 in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at November 30, 2006 and November 30, 2005 and the results of its statement of operations and deficit and its cash flows for each of the three years ended November 30, 2006 in accordance with Canadian generally accepted accounting principles.

Internal control over financial reporting

We have also audited management's assessment included in Management's Report on Internal Control over Financial Reporting appearing in the 2006 Annual Report that the Company maintained effective internal control over financial reporting as of November 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of November 30, 2006 is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the COSO.

Yours very truly,

[signed: Pricewaterhouse Coopers LLP]

Chartered Accountants
Vancouver, British Columbia
February 27, 2007

Consolidated Balance Sheets

As at November 30, 2006 and 2005

in thousands of Canadian dollars

	2006 \$	2005 \$
Assets		
Current assets		
Cash and cash equivalents	106,583	33,317
Other receivables	3,420	2,387
Temporary investments (note 6)	3,534	3,534
Deposits and prepaid amounts	1,031	669
	114,568	39,907
Accounts receivable	395	572
Land	1,718	1,754
Property, plant and equipment (note 4)	71,078	13,685
Power generation and transmission (note 5)	60,055	-
Mineral properties and related deferred costs (note 7)	294,196	209,297
Investments (note 6)	7,188	4,069
Investment tax credits	6,127	-
Reclamation bonds (note 4)	10,099	890
	565,424	270,174
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	38,865	8,872
Loan payable	200	200
Asset retirement obligation (note 8)	916	1,020
	39,981	10,092
Other liabilities (note 7(a))	34,039	455
Future income taxes (note 13)	49,965	34,393
	123,985	44,940
Shareholders' equity		
Share capital (note 9)	533,658	292,876
Contributed surplus	820	820
Stock-based compensation (note 9)	16,674	10,219
Warrants (note 9)	9,178	9,759
Deficit	(118,891)	(88,440)
	441,439	225,234
	565,424	270,174
Nature of operations (note 1)		
Commitments and contingencies (note 11)		
Subsequent events (note 17)		

(See accompanying notes to consolidated financial statements)

[signed: Rick Van Nieuwenhuyse] Director

[signed: James Philip] Director

Approved by the Board of Directors

Consolidated Statements of Operations and Deficit

for the years ended November 30, 2006, 2005 and 2004

in thousands of Canadian dollars, except for per share amounts

	2006	2005	2004
	\$	\$	\$
Revenue			
Land, gravel, gold and other revenue	1,692	2,172	2,462
Interest income	6,611	1,510	1,289
	8,303	3,682	3,751
Cost of sales	210	428	282
	8,093	3,254	3,469
Expenses and other items			
Corporate development and communication	1,455	1,115	771
Exploration and mineral property write-downs	461	498	250
Foreign exchange (gain) loss	860	(508)	(56)
General and administrative	5,284	2,890	2,263
Mineral property recovery in excess of costs	-	(52)	(109)
Professional fees	22,253	1,175	851
Reclamation	582	132	-
Salaries	5,199	2,589	2,203
Salaries – stock-based compensation (note 9)	4,183	3,424	5,788
Write-down of investments	-	28	-
	40,277	11,291	11,961
Gain on dilution from equity investment	477	-	-
Loss from equity investment	(357)	(372)	-
Minority interest (note 3)	-	-	116
Loss for the year before income taxes	(32,064)	(8,409)	(8,376)
Future income tax recovery (note 13)	1,613	2,601	-
Loss for the year	(30,451)	(5,808)	(8,376)
Deficit - Beginning of year	(88,440)	(82,632)	(74,256)
Deficit - End of year	(118,891)	(88,440)	(82,632)
Loss per share (note 10)			
Basic and diluted	(0.33)	(0.09)	(0.14)
Weighted average number of shares (thousands)	91,519	66,954	59,160

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Cash Flow

For the years ended November 30, 2006, 2005 and 2004

in thousands of Canadian dollars

	2006	2005	2004
	\$	\$	\$
Cash flows used in operating activities			
Loss for the year	(30,451)	(5,808)	(8,376)
Items not affecting cash			
Amortization	241	216	210
Future income tax recovery (note 13)	(1,613)	(2,601)	-
Gain on dilution from equity investment	(477)	-	-
Loss from equity investment	357	372	-
Mineral property recovery in excess of cost	-	(52)	(109)
Minority interest	-	-	(116)
Stock-based compensation	4,183	3,424	5,788
Write-down of mineral properties	-	491	250
Write-down of investments	-	28	-
Net change in non-cash working capital			
Increase in other receivables, deposits and prepaid amounts	(1,396)	(1,638)	(373)
Increase (decrease) in accounts payable and accrued liabilities	26,031	(428)	(426)
	(3,125)	(5,996)	(3,152)
Cash flows from financing activities			
Proceeds from issuance of common shares - net	196,322	60,708	25,925
	196,322	60,708	25,925
Cash flows used in investing activities			
Acquisition of property, plant and equipment	(57,471)	(12,758)	(800)
Expenditures on power generation and transmission assets (note 5)	(1,387)	-	-
Expenditures on land improvements	-	-	(74)
Expenditures on mineral properties and related deferred costs – net	(50,288)	(61,294)	(23,403)
Increase in reclamation bonds (note 4)	(7,964)	(316)	(415)
Decrease (increase) in accounts receivable	177	(66)	(506)
Investments	(2,998)	(3,588)	(1,180)
Tenant inducements	-	485	-
	(119,931)	(77,537)	(26,378)
Increase (decrease) in cash and cash equivalents during the year	73,266	(22,825)	(3,605)
Cash and cash equivalents - Beginning of year	33,317	56,142	59,747
Cash and cash equivalents - End of year	106,583	33,317	56,142
Supplemental cash flow information (note 15)			

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

1. Nature of operations

The Company is a natural resource company engaged in the exploration and development of gold and copper properties in North America. Construction of the Company's Rock Creek mine, located in Nome, Alaska, started in the summer of 2006 and is anticipated to be completed in 2007. Pre-construction activities related to tunnel and road infrastructure at the Company's Galore Creek project started in the latter half of 2006 and are expected to continue through 2008. The Company anticipates receiving construction permits for Galore Creek in the first half of 2007 and expects to commence construction shortly thereafter pending Board approval. Since 1998, the Company has assembled a portfolio of mineral properties in Alaska and British Columbia.

The Company is in the process of exploring its mineral properties and, with the exception of the Galore Creek project, has not yet determined whether these properties contain ore reserves that are economically recoverable. The amounts shown as mineral properties and related deferred costs represent costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable resources, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to continue operations and to complete the development and upon future profitable production or proceeds from the disposition thereof.

2. Accounting policies

Basis of presentation

The consolidated accounts have been prepared using accounting principles generally accepted in Canada and include the accounts of NovaGold Resources Inc. and its material wholly owned subsidiaries, NovaGold Canada Inc. (formerly SpectrumGold Inc.), Alaska Gold Company, NovaGold Resources Alaska, Inc. and Coast Mountain Power Corp. All significant inter-group transactions are eliminated on consolidation. As described in note 16, accounting principles generally accepted in Canada differ in certain material respects from accounting principles generally accepted in the United States.

Revenue recognition

Revenue from land sales is recognized when title passes to the purchaser. Gravel revenue is recognized upon shipment when title passes to the purchaser. Lease and rental revenue is recognized as services are rendered. Gold royalties and incidental gold production revenues earned from third party placer mining activities carried out on the Company's sand and gravel resource properties are recognized as revenue when the amounts are determinable and collectible and title to the gold has transferred.

Cash and cash equivalents and reclamation bonds

Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest bearing investments with maturities of 90 days or less from the original date of acquisition. Certain cash is held in long-term reclamation bonds to support future reclamation work.

Interest from cash and cash equivalents and reclamation bonds is recorded on an accrual basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortization begins when the asset is substantially put into service. Amortization of heavy machinery and equipment and office furniture and equipment is calculated on a straight-line basis over their estimated useful lives at annual rates between 20% - 30%. Amortization of leasehold improvements is calculated on a straight-line basis over the term of the lease.

Construction in progress and pre-construction costs relate to the Rock Creek mine and Galore Creek project and are recorded at cost. No amortization is calculated until the assets are substantially put into service.

Intangible assets

Intangible assets consist of power generation and transmission rights acquired by the Company. Intangible assets are recorded at cost and amortized over their expected useful lives on a straight line basis. Amortization will begin when the economic benefit of the intangible asset is consumed. The Company assesses whether there have been any indications of impairment and if there are and the carrying amount is not expected to be recoverable, there would be a write down to fair value.

Investments

The Company accounts for its long-term investments at cost unless an other-than-temporary decline in value has occurred, in which case the investment is written down to market value. Investments that are expected to be sold within one year are recorded as temporary investments and carried at the lower of cost or market.

When the Company has significant influence the investment is accounted for using the equity method. The Company's proportionate share of income and expenses is recorded with a corresponding entry made to the investment account.

Land and gravel resources

Land is recorded at cost, and at the time of acquisition, cost is allocated to each of the identifiable parcels of land on a pro rata basis in accordance with that parcel's estimated value as a percentage of the value of the entire parcel acquired. Cost of sales is determined on the basis of the allocated costs. The costs of the remaining unsold parcels of land are reviewed regularly to determine if impairment exists, and if impairment is determined the costs would be written down to fair value. To date, there have been no charges for impairment. Property taxes are charged as a current expense in the statement of operations and deficit.

Mineral properties and related deferred costs

The Company records its interests in mineral properties at cost. Exploration expenditures relating to properties that have resources or significant mineralization requiring additional exploration are deferred and will be amortized against future production following commencement of commercial production, or written off if the properties are

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

2. Accounting policies (cont.)

sold, allowed to lapse, or abandoned.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally determined using the discounted value of future cash flows.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to risks and uncertainties that may affect the determination of the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows to be generated from its properties.

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 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.

Mineral property option and royalty agreements

Option payments and certain royalties are exercisable at the discretion of the optionee and, accordingly, are accounted for on a cash basis. Option payments received are treated as a reduction of the carrying value of the related mineral property and related deferred costs until the Company's option and royalty payments received are in excess of costs incurred and are then credited to operations.

Asset retirement obligations

Asset retirement obligations are recognized at fair value when the liabilities are incurred. The liability is accreted over time through periodic charges to earnings. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

Translation of foreign currencies

Foreign operations are integrated with the parent company and, consequently, the financial statements of foreign subsidiaries are translated into Canadian currency, the parent company's functional currency, using the temporal method.

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. Exchange gains or losses arising on translation are included in income or loss for the year.

Loss per share

Loss per common share is calculated based on the weighted average number of common shares outstanding during the year. The Company follows the treasury stock method in the calculation of diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Since the Company has losses the exercise of outstanding stock options and warrants has not been included in this calculation as it would be anti-dilutive.

Financial instruments

The fair values of the Company's financial assets and liabilities, such as reclamation bonds, accounts payable, asset retirement obligation and other liabilities, approximate their carrying values except for the loan payable and interest accrued to the Province of New Brunswick, the fair value of which cannot be determined.

Stock options and warrants

The Company accounts for stock options and warrants at fair value pursuant to CICA Handbook section 3870 which established standards for the recognition, measurement and disclosure of stock based compensation and other stock based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model. The cost is recognized over the vesting period of the respective options and is capitalized to mineral properties and deferred costs for grants to individuals working directly on mineral projects. Warrants granted are recorded at estimated fair values using the Black-Scholes option pricing model.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions of future events that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Significant estimates include the impairment of mineral properties, future income

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

2. Accounting policies (cont.)

taxes, and the provision for reclamation costs. Actual results could differ materially from those reported.

New Accounting Pronouncements

Financial instruments – recognition and measurement

In January 2005, the Canadian Institute of Chartered Accountants (the “CICA”) issued new Handbook Section 3855, “Financial Instruments – Recognition and Measurement” (CICA 3855), effective for annual and interim periods beginning on or after October 1, 2006. CICA 3855 establishes standards for recognizing and measuring financial assets and liabilities and non-financial derivatives. All financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading, otherwise, they are measured at cost. Investments available for sale will be recorded at fair value with the unrealized gains or losses recorded through comprehensive income. For the interim period ending February 28, 2007, the Company expects a material impact on its

financial statements similar to the impact on comprehensive income for U.S. GAAP purposes. See Note 16 Significant differences from United States accounting principles.

Comprehensive income

In January 2005, the CICA issued new Handbook Section 1530, “Comprehensive Income” (CICA 1530) and Handbook Section 3251, “Equity” (CICA 3251) effective for interim and annual period beginning on or after October 1, 2006. CICA 1530 establishes standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available for sale securities, in a statement of comprehensive income. CICA 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements in CICA 1530. The Company will include a statement of comprehensive income upon adoption of these sections.

U.S. GAAP

For new U.S. GAAP accounting pronouncements, see Note 16, “Significant differences from United States accounting principles”.

3. Acquisition of SpectrumGold Inc.

On July 15, 2004, the Company completed the asset acquisition of SpectrumGold Inc. (“SpectrumGold”) by amalgamating SpectrumGold with the Company’s wholly owned subsidiary, NovaGold Canada Inc. (“NovaGold Canada”) and thereby acquiring the minority interest portion of its income and losses.

Under the plan of arrangement the Company acquired all of the approximately 45% of the common shares of SpectrumGold not previously held by the Company in exchange for shares at a ratio of 1 share of the Company for each 1.35 shares of SpectrumGold. On July 15, 2004 the Company issued 8,573,518 common shares to SpectrumGold shareholders to acquire the remaining interest at a price of \$6.41 per share, being the market price of the Company’s shares at the date the proposed arrangement was announced. The Company also assumed existing SpectrumGold stock options, warrants and a property option under which 1,634,072, 74,074, and 222,222 of the Company’s shares may be issued to the holders, respectively. The Company assumed that the warrants would be exercised during the year and thus included the share issuance for the warrants as part of the purchase price. The warrants were subsequently fully exercised as expected. In March 2005 the Company issued 74,074 shares pursuant to a property option valued at \$864,000 being the fair value of the shares at the date of issuance. The Company intends to issue shares as part of the annual requirements under the property option agreement which will be valued at the stock price on the date of issuance.

The fair value of the 1,634,072 stock options assumed was calculated

using the Black-Scholes model and amounted to \$9,025,000. The following assumptions were used in the calculation:

Average risk-free interest rate	2.4%
Expected life	2.2 years
Expected volatility	84%
Expected dividend yield	Nil

Based on EIC 124, the transaction was accounted for as an asset acquisition which requires the tax effects of differences between the assigned values and their tax bases to be recognized in future income taxes and allocated to the cost of purchase. An excess of consideration over book value acquired amounting to \$84,958,000, including a deferred taxation provision of \$30,262,000, was allocated to the Galore Creek mineral property as follows:

<i>in thousands of Canadian dollars</i>	
Purchase price	\$
Shares issued	54,956
Share warrants assumed	130
Stock options assumed	9,025
Total cost of the acquisition	64,111
Assets acquired and tax effected	
Minority interest in net assets	9,415
Mineral properties	84,958
Future income taxes	(30,262)

A total of \$63,344,000, net of \$767,000 costs associated with the acquisition, was recorded in the Company’s capital stock in 2004.

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

4. Property, plant and equipment

in thousands of Canadian dollars

2006

	Cost \$	Accumulated amortization \$	Net \$
Heavy machinery and equipment	1,179	210	969
Office furniture and equipment	1,027	470	557
Leasehold improvements	529	96	433
Mining and milling equipment – Rock Creek	20,863	-	20,863
Construction in progress – Rock Creek	30,483	-	30,483
Pre-construction costs – Galore Creek	17,773	-	17,773
	71,854	776	71,078

2005

	Cost \$	Accumulated amortization \$	Net \$
Heavy machinery and equipment	1,220	464	756
Office furniture and equipment	801	282	519
Leasehold improvements	529	43	486
Mining and milling equipment – Rock Creek	11,924	-	11,924
	14,474	789	13,685

The Company received the necessary permits from the State of Alaska and US Corps of Engineers in August 2006 for the Board of Directors to make a positive construction decision at the Rock Creek project. Construction on site began in late August 2006 and production is anticipated to begin in the latter half of 2007. Certain critical equipment for the Rock Creek project was purchased in 2005 and delivered to the site in anticipation of the mine construction approval. Amortization for equipment will begin when the equipment is placed substantially in service. In August, 2006, the Company funded US\$6.8 million of reclamation bonds to cover future reclamation related to the Rock Creek and Big Hurrah projects.

In the latter half of 2006 the Company began incurring pre-construction costs related to the tunnel and road infrastructure at the Galore Creek project. These costs are anticipated to continue through 2008. Amortization will begin when the assets are placed substantially in service. The Company anticipates receiving construction permits for Galore Creek in the first half of 2007 and expects to commence construction shortly thereafter pending Board approval.

Amortization expense for property, plant and equipment during 2006 was \$241,000 (2005: \$216,000). Certain assets were transferred from heavy machinery and equipment to the Galore Creek project.

5. Power generation and transmission

On August 3, 2006 the Company completed the asset acquisition of Coast Mountain Power Corp. and its wholly-owned subsidiaries (collectively referred to as “Coast Mountain”). Under a plan of arrangement, Coast Mountain shareholders received 2,512,000 common shares of the Company, valued at \$44.4 million. Following EIC 124, the purchase price was allocated to the fair value of the assets and liabilities received, based on estimates by management. The allocation of the purchase price of the net assets acquired is preliminary and may vary based upon the completion of additional valuation procedures. An additional \$15.6 million has been recorded as a future income tax liability related to the fair value of assets acquired that do not have an income tax basis.

In September 2006, a dissenting shareholder of Coast Mountain, its former CEO, returned 225,880 common shares of the Company, valued at

approximately \$4 million, to the Company treasury. The former Coast Mountain CEO also commenced an action in the British Columbia Supreme Court against the Company claiming that he be paid \$15 million as the value for his Coast Mountain shares. The Company has included in accounts payable an amount of \$4 million representing the value of the shares returned to treasury. The Company believes this claim for additional funds is without merit. In October 2006 the former CEO of Coast Mountain also commenced an action in the British Columbia Supreme Court against Coast Mountain Power Corp. seeking wrongful dismissal damages arising out of the termination of his employment. The amount of the claim has not been determined at this time.

Coast Mountain is a “green power” company with run-of-river hydro-electric projects located near NovaGold’s Galore Creek copper-gold-silver

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

5. Power generation and transmission (cont.)

project. Coast Mountain's assets include the Forrest Kerr run-of-river hydro-electric project which is designed to generate and transmit up to 115 megawatts of electricity into the British Columbia hydro-electric grid. The project has received all critical approvals and permits necessary for the construction of the hydro-electric plant and related power transmission lines. The Company has currently allocated none of the purchase price of Coast Mountain against Forrest Kerr.

The preliminary allocation of the purchase price was determined considering that the power generation and transmission rights may likely be

utilized to provide power to the Galore Creek project. Amortization of these costs will begin when the Galore Creek assets are substantially placed into service.

Since the acquisition date of August 3, 2006, the Company has capitalized \$1.4 million on feasibility study expenditures related to the Forrest Kerr hydro-electric project.

6. Investments

in thousands of Canadian dollars

	2006 \$	2005 \$
Temporary investments		
5,374,544 shares of US Gold Corp. (market value - \$29,829) ¹	3,534	3,534
Long term investments		
5,304,478 shares of Alexco Resource Corp. (market value - \$27,212)	5,515	2,395
3,921,568 shares of Pioneer Metals (market value - \$3,922)	1,000	1,000
1,437,500 shares of TNR Gold Corp. (market value - \$359)	317	317
600,000 shares of Eagle Plains Resources Ltd. (market value - \$432)	82	180
600,000 shares of Copper Canyon Resources Ltd. (market value - \$450)	98	-
Other investments	176	177
	7,188	4,069

¹ The Company intends to sell its shares of US Gold Corp. within the next twelve months.

The Company has significant influence in Alexco Resource Corp. ("Alexco") and has accounted for the investment using the equity method. Alexco has a June 30th year end and is a related party having two directors in common with the Company. During the year the Company recorded a \$357,000 loss (2005: \$372,000 loss) resulting from accounting for the equity investment. Alexco completed an initial public offering in January 2006, a flow-through share financing on April 13, 2006 and issued common shares on the exercise of warrants and stock options. On April 28, 2006, the Company purchased 1.2 million common shares in Alexco at \$2.50 per share contemporaneously with a public offering by Alexco at the same per share amount. On June 30, 2006, Alexco issued shares related to an acquisition reducing the Company's ownership to 18.8%. The Company has recorded a net dilution gain of \$477,000 (2005: nil) as a result of these transactions to date.

During the year Eagle Plains Resources Ltd. ("EPL") issued shares of a newly formed company, Copper Canyon Resources Ltd. ("CPY") on a one for one basis. The original cost of the Company's EPL shares have been split between EPL and the new CPY shares based upon the ratio of their share prices immediately after completion of the transaction.

Also included within other investments is an investment of 126,625 shares (cost - \$5,000; market value - \$491,000) in Etruscan Resources Incorporated ("Etruscan"). The Province of New Brunswick holds the Company's shares of Etruscan pending the settlement of outstanding mining taxes that the Company believes aggregates \$366,000 (2005 - \$366,000).

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

7. Mineral properties and related deferred costs

For the year ended November 30, 2006:

in thousands of Canadian dollars

	Balance - November 30, 2005 \$	Expenditures \$	Stock-based compensation Tax credits and adjustments \$	(1) (2)	Balance - November 30, 2006 \$
Alaska, USA					
Donlin Creek	17,421	32,418	29	(1)	49,868
Rock Creek	19,105	5,868	772	(1)	25,745
Shotgun	4,050	419	-		4,469
Ambler	5,897	3,907	357	(1)	10,161
Big Hurrah	4,305	1,288	26	(1)	5,619
Khotol	1,240	1,759	20	(1)	3,019
Nome Gold	235	242	-		477
Other	125	1,316	23	(1)	1,464
British Columbia, Canada					
Galore Creek	154,471	38,513	1,874	(1)	189,387
			(5,471)	(2)	
Copper Canyon	2,448	1,234	-		3,682
Other	-	305	-		305
	209,297	87,269	(2,370)		294,196

For the year ended November 30, 2005:

in thousands of Canadian dollars

	Balance - November 30, 2004 \$	Expenditures \$	Option receipt Disposal Write-down Stock-based compensation \$	(1) (2) (3) (4)	Balance - November 30, 2005 \$
Alaska, USA					
Donlin Creek	17,421	-	-		17,421
Rock Creek	14,070	4,701	334	(4)	19,105
Shotgun	4,059	-	(9)	(1)	4,050
Ambler	2,371	3,483	43	(4)	5,897
Big Hurrah	789	3,516	-		4,305
Khotol	95	1,145	-		1,240
Nome Gold	196	39	-		235
Other	172	444	(491)	(3)	125
British Columbia and Yukon, Canada					
Galore Creek	104,422	49,158	891	(4)	154,471
Copper Canyon	785	1,663	-		2,448
Brewery Creek	1,559	16	(1,575)	(2)	-
McQuesten	1,091	3	(1,094)	(2)	-
Other	96	-	(96)	(2)	-
	147,126	64,168	(1,997)		209,297

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

7. Mineral properties and related deferred costs (cont.)

a) Donlin Creek, Alaska

On July 14, 2001, the Company signed an agreement with Placer Dome U.S. Inc. ("Placer Dome") to acquire a 70% interest in the Donlin Creek gold deposit located in southwest Alaska. Under the terms of the agreement, the Company could earn a 70% interest in the project by expending at least US\$10 million over a 10-year period from the date of the agreement. On November 13, 2002, the Company completed the required expenditures and earned a 70% interest in the Donlin Creek gold deposit, and a joint venture between the Company and Placer Dome, under the Donlin Creek Mining Venture Agreement ("MVA") was effectively established as of that date. The MVA was signed in February 2004.

On February 10, 2003, Placer Dome elected to exercise an option to earn an additional 40% interest from the Company, for a total of 70%, in the Donlin Creek project by spending a total of US\$31.9 million on the property, completing a bankable feasibility study, and making a positive decision to construct a mine at Donlin Creek to produce not less than 600,000 ounces of gold per year, all before November 14, 2007. Under this option, Placer Dome may not earn any incremental interest in the project, above the 30% level, until, and unless, all of the above conditions are met before November 14, 2007. The Company is not required to contribute any additional funding until Placer Dome completes the US\$31.9 million expenditure, and the Company had the right to elect that Placer Dome fund additional expenditures beyond the US\$31.9 million, subject to accruing interest at prime rate plus 2% and granting a security interest on the property. All such funds would be repayable from 85% of the Company's net cash flows from Donlin Creek. Placer Dome is also required to assist the Company with third party financing with regards to the Company's share of construction costs.

On February 3, 2006 Barrick Gold Corp. ("Barrick") completed the acquisition of over 90% of the shares of Placer Dome Inc. The Company's rights and obligations under the joint venture are unchanged by this transaction. Subsequently, Placer Dome U.S. Inc. was renamed Barrick Gold U.S. Inc. ("Barrick U.S."). In May, 2006, Barrick U.S. provided notice that it had met the required minimum US\$31.9 million of expenditures effective March 31, 2006. After notice from Barrick U.S. of the remaining budget for 2006 beyond the US\$31.9 million, the Company elected to have Barrick U.S. fund the extra costs. The Company has recorded in other liabilities, \$33.6 million of exploration costs based on 70% ownership of the project and accrued interest from April 1, 2006 through November 30, 2006 (refer also to note 11, "Commitments and contingencies").

The project is subject to underlying surface and sub-surface leases. Under the sub-surface lease, the lessor, the Calista Corporation, has a net smelter royalty of 1.5%, increasing to 4.5% after the earlier

of payback or five years of production, subject to certain annual advance minimum royalties. Calista Corporation also has a one-time right to elect, within 90 days of delivery of a bankable feasibility study, to acquire a 5% to 15% participating interest in the project by reimbursing its elected share of capitalized costs spent on the project to that date by the Company and Barrick U.S.

b) Rock Creek, Alaska

As part of its acquisition of Alaska Gold Company ("Alaska Gold"), the Company acquired a 100% interest in patented mineral claims surrounding the City of Nome, Alaska. By agreement dated July 13, 1999 and superseded by agreement dated March 13, 2002, the Company increased its land position by entering into a five-year option with Golden Glacier Inc. to acquire its sublease with the Bering Straits Native Corporation. The agreement calls for annual property payments ranging from US\$0.02 million to US\$0.03 million and annual work commitments ranging from US\$0.05 million to US\$0.15 million. This land package contains two known areas of interest - Rock Creek and part of the Nome Gold project.

c) Galore Creek, British Columbia

On July 31, 2003, NovaGold Canada entered into an option agreement with QIT-Fer et Titane Inc. (a subsidiary of Rio Tinto plc), and Hudson Bay Mining and Smelting Co., Ltd (a subsidiary of Anglo American plc) to acquire the Galore Creek copper-gold-silver deposit located in northwestern British Columbia. Under the option, NovaGold Canada can acquire a 100% interest in the project by completing a pre-feasibility study, expending up to US\$0.2 million on remediation work on the property, and making payments to the parties totaling US\$20.3 million over an eight-year period. Payments of US\$7.8 million have been made and subsequent payments are due on or before October 26 of each year from 2007 to 2011 in the amounts of US\$2.5 million per year.

Effective October 1, 2003, NovaGold Canada entered into an agreement to acquire up to an 80% interest in the Copper Canyon gold-silver-copper property adjoining the Galore Creek project. NovaGold Canada has an option to acquire a 60% interest in the project by completing \$3 million in exploration expenditures over four years and issuing 296,296 shares of NovaGold of which 74,074 shares were issued on February 26, 2004 upon execution of the formal earn-in agreement and 74,074 shares are to be issued on each of the subsequent three anniversary dates. NovaGold Canada may earn an additional 20% interest in the project for a total of 80% by paying Eagle Plains Resources Ltd. ("Eagle Plains") \$1 million and completing a feasibility study on the project by no later than the eighth anniversary of the final earn-in agreement. NovaGold Canada, until it has completed its earn in, will be responsible for 100% of the payments to the underlying property owner. Under the underlying agreement the property owner is selling his interest for total payments of \$250,000 and cumulative

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

7. Mineral properties and related deferred costs (cont.)

exploration expenditures of \$500,000 to be made by May 30, 2008, subject only to retaining a 2% net smelter royalty after these payments are made. Once commercial production commences

NovaGold Canada has a right to purchase 50% of the net smelter royalty for \$1 million and an additional 25% of the net smelter royalty for a further \$1 million.

8. Asset retirement obligation

in thousands of Canadian dollars

	2006 \$	2005 \$
Current		
Murray Brook	80	80
Nome Gold	836	940
	916	1,020

in thousands of Canadian dollars

	2006 \$	2005 \$
Balance - Beginning of period	1,020	1,435
Additional reclamation provision	286	132
	1,306	1,567
Liabilities settled	(390)	(547)
Balance - End of period	916	1,020

a) Murray Brook

As at November 30, 2006, the Company had reclamation deposits with the Province of New Brunswick totalling \$105,000 (2005 - \$105,000). Management estimates that the remaining accrual of \$80,000 adequately provides for future reclamation costs of the site.

\$390,000 in expenditures in reclamation activities and accrued an additional provision of \$286,000. Due to the subjective nature of reclamation estimates actual reclamation costs could differ materially from these amounts.

b) Nome Gold

The Company recorded an initial provision of \$1.4 million for future reclamation of its land holdings in Nome, Alaska when it acquired Alaska Gold Company. In 2006 the Company incurred

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

9. Share capital

Authorized

1,000,000,000 common shares, no par value

10,000,000 preferred shares issuable in one or more series

in thousands of Canadian dollars

Issuance of common shares	2006		2005		2004	
	Number of shares (thousands)	Ascribed value \$	Number of shares (thousands)	Ascribed value \$	Number of shares (thousands)	Ascribed value \$
Balance, beginning of year	72,986	292,876	65,702	247,511	53,027	157,475
For cash pursuant to private placements ((a) below)	-	-	6,260	58,828	1,980	18,900
For cash and fair value pursuant to option agreements ((b) below)	918	6,543	950	2,164	1,300	2,718
For cash and fair value pursuant to warrant agreements ((c) below)	350	4,285	-	-	822	5,074
Acquisition of SpectrumGold Inc. (note 3)	-	-	-	-	8,573	63,344
Fair value allocated to warrants pursuant to property agreement	74	1,087	74	864	-	-
Future income taxes related to flow-through shares issued in 2004	-	-	-	(6,732)	-	-
Pursuant to public offering - net	14,950	188,482	-	-	-	-
Coast Mountain Power acquisition	2,512	44,374	-	-	-	-
Return to treasury regarding dissenting shares (note 5)	(225)	(3,989)	-	-	-	-
Balance, end of year	91,565	533,658	72,986	292,876	65,702	247,511
Shares held by a wholly-owned subsidiary eliminated on consolidation	9	-	9	-	9	-
Total issued and outstanding	91,574	533,658	72,995	292,876	65,711	247,511

a) Public and private placements

i) On February 8, 2006 the Company issued by way of a public offering 14,950,000 common shares at \$13.43 (US\$11.75) per common share for net proceeds of \$188.5 million after commissions and expenses of \$12.3 million.

ii) On July 7, 2005 the Company issued by way of private placement 6,260,000 special warrants at \$10.00 per special warrant for net proceeds of \$58.8 million. Each special warrant was converted on August 18, 2005 into one common share and one-half share purchase warrant. A total of 3,130,000 share purchase warrants were issued and each share purchase warrant entitles the holder to acquire one common share of the Company at a price of \$12.10 on or before January 7, 2008. At November 30, 2006, 3,129,200 of these warrants remain outstanding. The syndicate of underwriters received a 5% commission and 313,000 brokers' warrants

entitling the holders to acquire one common share of the Company at a price of \$11.00 on or before July 7, 2006. These brokers' warrants were exercised in full before their expiry date. The special warrants contained multiple equity components, consisting of common shares and share purchase warrants. When multiple equity components exist, the Company uses a pricing model to fair value the share purchase warrants. The share purchase warrants and brokers' warrants were recorded at the fair value of \$9,759,000 using the Black-Scholes model based on an average risk-free interest rate between 3.08%-3.14%, expected life between one and 2.5 years and an expected volatility of 56%. The remainder of the proceeds were applied to the common shares.

iii) On October 28, 2004, the Company issued by way of private placement 1,980,200 flow-through common shares at \$10.10 per flow-through common share for net proceeds of \$18,900,000.

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

9. Share capital (cont.)

Certain directors and employees of the Company purchased 79,600 flow-through common shares. In addition, 99,010 warrants were issued to the agents as part of this private placement.

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 grant of the option. 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 immediately for a 10-year period from the date of grant or may be exercisable 1/3 three months after commencement of employment, 1/3 at the first anniversary date and 1/3 at the second anniversary date for a 10-year period from the date of grant.

For the year ended November 30, 2006 the Company has recognized a stock-based compensation charge of \$7.8 million for options granted to directors, employees and non-employees in accordance with CICA 3870 of which \$3.6 million was capitalized into mineral properties and deferred costs and property, plant and equipment and \$4.2 million was charged into income.

For the year ended November 30, 2005 the Company has recognized a stock-based compensation charge of \$4.7 million for options granted to directors, employees and non-employees in accordance with CICA 3870 of which \$1.3 million was capitalized into mineral properties and deferred costs and \$3.4 million was charged into income.

For the year ended November 30, 2004 the Company has recognized a stock-based compensation charge of \$5.8 million for options granted to directors, employees and non-employees in accordance with CICA 3870 which the Company has applied prospectively to grants on or after December 1, 2003.

The fair value of options recognized in the consolidated statements of operations and deficit, have been estimated using an option pricing model. Assumptions used in the pricing model for each year are as provided below.

	2006	2005	2004
Risk-free interest rate	3.50% - 4.15%	2.94% - 3.50%	3.03% - 3.31%
Expected life	1.76 - 1.94 years	1.85 years	2.18 years
Expected volatility	42% - 50%	44% - 58%	81% - 85%
Expected dividends	Nil	Nil	Nil

A summary of the Company's stock option plan at November 30, 2006, 2005 and 2004, and changes during the years ended on those dates, is as follows.

	2006		2005		2004	
	Number of options (thousands)	Weighted average exercise price \$	Number of options (thousands)	Weighted average exercise price \$	Number of options (thousands)	Weighted average exercise price \$
Balance - Beginning of year	7,277	5.53	5,937	3.58	3,743	2.79
Granted	2,510	14.84	2,290	8.91	1,860	6.62
Assumed	-	-	-	-	1,634	1.01
Exercised	(918)	5.69	(950)	1.98	(1,300)	2.09
Forfeited	(31)	12.64	-	-	-	-
Balance - End of year	8,838	8.13	7,277	5.53	5,937	3.58

As part of the business acquisition of SpectrumGold Inc. (note 3) the Company assumed stock options in place of options previously granted by SpectrumGold. The Company issued 1,634,072 stock options at a grant price of \$1.0125.

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

9. Share capital (cont.)

The following table summarizes information about the stock options outstanding and exercisable at November 30, 2006.

Range of prices	Number of outstanding options (thousands)	Weighted average years to expiry	Weighted average exercise price \$	Number of exercisable options (thousands)	Weighted average exercise price \$
\$0.62 to \$0.99	500	4.22	0.74	500	0.74
\$1.00 to \$1.99	899	4.72	1.16	899	1.16
\$3.00 to \$3.99	920	6.17	3.49	920	3.49
\$4.00 to \$4.99	385	5.56	4.39	385	4.39
\$6.00 to \$6.99	1,538	7.29	6.60	1,538	6.60
\$7.00 to \$7.99	50	7.64	7.10	50	7.10
\$8.00 to \$8.99	1,650	8.13	8.86	1,467	8.86
\$9.00 to \$9.99	466	8.88	9.11	307	9.11
\$10.00 to \$10.99	120	9.05	10.16	39	10.16
\$13.00 to \$13.99	365	9.50	13.90	125	13.90
\$14.00 to \$14.99	1,385	9.28	14.06	1,155	14.06
\$16.00 to \$16.99	90	9.84	16.91	-	-
\$17.00 to \$17.99	50	9.92	17.75	-	-
\$18.00 to \$18.99	245	9.66	18.48	82	18.48
\$19.00 to \$19.99	175	9.77	19.75	38	19.75
	8,838	7.49	8.13	7,505	7.10

c) Share purchase warrants

A summary of the Company's share purchase warrants at November 30, 2006, 2005 and 2004, and the changes for the years then ended, is presented below.

	2006		2005		2004	
	Number of warrants (thousands)	Weighted average exercise price \$	Number of warrants (thousands)	Weighted average exercise price \$	Number of warrants (thousands)	Weighted average exercise price \$
Balance outstanding - Beginning of year	6,943	9.48	3,599	7.09	5,127	6.82
Granted	-	-	3,443	12.00	173	7.77
Exercised	(350)	10.59	-	-	(822)	6.17
Cancelled/expired	-	-	(99)	10.10	(879)	6.50
Balance outstanding - End of year	6,593	9.42	6,943	9.48	3,599	7.09

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

9. Share capital (cont.)

Share purchase warrants outstanding at November 30, 2006:

Prices	Warrants outstanding & exercisable (thousands)	Weighted average exercise price \$	Weighted average remaining contractual life (years)
\$7.00	3,463	7.00	1.84
\$12.10	3,130	12.10	1.10
	6,593	9.42	1.49

10. Loss per share

Basic loss per share is calculated on the loss available to common shareholders using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method.

Years ended November 30,

	2006 \$	2005 \$	2004 \$
Basic			
Loss available to common shareholders (000s)	(30,451)	(5,808)	(8,376)
Weighted average number of shares (thousands)	91,519	66,954	59,160
Basic loss per share	(0.33)	(0.09)	(0.14)

For the years ended November 30, 2006, 2005 and 2004, diluted loss per share is the same as basic loss per share as the exercise of potentially dilutive securities would be anti-dilutive.

11. Commitments and contingencies

in millions of Canadian dollars

	Operating Leases \$	Galore Creek \$	Rock Creek \$	Donlin Creek \$	Total \$
2007	0.5	30.8	4.6		35.9
2008	0.4				0.4
2009	0.4				0.4
2010	0.3				0.3
2011	0.3				0.3
Thereafter	1.1			33.6	34.7

a) 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 ranging from one to ten years. The future minimum lease payments as at November 30, 2006 are included in the chart above.

b) Purchase commitments

As at November 30, 2006, the Company had commitments outstanding in the amount of \$30.8 million for pre-construction activities related to tunnel and road infrastructure at the Company's Galore Creek project which started in the latter half of 2006. These goods and services are anticipated to be delivered and/or completed by the end of 2007. The Company also had a contract commitment in the amount of \$4.6 million for fuel supply to the Rock Creek project.

Subsequent to November 30, 2006 the Company awarded contracts for road, tunnel and support activities related to the Galore Creek project with minimum commitments of \$31.7 million and as of February 27, 2007 the Company has made payments of \$5.0 million under the above 2007 Galore Creek commitments entered before and after November 30, 2006.

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

11. Commitments and contingencies (cont.)

c) Legal actions

- i) During 1992, the Limited Partners of the Murray Brook Processing Limited Partnership commenced a legal action against the Company and Murray Brook Resources Inc. seeking \$882,000 plus interest and general damages. The Company filed a counterclaim for damages. The trial was concluded in April 2003 and the judge dismissed the action in November 2005. In December 2005 the plaintiffs appealed the judgement. The Company is of the opinion that this claim is without merit. The outcome of this claim is not determinable at this time and no provision has been recorded in the accounts of the Company.
- ii) On October 17, 2005 the Company's subsidiary NovaGold Canada Inc. was served with a writ of summons by Pioneer Metals Corporation ("Pioneer") related to NovaGold's option to earn a 60% interest in the Grace claims, located one kilometre from the northernmost extension of the Company's Galore Creek project, pursuant to an agreement between Pioneer and NovaGold dated March 26, 2004 (the "Option Agreement"). Pioneer is seeking to rescind the Option Agreement and to recover unspecified damages for purported misrepresentation and breach of fiduciary duty. Pioneer is alleging that NovaGold failed to incur the expenditures on the Grace claims required by the Option Agreement and that NovaGold breached other terms of the Option Agreement. The Company is of the opinion that it has met its obligations under the Option Agreement to date and is seeking a court order that the Option Agreement remains binding upon the parties.
- iii) In August 2006 NovaGold filed a lawsuit in the Supreme Court of British Columbia against Barrick Gold Corporation. The lawsuit claimed, among other things, that in making a competing bid for Pioneer, Barrick misused confidential information belonging to NovaGold. The lawsuit seeks a court order that any

shares of Pioneer purchased by Barrick under its bid are held under a constructive trust for the benefit of NovaGold. The outcome of this claim is not determinable at this time.

- iv) In August 2006 as amended in October 2006, the Company filed a lawsuit against Barrick and Barrick U.S. in the United States District Court for the District of Alaska. The lawsuit alleges in addition to certain U.S. Securities law claims, breach of contract by Barrick and Barrick U.S. under the Donlin Creek Mining Venture Agreement dated November 13, 2002 and breach of fiduciary duties owed by Barrick and Barrick U.S. to the Company as a joint venture partner.
- v) In October 2006 the former CEO of Coast Mountain commenced an action in the British Columbia Supreme Court against Coast Mountain Power Corp. seeking wrongful dismissal damages arising out of the termination of his employment. The amount of the claim has not been determined at this time (refer also to note 5, "Power generation and transmission").

d) Royalty agreements

The Company has royalty agreements on certain mineral properties entitling the vendors of the property to net smelter return royalties or net profits royalties, ranging from 3% to 7%, commencing if the properties enter commercial production (refer also to note 7, "Mineral properties and related deferred costs").

e) Donlin Creek

The Company is in dispute with Barrick on the percentage ownership of the Donlin Creek project. Each company believes it owns or will own 70% of the project and therefore, the expenditures of \$33.6 million, including accrued interest, recorded for the project in the Company's financial statements, may be overstated.

12. Related party transactions

a) Exploration services

During 2006 the Company provided exploration and management services totalling \$826,000 to Alexco Resource Corp. ("Alexco"), a related party having two common directors. At November 30, 2006 amounts receivable from Alexco total \$189,000 which is included in other receivables and has subsequently been collected. The transactions were in the normal course of business and are measured at the exchange amount, which is the amount agreed to by the parties.

b) Mineral property agreement

Effective July 31, 2004, the Company signed an option agreement with an officer of the Company for the Illinois Creek property located in

Alaska, USA. The Company has the option to acquire 100% of the property by making payments totalling US\$250,000 by April 30, 2009, expending US\$1.5 million on exploration on the property and making a further payment of US\$1 million within 30 days of completion of the payments and expenditures, subject to certain extensions. The officer retains a 2% net smelter royalty on the property a portion of which may be purchased by the Company on fixed terms. During the year, the Company paid the officer US\$30,000 under the agreement.

c) Sale of 650399 BC Ltd.

In 2005, the Company sold 650399 BC Ltd. ("BC Ltd."), which held the Company's Yukon and British Columbia assets other than the Galore Creek and adjacent properties. The purchaser is Alexco

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

12. Related party transactions (cont.)

Resource Corp. ("Alexco"), a newly formed company whose president is a director of NovaGold. The proceeds from the sale of BC Ltd. are shares in Alexco recorded at a fair value of \$2.75 million, plus a cash payment of \$600,000 equivalent to the cash existing in BC Ltd. at the time of the sale. The sale proceeds are equivalent to

the consolidated book value of the assets in BC Ltd. and thus there is no gain or loss on the sale. Although no agreement has been concluded, the Company intends to option back certain exploration rights to the Brewery Creek property from Alexco.

13. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

in thousands of Canadian dollars

	2006 \$	2005 \$
Combined federal and provincial statutory income tax rate	34.12%	35.00%
Income taxes at statutory rates	(10,940)	(2,943)
Difference in foreign tax rates	(298)	14
Valuation allowance	8,861	(961)
Non-deductible expenditures	1,475	1,434
Utilization of unrecorded benefits on prior years' losses	-	(145)
Effect of statutory tax rate change	(1,473)	-
Loss expiry	759	-
Others	3	-
Income tax recovery	(1,613)	(2,601)

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities at November 30, 2006 and 2005 are as follows:

in thousands of Canadian dollars

	2006 \$	2005 \$
Future income tax assets:		
Non-capital losses	44,802	33,989
Mineral property	4,444	5,622
Property, plant and equipment	3,342	1,577
Investment tax credits, net of taxes	-	2,089
Other deductible temporary differences	4,784	2,092
Total future income tax assets	57,372	45,369
Valuation allowance	(45,397)	(36,536)
Net future income tax assets	11,975	8,833
Future income tax liabilities:		
Mineral property	37,025	39,230
Power generation and transmission	18,617	-
Other taxable temporary differences	6,298	3,996
Future income tax liabilities	61,940	43,226
Net future income tax liabilities	49,965	34,393

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

13. Income taxes (cont.)

The Company has loss carry-forwards of approximately C\$55,826,000 and US\$58,236,000 that may be available for tax purposes. The losses are in the following countries and expire as follows:

in thousands of dollars

	Non-capital losses Canada C\$	Operating losses United States US\$
2007	11,379	1,483
2008	853	1,532
2009	3,307	7,283
2010	1,678	7,398
Thereafter	38,609	40,540
	55,826	58,236

Future utilization of these United States loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50 percent change in control over a three-year period, and are further dependent upon the Company attaining profitable operations.

An ownership change occurred on April 27, 1999, October 25, 2001, and November 30, 2004 regarding the losses incurred by Alaska Gold Company. In addition, NovaGold Resources Alaska Inc. incurred an ownership change under Section 382 on October 25, 2001, and November 30, 2004.

Therefore, approximately US\$50,300,000 of the United States losses above are subject to limitation under Section 382. Accordingly, the Company's ability to utilize these losses may be limited.

Due to the above net operating limitations and the uncertainty of future taxable income, a full valuation allowance has been set up against the United States future tax assets. For the year ended November 30, 2006, no provision for United States income taxes has been reflected on the statement of operations due to the full valuation allowance.

In addition, the Company has incurred cumulative Canadian resource expenditures of approximately \$94,994,000 (2005 - \$58,004,000) which may be carried forward indefinitely and used to reduce taxable income in future years. The Company has available temporary differences for tax purposes. The net amount which would give rise to a future income tax asset has not been recognized as realization is not considered more likely than not.

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

14. Segmented information

The Company's operating segments include the exploitation of the Company's land and gravel resources and the exploration and development of mineral resource properties. Segmented information for these operating segments has been prepared consistently with the Company's accounting policies described in note 2.

in thousands of Canadian dollars

	2006				2005				2004			
	Mineral properties \$	Sand and gravel operations \$	Other \$	Total \$	Mineral properties \$	Sand and gravel operations \$	Other \$	Total \$	Mineral properties \$	Sand and gravel operations \$	Other \$	Total \$
Revenue	-	1,692	-	1,692	-	2,172	-	2,172	-	2,420	42	2,462
Expenses	416	210	-	671	498	428	-	926	250	282	-	532
Segment (loss) earnings	416	1,482	-	1,021	(498)	1,744	-	1,246	(250)	2,138	42	1,930
Unallocated expenses				(38,083)				(8,564)				(11,595)
Interest income				6,611				1,510				1,289
Loss for the year				(30,451)				(5,808)				(8,376)
Segment assets	441,555	2,113	-	443,668	223,872	2,326	-	226,198	147,126	1,757	-	148,883
Unallocated corporate assets				121,756				43,976				61,616
Total assets				565,424				270,174				210,499
Capital expenditures	205,119	-	226	205,345	76,233	-	819	77,052	26,788	74	-	26,862

The Company's geographic segment information is as follows:

in thousands of Canadian dollars

	2006		2005		2004	
	Revenue \$	Land, gravel, equipment and mineral properties \$	Revenue \$	Land, gravel, equipment and mineral properties \$	Revenue \$	Land, gravel, equipment and mineral properties \$
United States	1,692	154,855	2,172	66,448	2,462	41,220
Canada	-	272,192	-	158,288	-	108,794
	1,692	427,047	2,172	224,736	2,462	150,014

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

15. Supplemental cash flow information

in thousands of Canadian dollars

	2006 \$	2005 \$	2004 \$
Stock-based compensation realized	1,321	285	-
Shares issued for option agreement	1,087	-	-
Shares issued for power generation and transmission rights acquisition	44,374		
Receipt of shares of TNR as part of the option on the Shotgun and Rock Creek mineral properties	-	9	222
Acquisition of SpectrumGold through issuance of shares and the assumption of stock options and share warrants (note 3)	-	-	64,111
Increase (decrease) in accounts payable and accrued liabilities related to mineral properties and property, plant and equipment	42,853	1,958	2,506
Interest received	6,227	1,415	1,289

16. Significant differences from United States accounting principles

Canadian generally accepted accounting principles ("Canadian GAAP") vary in certain significant respects from the principles and practices generally accepted in the United States ("U.S. GAAP"). The effect of the principal measurement differences on the Company's consolidated financial statements is quantified below and described in the accompanying notes:

in thousands of Canadian dollars, except for per share amounts
Years ended November 30,

	2006 \$	2005 \$	2004 \$
Loss for the year reported under Canadian GAAP	(30,451)	(5,808)	(8,376)
Add (deduct)			
Capitalized interest (g)	711	-	-
Exploration and development costs (a)	(138,451)	(64,936)	(25,838)
Equity investment (f)	(1,787)	372	-
Flow-through shares (e)	-	(4,228)	-
Gain on shares issued by subsidiary (c)	(477)	-	-
	(170,455)	(74,600)	(34,214)
Income tax recovery	8,102	22,160	-
Loss for the year under U.S. GAAP	(162,353)	(52,440)	(34,214)
Loss for the year before comprehensive income adjustment	(162,353)	(52,440)	(34,214)
Unrealized gain on available for sale securities (b)	10,298	19,790	353
Comprehensive loss under U.S. GAAP	(152,055)	(32,650)	(33,861)
Net loss per common share - U.S. GAAP			
Basic and diluted	(1.66)	(0.49)	(0.57)
Accumulated other comprehensive income			
Opening balance	20,483	693	340
Unrealized gain on available for sale securities (b)	10,298	19,790	353
Closing balance	30,781	20,483	693

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

16. Significant differences from United States accounting principles (cont.) in thousands of Canadian dollars

Years ended November 30,

	2006 \$	2005 \$	2004 \$
Shareholders' equity reported under Canadian GAAP	441,439	225,234	171,510
Cumulative adjustments to shareholders' equity			
Add (deduct)			
Capitalized interest (g)	711	-	-
Exploration and development costs (a)	(265,555)	(127,104)	(62,168)
Equity investment (f)	(1,892)	372	-
Flow-through shares (e)	-	-	(2,496)
Unrealized gain on available for sale securities (b)	30,781	20,483	693
Future income taxes	27,766	22,160	-
Shareholders' equity under U.S. GAAP	233,250	141,145	107,539
Total assets reported under Canadian GAAP	565,424	270,174	210,499
Add (deduct)			
Capitalized interest (g)	711	-	-
Exploration and development costs (a)	(267,071)	(127,104)	(62,168)
Equity investment (f)	(1,892)	372	-
Unrealized gain on available for sale securities (b)	30,781	20,483	693
Total assets under U.S. GAAP	327,953	163,925	149,024
Total liabilities reported under Canadian GAAP	123,985	44,940	38,989
Add (deduct)			
Future income taxes	(29,282)	(22,160)	2,496
Total liabilities under U.S. GAAP	94,703	22,780	41,485

	2006 \$	2005 \$	2004 \$
Cash flows used in operating activities under Canadian GAAP	(3,125)	(5,996)	(3,152)
Exploration and development costs (a)	(138,451)	(64,936)	(25,838)
Equity investment (f)	1,787	(372)	-
Gain on shares issued by subsidiary (c)	477	-	-
Cash flows used in operating activities under U.S. GAAP	(139,312)	(71,304)	(28,990)
Cash flows used in investing activities under Canadian GAAP	(119,931)	(77,537)	(26,378)
Exploration and development costs (a)	90,370	64,936	25,838
Cash flows used in investing activities under U.S. GAAP	(29,561)	(12,601)	(540)

Notes to Consolidated Financial Statements

For the years ended November 30, 2006, 2005 and 2004

16. Significant differences from United States accounting principles (*cont.*)

a) Exploration and development costs

For U.S. GAAP purposes, the Company expenses, as incurred, the exploration and development costs relating to unproven mineral properties. When proven and probable reserves are determined for a property and a feasibility study prepared, then subsequent exploration and development costs of the property would be capitalized.

b) Trading and available for sale securities

Under U.S. GAAP, the Company's securities are considered to be either trading securities or available for sale securities. Trading securities are recorded at fair value with unrealized gains or losses included in earnings or loss for the year. Available for sale securities are recorded at fair value and unrealized gains or losses are included as part of comprehensive income. Under Canadian GAAP, there is no adjustment made for unrealized gains.

c) Gain on shares issued by subsidiary

Under U.S. GAAP, changes in the parent company's proportionate share of subsidiary equity resulting from the additional equity raised by a subsidiary in the development stage are accounted for as an equity transaction on consolidation. Under Canadian GAAP, these gains have been credited to income.

d) Comprehensive income

In addition to net income, comprehensive income includes all changes in equity during a period such as the cumulative unrecognized changes in fair value of securities that are available for sale.

e) Flow-through shares

As described in note 9 to the consolidated financial statements, the Company issued by way of private placement 1,980,200 flow-through common shares at \$10.10 per share. The Company received a net premium to market on this issuance of \$2,496,000 which was recorded in share capital as part of the transaction. For U.S. GAAP purposes, SFAS 109, "Accounting for Income Taxes" (SFAS 109), the proceeds should be allocated between the offering of the shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A future income tax liability is recognized for the premium paid by the investors.

Upon renouncing the income tax deductions in 2005, the Company recorded a future income tax liability with a corresponding reduction in share capital under Canadian GAAP. For U.S. GAAP purposes the difference between the future income tax liability on renunciation and the premium is recorded as a future income tax expense.

f) Sale of mineral properties in exchange for shares

In 2005, the Company sold its Yukon mineral properties in exchange for common shares (see note 12(c)). Under U.S. GAAP, the Company records this investment at nil and does not record its proportionate share of net losses until the investment company records a profit.

During 2006, the Company purchased additional shares of Alexco Resource Corp. and recorded its proportionate share of cumulative net losses totalling \$1.4 million based on U.S. GAAP adjusted financial statements.

g) Capitalized interest

Under U.S. GAAP, interest costs are capitalized for all assets that are under development. Under Canadian GAAP, interest is capitalized only on project specific debt. The Company had expensed \$0.7 million of accrued interest related to the Donlin Creek expenditures for Canadian GAAP purposes.

h) Adoption of new accounting policy

On December 1, 2006 the Company adopted FASB Statement No. 123R, "Share-Based Payment" (FAS 123(R)). Previously, the Company accounted for stock-based compensation using the fair value method under the provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Generally, the approach in SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. FAS 123(R) was adopted using the modified prospective method without restatement of prior periods. As the Company had previously applied the fair value method of accounting for stock-based compensation, the adoption of FAS 123(R) did not have a significant impact on the Company's consolidated financial statements.

i) Recent accounting pronouncements

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Tax Positions, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 addresses the recognition and measurement of all tax positions. The recognition process involves determining whether it is more likely than not that a tax position would be sustained on audit based solely on its technical merits. The amount of benefit recognized in the financial statements is the maximum amount which is more likely than not to be realized based on a cumulative probability approach. FIN 48 is effective for the Company on December 1, 2007. The Company is still in the process of determining the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued FAS Statement No. 157, "Fair Value Measurements" (FAS 157). FAS 157 provides guidance on how to use fair values to measure assets and liabilities and applies whenever other standards require or permit assets or liabilities to be measured at fair value. Expanded disclosures about the use of fair value to measure assets and liabilities are also required. FAS 157 is effective for the Company on December 1, 2007 and is applied on a prospective basis. The Company is currently assessing the impact of FAS 157 on its consolidated financial statements.

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For the years ended November 30, 2006, 2005 and 2004

16. Significant differences from United States accounting principles *(cont.)*

In September 2006, the FASB issued FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities". The FSP permits companies to account for planned major maintenance activities using either the direct expensing method, the built-in overhaul

method or the deferral method. The FSP will be effective for the Company December 1, 2007 and is to be adopted on a retrospective basis. The Company is currently assessing the alternative accounting treatments available under the FSP.

17. Subsequent events

On December 21, 2006 the Company invested \$5.0 million in Alexco Resource Corp. ("Alexco") to purchase 1,048,500 Units at a price of \$4.75 per Unit as part of an Alexco financing to maintain the Company's pro-rata ownership of Alexco. Each Unit consists of one

common share and one half of one common share purchase warrant. Each whole warrant will entitle NovaGold to acquire one additional common share of Alexco at a price of \$5.75 per share for a period of 36 months.