

NovaGold Resources Inc.
Financial Report for the
Year Ended November 30, 2007

President's Message

In 2007, NovaGold witnessed a year where many of the corporation's core strengths — exploration, forming strong relationships with communities and regulators, and entrepreneurial deal making — delivered success. During the year, we successfully:

- Delivered all the authorizations required to commence construction on schedule at our Galore Creek project.
- Negotiated a favorable partnership with Teck Cominco to advance Galore Creek into construction.
- Fielded a strong team to commence construction of the access roads, bridges and tunnel at Galore Creek.
- Concluded a partnership with the BC Government to construct a large transmission line to service Galore Creek and provide a long-term power solution for the communities of northwestern BC.
- Settled the ownership dispute with Barrick at Donlin Creek, resulting in the formation of a productive 50-50 partnership to advance the largest undeveloped gold resource in North America towards production.
- Advanced the Rock Creek project despite numerous delays resulting from a legal challenge to the agencies issuing our permits.
- Raised financing to support all of these activities, despite challenging market conditions.
- Attracted several experienced professionals to the core NovaGold management team to add depth and talent to support our future growth.

Unfortunately, these successes were largely overshadowed in late 2007 when the Galore Creek partnership received updated capital estimates at the conclusion of basic engineering. The magnitude of the increase in projected costs resulted in a decision to suspend construction and to re-engineer an alternate development strategy that would result in lower capital costs and, if possible, a shorter construction timeline. This increase in forecast costs came as a surprise to both Teck Cominco and NovaGold and clearly shook the confidence of many of our investors, resulting in a severe decline in our market price at year end. Although the decision to suspend construction efforts at Galore Creek was difficult to make, we are confident that value ultimately will be realized for the project under a new development plan.

In 2008, our task is clear. We must work diligently to demonstrate the value of our outstanding portfolio of assets. This will be done first by focusing our resources, in partnership with Barrick, on optimizing and advancing the enormous Donlin Creek gold project. At Donlin Creek we are pleased to have a stable and strategically aligned 50-50 partnership that is committed to advancing the project through feasibility and permitting and toward production. Advancing Donlin Creek is a top priority, as this project truly stands out among other development-stage gold projects worldwide, and will be a key catalyst to drive shareholder value in the year ahead.

Beyond Donlin Creek, each of our projects has significant milestones ahead with the potential to add further value for NovaGold's shareholders: achieving commercial production at our Rock Creek mine; defining a new path forward to develop Galore Creek; advancing our world-class polymetallic Ambler project by carrying out exploration and engineering; and optimizing our Forrest Kerr run-of-river hydroelectric project.

I would like to thank our Board of Directors, employees, partners and local communities for their support throughout the year, and look forward to demonstrating that we remain focused on building shareholder value with integrity, professionalism and an entrepreneurial spirit.

[signed: RICK VAN NIEUWENHUYSE]
Rick Van Nieuwenhuysse
President and Chief Executive Officer
February 28, 2008

Management's Discussion and Analysis

General

This Management's Discussion and Analysis of NovaGold Resources Inc. ("NovaGold" or the "Company") is dated February 28, 2008 and provides an analysis of NovaGold's financial results for the year ended November 30, 2007 compared to the previous year. As at February 28, 2008, the Company has 105 million common shares issued and outstanding.

The following information should be read in conjunction with the Company's November 2007 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.

The Company is listed on the Toronto Stock Exchange and the American Stock Exchange under the symbol "NG".

Description of business

NovaGold is a natural resource company engaged in the exploration and development of gold and copper properties in North America. The Company has a portfolio of exploration properties located in Alaska and British Columbia. The Company is also advancing its projects from exploration and development stage to construction. Construction of the Rock Creek mine, located in Nome, Alaska, continued through 2007 and is anticipated to be completed in mid-2008. Construction of the Galore Creek project was suspended at the end of 2007 as a result of cost increases, as more fully described below.

Three of the Company's projects are being advanced with major mining companies. The Donlin Creek project is held by a newly created limited liability company which is owned equally by NovaGold and Barrick Gold Corporation ("Barrick"). The Galore Creek project is held by a partnership which is owned equally by NovaGold and Teck Cominco Limited ("Teck Cominco"). The Ambler project is an option agreement to acquire a joint venture interest with subsidiaries of Rio Tinto plc.

Donlin Creek

Donlin Creek is an advanced stage exploration project and is one of the largest known undeveloped gold deposits in the world with measured and indicated resources of 372 million tonnes containing 29.4 million ounces of gold and additional inferred resources of 47 million tonnes containing 3.5 million ounces of gold. Located in Southwestern Alaska, the property is under lease from Calista Corporation and The Kuskokwim Corporation, two Alaska Native corporations. The Calista lease is in effect until 2015 and so long thereafter as mining operations are carried out at the Donlin Creek property. As owner of the subsurface rights of the property Calista has a right, within 90 days of issuance of a bankable feasibility study on the Donlin Creek project, to elect to acquire between a 5% and 15% participating operating interest in the project covered by the feasibility study by delivering a notice of election and payment for the pro rata share of the project capitalized costs incurred on the project to that date. The surface use agreement with The Kuskokwim Corporation gives the Company the right to explore for and develop valuable minerals found pursuant to the Calista lease. The surface use agreement requires the payment of an annual use fee of US\$10,000 and an annual exclusive use fee, based on 10% of the fair market value of the exclusive use area, for any areas designated as exclusive use areas.

On December 1, 2007, the Company entered into an agreement with Barrick that provided for the conversion of the Donlin Creek joint venture into a new limited liability company, the Donlin Creek LLC, jointly owned by NovaGold and Barrick on a 50/50 basis. As part of the Donlin Creek LLC, the Company has agreed to reimburse Barrick over time for approximately US\$64.8 million, representing 50 percent of Barrick's approximately US\$129.6 million of expenditures at the Donlin Creek project from April 1, 2006 to November 30, 2007. The Company's reimbursement will be made by paying the next approximately US\$12.7 million of Barrick's share of project development costs, and the remaining approximately US\$52.1 million will bear interest and be paid out of future mine production cash flow. The Company is currently evaluating the accounting for this agreement in its financial statements and will report on this in its consolidated financial statements for the quarter ending February 29, 2008.

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

The Rock Creek property is located 8 miles north of Nome, Alaska. The Rock Creek property contains a probable reserve of 7.8 million tonnes containing 320,000 ounces of gold and an additional 170,000 ounces of indicated gold resources and 70,000 ounces of inferred gold resources. 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. In 2006 the Company received the necessary permits

and Board of Directors approval to develop Rock Creek and Big Hurrah. 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. Construction activities commenced in August 2006 and production was targeted for late 2007. Permit challenges, resource constraints, unforeseen issues with equipment and severe weather conditions, and other factors have delayed production start up on the project. Gold production is now targeted for mid-2008. Costs are also escalating due to the longer construction timeline. The total capital cost estimate in the feasibility study was approximately US\$158 million but given the current status of construction, the Company expects capital costs to exceed this amount.

At November 30, 2007, no provision has been made against the carrying value of the project as the Company believes that the project retains fair value in excess of its carrying value based on consensus gold price estimates. If consensus gold prices fluctuate downward significantly, the Rock Creek project may be impaired. There also can be no assurances that the Company's view will result in a commercially viable project or that a future material impairment writedown will not be required.

Big Hurrah

The Big Hurrah property is located 40 miles east of Nome, Alaska on the existing road system. The Big Hurrah property contains probable reserves of 1.2 million tonnes containing 190,000 ounces of gold, with an additional 80,000 ounces of indicated gold resources and 10,000 ounces of inferred gold resources. The Company plans to mine and truck material from Big Hurrah to the milling facility located at Rock Creek, using the higher grade material from Big Hurrah to supplement the Rock Creek deposit as a seasonal operation during the summer months. While the current mine plan includes commencing mining at Big Hurrah in 2008, the Company may delay mining Big Hurrah until 2009 should this be considered more optimal.

Nome Gold

The Nome Gold property is located 3 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 using modern mining and milling techniques.

Galore Creek

Galore Creek, which is held through a partnership with Teck Cominco, is a copper-gold-silver deposit located in Northwestern British Columbia with measured and indicated resources estimated at 786 million tonnes containing 8.9 billion pounds of copper, 7.3 million ounces of gold and 123 million ounces of silver. Inferred resources, including 60% of the Copper Canyon project, total 457 million tonnes containing 3.6 billion pounds of copper, 3.8 million ounces of gold and 65 million ounces of silver. The Galore Creek property consists of the Southwest, Central, Junction and West Fork deposits and the Copper Canyon property is immediately east of the main Galore Creek property.

The resource estimate for the project was updated on January 25, 2008 to reclassify proven and probable reserves obtained from the October 2006 Galore Creek Feasibility Study, compiled by Hatch Ltd., as measured and indicated resources and to update the inferred resource estimate.

On August 1, 2007, the Company formed a partnership with Teck Cominco with respect to constructing a mine at the Galore Creek project. Each of NovaGold and Teck Cominco have a 50% interest in the project. The activities of the Galore Creek partnership are being conducted by the Galore Creek Mining Corporation ("GCMC"). The necessary permits were received during 2007 for major construction activities. An independent engineering firm was engaged during the year to review the October 2006 feasibility study and commence project engineering. Their preliminary work indicated expected capital cost increases would be significantly higher than originally estimated, as well as an extended construction timeline.

In November 2007, based on a higher capital cost estimate and reduced expected operating margins as a result of the stronger Canadian dollar, the project as originally conceived and permitted was considered to be uneconomic at then consensus long-term metal prices. Although there have been changes in scope from the original feasibility study, the largest portion of the capital cost increase was related to the complex sequencing of activities necessary to build the tailings dam and water management structures, and the expected extension of the construction schedule by 18 to 24 months. The project had also been affected by the rapidly escalating capital costs affecting major construction projects world-wide. In light of these developments, NovaGold and Teck Cominco reached a decision on November 26, 2007 to suspend construction and amend the terms of Teck Cominco's earn-in obligations in connection with the project. Under the amended arrangements, Teck Cominco's total minimum committed investment in the partnership would be \$403 million, including \$72 million to be invested in the partnership over the next five years principally to reassess the project and evaluate alternative development strategies. Teck Cominco's funding of project costs at November 30, 2007 totalled \$264 million. Excluding costs covered by Teck Cominco's \$72 million above, NovaGold and Teck Cominco agreed to share the next \$100 million of project costs 33% and 67%, respectively, and as the project moves to care and maintenance will share costs equally thereafter.

The Company's future obligations as a result of the suspension are to complete the construction demobilization and place the site on care and maintenance. The demobilization costs, which are intended to put the site in a condition that will enable the partners to restart the project at a later date, are estimated to be approximately \$93 million and have been accrued and expensed in the period. These costs are based on

preliminary plans that could change materially as more information becomes available. In addition, the project is located in an area that is subject to severe weather conditions that can affect the nature, extent and timing of work. Accordingly, the actual project suspension costs could vary materially from our estimates.

At November 30, 2007, no provision has been made against the carrying value of the project as the Company believes that the project retains fair value in excess of its carrying value based on an analysis performed by the Company at various capital expenditure levels, long-term metal prices and foreign exchange rates. However, there can be no assurances that the Company's view will result in a commercially viable project or that a future material impairment writedown will not be required.

Ambler

Ambler is an early stage exploration project located in Northern Alaska, approximately 135 miles east of Kotzebue and 20 miles north of the village of Kobuk. NovaGold has an option to acquire a joint venture 51% interest through an agreement with subsidiaries of Rio Tinto plc, in this large, high-grade polymetallic massive sulphide deposit with an indicated resource of 16.8 million tonnes grading 4.1% copper, 6.0% zinc, 0.9% lead, 0.8 g/t gold and 59.6 g/t silver containing 1.5 billion pounds of copper, 2.2 billion pounds of zinc, 350.3 million pounds of lead, 450,000 ounces of gold and 32.3 million ounces of silver. The project has an additional 11.9 million tonnes of inferred resources grading 3.6% copper, 5.0% zinc, 0.8% lead, 0.7 g/t gold and 48.4 g/t silver containing 0.9 billion pounds of copper, 1.3 billion pounds of zinc, 0.2 billion pounds of lead, 260,000 ounces of gold and 18.6 million ounces of silver. In order to earn a 51% interest, the Company must expend US\$20 million on the property, obtain memoranda of understanding with certain land owners in the region and complete a defined pre-feasibility study. The Company is manager of the project through to completion of a feasibility study, and the subsidiaries have a one-time option after completion of a feasibility study to acquire, by making a payment to the Company based on net present value, an additional 2% interest in the project and assume management of construction and operation of the mine.

Other properties

NovaGold holds a portfolio of earlier stage exploration projects in British Columbia and Alaska 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

For the year ended November 30, 2007, the Company reported a loss of \$44.8 million (or \$0.45 per share) compared to a loss of \$30.5 million (or \$0.33 per share) for the corresponding period in 2006. On November 26, 2007, the Company announced the suspension of construction at the Galore Creek project. The Company consolidates the results from the Galore Creek partnership and recorded total costs related to the suspension of approximately \$93.1 million, of which \$46.6 million is allocated on an equity basis to the Company's 50% partner Teck Cominco, leading to a net expense to the Company of \$46.6 million before tax. Under the agreement with Teck Cominco, Teck Cominco is required to pay 67% of the \$93.1 million. In 2006 the Company incurred \$21 million of costs related to defending an unsolicited bid for the Company that was ultimately rejected by shareholders holding 86% of the Company's shares.

Income from the Company's land and gravel sales, gold royalties and other revenues were \$1.1 million during the year ended November 30, 2007 compared with \$1.7 million in 2006. The main reduction in sales was caused by a focus of efforts of the team in Nome, Alaska to the Rock Creek mine construction. Interest income decreased to \$6.0 million for the year ended November 30, 2007 compared with \$6.6 million in 2006, due to lower average cash balances.

Expenses for the year ended November 30, 2007 were \$118.5 million compared to \$40.3 million in 2006, including \$2.0 million and \$4.2 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, professional fees, and foreign exchange losses have decreased to \$23.4 million in 2007 compared with \$36.1 million in 2006. Expenses in 2006 were higher due to professional fees of approximately \$17.5 million incurred responding to an unsolicited bid for the Company. Offsetting the decrease is a \$2.8 million increase in foreign exchange losses resulting primarily from the effect of the strengthening of the Canadian dollar on the difference between the Company's US dollar cash balances and its US dollar liabilities. On November 26, 2007, the Company and Teck Cominco announced the suspension of construction activities at the Galore Creek project due to substantially higher capital costs and a longer construction schedule for the project than previously estimated. For the year ended November 30, 2007, the Company has recorded \$93.1 million for the associated demobilization costs. The demobilization cost has been reduced by Teck Cominco's 50% partnership interest, for a net cost of \$46.6 million before tax.

Other items of significance include the sale of the Company's investment in Pioneer Metals Corporation ("Pioneer") and the equity losses and dilution gains associated with the Company's investment in Alexco Resource Corp. ("Alexco"). On March 14, 2007, the Company sold its entire holdings of Pioneer at \$1.00 per share for \$5.9 million and recorded a gain of \$4.2 million on the sale. The Company equity accounts for its strategic investment in Alexco as it has significant influence over Alexco. For the year ended November 30, 2007, the Company recorded a net loss of \$0.5 million from the net of its share of Alexco's net loss and the gain on dilution of its ownership in Alexco, compared to a net gain of \$0.1 million for the same period in 2006.

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, 2007, 2006 and 2005, in \$000's except per share amounts:

| | 2007 \$ | 2006 \$ | 2005 \$ |
|--|------------|------------|------------|
| Net revenues | 6,911 | 8,093 | 3,254 |
| Expenses and other items | (118,533) | (40,277) | (11,291) |
| Loss for the year | (44,766) | (30,451) | (5,808) |
| Loss per share – basic and diluted | (0.45) | (0.33) | (0.09) |
| Expenditures on mineral properties and related deferred costs ⁽¹⁾ | | | |
| USA | 57,882 | 48,444 | 13,205 |
| Canada | 44,965 | 36,455 | 48,966 |
| Total assets | 1,170,240 | 565,424 | 270,378 |
| Total long term financial liabilities | (139,131) | (34,039) | (455) |

Quarterly information

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

| | 11/30/07 \$ | 8/31/07 \$ | 5/31/07 \$ | 2/28/07 \$ | 11/30/06 \$ | 8/31/06 \$ | 5/31/06 \$ | 2/28/06 \$ |
|--|----------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| Net revenues | 1,730 | 2,173 | 1,946 | 1,062 | 2,080 | 2,391 | 2,213 | 1,409 |
| Income (loss) for the quarter | (32,534) | (4,159) | (3,212) | (4,861) | (19,346) | (2,578) | (8,629) | 102 |
| Loss per share – basic and diluted | (0.31) | (0.04) | (0.03) | (0.05) | (0.20) | (0.03) | (0.10) | 0.00 |
| Expenditures on mineral properties and related deferred costs ⁽¹⁾ | | | | | | | | |
| USA | (13,423) | 27,203 | 25,969 | 18,133 | 16,088 | 27,461 | 3,254 | 1,641 |
| Canada | 13,183 | 25,981 | 2,156 | 3,645 | 18,081 | 11,501 | 1,599 | 5,274 |

⁽¹⁾ Expenditures on mineral properties and related deferred costs include fair value adjustments and stock-based compensation, net of recoveries, tax credits and adjustments, writedowns, disposals, option payments received and changes in ownership interest of mineral property title.

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 quarter ended November 30, 2007, the Company had net recoveries of \$0.2 million on mineral properties and related deferred costs. Of this amount, \$13.0 million related to spending at the Galore Creek project located in Northwestern British Columbia and \$2.3 million related to spending at the Rock Creek project located in Nome, Alaska. Offsetting the expenditures is an \$18.0 million reduction in expenditures related to the Donlin Creek project representing the change in ownership percentage from 70% to 50% resulting from a new agreement with Barrick.

Factors that can cause fluctuations in the Company's quarterly results are the timing of stock option grants and one-time events, such as the suspension of the Galore Creek project. The Company's properties are not yet in production, consequently the Company believes that its loss (and consequent loss per share) is not a primary concern to investors in the Company.

Liquidity and capital resources

At November 30, 2007, the Company held \$97.9 million in cash and cash equivalents. During the year, the Company completed an equity offering for net proceeds of \$217.2 million after commissions and expenses of \$12.0 million. Also during the year, the Company generated proceeds from the sale of Pioneer shares of \$5.9 million. From the date of formation of the Galore Creek partnership on August 1, 2007 to November 30, 2007, Teck Cominco funded \$264.3 million into the partnership of which \$82.8 million remained in cash and cash equivalents at November 30, 2007. Certain of these funds are expected to be used for suspension activities.

The Company expended \$60.3 million on net operating activities during the year ended November 30, 2007 compared with \$3.1 million in 2006. Major changes in non-cash working capital during the year were a net \$13.3 million decrease in accounts payable, primarily due to the fact that \$11.5 million of takeover defense costs were accrued at November 30, 2006 with no corresponding amount at November 30, 2007; increases in deposits and other receivables of approximately \$14.0 million related primarily to \$10.1 million of GST amounts recoverable on construction activities at Galore Creek; and an \$8.9 million increase in supplies inventory at the Company's Rock Creek mine project. Also included in 2007 was \$93.1 million of suspension costs to be paid over 2008, of which \$31.0 million will be paid by the Company.

During the year ended November 30, 2007, the Company generated \$487.8 million in cash flows from financing activities compared with \$196.3 million in 2006. Of this amount, \$217.2 million, net of commission and expenses of \$12 million, resulted from the issuance of 12.5 million shares at \$18.33 (US\$16.25) per share under a public offering that closed in April 2007, \$6.3 million arose from stock option and warrant exercises and \$264.3 million from Teck Cominco's funding of the Galore Creek project. The net proceeds from financing activities of \$196.3 million in 2006 arose primarily from a public offering of 14.95 million common shares at \$14.43 (US\$11.75) per common share in February 2006.

The Company expended \$436.1 million on investing activities during 2007 compared with \$119.9 million during 2006. The majority of the Company's investing activity during the year related to construction activities at the Rock Creek mine (approximately \$78 million) and the Galore Creek project (approximately \$239 million). The Company expended \$48.7 million in 2007 on mineral properties and deferred costs compared with \$50.3 million in 2006. The majority of the 2007 and 2006 mineral property expenditures occurred at the Galore Creek and Rock Creek projects.

The Company has no material off-balance sheet arrangement and no material capital lease agreements.

At November 30, 2007, the Company's aggregate commitments for operating leases totaled \$6.8 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, 2007 in the amount of US\$3.0 million related to Rock Creek construction. The initial minimum requirements under these contracts are anticipated to be completed by the first quarter of 2008. Of the US\$64.8 million owed to Barrick, US\$52.1 million is payable from cash flows from Donlin Creek and will be due in more than five years based on the expected production timeline.

The future minimum payments at November 30, 2007 are approximately as follows:

in thousands of Canadian dollars

| | Operating Leases \$ | Rock Creek \$ | Donlin Creek \$ | Total \$ |
|------------|---------------------------|---------------------|-----------------------|-------------|
| 2008 | 0.9 | 3.0 | | 3.9 |
| 2009 | 0.8 | - | - | 0.8 |
| 2010 | 0.6 | - | - | 0.6 |
| 2011 | 0.7 | - | - | 0.7 |
| 2012 | 0.6 | - | - | 0.6 |
| Thereafter | 3.2 | - | 64.8 | 68.0 |

The Company has no significant financial or other instruments except that its cash balances are largely invested in bank and non-asset backed commercial paper all with the two highest-possible investment ratings and with terms of 90 days or less that can be easily liquidated.

Outlook

At November 30, 2007, the Company had cash and cash equivalents of \$97.9 million. Of this amount \$82.8 million was designated for Galore Creek activities, including payment of existing payables, but a portion is expected to be used for payment of suspension costs. Subsequent to November 30, 2007, the Company received \$19 million from the proceeds of the sale of its shares in US Gold Corp, received \$8.3 million from the release of funds securing certain bonds, obtained a revolving line of credit of \$30 million maturing July 30, 2008 and expects the release of \$4.6 million of funds securing a letter of credit for contracts already settled. Based on current estimates and gold prices, the Rock Creek mine should generate over \$25 million of cash flow during 2008. Approximately 3.5 million warrants to purchase shares at \$7.00 per share expire on October 1, 2008; if exercised these would generate net proceeds of \$24 million to the Company.

The Company has budgeted to spend approximately \$30 million on Rock Creek construction in fiscal 2008 and an additional \$7 million on exploration costs to identify additional resources for the mine. The Company has budgeted to spend approximately \$25 million on Donlin Creek to May 31, 2008 for engineering and environmental studies, particularly related to power alternatives and optimization, and on exploration activities with the focus to expand the existing resource base. The Donlin Creek LLC expects to approve a second budget for the remainder of 2008, the amount of which has yet to be fixed.

At Galore Creek, the Company's efforts in 2008 are focused on demobilization of the project and then to place it on a care and maintenance basis that will enable the project to restart at a later date. A demobilization budget has yet to be approved but \$93 million has been included for estimated suspension costs of which 33%, or \$31 million, will be borne by NovaGold. NovaGold and Teck Cominco are re-evaluating options to determine whether Galore Creek can become a viable, operating mine with a long, profitable life. On-going care and maintenance costs, which will be required to monitor the site and infrastructure until a decision is made to proceed with or abandon the project, are currently estimated at \$10 to \$20 million for 2008 of which 50% is expected to be borne by NovaGold and will be expensed as incurred. The decision to restart construction may not occur for several years. If the project does not proceed, the Galore Creek partnership may have to reclaim and restore any disturbed land and these costs could be material.

The Company will need external financing to develop and construct its major properties and to fund the exploration and development of its other mineral properties. Sources of external financing may include bank borrowings and future debt and equity offerings. There can be no assurance that financing will be available on acceptable terms, or at all. The failure to obtain financing could have a material adverse effect on the Company's growth strategy and or results of operations and financial condition. The mineral properties that the Company is likely to develop are expected to require significant capital expenditures. There can be no assurance that the Company will be able to secure the financing necessary to retain its rights to, or to begin or sustain production at, its mineral properties.

At February 28, 2008, NovaGold had \$33 million of unrestricted cash and available lines of credit.

Related party transactions

On December 21, 2006, Alexco Resource Corp. ("Alexco"), a related party having two common directors, completed a financing wherein the Company purchased 1,048,500 Units on a non-brokered basis to maintain its pro-rata ownership of Alexco, which the Company considers a strategic investment. Each Unit was purchased at a price of \$4.75 and consists of one common share and one half of one transferable common share purchase warrant that entitles the Company to acquire one additional common share per whole warrant at a price of \$5.75 per share for a period of 36 months. The Company's ownership in Alexco at February 28, 2008 is approximately 17.8%.

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. During the year, the Company paid the officer nil (2006: US\$30,000) under the agreement.

Critical accounting estimates

The most critical accounting estimates upon which the Company's financial status depends are those requiring estimates of the recoverability of its capitalized mineral property expenditures and intangible assets, the amount of project supervision costs and the amount of future reclamation obligations.

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.

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 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 programs.

Intangible assets

Management of the Company reviews and evaluates the carrying value of each intangible asset 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 an intangible asset is impaired, it is written down to its estimated fair value.

Project suspension costs

The Company's future obligations as a result of the suspension of the Galore Creek project are to complete the construction demobilization and place the site on care and maintenance. The estimated demobilization costs are based on preliminary plans that could change materially as more information becomes available. In addition, the project is located in an area that is subject to severe weather conditions that can affect the nature, extent and timing of work. Accordingly, the actual project suspension costs could vary materially from our estimates.

Reclamation costs

The amounts recorded for reclamation costs are estimates based on engineering studies and management's assessment of the work that is anticipated to remediate old mine workings of the Company's Nome Gold and Murray Brook sites, exploration and road remediation at the Galore Creek project, and the Rock Creek mine site. An asset retirement obligation ("ARO") is recognized initially at fair value with a corresponding increase in the related asset. The ARO is accreted to full value over time through periodic charges to operations. Actual results could be materially different from these estimates.

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

Changes in accounting policies

Effective as of December 1, 2006, the Company has adopted the guidelines governed by Sections 1530 and 3855 of the CICA Handbook, "Comprehensive Income" and "Financial Instruments – Recognition and Measurement". Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. Section 3855 requires that 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. The adoption of Sections 1530 and 3855 impacts the retained earnings and losses of the Company. The unrealized gain or loss on the available-for-sale securities from purchase to November 30, 2006 was \$30.8 million, which was reported as an adjustment to the opening balance of accumulated comprehensive income. For the year ended November 30, 2007, the Company reported a net unrealized loss of \$10.6 million.

The Company has also adopted new accounting policies for supplies inventory and capitalized interest. Supplies inventory consists of equipment, supplies and spare parts to be consumed in the operations at the Rock Creek mine. Interest costs relating to the construction in progress of mineral properties and related deferred costs are capitalized until commercial production is achieved. See note 2 of the consolidated financial statements for the year ended November 30, 2007 for further disclosure.

New accounting pronouncements

Capital disclosures and financial instruments – disclosures and presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", and Handbook Section 3863, "Financial Instruments – Presentation". These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on December 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

Inventories

In March 2007, the CICA issued the new Handbook Section 3031, "Inventories", which will replace Section 3030, "Inventories." The new Section mentions that inventories shall be measured at the lower of cost and the net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last in, first out method (LIFO), and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Management is currently evaluating the impact of this new standard on the Company's results, financial position and cash flows.

General standards on financial statement presentation

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

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 control 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 of Directors 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, 2007.

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, 2007 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Based upon our assessment and those criteria, management concluded that the Company's internal control over financial reporting was ineffective as of November 30, 2007 due to a material weakness identified by its external auditors in the preparation and review of the U.S. GAAP reconciliation to Canadian GAAP, specifically in respect to project expenditures capitalized or expensed under U.S. GAAP.

The Company employs knowledgeable staff and consults with other accounting professionals and its legal counsel when preparing its U.S. GAAP reconciliation. In efforts to address this material weakness the Company is taking the following actions:

- Provide additional training and education for our accounting staff with respect to U.S. GAAP; and
- Consult with external professional expertise on an earlier basis with respect to interpretation issues with U.S. GAAP.

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.

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. Reserve and resource figures set forth

by the Company are estimates, and there is no certainty that the mineral deposits would yield the production of metals indicated by reserve and resource estimates. Declines in the market price for metals may adversely affect the economics of a deposit and may require the Company to reduce its estimates.

Price volatility – gold, copper and other metals

The market price for gold, copper and other metals is volatile and cannot be controlled. There is no assurance that if commercial quantities of gold, copper and other metals are discovered, a profitable market may or 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 certain 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 principally under the heading "Outlook" and elsewhere in the Management's Discussion and Analysis and may include statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of precious metals or other statements that are not statement of fact. 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. 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 except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from NovaGold's expectations include uncertainties involved in disputes and litigation, fluctuations in gold, copper and other commodity prices and currency exchange rates; uncertainties relating to interpretation of drill results and the geology, continuity and grade of mineral deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and estimated economic return; the need for cooperation of government agencies and native groups in the exploration and development of properties and the issuance of required permits; the need to obtain additional financing to develop properties and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in construction projects and uncertainty of meeting anticipated program milestones; uncertainty as to timely availability of permits and other governmental approvals; and other risks and uncertainties disclosed in NovaGold's Annual Information Form for the year ended November 30, 2007, filed with the Canadian securities regulatory authorities, NovaGold's annual report on Form 40-F filed with the United States Securities and Exchange Commission, and other information released by NovaGold and filed with the appropriate regulatory agencies.

Cautionary Note Concerning Reserve and Resource Estimates

This Management's Discussion and Analysis and other information released by NovaGold uses the terms "resources", "measured resources", "indicated resources" and "inferred resources". United States investors are advised that, while such terms are recognized and required by Canadian securities laws, the United States Securities and Exchange Commission (the "SEC") does not recognize them. Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Mineral resources that are not mineral reserves do not have demonstrated economic viability. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Inferred resources are in addition to measured and indicated resources. Further, inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the inferred resources will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically.

National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") is a rule developed by the Canadian Securities Administrators, which established standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates contained in this press release or released by NovaGold in the future, have been or will be prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum Classification System. The requirements of NI 43-101 are not the same as those of the SEC, and reserves reported by NovaGold in compliance with NI 43-101 may not qualify as reserves under the SEC's standards.

Management's Responsibility for Financial Reporting – Canada

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 by PricewaterhouseCoopers LLP on behalf of the shareholders and their report follows.

[signed: RICK VAN NIEUWENHUYSE]
Rick Van Nieuwenhuyse
President & Chief Executive Officer
February 28, 2008

[signed: R. J. MACDONALD]
R. J. (Don) MacDonald
Senior V.P. & Chief Financial Officer

Management's Report on Internal Control over Financial Reporting – US

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, 2007. 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 ineffective as of November 30, 2007 due to a material weakness identified by its external auditors in the preparation and review of the U.S. GAAP reconciliation to Canadian GAAP, specifically in respect to project expenditures capitalized or expensed under U.S. GAAP.

The Company employs knowledgeable staff and consults with other accounting professionals and its legal counsel when preparing its U.S. GAAP reconciliation. In efforts to address this material weakness the Company is taking the following actions:

- Provide additional training and education for our accounting staff with respect to U.S. GAAP; and
- Consult with external professional expertise on an earlier basis with respect to interpretation issues with U.S. GAAP.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has issued an attestation report on internal control over financial reporting for NovaGold Resources Inc. as of November 30, 2007, which is included herein.

[signed: RICK VAN NIEUWENHUYSE]
Rick Van Nieuwenhuysse
President & Chief Executive Officer
February 28, 2008

[signed: R. J. MACDONALD]
R. J. (Don) MacDonald
Senior V.P. & Chief Financial Officer

Independent Auditors' Report

To the Shareholders of NovaGold Resources Inc.

We have completed integrated audits of the consolidated financial statements and internal control over financial reporting of NovaGold Resources Inc. as at November 30, 2007 and 2006. 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, 2007 and 2006, and the related consolidated statements of operations and deficit, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended. 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 audits of the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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. We believe that our audits provide a reasonable basis for our opinions.

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, 2007 and 2006 and the results of the Company's operations and cash flows of the years then ended in accordance with Canadian generally accepted accounting principles.

Internal control over financial reporting

We have also audited NovaGold Resources Inc.'s internal control over financial reporting as at November 30, 2007 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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual financial statements will not be prevented or detected on a timely basis. It was determined that the Company did not maintain effective internal control over financial reporting as at November 30, 2007, because of a material weakness identified in the process for the preparation and review of the financial statement note reconciling material measurement differences between generally accepted accounting principles in Canada and the United States. This material weakness is described in the accompanying Management's Report on Internal Control over Financial Reporting.

We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the November 30, 2007 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as at November 30, 2007 based on criteria established in Internal Control – Integrated Framework issued by the COSO.

Yours very truly,

[signed: PricewaterhouseCoopers LLP]

**Chartered Accountants
Vancouver, British Columbia**

March 2, 2008

Comments by Auditors for U.S. readers on Canada — U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Company's financial statements, such as the change in accounting policy for financial instruments as described in note 2 to the consolidated financial statements. Our report to the shareholders dated March 2, 2008, is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting policy in the auditors' report when it is properly accounted for and adequately disclosed in the financial statements.

[signed: PricewaterhouseCoopers LLP]

**Chartered Accountants
Vancouver, British Columbia**

March 2, 2008

Consolidated Balance Sheets

in thousands of Canadian dollars

| | November 30, 2007 \$ | November 30, 2006 \$ |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 97,916 | 106,583 |
| Restricted cash | 4,600 | - |
| GST and other receivables | 11,668 | 3,420 |
| Temporary investments (note 7) | 18,381 | 3,534 |
| Deposits and prepaid amounts | 6,817 | 1,031 |
| Supplies inventory | 9,197 | - |
| | 148,579 | 114,568 |
| Accounts receivable | 267 | 395 |
| Land | 1,713 | 1,718 |
| Property, plant and equipment (note 4) | 526,657 | 129,747 |
| Mineral properties and related deferred costs (note 5) | 397,043 | 294,196 |
| Power project development costs (note 6) | 3,128 | 1,386 |
| Investments (note 7) | 11,877 | 7,188 |
| Investment tax credits | 6,708 | 6,127 |
| Reclamation deposits (note 8) | 20,268 | 10,099 |
| Restricted cash (note 17) | 54,000 | - |
| | 1,170,240 | 565,424 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 93,534 | 38,865 |
| Suspension costs – short term (note 3) | 31,035 | - |
| Loan payable | 200 | 200 |
| Current portion of asset retirement obligations (note 8) | 1,791 | 916 |
| | 126,560 | 39,981 |
| Other liabilities (note 5(a)) | 65,335 | 34,039 |
| Suspension costs (note 3) | 62,070 | - |
| Asset retirement obligations (note 8) | 11,726 | - |
| Future income taxes (note 13) | 44,320 | 49,965 |
| | 310,011 | 123,985 |
| Non-controlling interest (note 3) | 217,754 | - |
| Shareholders' equity | | |
| Share capital (note 9) | 760,468 | 533,658 |
| Contributed surplus | 820 | 820 |
| Stock-based compensation (note 9) | 19,739 | 16,674 |
| Warrants (note 9) | 9,178 | 9,178 |
| Deficit | (163,657) | (118,891) |
| Accumulated other comprehensive income (note 2) | 15,927 | - |
| | 642,475 | 441,439 |
| | 1,170,240 | 565,424 |
| Nature of operations (note 1) | | |
| Commitments and contingencies (note 11) | | |
| Subsequent events (notes 4, 5, 8 and 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

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

| | Year ended November 30, 2007 \$ | Year ended November 30, 2006 \$ |
|--|--|--|
| Revenue | | |
| Land, gravel, gold and other revenue | 1,065 | 1,692 |
| Interest income | 6,011 | 6,611 |
| | 7,076 | 8,303 |
| Cost of sales | 165 | 210 |
| | 6,911 | 8,093 |
| Expenses and other items | | |
| Corporate development and communication | 2,352 | 1,455 |
| Exploration | 921 | 461 |
| Foreign exchange loss | 3,639 | 860 |
| General and administrative | 4,573 | 5,284 |
| Professional fees | 6,521 | 22,253 |
| Reclamation | - | 582 |
| Salaries | 5,427 | 5,199 |
| Salaries – stock-based compensation (note 9) | 1,995 | 4,183 |
| Project suspension costs (note 3) | 93,105 | - |
| | 118,533 | 40,277 |
| Gain on dilution from equity investment | (193) | (477) |
| Loss from equity investment | 648 | 357 |
| Gain on sale of investment (note 7) | (4,196) | - |
| Non-controlling interest (note 3) | (46,552) | - |
| | (50,293) | (120) |
| Loss for the year before income taxes | (61,329) | (32,064) |
| Future income tax recovery (note 13) | (16,563) | (1,613) |
| Loss for the year | (44,766) | (30,451) |
| Deficit – beginning of year | (118,891) | (88,440) |
| Deficit – end of year | (163,657) | (118,891) |
| Loss per share (note 10) | | |
| Basic and diluted | (0.45) | (0.33) |
| Weighted average number of shares (thousands) (note 10) | 99,559 | 91,519 |

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Comprehensive Income

in thousands of Canadian dollars

Year ended
November 30,
2007
\$

| | |
|--|-----------------|
| Net loss for the year before other comprehensive income | (44,766) |
| Unrealized losses on available-for-sale investments (note 7) | (10,621) |
| Realized gain on available-for-sale investments (note 7) | (4,196) |
| Future income tax recovery | (84) |
| Comprehensive loss | (59,667) |

Consolidated Statements of Changes in Shareholders' Equity

in thousands of Canadian dollars

November 30,
2007
\$

November 30,
2006
\$

| | | |
|--|----------------|----------------|
| Share capital | | |
| Balance – beginning of year | 533,658 | 292,876 |
| Issued pursuant to stock option agreements | 8,108 | 6,543 |
| Issued pursuant to warrant agreements | 77 | 4,285 |
| Issued pursuant to property agreement | 1,433 | 1,087 |
| Issued pursuant to public offering | 217,192 | 188,482 |
| Coast Mountain Power acquisition | - | 44,374 |
| Return to treasury regarding dissenting shares | - | (3,989) |
| Balance – end of year | 760,468 | 533,658 |
| Contributed surplus | | |
| Balance – beginning and end of year | 820 | 820 |
| Stock-based compensation | | |
| Balance – beginning of year | 16,674 | 10,219 |
| Stock option grants | 4,982 | 7,776 |
| Fair value of exercises | (1,917) | (1,321) |
| Balance – end of year | 19,739 | 16,674 |
| Warrants | | |
| Balance – beginning and end of year | 9,178 | 9,759 |
| Fair value of exercises | - | (581) |
| Balance – end of year | 9,178 | 9,178 |
| Deficit | | |
| Balance – beginning of year | (118,891) | (88,440) |
| Loss for the year | (44,766) | (30,451) |
| Balance – end of year | (163,657) | (118,891) |
| Accumulated other comprehensive income | | |
| Transition adjustment to opening balance (note 2) | 30,828 | - |
| Unrealized losses on available-for-sale investments (note 7) | (10,621) | - |
| Realized gains on available-for-sale investments (note 7) | (4,196) | - |
| Future income taxes on unrealized gains | (84) | - |
| Balance – end of year | 15,927 | - |
| Total shareholders' equity | 642,475 | 441,439 |

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Cash Flows

in thousands of Canadian dollars

| | Year ended November 30, 2007 \$ | Year ended November 30, 2006 \$ |
|---|--|--|
| Cash flows used in operating activities | | |
| Loss for the year | (44,766) | (30,451) |
| Items not affecting cash | | |
| Amortization | 286 | 241 |
| Future income tax recovery (note 13) | (16,563) | (1,613) |
| Gain on dilution from equity investment | (193) | (477) |
| Loss from equity investment | 648 | 357 |
| Non-controlling interest | (46,552) | - |
| Gain on sale of investments (note 7) | (4,196) | - |
| Foreign exchange gain | (7,931) | - |
| Stock-based compensation | 1,995 | 4,183 |
| Net change in non-cash working capital | | |
| Increase in other receivables, deposits and prepaid amounts | (14,033) | (1,396) |
| Increase in inventory | (8,853) | - |
| Increase (decrease) in accounts payable and accrued liabilities | (13,264) | 26,031 |
| Suspension costs – short term | 31,035 | - |
| Suspension costs | 62,070 | - |
| | (60,317) | (3,125) |
| Cash flows from financing activities | | |
| Proceeds from issuance of common shares – net | 223,458 | 196,322 |
| Proceeds from non-controlling interest | 264,307 | - |
| | 487,765 | 196,322 |
| Cash flows used in investing activities | | |
| Acquisition of property, plant and equipment | (317,443) | (57,471) |
| Expenditures on power project development | (1,742) | (1,387) |
| Expenditures on mineral properties and related deferred costs – net | (48,672) | (50,288) |
| Increase in restricted cash | (54,000) | - |
| Increase in reclamation deposits (note 8) | (14,769) | (7,964) |
| Decrease in accounts receivable | 127 | 177 |
| Proceeds on sale of investments (note 7) | 5,882 | - |
| Investments | (5,667) | (2,998) |
| Tenant inducements | 169 | - |
| | (436,115) | (119,931) |
| Increase (decrease) in cash and cash equivalents during the year | (8,667) | 73,266 |
| Cash and cash equivalents – beginning of year | 106,583 | 33,317 |
| Cash and cash equivalents – end of year | 97,916 | 106,583 |
| Supplemental cash flow information (note 15) | | |

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

1. Nature of operations

NovaGold Resources Inc. (“NovaGold” or “the Company”) is a natural resource company engaged in the exploration and development of gold and copper properties in North America. The Company has a portfolio of exploration properties located in Alaska and British Columbia. The Company is also advancing its projects from exploration and development stage to construction. Construction of the Rock Creek mine, located in Nome, Alaska, continued through 2007 and is anticipated to be completed in 2008. Construction of the Galore Creek project was suspended at the end of 2007.

Three of the Company’s projects are being advanced with major mining companies. The Donlin Creek project is held by a newly created limited liability company which is owned equally by NovaGold and Barrick Gold Corporation (“Barrick”) (refer to notes 5 and 17 for discussion). The Galore Creek project is held by a partnership which is owned equally by NovaGold and Teck Cominco Limited (“Teck Cominco”) (refer to note 3 for discussion). The Ambler project is an option agreement to acquire a joint venture interest with subsidiaries of Rio Tinto plc.

The Company is in the process of exploring its mineral properties and 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 net costs incurred to date, less amounts recovered from third parties and/or written off, and do not necessarily represent present or future values. The recoverability of amounts shown for mineral properties and related deferred costs are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, entering into agreements with others to explore and develop the mineral properties, and upon future profitable production or proceeds from disposition of the mineral properties.

2. Accounting policies

Basis of presentation

The consolidated financial statements 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., Alaska Gold Company, NovaGold Resources Alaska, Inc., and NovaGreenPower Inc. (formerly Coast Mountain Power Corp). All significant inter-company transactions are eliminated on consolidation. In addition, the Company consolidates variable interest entities for which it is determined to be the primary beneficiary. 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.

Changes in accounting policy

Effective December 1, 2006, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”) relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

- a) Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that 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 amortized cost.
- b) Section 1530 – Comprehensive Income. Comprehensive income is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities, which are not included in net income (loss) until realized.

Investments classified as available for sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are accounted for using the equity method and not adjusted to fair market value. With the exception of Alexco Resource Corp. (“Alexco”), all of the investments have been designated as available for sale.

- c) Transition adjustment to opening balance. The adoption of Sections 1530 and 3855 impacts the opening equity of the Company. The unrealized gain or loss on the available-for-sale securities from purchase to November 30, 2006 was \$30,828,000 which is reported as an adjustment to the opening balance of accumulated other comprehensive income. Any unrealized gains or losses on the available for sale securities for the year ended November 30, 2007 are reported in the current period. There would be no tax

Notes to Consolidated Financial Statements

2. Accounting policies (cont.)

impact resulting from adjustments arising from comprehensive income as there are unrecorded income tax assets that would result in no income tax being payable.

- d) On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs" (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective November 30, 2007, which requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

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

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. Interest from cash and cash equivalents is recorded on an accrual basis. Cash equivalents are stated at cost, which approximates fair market value.

Reclamation deposits

Certain cash is held in long-term reclamation bonds to support future reclamation work. Interest from reclamation deposits is recorded on an accrual basis.

Supplies inventory

Supplies inventory consists of supplies and spare parts to be consumed in operations, and is stated at the lower of average cost or replacement cost. Supplies inventory has been purchased for the Rock Creek project prior to production and transported to Nome, Alaska by barge to be available once the mine is in operations. Transportation costs have been capitalized.

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 upon the asset acquisition of Coast Mountain Power Corp. Intangible assets are recorded at cost and amortized over their respected useful lives on a straight-line basis. Amortization will begin when the economic benefit of the intangible asset is consumed. The Company intends to amortize the power generation and transmission rights over the expected life of the Galore Creek project on the units of production basis, and will commence amortization when commercial production begins. The Company assesses the fair value of intangible assets and, if there are indications of impairment, the carrying value would be written down.

Management of the Company reviews and evaluates the carrying value of each intangible asset 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,

Notes to Consolidated Financial Statements

2. Accounting policies (cont.)

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.

Land and gravel resources

Land is recorded at cost and, at the time of acquisition, cost was 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 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, foreign exchange, production levels 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 that 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.

Power project development costs

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the project is abandoned.

Capitalized interest

Interest costs related to construction in progress and to mineral properties and related deferred costs are capitalized until commercial production is achieved.

Asset retirement obligation

The Company's asset retirement obligation ("ARO") relates to expected mine reclamation and closure activities. An ARO is recognized initially at fair value with a corresponding increase in related assets. The ARO is accreted to full value over time through periodic accretion charges recorded to operations using the Company's credit adjusted risk free rate. In subsequent periods, the Company adjusts the carrying amounts of the ARO and the related asset for changes in estimates of the amount or timing of underlying future cash flows.

Notes to Consolidated Financial Statements

2. Accounting policies (cont.)

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.

Investment tax credits

The Company is eligible to receive investment tax credits (“ITCs”) related to some of its mineral property expenditures. The ITCs are accounted for as a reduction in the cost of mineral properties when accrued.

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 investments, reclamation deposits, accounts payable and accrued liabilities, asset retirement obligations 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.

Variable interest entities

The Company accounts for variable interest entities (“VIE”) in accordance with CICA Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG15”). AcG15 prescribes the application of consolidation principles for entities that meet the definition of a VIE. An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE’s expected losses, receive the majority of its expected residual returns, or both.

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 and measurement uncertainty

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

Notes to Consolidated Financial Statements

2. Accounting policies (cont.)

the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Significant estimates include the Galore Creek project suspension costs, impairment of mineral properties, future income taxes, and the provision for reclamation costs. Actual results could differ materially from those reported.

Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

New accounting pronouncements

Capital disclosures and financial instruments – disclosures and presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, “Capital Disclosures”, Handbook Section 3862, “Financial Instruments – Disclosures”, and Handbook Section 3863, “Financial Instruments – Presentation”. These standards are effective for interim and annual consolidated financial statements for the Company’s reporting period beginning on December 1, 2007.

Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

Inventories

In March 2007, the CICA issued the new Handbook Section 3031, “Inventories”, which will replace Section 3030, “Inventories.” The new Section mentions that inventories shall be measured at the lower of cost and the net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last in, first out method (LIFO), and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Management is currently evaluating the impact of this new standard on the Company’s results, financial position and cash flows.

General standards on financial statement presentation

CICA Handbook Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

Goodwill and intangible assets

The CICA issued the new Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

3. Galore Creek partnership

On August 1, 2007 the Company formed a 50%-50% partnership with Teck Cominco Limited (“Teck Cominco”) at the Galore Creek project. The Company contributed its assets in the Galore Creek project to the partnership, including the transmission rights, and Teck Cominco was funding an initial contribution, which at the time was determined to be approximately \$537 million. After the initial contribution was completed, both partners were to be equally responsible to fund the project going forward.

The Company determined that the Galore Creek partnership is a variable interest entity and consequently used the principles of AcG-15 Consolidation of Variable Interest Entities to determine the accounting for its ownership interest. Management concluded that the Company

Notes to Consolidated Financial Statements

3. Galore Creek partnership (cont.)

is the primary beneficiary and consolidated the activities of the Galore Creek partnership. Selected financial information for the partnership accounts is presented below.

On November 26, 2007 the Company and Teck Cominco announced the suspension of construction activities at the Galore Creek project due to substantially higher capital costs, a longer construction schedule and a stronger Canadian dollar than previously estimated, and amended the terms of Teck Cominco's initial contribution. Under the amended arrangements, in addition to Teck Cominco's funding from August 1, 2007 to the year ended November 30, 2007 of \$264.4 million, Teck Cominco's total committed investment in the partnership would be \$403 million, including \$72 million to be invested in the partnership over the next five years principally to reassess and evaluate the project's alternative development strategies. Excluding costs covered by Teck Cominco's \$72 million above, the Company and Teck Cominco agree to share the next \$100 million of project costs 33% and 67% respectively, and share project costs on a 50%-50% basis thereafter.

At November 30, 2007, the Company has recorded an amount of \$93.1 million for the demobilization cost related to the decision to suspend construction. The demobilization cost has been offset by Teck Cominco's 50% partnership interest, for a net cost of \$46.6 million, thus reducing Teck Cominco's non-controlling interest to \$217.8 million. The Company recorded corresponding suspension liabilities totaling \$93.1 million, \$62.1 million of which is committed to be funded by Teck Cominco. Thus on a funding basis, Teck Cominco is responsible for \$62.1 million of the suspension costs, but \$46.6 million on an income basis.

The Company's future obligations as a result of the suspension are to complete the construction demobilization and place the site on care and maintenance. The estimated demobilization costs are based on preliminary plans that could change materially as more information becomes available. In addition, the project is located in an area that is subject to severe weather conditions that can affect the nature, extent and timing of work. Accordingly, the actual project suspension costs could vary materially from our estimates.

The expenditures in the Galore Creek project have been recorded in property, plant and equipment for construction in progress costs and mineral properties and related deferred costs for exploration and development costs. At November 30, 2007, no provision has been made against the carrying value of the project as the Company believes that the project retains fair value in excess of its carrying value. However, there can be no assurances that the Company's view will result in a commercially viable project or that a future material impairment writedown will not be required. Teck Cominco's contributions to date have been recorded as non-controlling interest.

in thousands of Canadian dollars

| | November 30, 2007 |
|---|----------------------|
| Cash and cash equivalents | 82,784 |
| Deposits and prepaid amounts | 5,293 |
| Restricted cash | 54,000 |
| Accounts payable and accrued liabilities (excluding suspension costs) | (71,992) |
| Suspension costs | (93,105) |

4. Property, plant and equipment

in thousands of Canadian dollars

| | November 30, 2007 | | |
|---|----------------------|-----------------------------------|-----------|
| | Cost \$ | Accumulated amortization \$ | Net \$ |
| Construction in progress – Galore Creek | 383,748 | - | 383,748 |
| Construction in progress – Rock Creek | 108,388 | - | 108,388 |
| Mining and milling equipment – Rock Creek | 31,363 | - | 31,363 |
| Heavy machinery and equipment | 2,399 | 310 | 2,089 |
| Office furniture and equipment | 1,382 | 734 | 648 |
| Leasehold improvements | 575 | 154 | 421 |
| | 527,855 | 1,198 | 526,657 |

Notes to Consolidated Financial Statements

4. Property, plant and equipment (cont.)

| | | | 2006 |
|---|------------|-----------------------------------|-----------|
| | Cost \$ | Accumulated amortization \$ | Net \$ |
| Pre-construction costs – Galore Creek | 76,442 | - | 76,442 |
| Construction in progress – Rock Creek | 30,483 | - | 30,483 |
| Mining and milling equipment – Rock Creek | 20,863 | - | 20,863 |
| Heavy machinery and equipment | 1,179 | 210 | 969 |
| Office furniture and equipment | 1,027 | 470 | 557 |
| Leasehold improvements | 529 | 96 | 433 |
| | 130,523 | 776 | 129,747 |

In August 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. An additional \$15.6 million was recorded as a future income tax liability related to the fair value of assets acquired that do not have an income tax basis.

The allocation of the purchase price was determined on the basis that the power generation and transmission rights will be used to provide power to the Galore Creek project. Amortization of these costs will begin when the Galore Creek assets are substantially placed into service.

In September 2006, a dissenting shareholder of Coast Mountain, its former CEO, returned 225,880 common shares of the Company, valued at approximately \$4.0 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 \$15.0 million as the value for his Coast Mountain shares. The Company has included in accounts payable an amount of \$4.0 million representing the value of the shares returned to treasury.

Subsequent to year end, the British Columbia Supreme Court ruled that the Company’s valuation of the Coast Mountain shares was accurate. The Company made the payment of \$4.0 million to the former Coast Mountain CEO on January 18, 2008.

Notes to Consolidated Financial Statements

5. Mineral properties and related deferred costs

| | Balance – November 30, 2006 \$ | Expenditures \$ | Stock-based compensation Future income taxes Asset retirement obligation \$ | (1) (2) (3) | Balance – November 30, 2007 \$ |
|---------------------------------|---|--------------------|---|-------------------|---|
| Alaska, USA | | | | | |
| Donlin Creek | 49,868 | 43,063 | - | | 92,931 |
| Rock Creek | 25,745 | 2,533 | 131 | (1) | |
| | | | 871 | (3) | 29,280 |
| Ambler | 10,161 | 3,761 | 23 | (1) | 13,945 |
| Big Hurrah | 5,619 | 486 | - | | 6,105 |
| Shotgun | 4,469 | 7 | - | | 4,476 |
| Khotol | 3,019 | 55 | - | | 3,074 |
| Baird | 328 | 2,334 | - | | 2,662 |
| Saddle | 781 | 553 | - | | 1,334 |
| Kugruk | 255 | 1,485 | - | | 1,740 |
| Nome Gold | 477 | 687 | - | | 1,164 |
| Other | 100 | 1,893 | - | | 1,993 |
| British Columbia, Canada | | | | | |
| Galore Creek | 189,387 | 21,109 | 317 | (1) | |
| | | | 9,273 | (2) | |
| | | | 12,026 | (3) | 232,112 |
| Copper Canyon | 3,682 | 1,672 | - | | 5,354 |
| Other | 305 | 568 | - | | 873 |
| | 294,196 | 80,206 | 22,641 | | 397,043 |

Notes to Consolidated Financial Statements

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

| | 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) | |
| | | | (5,471) | (2) | 189,387 |
| Copper Canyon | 2,448 | 1,234 | - | | 3,682 |
| Other | - | 305 | - | | 305 |
| | 209,297 | 87,269 | (2,370) | | 294,196 |

a) Donlin Creek, Alaska

July 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 Southwestern Alaska. In November 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.

In February 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 13, 2007. Under this option, Placer Dome would not earn any incremental interest in the project, above the 30% level, until, and unless, all of the above conditions were met before November 13, 2007.

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 were unchanged by this transaction. Subsequently, Placer Dome 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. In 2006, the Company recorded, in other liabilities, US\$33.6 million of exploration costs plus accrued interest from April 1, 2006 through November 30, 2006 based on 70% ownership of the project.

On November 30, 2007, the MVA was amended, whereby Barrick and the Company acknowledged 50%-50% ownership of the Donlin Creek project. To reflect this, amounts incurred by Barrick were to be treated as having been made on behalf of the Company until the sum of the amounts incurred from April 1, 2006 to November 30, 2007 equalled 50% of the aggregate. Thereafter, the remaining amounts incurred by Barrick were to be treated as being made on its own behalf. In 2007, the Company has recorded, as other liabilities, US\$64.8 million of exploration costs from April 1, 2006 through November 30, 2007 based on the revised 50% ownership of the project.

In addition, interest previously accruing (2006: US\$611,000) under the MVA was cancelled. The Company has reflected the recovery of the amount previously expensed in the current period’s statement of operations.

Notes to Consolidated Financial Statements

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

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.

Refer to note 17 for discussion of the formation of the Donlin Creek LLC subsequent to year end.

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.

At November 30, 2007, no provision has been made against the carrying value of the project as the Company believes that the project retains value in excess of its carrying value. However, there can be no assurances that the Company’s view will result in a commercially viable project or that a future material impairment writedown will not be required.

c) Ambler, Alaska

In March 2004, the Company entered into an agreement with subsidiaries of Rio Tinto plc (“Rio Tinto”) on their 100% owned Ambler property located in northwest Alaska. Under the terms of the agreement, the Company can earn a 51% interest in the project by expending US\$20 million on the property before 2016. During the first five years of the agreement, the Company must spend a minimum of US\$5 million on exploration and development, and obtain memoranda of understanding with land owners (State, Federal and private Native Alaskan Corporations) in the region necessary to provide access for mine development. During the second phase of the agreement, the Company must spend the balance of the earn-in funds (to total US\$20 million) and complete a pre-feasibility study resulting in a positive rate of return using a 10% discount rate. The Company is manager of the project through to the completion of a final positive feasibility study at which time Rio Tinto has a one-time option to acquire an extra 2% interest in the project and take over management of construction and operation of the mine by making a payment to the Company equivalent to 4% of the project’s net present value using a 12.5% discount rate.

d) Galore Creek, British Columbia

In March 2007, the Company exercised its option to purchase 100% of the Galore Creek claims as part of the Galore Creek Option Agreement. The transaction closed on June 1, 2007. In accordance with the Galore Creek Option Agreement entered into in July 2003, the Company made a series of payments between 2003 and 2006, totalling US\$7.8 million (C\$8.7 million) in the form of option payments. On June 1, 2007, a further US\$12.5 million (C\$13.3 million) was paid for a total of US\$20.3 million (C\$22 million). Following EIC 124, the purchase price was allocated to the fair value of the assets and liabilities received, based on estimates by management. An additional \$9.7 million was recorded as a future income tax liability related to the fair value of assets acquired that do not have an income tax basis.

e) Copper Canyon, British Columbia

The Company’s 60% interest in the Copper Canyon property is held in trust for the Galore Creek partnership.

The current year expenditures on the Copper Canyon property relate mainly to the fair value totalling \$1.4 million of the Company’s 74,074 common shares issued during the year as part of the property option agreement.

6. Power project development costs

Since the acquisition date of Coast Mountain in August 2006, the Company has capitalized \$3.1 million of feasibility study expenditures. During the year ended November 30, 2007, \$1.7 million (2006: \$1.4 million) was expended, primarily associated with feasibility work on the Forrest Kerr project and pre-feasibility work associated with other related early-stage projects currently under evaluation. The Forrest Kerr project has received all critical approvals and permits necessary for the construction of the hydroelectric plant and related power transmission lines.

Notes to Consolidated Financial Statements

6. Power project development costs (cont.)

The recovery of power project development costs is dependent upon the successful completion of the projects. The success of the power projects is dependent upon receiving the necessary water and other licences and upon the ability of the Company to obtain the necessary financing to successfully complete the development and construction of the projects, to generate sufficient electrical power and to sell the electricity generated on a profitable basis.

7. Investments

in thousands of Canadian dollars

| | | | November 30, 2007 |
|---|---------------|--|------------------------------|
| | Cost \$ | Accumulated unrealized holding gains \$ | Carrying value \$ |
| Temporary investments | | | |
| 5,374,544 shares of US Gold Corp. (note 17) | 3,534 | 14,847 | 18,381 |
| Long-term investments | | | |
| Available for sale | | | |
| 1,437,500 shares of TNR Gold Corp. | 317 | 158 | 475 |
| 600,000 shares of Eagle Plains Resources Ltd. | 82 | 242 | 324 |
| 600,000 shares of Copper Canyon Resources Ltd. | 98 | 112 | 210 |
| Other investments | 176 | 652 | 828 |
| Equity investment | | | |
| 6,352,978 shares of Alexco Resource Corp. (market value – \$30,240) | 10,040 | - | 10,040 |
| | 10,713 | 1,164 | 11,877 |
| Total temporary and long-term investments | 14,247 | 16,011 | 30,258 |
| | | | November 30, 2006 |
| | | | Cost \$ |
| Temporary investments | | | |
| 5,374,544 shares of US Gold Corp. (market value – \$29,829) | | | 3,534 |
| Long-term investments | | | |
| 3,921,568 shares of Pioneer Metals Corporation (market value – \$3,922) | | | 1,000 |
| 1,437,500 shares of TNR Gold Corp. (market value – \$359) | | | 317 |
| 600,000 shares of Eagle Plains Resources Ltd. (market value – \$432) | | | 82 |
| 600,000 shares of Copper Canyon Resources Ltd. (market value – \$450) | | | 98 |
| Other investments | | | 176 |
| Equity investment | | | |
| 5,304,478 shares of Alexco Resource Corp. (market value – \$27,212) | | | 5,515 |
| | | | 7,188 |
| Total temporary and long-term investments | | | 10,722 |

Investments classified as available for sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. With the exception of Alexco Resource Corp. (“Alexco”), all of the above investments have been designated as available for sale.

The Company has significant influence in Alexco and has accounted for the investment using the equity method. Alexco has a June 30 year end and is a related party having two directors in common with the Company. During the year the Company recorded a \$0.6 million loss (2006: \$0.4 million loss) resulting from accounting for the equity investment.

Notes to Consolidated Financial Statements

7. Investments (cont.)

On December 21, 2006, Alexco completed a financing wherein the Company purchased 1,048,500 Units to maintain its pro-rata ownership of Alexco. Each Unit, purchased at a price of \$4.75, consists of one common share and one half of one transferable common share purchase warrant that entitles the Company to acquire one additional common share per whole warrant at a price of \$5.75 per share for a period of 36 months.

As a result of further share issuances of common shares by Alexco for patent and property acquisitions and the exercise of stock options and warrants, the Company's interest in Alexco declined from 18.8% to 18.5% during the year. The dilution of the Company's interest in Alexco due to these issuances resulted in a dilution gain of \$0.2 million (2006: \$0.5 million gain).

On January 30, 2007, the Company exercised its common share purchase warrants of Pioneer Metals Corporation ("Pioneer") issued to the Company for \$0.7 million, receiving 1,960,784 common shares. This transaction brought the Company's holdings of Pioneer to 5,882,352 common shares. On March 14, 2007, the Company sold its entire holdings of Pioneer as part of Pioneer's amalgamation plans with its parent company, Barrick Gold Corporation, as per a Letter of Transmittal and agreed upon price of \$1.00 per share. The Company received \$5.9 million for the sale of such shares and recorded a gain of \$4.2 million on the sale of the shares and believes that there are sufficient tax pools to shelter any gains arising from this sale.

Also included within other investments is an investment of 126,625 shares (cost – \$0.005 million; market value – \$0.3 million) 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 \$0.4 million (2006: \$0.4 million).

8. Asset retirement obligations

Although the ultimate amount of the reclamation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is \$13.7 million which has been discounted using a credit adjusted risk-free rate of 5.0%, except Galore Creek which has not been discounted due to the uncertainty of the timing of the reclamation activities as a result of the suspension of the project. Significant reclamation and closure activities include land rehabilitation, decommissioning of roads, bridges, buildings and mine facilities, and other costs.

Changes to the reclamation and closure cost balance during the year are as follows:

| | <i>in thousands of Canadian dollars</i> | |
|--|---|----------------------------|
| | November 30, 2007 \$ | November 30, 2006 \$ |
| Asset retirement obligations – beginning of year | 916 | 1,020 |
| Liabilities incurred | 12,898 | 286 |
| Reclamation expenditures | (297) | (390) |
| | 13,517 | 916 |
| Less current portion of asset retirement obligations | (1,791) | (916) |
| Balance – end of year | 11,726 | - |

Notes to Consolidated Financial Statements

8. Asset retirement obligations (cont.)

During the year ended November 30, 2007, the value of the underlying site closure and reclamation obligation was revised to reflect the Company's activities at the Galore Creek and Rock Creek projects.

in thousands of Canadian dollars

| | November 30, 2007 \$ | November 30, 2006 \$ |
|--------------|----------------------------|----------------------------|
| Galore Creek | 12,026 | - |
| Rock Creek | 872 | - |
| Nome Gold | 539 | 836 |
| Murray Brook | 80 | 80 |
| | 13,517 | 916 |

The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations.

As required by regulatory authorities, at November 30, 2007, the Company had cash reclamation deposits totaling \$20.3 million (2006: \$10.1 million) comprising of the following:

in thousands of Canadian dollars

| | November 30, 2007 \$ | November 30, 2006 \$ |
|--------------|----------------------------|----------------------------|
| Galore Creek | 11,998 | 839 |
| Rock Creek | 6,845 | 7,910 |
| Forrest Kerr | 1,320 | 1,245 |
| Murray Brook | 105 | 105 |
| | 20,268 | 10,099 |

These deposits are invested in government bonds and treasury bills and bear interest at rates ranging from 2.8% to 4.1% per annum.

On December 28, 2007, certain deposits relating to bonds for the Galore Creek project, amounting to \$8.3 million, or 50% of the total bonds, were released to the Company upon transfer of the underlying obligation to its partner in the project, Teck Cominco.

Notes to Consolidated Financial Statements

9. Share capital

in thousands of Canadian dollars

| Authorized 1,000,000,000 common shares, no par value 10,000,000 preferred shares issuable in one or more series Issuance of common shares | 2007 | | 2006 | |
|--|------------------------------------|-------------------------|------------------------------------|-------------------------|
| | Number of shares (thousands) | Ascribed value \$ | Number of shares (thousands) | Ascribed value \$ |
| Balance – beginning of year | 91,565 | 533,658 | 72,986 | 292,876 |
| Pursuant to public offering – net (a) | 12,500 | 217,192 | 14,950 | 188,482 |
| For cash and fair value pursuant to option agreements (b) | 739 | 8,108 | 918 | 6,543 |
| For cash and fair value pursuant to warrant agreements (c) | 11 | 77 | 350 | 4,285 |
| Pursuant to property agreement | 74 | 1,433 | 74 | 1,087 |
| Coast Mountain Power acquisition | - | - | 2,512 | 44,374 |
| Return to treasury regarding dissenting shares (note 5) | - | - | (225) | (3,989) |
| Balance – end of year | 104,889 | 760,468 | 91,565 | 533,658 |
| Shares held by a wholly-owned subsidiary eliminated on consolidation | 9 | - | 9 | - |
| Total issued and outstanding | 104,898 | 760,468 | 91,574 | 533,658 |

a) Public and private placements

- i) On April 24, 2007, the Company issued by way of a public offering 12,500,000 common shares at \$18.33 (US\$16.25) per common share for net proceeds of \$217.2 million after commissions and expenses of \$12 million.
- ii) 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.

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, 2007, the Company has recognized a stock-based compensation charge of \$5.0 million (2006: \$7.8 million) for options granted to directors, employees and non-employees in accordance with CICA Handbook Section 3870 of which \$3.0 million (2006: \$3.6 million) was capitalized into mineral properties and deferred costs and \$2.0 million (2006: \$4.2 million) was charged into income.

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.

| | 2007 | 2006 |
|-------------------------|-------------------|-------------------|
| Risk-free interest rate | 3.79% – 4.73% | 3.50% – 4.15% |
| Expected life | 2.32 – 2.47 years | 1.76 – 1.94 years |
| Expected volatility | 45% – 46% | 42% – 58% |
| Expected dividends | Nil | Nil |

Notes to Consolidated Financial Statements

9. Share capital (cont.)

A summary of the Company's stock option plan at November 30, 2007 and 2006, and changes during the years ended on those dates, is as follows.

| | 2007 | | 2006 | |
|------------------------------------|-------------------------------------|--|-------------------------------------|--|
| | Number of options (thousands) | Weighted average exercise price \$ | Number of options (thousands) | Weighted average exercise price \$ |
| Balance – beginning of year | 8,838 | 8.13 | 7,277 | 5.53 |
| Granted | 958 | 17.28 | 2,510 | 14.84 |
| Exercised | (739) | 8.37 | (918) | 5.69 |
| Cancelled/expired | (296) | 18.33 | (31) | 12.64 |
| Balance – end of year | 8,761 | 8.76 | 8,838 | 8.13 |

The following table summarizes information about the stock options outstanding and exercisable at November 30, 2007.

| 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 \$ 1.99 | 1,361 | 3.59 | 1.01 | 1,361 | 3.59 |
| \$ 2.00 to \$ 3.99 | 848 | 5.14 | 3.49 | 848 | 5.14 |
| \$ 4.00 to \$ 5.99 | 342 | 4.49 | 4.36 | 342 | 4.49 |
| \$ 6.00 to \$ 7.99 | 1,358 | 6.28 | 6.62 | 1,358 | 6.28 |
| \$ 8.00 to \$ 9.99 | 1,941 | 7.30 | 8.92 | 1,941 | 7.30 |
| \$10.00 to \$11.99 | 101 | 8.04 | 10.16 | 61 | 8.04 |
| \$12.00 to \$13.99 | 350 | 8.50 | 13.90 | 235 | 8.50 |
| \$14.00 to \$15.99 | 1,501 | 8.47 | 14.31 | 1,242 | 8.35 |
| \$16.00 to \$17.99 | 453 | 9.45 | 16.60 | 317 | 9.41 |
| \$18.00 to \$19.78 | 506 | 8.85 | 19.28 | 297 | 8.79 |
| | 8,761 | 6.70 | 8.76 | 8,002 | 6.49 |

c) Share purchase warrants

A summary of the Company's share purchase warrants at November 30, 2007 and 2006, and the changes for the years then ended, is presented below.

| | 2007 | | 2006 | |
|--|--------------------------------------|---|--------------------------------------|---|
| | Number of warrants (thousands) | Weighted average exercise price \$ | Number of warrants (thousands) | Weighted average exercise price \$ |
| Balance outstanding – beginning of year | 6,593 | 9.43 | 6,943 | 9.48 |
| Exercised | (11) | 7.00 | (350) | 10.59 |
| Balance outstanding – end of year | 6,582 | 9.43 | 6,593 | 9.42 |

Notes to Consolidated Financial Statements

9. Share capital (cont.)

Share purchase warrants outstanding at November 30, 2007:

| Prices | Warrants outstanding and exercisable (thousands) | Weighted average exercise price \$ | Weighted average remaining contractual life (years) |
|---------|---|---|---|
| \$7.00 | 3,452 | 7.00 | 0.92 |
| \$12.10 | 3,130 | 12.10 | 0.17 |
| | 6,582 | 9.42 | 0.46 |

On January 7, 2008, 3.13 million share purchase warrants with an exercise price of \$12.10 expired unexercised.

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.

| | 2007 \$ | 2006 \$ |
|---|------------|------------|
| Basic | | |
| Loss available to common shareholders (thousands) | (44,766) | (30,451) |
| Weighted average number of shares (thousands) | 99,559 | 91,519 |
| Basic loss per share | (0.45) | (0.33) |

For the years ended November 30, 2007 and 2006, 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

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 with commitments ranging from one to ten years. The future minimum lease payments as at November 30, 2007 are approximately as follows:

in thousands of Canadian dollars

| | \$ |
|------------|-------|
| 2008 | 874 |
| 2009 | 776 |
| 2010 | 659 |
| 2011 | 726 |
| 2012 | 612 |
| Thereafter | 3,171 |

Notes to Consolidated Financial Statements

11. Commitments and contingencies (cont.)

b) Purchase commitments

As at November 30, 2007, the Company has commitments outstanding in the amount of US\$3.0 million relating to the construction of the Rock Creek mine. These goods and services are anticipated to be delivered and/or completed by the end of 2008.

Additionally, the Company owes Barrick Gold Corporation ("Barrick") US\$64.8 million related to Donlin Creek expenditures made from the period of April 1, 2006 to November 30, 2007. Refer to note 17 for a discussion of subsequent events.

c) Legal actions

In October 2006, the former CEO of Coast Mountain commenced an action in the British Columbia Supreme Court against Coast Mountain seeking wrongful dismissal damages arising from the termination of his employment. The amount of the claim has not been determined at this time.

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).

12. Related party transactions

a) Exploration services

During 2007, the Company provided exploration and management services totalling \$941,000 (2006: \$826,000) to Alexco, a related party having two common directors. At November 30, 2007, \$152,000 (2006: \$189,000) is included in other receivables. This amount has been subsequently 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 nil (2006: US\$30,000) under the agreement.

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:

| | <i>in thousands of Canadian dollars</i> | |
|--|---|------------|
| | 2007 \$ | 2006 \$ |
| Combined federal and provincial statutory tax rate | 34.12% | 34.12% |
| Income taxes at statutory rates | (20,925) | (10,940) |
| Loss expiry | 2,385 | 759 |
| Difference in foreign tax rates | (825) | (298) |
| Valuation allowance | 587 | 8,861 |
| Non-temporary differences | 1,523 | 1,475 |
| Effect of statutory tax rate change | 1,367 | (1,473) |
| Others | (675) | 3 |
| Income tax recovery | (16,563) | (1,613) |

Notes to Consolidated Financial Statements

13. Income taxes (cont.)

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, 2007 and 2006 are as follows:

in thousands of Canadian dollars

| | 2007 \$ | 2006 \$ |
|--|------------|------------|
| Future income tax assets | | |
| Non-capital losses | 50,676 | 44,802 |
| Mineral property interest | 3,430 | 4,444 |
| Property, plant and equipment | 2,009 | 3,342 |
| Non-controlling interest | 50,696 | - |
| Suspension liabilities | 33,077 | - |
| Share issuance costs | 5,690 | 4,346 |
| Capital loss carry-forwards | 2,363 | - |
| Asset retirement obligations | 3,668 | - |
| Unpaid interest | 2,893 | - |
| Other deductible temporary differences | 1,197 | 438 |
| Total future tax assets | 155,699 | 57,372 |
| Valuation allowance | (45,984) | (45,397) |
| Net future income tax assets | 109,715 | 11,975 |
| Future income tax liabilities | | |
| Property, plant and equipment | 88,977 | 18,617 |
| Mineral property | 64,978 | 37,025 |
| Other taxable temporary differences | 80 | 6,298 |
| Future income tax liabilities | 154,035 | 61,940 |
| Net future income tax liabilities | 44,320 | 49,965 |

The Company has loss carry-forwards of approximately C\$47.3 million and US\$88.1 million 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 \$ | Operating losses United States US\$ |
|------------|---------------------------------------|--|
| 2008 | 1,149 | 1,532 |
| 2009 | 3,346 | 7,283 |
| 2010 | 1,679 | 7,398 |
| 2011 | - | 7,716 |
| 2012 | 691 | 6,787 |
| Thereafter | 40,422 | 57,402 |
| | 47,287 | 88,118 |

Future use 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 2, 1999 and December 17, 2001 regarding the losses incurred by Alaska Gold Company. In addition, NovaGold Resources Alaska, Inc. incurred an ownership change under Section 382 on December 17, 2001.

Therefore, approximately US\$38.4 million of the United States losses above are subject to limitation under Section 382. Accordingly, the Company's ability to use these losses may be limited.

Notes to Consolidated Financial Statements

13. Income taxes (cont.)

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, 2007, 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 \$96.0 million (2006: \$95.0 million) which may be carried forward indefinitely and used to reduce taxable income in future years. Certain future income tax assets have not been recognized, as realization is not considered more likely than not.

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

| | 2007 | | | |
|------------------------------|-----------------------------|--|-------------|-------------|
| | Mineral properties \$ | Land and gravel operations \$ | Other \$ | Total \$ |
| Revenue | - | 1,003 | 62 | 1,065 |
| Expenses | 921 | 165 | - | 1,086 |
| Segment (loss) earnings | (921) | 838 | 62 | (21) |
| Unallocated expenses | | | | (50,756) |
| Interest income | | | | 6,011 |
| Loss for the year | | | | (44,766) |
| Segment assets | 1,040,085 | 1,980 | - | 1,042,065 |
| Unallocated corporate assets | | | | 128,175 |
| Total assets | | | | 1,170,240 |
| Capital expenditures | 499,778 | - | 401 | 500,179 |

Notes to Consolidated Financial Statements

14. Segmented information (cont.)

| | | | | 2006 |
|------------------------------|-----------------------------|--|-------------|-------------|
| | Mineral properties \$ | Land and gravel operations \$ | Other \$ | Total \$ |
| Revenue | - | 1,692 | - | 1,692 |
| Expenses | 461 | 210 | - | 671 |
| Segment (loss) earnings | (461) | 1,482 | - | 1,021 |
| Unallocated expenses | | | | (38,083) |
| Interest income | | | | 6,611 |
| Loss for the year | | | | (30,451) |
| Segment assets | 441,555 | 2,113 | - | 443,668 |
| Unallocated corporate assets | | | | 121,756 |
| Total assets | | | | 565,424 |
| Capital expenditures | 205,119 | - | 226 | 205,345 |

The Company's geographic segment information is as follows:

| | | 2007 | 2006 | |
|---------------|---------------|--|---------------|--|
| | Revenue \$ | Land, gravel, equipment and mineral properties \$ | Revenue \$ | Land, gravel, equipment and mineral properties \$ |
| United States | 1,003 | 301,536 | 1,692 | 154,855 |
| Canada | 62 | 627,005 | - | 272,192 |
| | 1,065 | 928,541 | 1,692 | 427,047 |

15. Supplemental cash flow information

| | 2007 \$ | 2006 \$ |
|---|------------|------------|
| Fair value component of stock option exercises | 1,918 | 1,321 |
| Shares issued for option agreement | 1,433 | 1,087 |
| Shares issued for power generation and transmission rights acquisition | - | 44,374 |
| Increase in accounts payable and accrued liabilities related to mineral properties, construction in progress and supplies inventory | 98,811 | 42,853 |
| Interest received | 5,992 | 6,227 |

As at November 30, 2007, of the \$97.9 million reported as cash and cash equivalents, approximately \$89.5 million was on deposit with banks, and approximately \$8.4 million was invested in highly liquid, short-term, non-asset backed commercial paper.

Notes to Consolidated Financial Statements

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

| | Year ended November 30, 2007 \$ | Year ended November 30, 2006 \$ |
|--|--|--|
| Loss for the year reported under Canadian GAAP | (44,766) | (30,451) |
| Add (deduct) | | |
| Capitalized interest (a) | - | 711 |
| Exploration and development costs (b) | (101,796) | (138,451) |
| Equity investment (e) | (2,038) | (1,787) |
| Gain on shares issued by subsidiary (d) | (193) | (477) |
| | (148,793) | (170,455) |
| Income tax recovery | 7,803 | 8,102 |
| Loss for the year under U.S. GAAP | (140,990) | (162,353) |
| Loss for the year before comprehensive income adjustment | (140,990) | (162,353) |
| Unrealized gain on available-for-sale securities (c) | - | 10,298 |
| Comprehensive loss under U.S. GAAP | (140,990) | (152,055) |
| Net loss per common share – U.S. GAAP | | |
| Basic and diluted | (1.42) | (1.66) |
| Accumulated other comprehensive income | | |
| Opening balance | - | 20,483 |
| Unrealized gain on available-for-sale securities (c) | - | 10,298 |
| Closing balance | - | 30,781 |
| Shareholders’ equity reported under Canadian GAAP | 642,475 | 441,439 |
| Cumulative adjustments to shareholders’ equity | | |
| Add (deduct) | | |
| Capitalized interest (a) | - | 711 |
| Exploration and development costs (b) | (368,867) | (265,555) |
| Equity investment (e) | (6,890) | (1,892) |
| Unrealized gain on available-for-sale securities (c) | - | 30,781 |
| Future income taxes | 35,569 | 27,766 |
| Shareholders’ equity (deficit) under U.S. GAAP | 302,287 | 233,250 |
| Total assets reported under Canadian GAAP | 1,170,240 | 565,424 |
| Add (deduct) | | |
| Capitalized interest (a) | - | 711 |
| Exploration and development costs (b) | (369,006) | (267,071) |
| Equity investment (e) | (6,890) | (1,892) |
| Unrealized gain on available-for-sale securities (c) | - | 30,781 |
| Total assets under U.S. GAAP | 794,344 | 327,953 |
| Total liabilities reported under Canadian GAAP | 310,011 | 123,985 |
| Add (deduct) | | |
| Future income taxes | (35,708) | (29,282) |
| Total liabilities under U.S. GAAP | 274,303 | 94,703 |
| Total minority interest reported under Canadian and U.S. GAAP | 217,754 | - |

Notes to Consolidated Financial Statements

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

in thousands of Canadian dollars

| | Year ended November 30, 2007 \$ | Year ended November 30, 2006 \$ |
|---|--|--|
| Cash flows from operating activities under Canadian GAAP | (60,317) | (3,125) |
| Exploration and development costs (b) | (69,772) | (137,740) |
| Cash flows from operating activities under U.S. GAAP | (130,089) | (140,865) |
| Cash flows from investing activities under Canadian GAAP | (436,115) | (119,931) |
| Exploration and development costs (b) | 69,772 | 137,740 |
| Cash flows from investing activities under U.S. GAAP | (366,343) | 17,809 |

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

a) 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. In 2006, the Company had expensed \$0.7 million of accrued interest related to the Donlin Creek expenditures for Canadian GAAP purposes.

b) 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.

c) 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. Prior to December 1, 2006, under Canadian GAAP there is no adjustment made for unrealized gains.

d) 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 against the investment.

e) Equity investment

During the year, the Company purchased additional shares of Alexco Resource Corp. and recorded its proportionate share of cumulative net losses totalling \$2.0 million (2006: \$1.4 million) based on U.S. GAAP adjusted financial statements.

f) 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

Notes to Consolidated Financial Statements

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

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.

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.

In February 2007, the FASB issued FAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement applies to all entities, including not-for-profit organizations. Most of the provisions of this Statement apply only to entities that elect the fair value option. FAS No. 159 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is applicable beginning in the Company's first quarter ended February 29, 2008. The Company is currently evaluating the impact that FAS 159 will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141R"), which replaces FAS 141 and SFAS No. 160, "Non-controlling Interest in Consolidated Financial Statements", an amendment of ARB No. 51 ("FAS 160"). FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. FAS 141R and FAS 160 shall be applied prospectively on or after an entity's fiscal year that begins on or after December 15, 2008. The Company is currently assessing the impact that FAS 141R and FAS 160 will have on its consolidated financial statements.

17. Subsequent events

Donlin Creek

On December 1, 2007, the Company entered into a limited liability company agreement with Barrick Gold U.S., a wholly owned subsidiary of Barrick Gold Corporation ("Barrick") that provided for the conversion of the Donlin Creek joint venture into a new limited liability company, which will be owned 50% by the Company and 50% by Barrick (the "Donlin Creek LLC"). As part of the Donlin Creek LLC, the Company has agreed to reimburse Barrick over time for approximately US\$64.8 million, representing 50% of Barrick's approximately US\$129.6 million expenditures at the Donlin Creek project from April 1, 2006 to November 30, 2007. The Company's reimbursement will be made following the effective date of the agreement by the Company paying in 2008 the next approximately US\$12.7 million of Barrick's share of project development costs, and the remaining approximately US\$52.1 million will be paid out of future mine production cash flow. After the Company's initial contribution, all funding will be shared by both parties on a 50/50 basis. The Company is currently evaluating the impact of this agreement on its financial statements and will report in its consolidated financial statements for the quarter ending February 29, 2008.

Grace claims

On December 1, 2007, the Company and Pioneer Metals Corporation ("Pioneer") entered into a purchase and sale agreement whereby the Company purchased a 100% interest in the Grace claims located adjacent to the Galore Creek project held by Pioneer, a wholly-owned subsidiary of Barrick, for a purchase price of \$54 million. At November 30, 2007, this amount is included in restricted cash.

Expiry of warrants

On January 7, 2008, 3.13 million share purchase warrants with an exercise price of \$12.10 expired unexercised. The value originally attributed to these warrants will be transferred to contributed surplus in fiscal 2008.

Credit facility

On January 31, 2008, the Company entered into an agreement with the Bank of Nova Scotia for a \$30.0 million credit facility maturing on July 30, 2008. The credit facility bears variable interest based on the Canadian prime rate, and is secured only against certain marketable securities held by the Company.

Notes to Consolidated Financial Statements

17. Subsequent events *(cont.)*

Sale of US Gold Corp. shares

On January 29, 2008, the Company sold its entire share holdings of US Gold Corp. for a sale price of \$3.50 per share. The Company received proceeds of \$18.8 million, and recorded a gain of \$15.3 million. The Company believes that there are sufficient tax pools to shelter any gains arising from this sale.