

NOVAGOLD RESOURCES INC  
Form 10-Q  
July 09, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the Quarterly Period Ended May 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the Transition Period from            to

Commission File Number: 001-31913

NOVAGOLD RESOURCES INC.  
(Exact Name of Registrant as Specified in Its Charter)

British Columbia  
(State or Other Jurisdiction of  
Incorporation or Organization)

N/A  
(I.R.S. Employer  
Identification No.)

789 West Pender Street, Suite 720  
Vancouver, British Columbia  
Canada  
(Address of Principal Executive Offices)

V6C 1H2  
(Zip Code)

(604) 669-6227  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer   
(Do not check if a smaller reporting company)      Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of July 7, 2014, the Company had 317,288,472 Common Shares, no par value, outstanding.

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## NOVAGOLD RESOURCES INC.

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This Quarterly Report on Form 10-Q contains forward-looking statements or information within the meaning of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995 concerning anticipated results and developments in our operations in future periods, planned exploration activities, the adequacy of our financial resources and other events or conditions that may occur in the future. These forward-looking statements may include statements regarding perceived merit of properties, exploration results and budgets, mineral reserves and resource estimates, work programs, capital expenditures, operating costs, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, timelines, strategic plans, including our plans and expectations relating to the Donlin Gold and Galore Creek projects, completion of transactions, market prices for precious and base metals, or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Statements concerning mineral resource estimates may also be deemed to constitute “forward-looking statements” to the extent that they involve estimates of the mineralization that will be encountered if the property is developed.

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

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

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

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

- uncertainty of whether there will ever be production at our mineral exploration and development properties;
- uncertainty of estimates of capital costs, operating costs, production and economic returns;

- uncertainties related to the assumptions underlying our resource and reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;
  - risks related to our ability to commence production and generate material revenues or obtain adequate financing for our planned exploration and development activities;
  - risks related to our ability to finance the development of our mineral properties through external financing, strategic alliances, the sale of property interests or otherwise;
    - risks related to the third parties on which we depend for our exploration and development activities;
    - dependence on cooperation of joint venture partners in exploration and development of properties;
      - credit, liquidity, interest rate and currency risks;
      - risks related to market events and general economic conditions;
      - uncertainty related to inferred mineral resources;
  - risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
    - risks related to lack of infrastructure required to develop, construct, and operate our mineral properties;
  - mining and development risks, including risks related to infrastructure, accidents, equipment breakdowns, labor disputes or other unanticipated difficulties with, or interruptions in, development, construction or production;
  - the risk that permits and governmental approvals necessary to develop and operate mines on our properties will not be available on a timely basis, subject to reasonable conditions, or at all;
    - commodity price fluctuations;
    - risks related to governmental regulation and permits, including environmental regulation;
  - risks related to the need for reclamation activities on our properties and uncertainty of cost estimates related thereto;
    - uncertainty related to title to our mineral properties;
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- uncertainty related to unsettled aboriginal rights and title in British Columbia;
  - our history of losses and expectation of future losses;
  - uncertainty as to the outcome of potential litigation;
- uncertainty inherent in litigation including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal;
- risks related to default under our unsecured convertible notes;
  - risks related to our majority shareholder;
- risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;
- increased competition in the mining industry;
  - our need to attract and retain qualified management and technical personnel;
  - risks related to our current practice of not using hedging arrangements;
  - uncertainty as to our ability to acquire additional commercially mineable mineral rights;
  - risks related to the integration of potential new acquisitions into our existing operations;
  - risks related to unknown liabilities in connection with acquisitions;
  - risks related to conflicts of interests of some of the directors of the Company;
  - risks related to global climate change;
- risks related to opposition to our operations at our mineral exploration and development properties from non-governmental organizations or civil society;
- uncertainty as to our ability to maintain the adequacy of internal control over financial reporting as per the requirements of the Sarbanes-Oxley Act; and
- increased regulatory compliance costs relating to the Dodd-Frank Act.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this Quarterly Report on Form 10-Q under the heading “Risk Factors” and elsewhere.

Our forward-looking statements contained in this Quarterly Report on Form 10-Q are based on the beliefs, expectations and opinions of management as of the date of this report. We do 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.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

NOVAGOLD RESOURCES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited, US dollars in thousands)

|  | At May 31,<br>2014 | At November 30,<br>2013 |
|--|--------------------|-------------------------|
| <b>ASSETS</b>                            |                    |                         |
| Cash and cash equivalents                | \$ 71,329          | \$ 81,262               |
| Investments (note 4)                     | 105,000            | 110,000                 |
| Other assets                             | 3,769              | 5,549                   |
| Current assets                           | 180,098            | 196,811                 |
| Investments (note 4)                     | 1,373              | 1,280                   |
| Investment in affiliates (note 5)        | 302,458            | 307,455                 |
| Mineral properties                       | 53,704             | 54,813                  |
| Deferred income taxes                    | 9,113              | 9,728                   |
| Other assets                             | 8,478              | 8,599                   |
| Total assets                             | \$ 555,224         | \$ 578,686              |
| <b>LIABILITIES</b>                       |                    |                         |
| Accounts payable and accrued liabilities | \$ 1,853           | \$ 3,492                |
| Debt (note 6)                            | 14,309             | —                       |
| Derivative liabilities (note 7)          | 58                 | —                       |
| Other liabilities                        | 813                | 861                     |
| Current liabilities                      | 17,033             | 4,353                   |
| Debt (note 6)                            | 74,174             | 85,298                  |
| Derivative liabilities (note 7)          | —                  | 83                      |
| Deferred income taxes                    | 22,410             | 23,303                  |
| Total liabilities                        | 113,617            | 113,037                 |
| Commitments and contingencies (note 14)  |                    |                         |
| <b>EQUITY</b>                            |                    |                         |
| Common shares                            | 1,936,336          | 1,933,953               |
| Contributed surplus                      | 70,361             | 66,811                  |
| Accumulated deficit                      | (1,620,991 )       | (1,599,619 )            |
| Accumulated other comprehensive income   | 55,901             | 64,504                  |
| Total equity                             | 441,607            | 465,649                 |
| Total liabilities and equity             | \$ 555,224         | \$ 578,686              |

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

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on July 8, 2014. They are signed on the Company's behalf by:



/s/ Gregory A. Lang, Director      /s/ Anthony  
Walsh, Director

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NOVAGOLD RESOURCES INC.  
 CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
 (Unaudited, US dollars in thousands)

|   | Three months ended<br>May 31, |             | Six months ended<br>May 31, |              |
|---|-------------------------------|-------------|-----------------------------|--------------|
|   | 2014                          | 2013        | 2014                        | 2013         |
| Operating expenses:                     |                               |             |                             |              |
| General and administrative (note 9)     | \$ 4,640                      | \$ 5,978    | \$ 12,342                   | \$ 14,994    |
| Equity loss of affiliates (note 5)      | 3,616                         | 6,238       | 7,237                       | 11,721       |
| Depreciation                            | 8                             | 9           | 18                          | 19           |
|   | 8,264                         | 12,225      | 19,597                      | 26,734       |
| Loss from operations                    | (8,264 )                      | (12,225 )   | (19,597 )                   | (26,734 )    |
| Other income (expense):                 |                               |             |                             |              |
| Interest income                         | 150                           | 236         | 466                         | 446          |
| Interest expense                        | (1,562 )                      | (2,491 )    | (3,620 )                    | (6,539 )     |
| Foreign exchange gain (loss)            | (1,101 )                      | 974         | 1,348                       | 8,812        |
| Gain on derivative liabilities (note 7) | 140                           | 3,667       | 25                          | 391          |
| Other                                   | —                             | 6           | —                           | 15           |
|   | (2,373 )                      | 2,392       | (1,781 )                    | 3,125        |
| Loss before income taxes                | (10,637 )                     | (9,833 )    | (21,378 )                   | (23,609 )    |
| Income tax recovery (expense)           | (44 )                         | —           | 6                           | —            |
| Net loss                                | \$ (10,681 )                  | \$ (9,833 ) | \$ (21,372 )                | \$ (23,609 ) |
| Loss per common share                   |                               |             |                             |              |
| Basic and diluted                       | \$ (0.03 )                    | \$ (0.03 )  | \$ (0.07 )                  | \$ (0.08 )   |
| Weighted average shares outstanding     |                               |             |                             |              |
| Basic and diluted (thousands)           | 317,295                       | 316,634     | 317,117                     | 310,081      |

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

NOVAGOLD RESOURCES INC.  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS  
(Unaudited, US dollars in thousands)

|  | Three months ended<br>May 31, |             | Six months ended<br>May 31, |             |
|--|-------------------------------|-------------|-----------------------------|-------------|
|  | 2014                          | 2013        | 2014                        | 2013        |
| Net loss   | \$(10,681                     | ) \$(9,833  | ) \$(21,372                 | ) \$(23,609 |
| Items that may be reclassified to  |                               |             |                             |             |
| Net loss:  |                               |             |                             |             |
| Unrealized gains (losses) on<br>marketable securities  |                               |             |                             |             |
| Unrealized holding gains<br>(losses) during period   | (210                          | ) (372      | ) 109                       | ) (644      |
| Net unrealized gain (loss), net of<br>\$(44), \$nil, \$6 and \$nil tax<br>expense (recovery) | (210                          | ) (372      | ) 109                       | ) (644      |
| Foreign currency translation<br>adjustments  | 8,375                         | ) (2,994    | ) (8,712                    | ) (24,946   |
| Other comprehensive income<br>(loss)   | 8,165                         | ) (3,366    | ) (8,603                    | ) (25,590   |
| Comprehensive loss   | \$(2,516                      | ) \$(13,199 | ) \$(29,975                 | ) \$(49,199 |

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

NOVAGOLD RESOURCES INC.  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
(Unaudited, US dollars in thousands)

|   | Three Months Ended<br>May 31,<br>2014 |          | Six Months Ended<br>May 31,<br>2014 |          | 2013 |           |
|---|---------------------------------------|----------|-------------------------------------|----------|------|-----------|
| <b>Operating activities:</b>  |                                       |          |                                     |          |      |           |
| Net loss  | \$                                    | (10,681) | \$                                  | (9,833)  | \$   | (21,372)  |
| Adjustments to reconcile net income to net cash used in operating activities: |                                       |          |                                     |          |      |           |
| Depreciation  |                                       | 8        |                                     | 9        |      | 18        |
| Deferred income taxes   |                                       | 44       |                                     | —        |      | (6)       |
| Foreign exchange (gain) loss  |                                       | 1,101    |                                     | (974)    |      | (1,348)   |
| Share-based compensation  |                                       | 1,907    |                                     | 1,440    |      | 6,565     |
| Equity losses of affiliates   |                                       | 3,616    |                                     | 6,238    |      | 7,237     |
| Gain on derivative liabilities  |                                       | (140)    |                                     | (3,667)  |      | (25)      |
| Other   |                                       | 1,235    |                                     | 947      |      | 2,810     |
| Withholding tax paid on stock based compensation                              |                                       | —        |                                     | (34)     |      | (636)     |
| Net change in operating assets and liabilities (note 11)                      |                                       | 2,436    |                                     | (338)    |      | 1,069     |
| Net cash used in operations   |                                       | (474)    |                                     | (6,212)  |      | (5,688)   |
| <b>Investing activities:</b>  |                                       |          |                                     |          |      |           |
| Additions to property and equipment   |                                       | —        |                                     | —        |      | (22)      |
| Proceeds from term deposits   |                                       | 60,000   |                                     | —        |      | 110,000   |
| Purchases of term deposits  |                                       | (55,000) |                                     | —        |      | (105,000) |
| Funding of affiliates (note 5)  |                                       | (5,569)  |                                     | (5,872)  |      | (9,191)   |
| Net cash used in investing activities   |                                       | (569)    |                                     | (5,872)  |      | (4,213)   |
| <b>Financing activities:</b>  |                                       |          |                                     |          |      |           |
| Proceeds from share issuance, net   |                                       | —        |                                     | —        |      | —         |
| Repayment of debt   |                                       | —        |                                     | (72,821) |      | —         |
| Net cash provided from financing activities                                   |                                       | —        |                                     | (72,821) |      | —         |
| Effect of exchange rate changes on cash                                       |                                       | 50       |                                     | (44)     |      | (32)      |
|   |                                       | (993)    |                                     | (84,949) |      | (9,933)   |
|   |                                       |          |                                     |          |      | (39,689)  |

|  |           |            |           |            |
|--|-----------|------------|-----------|------------|
| Decrease in cash and cash equivalents            |           |            |           |            |
| Cash and cash equivalents at beginning of period | 72,322    | 299,927    | 81,262    | 254,667    |
| Cash and cash equivalents at end of period       | \$ 71,329 | \$ 214,978 | \$ 71,329 | \$ 214,978 |

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

NOVAGOLD RESOURCES INC.  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EQUITY  
(Unaudited, US dollars and shares in thousands)

|                    | Common shares |              | Contributed | Accumulated     | Accumulated<br>other<br>comprehensive | Total      |
|--------------------|---------------|--------------|-------------|-----------------|---------------------------------------|------------|
|                    | Shares        | Amount       | surplus     | deficit         | income                                | equity     |
| November 30, 2012  | 279,927       | \$ 1,462,102 | \$ 454,260  | \$ (1,536,859 ) | \$ 97,308                             | \$ 476,811 |
| Net loss           | —             | —            | —           | (62,760 )       | —                                     | (62,760 )  |
| Other              |               |              |             |                 |                                       |            |
| comprehensive loss | —             | —            | —           | —               | (32,804 )                             | (32,804 )  |
| Warrants exercised | 36,529        | 469,150      | (397,052 )  | —               | —                                     | 72,098     |
| Share-based        |               |              |             |                 |                                       |            |
| compensation and   |               |              |             |                 |                                       |            |
| related share      |               |              |             |                 |                                       |            |
| issuances          | 205           | 2,701        | 9,603       | —               | —                                     | 12,304     |
| November 30, 2013  | 316,661       | \$ 1,933,953 | \$ 66,811   | \$ (1,599,619 ) | \$ 64,504                             | \$ 465,649 |
| Net loss           | —             | —            | —           | (21,372 )       | —                                     | (21,372 )  |
| Other              |               |              |             |                 |                                       |            |
| comprehensive loss | —             | —            | —           | —               | (8,603 )                              | (8,603 )   |
| Share-based        |               |              |             |                 |                                       |            |
| compensation and   |               |              |             |                 |                                       |            |
| related share      |               |              |             |                 |                                       |            |
| issuances          | 627           | 2,383        | 3,550       | —               | —                                     | 5,933      |
| May 31, 2014       | 317,288       | \$ 1,936,336 | \$ 70,361   | \$ (1,620,991 ) | \$ 55,901                             | \$ 441,607 |

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

NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

NOVAGOLD RESOURCES INC. and its affiliates and subsidiaries (collectively, “NOVAGOLD” or the “Company”) operates in the mining industry, focused on the exploration for and development of gold and copper mineral properties. The Company has no operations or realized revenues from its planned principal business purpose. The Company’s principal assets include a 50% interest in the Donlin Gold Project in Alaska, U.S.A. and a 50% interest in the Galore Creek Project in British Columbia, Canada.

The Condensed Consolidated Interim Financial Statements of NOVAGOLD are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. These interim statements should be read in conjunction with NOVAGOLD’s Consolidated Financial Statements for the year ended November 30, 2013. The year-end balance sheet data was derived from the audited financial statements and certain information and footnote disclosures required by United States generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted.

The functional currency for the Company’s Canadian operations is the Canadian dollar and the functional currency for the Company’s U.S. operations is the U.S. dollar. References to “\$” refer to United States currency and “C\$” to Canadian currency.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently adopted accounting pronouncements

Development Stage Entities (Topic 915) – Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation

In June 2014, FASB Accounting Standards Codification (ASC) guidance was issued eliminating the concept of a development stage entity (DSE) from U.S. GAAP and clarified that the disclosures under risks and uncertainties guidance are also applicable to these entities. Entities that are in their development stage are no longer required to present and disclose incremental information, such as inception-to-date information. The Company has elected early adoption of the new standard applied retrospectively. Adoption of the new guidance had no impact on the consolidated financial position, results of operations or cash flows.

Recently issued accounting pronouncements

Revenue from Contracts with Customers

In May 2014, ASC guidance was issued to amend the guidance for revenue recognition to replace numerous, industry-specific requirements and to converge areas under this topic with those of the International Financial Reporting Standards. The guidance implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be

recognized before contingencies are resolved in certain circumstances. The amendments in this guidance are effective for the Company's reporting periods beginning after December 1, 2018, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company does not expect the updated guidance to have a significant impact on the consolidated financial position, results of operations or cash flows.

#### Discontinued Operations

In April 2014, ASC guidance was issued related to Discontinued Operations which changed the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. The updated guidance requires an entity to only classify discontinued operations due to a major strategic shift or a major effect on an entity's operations in the financial statements. The updated guidance will also require additional disclosures relating to discontinued operations. The update is effective prospectively for the Company's fiscal year beginning December 1, 2015, with early adoption permitted. The Company does not expect the updated guidance to have an impact on the consolidated financial position, results of operations or cash flows.



NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

## NOTE 3 – SEGMENTED INFORMATION

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

## NOTE 4 – INVESTMENTS

|                              | At May 31, 2014      |        | Unrealized |      | Fair Value |
|------------------------------|----------------------|--------|------------|------|------------|
|                              | Cost                 | Gain   | Loss       | Loss | Basis      |
|                              | Basis                |        |            |      |            |
| <b>Current:</b>              |                      |        |            |      |            |
| Term deposits                | \$ 105,000           | \$ —   | \$ —       |      | \$ 105,000 |
| <b>Long-term:</b>            |                      |        |            |      |            |
| Marketable equity securities | \$ 1,045             | \$ 376 | \$ (48 )   |      | \$ 1,373   |
|                              | At November 30, 2013 |        | Unrealized |      | Fair Value |
|                              | Cost                 | Gain   | Loss       | Loss | Basis      |
|                              | Basis                |        |            |      |            |
| <b>Current:</b>              |                      |        |            |      |            |
| Term deposits                | \$ 110,000           | \$ —   | \$ —       |      | \$ 110,000 |
| <b>Long-term:</b>            |                      |        |            |      |            |
| Marketable equity securities | \$ 1,067             | \$ 213 | \$ —       |      | \$ 1,280   |

Term deposits are held at two large Canadian financial institutions with original maturities of less than 12 months. Marketable equity securities include available-for-sale investments in mineral exploration companies. At May 31, 2014 all unrealized losses were in a continuous loss position for less than 12 months.

## NOTE 5 – INVESTMENT IN AFFILIATES

|  | At May 31,<br>2014 | At November 30,<br>2013 |
|--|--------------------|-------------------------|
| Donlin Gold LLC, Alaska, U.S.A                     | \$3,480            | \$1,720                 |
| Galore Creek Partnership, British Columbia, Canada | 298,978            | 305,735                 |
|  | \$302,458          | \$307,455               |

Donlin Gold LLC

On December 1, 2007, together with Barrick Gold US Inc. (“Barrick”), the Company formed a limited liability company (“Donlin Gold LLC”) to advance the Donlin Gold project in Alaska. Donlin Gold LLC has a board of four directors, with two directors selected by Barrick and two directors selected by the Company. All significant decisions related to Donlin Gold LLC require the approval of Barrick and the Company. The Company has a 50% interest in Donlin Gold LLC.

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NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

Changes in the Company's 50% investment in Donlin Gold LLC are summarized as follows:

|                               | Six months ended May 31, |         |
|-------------------------------|--------------------------|---------|
|                               | 2014                     | 2013    |
| Balance – beginning of period | \$1,720                  | \$4,185 |
| Funding                       | 7,746                    | 6,898   |
| Share of losses               | (5,986)                  | (6,528) |
| Balance – end of period       | \$3,480                  | \$4,555 |

The following amounts represent the Company's 50% share of the assets and liabilities of Donlin Gold LLC. Donlin Gold LLC has capitalized as Mineral Property the initial contribution of the Donlin Gold property with a carrying value of \$64,000 resulting in a higher carrying value of the Mineral Property than the Company.

|   | At May 31,<br>2014 | At November 30,<br>2013 |
|---|--------------------|-------------------------|
| Current assets: Cash, prepaid expenses and other receivables  | \$4,139            | \$3,390                 |
| Non-current assets: Property and equipment                    | 484                | 541                     |
| Non-current assets: Mineral property                          | 32,692             | 32,692                  |
| Current liabilities: Accounts payable and accrued liabilities | (1,143)            | (2,211)                 |
| Non-current liabilities: Reclamation obligation               | (692)              | (692)                   |
| Net assets  | \$35,480           | \$33,720                |

#### Galore Creek Partnership

The Galore Creek project is owned by the Galore Creek Partnership ("Partnership") a partnership in which wholly owned subsidiaries of NOVAGOLD and Teck Resources Limited ("Teck") each own a 50% interest. The Partnership was formed in May 2007. Teck earned its 50% interest in the Partnership upon completion of its funding commitment of C\$373,300 in June 2011. Commencing June 2011, the partners have funded the project costs on a 50/50 basis.

Changes in the Company's 50% investment in the Partnership are summarized as follows:

|                               | Six months ended May 31, |           |
|-------------------------------|--------------------------|-----------|
|                               | 2014                     | 2013      |
| Balance – beginning of period | \$305,735                | \$335,086 |
| Funding                       | 1,445                    | 2,067     |
| Share of losses               | (1,250)                  | (5,193)   |
| Exploration tax credit        | (693)                    | —         |
| Foreign currency translation  | (6,259)                  | (13,879)  |
| Balance – end of period       | \$298,978                | \$318,081 |

The following amounts represent the Company's 50% share of the assets and liabilities of the Partnership. As a result of recording the Company's investment in the Partnership at fair value in June 2011, the carrying value of the Company's 50% interest in the Partnership is higher than 50% of the book value of the Partnership. Therefore, the Company's investment in the Partnership does not equal 50% of the net assets recorded by the Partnership:

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|   | At May 31,<br>2014 | At November 30,<br>2013 |
|---|--------------------|-------------------------|
| Current assets: Cash, prepaid expenses and other receivables  | \$532              | \$377                   |
| Non-current assets: Property and equipment                    | 268,733            | 263,797                 |
| Current liabilities: Accounts payable and accrued liabilities | (462 )             | (483 )                  |
| Non-current liabilities: Payables and reclamation obligation  | (8,724 )           | (8,533 )                |
| Net assets  | \$260,079          | \$255,158               |

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NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

## Equity losses of affiliates

|                               | Three months ended May 31, |         | Six months ended May 31, |          |
|-------------------------------|----------------------------|---------|--------------------------|----------|
|                               | 2014                       | 2013    | 2014                     | 2013     |
| Donlin Gold LLC:              |                            |         |                          |          |
| Mineral property expenditures | \$3,083                    | \$3,480 | \$5,893                  | \$6,420  |
| Depreciation                  | 48                         | 54      | 94                       | 108      |
|                               | 3,131                      | 3,534   | 5,987                    | 6,528    |
| Galore Creek Partnership:     |                            |         |                          |          |
| Mineral property expenditures | 47                         | 422     | 328                      | 932      |
| Care and maintenance expense  | 438                        | 696     | 922                      | 1,050    |
| Depreciation                  | —                          | 1,586   | —                        | 3,211    |
|                               | 485                        | 2,704   | 1,250                    | 5,193    |
|                               | 3,616                      | \$6,238 | \$7,237                  | \$11,721 |

## NOTE 6 – DEBT

|                       | At May 31,<br>2014 | At November 30,<br>2013 |
|-----------------------|--------------------|-------------------------|
| Convertible notes     | \$14,309           | \$13,570                |
| Promissory note       | 74,174             | 71,728                  |
|                       | 88,483             | 85,298                  |
| Less: current portion | (14,309)           | —                       |
|                       | \$74,174           | \$85,298                |

Scheduled minimum debt repayments are \$nil for the remainder of 2014, \$15,829 in 2015, \$nil in 2016 through 2018, and \$74,174 thereafter. The carrying value of the debt approximates fair value.

## Convertible notes

The remaining \$15,829 principal amount of the original \$95,000 in unsecured senior convertible notes issued by the Company on March 26, 2008 are due on May 1, 2015 and have been classified as a current liability. Changes in the carrying value of the Convertible notes (“Notes”) are summarized as follows:

|                               | Six months ended May 31,<br>2014 | 2013     |
|-------------------------------|----------------------------------|----------|
| Balance – beginning of period | \$13,570                         | \$73,606 |
| Repurchases of Notes          | —                                | (58,017) |
| Accretion expense             | 739                              | 2,472    |
| Balance – end of period       | \$14,309                         | \$18,061 |

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

| At May 31,<br>2014 | At November 30,<br>2013 |
|--------------------|-------------------------|
|--------------------|-------------------------|

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|                           |          |          |
|---------------------------|----------|----------|
| Principal amount          | \$15,829 | \$15,829 |
| Unamortized debt discount | (1,520 ) | (2,259 ) |
|                           | 14,309   | 13,570   |
| Embedded derivative       | 58       | 83       |
| Net carrying amount       | \$14,367 | \$13,653 |

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NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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Promissory note

As part of the Donlin Gold LLC agreement, the Company agreed to reimburse Barrick for a portion of their expenditures incurred from April 1, 2006 to November 30, 2007 out of the Company's share of future mine production cash flow. The Company has a promissory note payable to Barrick for \$51,600, plus interest at a rate of US prime plus 2%, amounting to \$22,574 in accrued interest since the inception of the promissory note.

NOTE 7 – DERIVATIVE LIABILITIES

Convertible notes – Embedded derivative

The conversion price of the Notes is denominated in U.S. dollars, a currency different from the functional currency of the parent Company. Therefore, an embedded derivative liability is recorded at fair value and re-measured each period with the movement being recorded as a gain or loss in Net income (loss). Pursuant to the terms and indenture governing the Notes, holders had the opportunity to require the Company to purchase for cash all or a portion of their Notes ("Put Option") on May 1, 2013. The fair value of the embedded derivative prior to the expiry of the Put Option was composed of the conversion feature of the Note and the Put Option. The conversion feature on the remaining Notes is valued using the Black-Scholes pricing model and is considered a Level 3 financial instrument in the fair value hierarchy as the value model has significant unobservable inputs.

|  | Six months ended May 31, |           |
|--|--------------------------|-----------|
|  | 2014                     | 2013      |
| Balance – beginning of period                          | \$83                     | \$17,934  |
| Repurchases of Notes                                   | —                        | (14,804 ) |
| Gain on embedded derivative liabilities for the period | (25 )                    | (2,853 )  |
| Balance – end of period                                | \$58                     | \$277     |

Warrants – Derivative

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

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

NOTE 8 – FAIR VALUE ACCOUNTING

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

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

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

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

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NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

|   | Total    | Fair value at May 31, 2014 |          |         |
|---|----------|----------------------------|----------|---------|
|   |          | Level 1                    | Level 2  | Level 3 |
| <b>Assets:</b>                              |          |                            |          |         |
| Cash equivalents                            | \$71,329 | \$—                        | \$71,329 | \$—     |
| Term deposits                               | 105,000  | —                          | 105,000  | —       |
| Marketable equity securities                | 1,373    | 1,373                      | —        | —       |
| <b>Liabilities:</b>                         |          |                            |          |         |
| Embedded derivative liabilities<br>(note 7) | 58       | —                          | —        | 58      |
| <b>Fair value at November 30, 2013</b>      |          |                            |          |         |
|   | Total    | Level 1                    | Level 2  | Level 3 |
| <b>Assets:</b>                              |          |                            |          |         |
| Cash equivalents                            | \$81,262 | \$—                        | \$81,262 | \$—     |
| Term deposits                               | 110,000  | —                          | 110,000  | —       |
| Marketable equity securities                | 1,280    | 1,280                      | —        | —       |
| <b>Liabilities:</b>                         |          |                            |          |         |
| Embedded derivative liabilities<br>(note 7) | 83       | —                          | —        | 83      |

The Company's cash equivalents and term deposits are held with two Chartered Canadian banks, each with an S&P rating of AA-. The cash equivalents and term deposits are classified as Level 2 of the fair value hierarchy as they are owed to the Company by the Canadian banks and are not traded in an active market.

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

The embedded derivative is valued using a Black-Scholes pricing model and is considered a Level 3 financial instrument in the fair value hierarchy because the valuation model has significant unobservable inputs.

**NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES**

|                          | Three months ended May 31, |         | Six months ended May 31, |          |
|--------------------------|----------------------------|---------|--------------------------|----------|
|                          | 2014                       | 2013    | 2014                     | 2013     |
| Salaries                 | \$1,470                    | \$1,267 | \$3,103                  | \$2,636  |
| Share-based compensation | 1,907                      | 1,440   | 6,565                    | 6,982    |
| Office expense           | 506                        | 1,557   | 1,168                    | 2,521    |
| Professional fees        | 388                        | 1,099   | 782                      | 1,928    |
| Corporate development    | 369                        | 615     | 724                      | 927      |
|                          | \$4,640                    | \$5,978 | \$12,342                 | \$14,994 |

**NOTE 10 – SHARE-BASED COMPENSATION**

|  | Three months ended May 31, | Six months ended May 31, |
|--|----------------------------|--------------------------|
|  | 2014                       | 2013                     |
|  |                            |                          |

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|                             |         |         |         |         |
|-----------------------------|---------|---------|---------|---------|
| Stock options               | \$831   | \$519   | \$4,567 | \$4,858 |
| Performance share unit plan | 1,030   | 864     | 1,898   | 2,004   |
| Deferred share unit plan    | 46      | 57      | 100     | 120     |
|                             | \$1,907 | \$1,440 | \$6,565 | \$6,982 |

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NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

## NOTE 11 – CHANGE IN OPERATING ASSETS AND LIABILITIES

|   | Three months ended May 31, |          | Six months ended May 31, |            |
|---|----------------------------|----------|--------------------------|------------|
|   | 2014                       | 2013     | 2014                     | 2013       |
| Decrease in receivables, deposits and prepaid amounts | 2,549                      | \$ 249   | \$ 2,504                 | \$ 394     |
| Decrease in accounts payable and accrued liabilities  | (113                       | ) (587   | ) (1,435                 | ) (2,751   |
|   | 2,436                      | ) \$(338 | ) \$ 1,069               | ) \$(2,357 |

## NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

|  | May 31,<br>2014 | November 30,<br>2013 |
|--|-----------------|----------------------|
| Unrealized net gain on marketable securities, net of \$35 and \$29 tax expense, respectively | \$ 293          | \$ 184               |
| Foreign currency translation adjustments   | 55,608          | 64,320               |
|  | \$ 55,901       | \$ 64,504            |

## NOTE 13 – RELATED PARTY TRANSACTIONS

In the first six months of 2014, the Company provided management services to Donlin Gold LLC for \$149 (\$145 in the first six months of 2013); office rental and services to Galore Creek Partnership for \$200 (\$219 in the first six months of 2013); and management and office administration services to NovaCopper for \$nil (\$179 in the first six months of 2013).

The Company has the following amounts receivable from related parties:

|                          | May 31,<br>2014 | November 30, 2013 |
|--------------------------|-----------------|-------------------|
| Current:                 |                 |                   |
| Donlin Gold LLC          | \$ 39           | \$ 1,750          |
| Galore Creek Partnership | 1,657           | 1,690             |
|                          | \$ 1,696        | \$ 3,440          |
| Long-term:               |                 |                   |
| Galore Creek Partnership | \$ 4,048        | \$ 4,132          |

## NOTE 14 – COMMITMENTS AND CONTINGENCIES

## General

The Company follows ASC guidance in determining its accruals and disclosures with respect to loss contingencies. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as

incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

#### Obligations under operating leases

The Company leases certain assets, such as office equipment and office facilities, under operating leases expiring at various dates through 2020. Future minimum annual lease payments are \$247 in the remainder of 2014, \$429 in 2015, \$389 in 2016 and \$328 in 2017, totaling \$1,393.

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NOVAGOLD RESOURCES INC.  
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, US dollars in thousands except per share amounts)

NOTE 15 – SUPPLEMENTAL CASH FLOW INFORMATION

|                   | Six months ended May 31, |         |
|-------------------|--------------------------|---------|
|                   | 2014                     | 2013    |
| Interest received | \$343                    | \$293   |
| Interest paid     | \$435                    | \$2,612 |
| Income taxes paid | \$295                    | \$—     |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the three and six month periods ended May 31, 2014 and 2013. This discussion should be read in conjunction with the condensed consolidated interim financial statements and notes thereto contained elsewhere in this report.

Overview

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

Our goals for 2014 include:

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

Second quarter highlights

Donlin Gold

In the second quarter of 2014, permitting activities continued at Donlin Gold and were mainly focused on the preliminary draft Environmental Impact Statement (EIS) expected to be completed around year-end. This document is comprised of four main sections.

- An outline of the purpose and the need for the proposed mine. The management of Donlin Gold LLC and its Native Corporation partners, Calista Corporation and The Kuskokwim Corporation (TKC), jointly contributed to the preparation of this section which highlights the need for the development of the proposed mine and the benefit it would bring to its stakeholders.
- The identification and analysis of a reasonable range of alternatives to the mine development proposed by Donlin Gold which comprise variations on certain mine site facility designs, local transportation options, and power supply options.
- The preparation of an environmental analysis of the proposed action and reasonable alternatives (including a no action alternative), which identifies and characterizes the potential biological, social, and cultural impacts relative to the existing baseline conditions. This portion normally constitutes the most extensive part of the EIS.
- The last section describes potential mitigation measures intended to reduce or eliminate the environmental impacts described in the impact analysis section.

During the quarter, the U.S. Army Corps of Engineers (the “Corps”), the lead agency for the Donlin Gold EIS, and cooperating agencies’ completed the alternatives identification, establishing a reasonable range of alternatives to be evaluated in the EIS. Preparations of the remaining components of the preliminary draft EIS are well underway and expected to be completed over the next two quarters. This includes the alternatives development and the analysis of their potential environmental impacts. The Corps anticipates that all outstanding environmental baseline data required to complete the EIS will be compiled by the end of the third quarter.

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In addition, Donlin Gold LLC and the appropriate permitting agencies are concurrently working on other major permits, such as air quality, water discharge and usage, gas pipeline, wetlands, rights-of-way, and dam safety. The EIS is required by the National Environmental Policy Act (NEPA), the act that governs the process by which most major projects in the United States are evaluated. The EIS is also, in large part, a determining factor in the overall permitting timeline which, for Donlin Gold, commenced in 2012 and is anticipated to take approximately four years to complete.

Beyond permitting, on June 9, 2014 we announced that Donlin Gold LLC and TKC reached an updated long term Surface Use Agreement for the Donlin Gold project. This agreement has been extended to coincide with the term of the Exploration and Mining Lease with the Calista Corporation and continues so long as production continues at the project. This agreement:

- Provides direct compensation to TKC through payments for project milestones, annual surface use and mine operation.
- Includes a coordinated and consultative approach between Donlin Gold and TKC regarding annual project planning, reclamation as well as preparation of a subsistence harvest plan for affected surface lands.
- Gives preference to TKC for contracts, hiring and training TKC shareholders, as well as funding scholarships and working with federal, state and local entities to help create and fund a training facility in the region.
  - Commits to an exclusive contract with TKC for the construction and operations of an upriver port site.

Donlin Gold remains actively engaged in sponsorship activities at the community level, supporting local youth in leadership endeavors, visiting communities in the Yukon-Kuskokwim area and executing on the workforce development strategy in the region. During the second quarter, the Donlin Gold team:

- Partnered with the Kuspuk School District, Alaska Construction Academies, and EXCEL Alaska in sponsoring a youth Academic and Trades Decathlon in Aniak. At this event, students competed individually in math, science, geography and keyboarding, and learned about trades from experts in several industries.
- Continued its longstanding tradition in outreach, visiting 10 villages. Town Hall meetings were held in each village with a viewing of the Donlin Gold project video, narrated in both English and the local Yup'ik language.
- Continued its partnership with the State of Alaska and the Yukon-Kuskokwim Health Corporation on the Kids Don't Float Campaign. Donlin Gold supports the lifesaving message of this campaign by distributing personal flotation devices (lifejackets) to kids along the river and updating safety messages at boat launches. Donlin Gold also continued its exemplary site safety record entering its ninth consecutive year without a lost time incident.
- Continued its support for both the Iron Dog snow machine race and the Iditarod sled dog race, sponsoring two racers in each event. The Donlin Gold camp staff volunteered at the Cripple checkpoint, spending four nights assisting the race crew and mushers as they made their way north to Nome.

Our share of funding for Donlin Gold was \$5.0 million in the second quarter of 2014, \$7.7 million year-to-date. For the full year, we continue to expect to spend approximately \$12 million to fund our share of Donlin Gold activities, primarily for continued permitting and community development.



We record our interest in the Donlin Gold project as an equity investment, which results in our 50% share of Donlin Gold's expenses being recorded in the income statement as an operating loss. The investment amount recorded on the balance sheet primarily represents unused funds advanced to Donlin Gold.

#### Galore Creek

In the first quarter of 2014, we announced drill results for Galore Creek's 2013 campaign which identified extensions to the copper-gold mineralization into, as well as adjacent to, the newly-discovered Legacy zone. The drilling results from the 2012 and 2013 programs are being incorporated into a model to advance mine planning and project design. During the quarter, we conducted workshops aimed at initiating a review process to evaluate an integrated plan for mining, waste disposal and water management to strengthen the economics of the Galore Creek project. We expect this effort to further improve the value and marketability of the Galore Creek project, which we continue to work on monetizing, in whole or in part, to strengthen our balance sheet and focus primarily on the permitting of Donlin Gold.

Our share of funding for the Galore Creek partnership was \$0.5 million in the second quarter of 2014, \$1.4 million year-to-date, primarily for technical studies, community commitments, environmental monitoring, severance as well as site care and maintenance. For the full year, we continue to expect to spend approximately \$2.5 million to fund our share of Galore Creek's activities.

We record our interest in the Galore Creek partnership as an equity investment, which results in our 50% share of expenses being recorded in the income statement as an operating loss. The investment amount recorded on the balance sheet primarily represents the fair value of the Company's investment in the Galore Creek partnership in 2011, recorded upon Teck's completion of their earn-in, and unused funds advanced to the partnership.

## Outlook

We do not currently generate operating cash flows. At May 31, 2014, we had cash and cash equivalents of \$71.3 million and term deposits of \$105.0 million. At present, we believe that these balances are sufficient to cover the anticipated funding at the Donlin Gold and Galore Creek projects, general and administrative costs through completion of permitting at the Donlin Gold project, and repayment of the unsecured senior convertible notes due on May 1, 2015. In 2014, we continue to expect to spend approximately \$15 million to fund our share of expenditures at the Donlin Gold and Galore Creek projects and \$15 million for general and administrative costs, interest, working capital and other corporate purposes.

Additional capital will be necessary if permits are received for the Donlin Gold project and a decision to commence construction is reached. Future financings to fund construction are anticipated through debt financing, equity financing, project specific debt, or other means. Our continued operations are dependent on our ability to obtain additional financing or to generate future cash flows. However, there can be no assurance that we will be successful in our efforts to raise additional capital. For further information, see the risk factors in our Annual Report on Form 10-K for the year ended November 30, 2013, as filed with the SEC and the Canadian Securities Regulators on February 12, 2014.

## Summary of Consolidated Financial Performance

| (\$ thousands, except per share) | Three months ended May 31, |            | Six months ended May 31, |            |
|----------------------------------|----------------------------|------------|--------------------------|------------|
|                                  | 2014                       | 2013       | 2014                     | 2013       |
| Loss from operations             | \$(8,264)                  | \$(12,225) | \$(19,597)               | \$(26,734) |
| Net loss                         | \$(10,681)                 | \$(9,833)  | \$(21,372)               | \$(23,609) |
| Net loss per common share        |                            |            |                          |            |
| Basic and diluted                | \$(0.03)                   | \$(0.03)   | \$(0.07)                 | \$(0.08)   |

## Results of Operations

### Second quarter 2014 compared to 2013

Loss from operations decreased 32% from \$12.2 million in 2013 to \$8.3 million in 2014. The decrease resulted from lower general and administrative expense and lower losses from equity investments in the Donlin Gold and Galore Creek projects. General and administrative expense decreased by \$1.3 million due to lower office rent, professional fees and share-based compensation, partially offset by higher salary costs due to personnel additions in 2013. Our share of losses at the Donlin Gold project decreased by \$0.4 million, as 2014 activities continued to focus primarily on permitting. At the Galore Creek project, our share of losses decreased by \$2.2 million due to reduced camp activity

and mobile equipment being fully depreciated in 2013.

Net loss increased from \$9.8 million (\$0.03 per share) in 2013 to \$10.7 million (\$0.03 per share) in 2014 primarily due to a foreign exchange loss in 2014 compared to a gain in 2013 and a gain on the valuation of derivative liabilities in 2013, partially offset by the reduction in the loss from operations discussed above and lower interest expense.

First six months 2014 compared to 2013

Loss from operations decreased 27% from \$26.7 million in 2013 to \$19.6 million in 2014. The decrease resulted from lower general and administrative expense and lower losses from equity investments in the Donlin Gold and Galore Creek projects. General and administrative expense decreased \$2.7 million due to lower office rent, professional fees and share-based compensation, partially offset by higher salary costs due to personnel additions in 2013. Our share of losses at the Donlin Gold project decreased by \$0.5 million, as 2014 activities continued to focus primarily on permitting. At the Galore Creek project, our share of losses decreased by \$3.9 million due to reduced camp activity and mobile equipment being fully depreciated in 2013.

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Net loss decreased from \$23.6 million (\$0.08 per share) in 2013 to \$21.4 million (\$0.07 per share) in 2014 primarily due to the reduction in the loss from operations discussed above. Lower interest expense and loss on derivatives were offset by a lower foreign exchange gain in 2014 compared to 2013.

#### Liquidity, Capital Resources and Capital Requirements

| (\$ thousands)                    | Three months ended May 31, |               | Six months ended May 31, |               |
|-----------------------------------|----------------------------|---------------|--------------------------|---------------|
|                                   | 2014                       | 2013          | 2014                     | 2013          |
| Cash used in operations           | \$ (474)                   | ) \$ (6,212)  | ) \$ (5,688)             | ) \$ (12,092) |
| Cash used in investing activities | \$ (569)                   | ) \$ (5,872)  | ) \$ (4,213)             | ) \$ (8,965)  |
| Cash used in financing activities | \$ —                       | ) \$ (72,821) | ) \$ —                   | ) \$ (18,462) |

| (\$ thousands)            | At May 31,<br>2014 | At November 30,<br>2013 |
|---------------------------|--------------------|-------------------------|
| Cash and cash equivalents | \$71,329           | \$81,262                |
| Term deposits             | \$105,000          | \$110,000               |

#### Second quarter 2014 compared to 2013

Cash and cash equivalents decreased by \$1.0 million and term deposits decreased by \$5.0 million during the second quarter of 2014. The decrease in cash was primarily related to \$0.5 million used in operating activities for administrative costs net of reductions in accounts receivable and \$5.6 million to fund our share of the Donlin Gold and Galore Creek projects, partially offset by a \$5.0 million reduction in term deposits.

Cash used in operations decreased from \$6.2 million in 2013, to \$0.6 million in 2014. The decrease resulted from a reduction in corporate overhead and administrative costs, convertible notes interest and a reduction in accounts receivable. Cash used in investing activities in 2014 included \$5.0 million from a net reduction in term deposits. The term deposits are denominated in U.S. dollars and are held at two major Canadian financial institutions. Cash used in financing activities in 2013 included the repayment of \$72.8 million of the convertible notes.

#### First six months 2014 compared to 2013

Cash and cash equivalents decreased by \$9.9 million and term deposits decreased by \$5.0 million during the first six months of 2014. The decrease in cash was primarily related to \$5.7 million used in operating activities for administrative costs and reductions in accounts payable and \$9.2 million to fund our share of the Donlin Gold and Galore Creek projects, partially offset by a \$5.0 million net reduction in term deposits.

Cash used in operations decreased from \$12.1 million in 2013, to \$5.7 million in 2014. The decrease resulted from a reduction in interest expense as well as corporate overhead and administrative costs. Cash used in investing activities decreased from \$9.0 million in 2013 to \$4.2 million in 2014, primarily due to a \$5.0 million net reduction in term deposits. Cash used in financing activities in 2013 included the repayment of \$72.8 million of the convertible notes, partially offset by the receipt of \$54.4 million in net proceeds from the exercise of all outstanding warrants.

#### Outstanding share data

As of July 7, 2014, the Company had 317,288,472 common shares issued and outstanding. Also as of July 7, 2014, the Company had outstanding 15,295,217 stock options with a weighted-average exercise price of C\$5.48, 2,445,350 Performance Share Units and 167,295 Deferred Share Units.



## Accounting Developments

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

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

### Currency risk

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

We have not hedged our exposure to currency fluctuations. At May 31, 2014, we are exposed to currency risk through our investment in the Galore Creek project, mineral properties, deferred income taxes and cash balances held in Canadian dollars.

Based on the above net exposures as at May 31, 2014, and assuming that all other variables remain constant, a 1% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of approximately \$2.7 million in our consolidated income (loss).

### Credit risk

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

### Interest rate risk

The Notes are not subject to interest rate risk because they are at fixed rates. The interest rate on the promissory note owed to Barrick is variable with the U.S. prime rate. Based on the amount owing on the promissory note as at May 31, 2014, and assuming that all other variables remain constant, a 1% change in the U.S. prime rate would result in an increase/decrease of approximately \$0.7 million in the interest accrued by us per annum.

## Item 4. Controls and Procedures

Management, with the participation of our President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of May 31, 2014. On the basis of this review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated by the SEC under the Exchange Act) during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. The company's internal controls over financial reporting are based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to routine litigation and proceedings that are considered part of the ordinary course of our business. We are not aware of any material current, pending, or threatened litigation.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended November 30, 2013, as filed with the SEC on February 12, 2014. The risk factors in our Annual Report on Form 10-K for the year ended November 30, 2013, in addition to the other information set forth in this quarterly report, could materially affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

These disclosures are not applicable to us.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibits

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 9, 2014

NOVAGOLD RESOURCES INC.

By: /s/ Gregory A. Lang  
Gregory A. Lang  
President and Chief Executive  
Officer  
(principal executive officer)

By: /s/ David A. Ottewell  
David A. Ottewell  
Vice President and Chief Financial Officer  
(principal financial and accounting officer)

EXHIBIT INDEX

| Exhibit<br>No. | Description   |
|----------------|---|
| <u>31.1</u>    | Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)   |
| <u>31.2</u>    | Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)   |
| <u>32.1</u>    | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350   |
| <u>32.2</u>    | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350   |
| 101            | The following materials are filed herewith: (i) XBRL Instance, (ii) XBRL Taxonomy Extension Schema, (iii) XBRL Taxonomy Extension Calculation, (iv) XBRL Taxonomy Extension Labels, (v) XBRL Taxonomy Extension Presentation, and (vi) XBRL Taxonomy Extension Definition. In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by the specific reference in such filing. |