

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*In Management’s Discussion and Analysis of Financial Condition and Results of Operations, “NOVAGOLD”, the “Company”, “we,” “us” and “our” refer to NOVAGOLD RESOURCES INC. and its consolidated subsidiaries. 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 nine month periods ended August 31, 2017 and 2016. This discussion should be read in conjunction with the condensed consolidated interim financial statements and notes thereto contained elsewhere in this report and our Annual Report on Form 10-K for the year ended November 30, 2016, as well as other information we file with the Securities and Exchange Commission on EDGAR at [www.sec.gov](http://www.sec.gov) and with Canadian Securities Administrators on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **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 obtaining financing to fund these milestones.

Our goals for 2017 include:

- Advance the Donlin Gold project toward a construction/production decision.
- Maintain a healthy balance sheet.
- Maintain an effective corporate social responsibility program.
- Continue to advance the value of the Galore Creek project and monetize if warranted.

### **Third quarter highlights**

#### *Advancement of the Donlin Gold project*

Permitting activities continued at Donlin Gold in the third quarter of 2017 and were focused on advancing major permits and approvals with state and federal agencies. The U.S. Army Corps of Engineers (the “Corps”), the lead federal agency for the Donlin Gold Environmental Impact Statement (EIS), completed the cooperating agency review of the preliminary final EIS. The final EIS is required before the Corps can issue a record of decision on Donlin Gold’s Clean Water Act Section 404 (wetland) and Section 10 (rivers and harbors) permit application. The Corps anticipates that the final EIS will be published in early 2018, with a record of decision in mid-2018. All Donlin Gold EIS documents, including the Corps’ time table for the Donlin Gold EIS process, can be found on their website at [www.donlingoldeis.com](http://www.donlingoldeis.com).

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 commenced in 2012 for Donlin Gold. This document is comprised of four main sections which:

- Outline the purpose and need for the development of the proposed mine and the benefit it would bring to the stakeholders of Donlin Gold’s Alaska Native Corporation partners, Calista Corporation (“Calista”) and The Kuskokwim Corporation (TKC).
- Identify and analyze a reasonable range of alternatives to the mine development proposed by Donlin Gold which comprise variations on certain mine site facility designs, as well as local transportation and power supply options.
- Prepare an environmental analysis of the proposed action and reasonable alternatives (including a no action alternative), which identifies and characterizes the potential physical, biological, social, and cultural impacts relative to the existing baseline conditions. This portion constitutes the most extensive part of the EIS.
- Describe potential mitigation measures intended to reduce or eliminate the environmental impacts described in the impact analysis section.

Donlin Gold continues to advance other major permits and approvals, including:

- Draft water discharge, integrated waste management and reclamation plan permits and approval are expected to be released for public comment by end of 2017;
- The Alaska Department of Environmental Conservation, Division of Air Quality issued the final Prevention of Significant Deterioration permit on June 30, 2017; and
- The majority of key State permits and approvals are scheduled to be finalized concurrent with the Corps' record of decision in mid-2018 or shortly thereafter.

An extensive list of additional federal and state government permits and approvals must be obtained before construction can begin on the Donlin Gold project. Preparation of the applications for some of these permits and approvals requires additional, more detailed engineering that was not part of the Donlin Gold feasibility study and completion of this engineering work will require a significant investment of funds, time, and other resources by Donlin Gold and its contractors. Also, the Donlin Gold board must approve a construction program and budget before proceeding with the development of the Donlin Gold project. The timing of the required engineering work and the Donlin Gold board's approval of a construction program and budget, the receipt of all required governmental permits and approvals, and the availability of financing, among other factors, will affect the decision and timing to develop the Donlin Gold project. Among other reasons, project delays could occur as a result of public opposition, litigation challenging permit decisions, requests for additional information or analysis, limitations in agency staff resources during regulatory review and permitting, or project changes made by Donlin Gold.

Donlin Gold remains actively engaged in extensive outreach efforts with local stakeholders, through multiple traditional village council meetings, regional tribal gatherings, and village visits across the Yukon-Kuskokwim (Y-K) region. Donlin Gold collaborated with Calista and TKC (owners of the mineral and surface rights, respectively) on community engagement efforts.

As the Donlin Gold EIS and permitting processes progress, the owners (Barrick and NOVAGOLD) continue to study ways to further enhance the project's value and reduce initial capital through enhanced project design and execution, engagement of third-party operators for certain activities, and potential for financing of some capital intensive infrastructure. To date, these additional studies have identified opportunities that have the potential to benefit the project when the owners decide to update the 2011 feasibility study and to initiate the engineering work necessary to advance the project design from feasibility level to basic and then detailed engineering. Barrick and NOVAGOLD will take all of this work into account before reaching a construction decision.

During the third quarter, Barrick and NOVAGOLD approved and commenced an \$8 million drill program (our share \$4 million) to collect geologic and geotechnical data to support ongoing Donlin Gold optimization efforts. Our share of drill program funding in the third quarter was \$0.8 million.

In the third quarter and first nine months of 2017, our share of funding for Donlin Gold was \$3.1 million and \$8.0 million, respectively, for permitting, community engagement, optimization efforts and the 2017 drill program. Our 50% share of the 2017 work program includes \$10 million to continue to advance the permitting process and to provide input into the EIS process, through issuance of the final EIS and \$4 million for our share of the 2017 drill program. In addition, Donlin Gold continues to maintain its engagement with communities in the Y-K region.

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 project*

In the third quarter of 2017, efforts were focused on site care and maintenance. We continue to be open to monetizing, in whole or in part, our 50% share of the Galore Creek project to strengthen our balance sheet and to contribute toward the development of the Donlin Gold project.

Our share of cash funding for Galore Creek was \$0.5 million and \$1.3 million in the third quarter and first nine months of 2017, respectively, for technical studies, care and maintenance, and supporting community initiatives. In 2017, our 50% share of the work program is expected to be approximately \$2 million to continue to advance technical studies, support community initiatives and provide site care and maintenance.

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 our investment in the Galore Creek Partnership in 2011, recorded upon Teck's completion of their earn-in, as well as unused funds advanced to the Partnership, all in Canadian dollars, and translated to U.S. dollars at the current exchange rate.

## Outlook

We do not currently generate operating cash flows. At August 31, 2017, we had cash and cash equivalents of \$21.6 million and term deposits of \$66.9 million. At present, we believe that these balances are sufficient to cover the anticipated funding at the Donlin Gold and Galore Creek projects in addition to general and administrative costs through completion of permitting of the Donlin Gold project. Additional capital will be necessary if permits are received for the Donlin Gold project and a decision to commence engineering and construction is reached. Future financings to fund construction are anticipated through debt, equity, project specific debt, and/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 on terms favorable to us, or at all. For further information, see the risk factors in our Annual Report on Form 10-K for the year ended November 30, 2016, as filed with the SEC and the Canadian Securities Regulators on January 25, 2017.

We expect to spend approximately \$27 million during the 2017 fiscal year, including \$11 million for general and administrative costs, \$14 million to fund our share of expenditures at the Donlin Gold project and \$2 million at the Galore Creek project. A total of \$17 million was expended in the first nine months of 2017.

## Summary of Consolidated Financial Performance

(\$ thousands, except per share)	Three months ended August 31,		Nine months ended August 31,	
	2017	2016	2017	2016
Loss from operations	\$(8,423)	\$(6,422)	\$(24,944)	\$(23,343)
Net loss	\$(10,393)	\$(7,381)	\$(28,998)	\$(26,496)
Net loss per common share				
Basic and diluted	\$(0.03)	\$(0.02)	\$(0.09)	\$(0.08)

## Results of Operations

### *Third quarter 2017 compared to 2016*

Loss from operations increased from \$6.4 million in 2016 to \$8.4 million in 2017 due to the drill program at Donlin Gold (\$1.2 million), increased care and maintenance activity at Galore Creek (\$0.4 million) and higher general and administrative expense. General and administrative expense increased by \$0.4 million, primarily due to higher share-based compensation costs for stock options compared to the prior year. The current year stock option grant to the Company's Directors is scheduled to fully vest on December 1, 2018 and is being amortized over a two-year period. The prior year stock option grant to Directors vested immediately and was expensed on the grant date.

Net loss increased from \$7.4 million (\$0.02 per share) in 2016 to \$10.4 million (\$0.03 per share) in 2017, primarily due to the increased loss from operations, an unfavorable \$0.9 million net change in foreign exchange gains and losses and higher interest expense on the promissory note.

### *First nine months 2017 compared to 2016*

Loss from operations increased from \$23.3 million in 2016 to \$24.9 million in 2017 due to the 2017 drill program at Donlin Gold (\$1.2 million) and increased care and maintenance expense at Galore Creek (\$0.4 million).

Net loss increased from \$26.5 million (\$0.08 per share) in 2016 to \$29 million (\$0.09 per share) due to the increase in loss from operations, a \$0.6 million net change in foreign exchange gains and losses, as well as higher interest expense on the promissory note.

## Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Three months ended August 31,		Nine months ended August 31,	
	2017	2016	2017	2016
Cash used in operating activities	\$(1,679)	\$(535)	\$(7,632)	\$(10,419)
Cash used to fund Donlin Gold and Galore Creek	\$(3,539)	\$(2,742)	\$(9,292)	\$(7,935)
Net cash provided from term deposits	\$5,000	\$—	\$8,100	\$5,000

  

(\$ thousands)	At	At	Change
	August 31, 2017	November 30, 2016	
Cash and cash equivalents	\$21,642	\$30,274	\$(8,632)
Term deposits	\$66,900	\$75,000	\$(8,100)

### *Third quarter 2017 compared to 2016*

Cash used in operating activities increased by \$1.1 million as the prior year period benefited from the receipt of exploration tax credits. Cash used to fund our projects increased due to the drill program at Donlin Gold and increased care and maintenance activity at Galore Creek. In the third quarter of 2017, \$5.0 million in cash was provided from a reduction in term deposits. The term deposits are denominated in U.S. dollars and are held at Canadian chartered banks.

### *First nine months 2017 compared to 2016*

Cash used in operating activities decreased by \$2.8 million, primarily due to lower withholding taxes paid on vested performance share units. The Company elected to deliver full shares to executives in the first quarter of 2017 to reduce the use of cash. Cash used to fund Donlin Gold and Galore Creek increased by \$1.4 million. Cash provided from term deposits was \$3.1 million higher than the prior year period. No cash was used in or provided by financing activities in the first nine months of 2017 or 2016.

## Outstanding share data

As of September 26, 2017, the Company had 321,770,142 common shares issued and outstanding. Also as of September 26, 2017, the Company had: i) a total of 19,811,067 stock options outstanding; 16,894,467 of those stock options with a weighted-average exercise price of C\$3.89 and the remaining 2,916,600 with a weighted-average exercise price of \$4.58; and ii) 2,176,600 performance share units and 335,227 deferred share units outstanding. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 23,411,194 common shares.

## Accounting Developments

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