

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 six month periods ended May 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 and with Canadian Securities Administrators on SEDAR at 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.

Second quarter highlights

Advancement of the Donlin Gold project

Permitting activities continued at Donlin Gold in the second quarter of 2017 and were focused on advancing major permits and approvals with state and federal agencies as well as providing the U.S. Army Corps of Engineers (the “Corps”), the lead agency for the Donlin Gold Environmental Impact Statement (EIS), with requested input and information. 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 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.

The Corps filed the draft EIS in November 2015. Following the filing of the draft EIS, the Corps held 17 public comment meetings in communities across the Yukon-Kuskokwim (Y-K) region and in Anchorage. The six-month public comment period for the draft EIS was completed on May 31, 2016. The public comment meetings gave the Corps an opportunity to present an overview of the draft EIS, which evaluates the potential environmental, social, and economic impacts of the proposed project together with alternatives. The meetings also served as an excellent platform for stakeholders to ask questions and provide comments on the draft EIS. The Corps received comments from federal and state agencies, and from local and tribal governments, Alaska Native organizations, businesses,

special interest groups/non-governmental organizations, and individuals. Working sessions were held with the cooperating agencies to review and discuss four key topics raised during the draft EIS comment period including: water resources and management, tailings management and spill risks, mercury fate and transport, and barging operations. The Corps is reviewing the comments on the draft EIS and, based on the Corps' current schedule, will respond to all comments in a final EIS which is anticipated to be published in early 2018. 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. 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.

In the second quarter of 2017, Donlin Gold continued to meet with the Corps and cooperating agencies to provide requested information, to define alternatives to be analyzed in the final EIS, and to refine permit review processes to ensure alignment with the final EIS schedule.

In addition to actively participating in the NEPA process, Donlin Gold continues to advance other major permits and approvals, including:

- the Pipeline and Hazardous Materials Safety Administration published a Public Notice seeking comments on Donlin Gold's request for a special permit to construct the natural gas pipeline, which closed with no substantive comments received;
- Alaska Department of Environmental Conservation, Division of Air Quality issued the draft Prevention of Significant Deterioration (PSD) permit for public comment; other than Donlin Gold's proposed technical revisions, no substantive comments were received;
- filing several revised major state permit applications (e.g., integrated waste management permit, reclamation and closure plan, and water discharge permit; and
- continuing to work with Calista and other interested parties in developing a compensatory wetland impact mitigation plan for the project.

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, providing sponsorship activities at the community level, supporting local youth in leadership endeavors, visiting communities in the Y-K region and executing its workforce development strategy.

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. Barrick and NOVAGOLD recently approved an \$8 million drill program (our share \$4 million) to collect geologic and geotechnical data to support ongoing Donlin Gold optimization efforts. 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.

Our share of funding for Donlin Gold was \$2.6 million and \$5.0 million in the second quarter and first six months of 2017, respectively, for permitting, community engagement and optimization efforts. 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 will continue 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 second quarter of 2017, the Galore Creek Partnership continued to advance technical studies to optimize the project design and opened a section of the camp to support scheduled care and maintenance efforts this summer. 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 \$0.6 million and \$0.8 million in the second quarter and first six 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 May 31, 2017, we had cash and cash equivalents of \$21.6 million and term deposits of \$71.9 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. Of the total 2017 anticipated expenditures of approximately \$27 million, \$12 million was expended as of May 31, 2017.

Summary of Consolidated Financial Performance

(\$ thousands, except per share)	Three months ended May 31,		Six months ended May 31,	
	2017	2016	2017	2016
Loss from operations	\$(7,558)	\$(7,391)	\$(16,521)	\$(16,921)
Net loss	\$(8,462)	\$(9,138)	\$(18,605)	\$(19,115)
Net loss per common share				
Basic and diluted	\$(0.03)	\$(0.03)	\$(0.06)	\$(0.06)

Results of Operations

Second quarter 2017 compared to 2016

Loss from operations increased from \$7.4 million in 2016 to \$7.6 million in 2017 due to higher general and administrative expense. General and administrative expense increased by \$0.2 million, primarily due to higher share-based compensation costs for stock options compared to the prior year quarter. The current year grant to the Company's Directors is scheduled to vest on December 1, 2018 and is being amortized over a two-year period. The prior year grant vested immediately and was expensed on the grant date.

Net loss decreased from \$9.1 million (\$0.03 per share) in 2016 to \$8.5 million (\$0.03 per share) in 2017, primarily due to a favorable \$1.0 million net change in foreign exchange gains and losses, partially offset by higher interest expense on the promissory note.

First six months 2017 compared to 2016

Loss from operations decreased from \$16.9 million in 2016 to \$16.5 million in 2017 due to lower general and administrative expense. General and administrative expense decreased by \$0.4 million, primarily due to the change in the timing of vesting and expensing of Directors' stock options.

Net loss decreased from \$19.1 million (\$0.06 per share) in 2016 to \$18.6 million (\$0.06 per share) due to lower operating costs and a \$0.3 million net change in foreign exchange gains and losses, partially offset by higher interest expense on the promissory note.

Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2017	2016	2017	2015
Cash used in operating activities	\$(1,537)	\$(2,148)	\$(5,954)	\$(9,884)
Cash used to fund Donlin Gold and Galore Creek	\$(3,113)	\$(3,130)	\$(5,753)	\$(5,193)
Net cash provided from term deposits	\$8,100	\$—	\$3,100	\$5,000

(\$ thousands)	At	At	Change
	May 31, 2017	November 30, 2016	
Cash and cash equivalents	\$21,623	\$30,274	\$(8,651)
Term deposits	\$71,900	\$75,000	\$(3,100)

Second quarter 2017 compared to 2016

Cash used in operating activities decreased by \$0.6 million due to changes in working capital. Cash used to fund Donlin Gold and Galore Creek was consistent with the prior year quarter. In the second quarter of 2017, \$8.1 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 six months 2017 compared to 2016

Cash used in operating activities decreased by \$3.9 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 was consistent with the prior year period. Cash provided from term deposits was \$3.1 million higher than the prior year period. No cash was used in financing activities in the first six months of 2017 or 2016.

Outstanding share data

As of June 20, 2017, the Company had 321,665,402 common shares issued and outstanding. Also as of June 20, 2017, the Company had: i) a total of 20,640,667 stock options outstanding; 17,724,067 of those stock options with a weighted-average exercise price of C\$3.93 and the remaining 2,916,600 with a weighted-average exercise price of \$4.58; and ii) 2,176,600 performance share units and 323,018 deferred share units outstanding. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 24,288,585 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.