

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 month periods ended February 28, 2017 and February 29, 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.
- Advance Galore Creek mine planning and project design.
- Maintain a healthy balance sheet.
- Maintain an effective corporate social responsibility program.
- Evaluate opportunities to monetize the value of Galore Creek.

First quarter highlights

Advancement of the Donlin Gold project

Permitting activities continued at Donlin Gold in the first 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 first quarter, Donlin Gold responded to more than 100 Requests for Additional Information that will assist the Corps as they complete responses to comments received on the draft EIS, refine the alternatives to be considered and identify potential mitigation measures for the final EIS. To support development of the final EIS, the Corps facilitated interagency workshops in December 2016 to discuss and address draft EIS comments in water management, tailings management and spill risks, mercury fate and transport, and barging operations.

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

- submission of an updated preliminary jurisdictional determination (PJD), which incorporated field work completed during 2016, to the Corps and receiving notice from the Corps that the PJD has been accepted for use in preparing the final EIS and in support of the Section 404 permit application
- continuing to work with Calista and other parties in developing a compensatory mitigation plan for wetland impacts associated with the project;
- progressing toward issuance of major State of Alaska permits (e.g., air quality permit to construct, integrated waste management plan, reclamation plan, and water discharge permit) drafts of which the State anticipates issuing for public comment in 2017;
- having a docket opened by the Pipeline and Hazardous Materials Safety Administration for Donlin Gold's special permit to construct the natural gas pipeline; and
- continuing to work with state and federal agencies to advance issuance of all other required permits, including dam safety approvals, water use permits and authorizations, fish habitat permits, and land and shoreline lease and right-of-way approvals.

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 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 Gold Corporation and NOVAGOLD) continue to study ways to further enhance the project's value and minimize 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 feasibility study, which was completed in 2011, and to initiate the engineering work necessary to advance the project design from

feasibility level to basic and then detailed engineering. The owners will take all of this work into account before reaching a construction decision.

Our share of funding for Donlin Gold in the first quarter of 2017 was \$2.4 million for permitting, community engagement and development efforts. Our 50% share of the 2017 work program is expected to be approximately \$10 million. The 2017 work program and budget includes funds required to continue to advance the permitting process and to provide input into the EIS process, through issuance of the final EIS. In addition, Donlin Gold will continue to maintain its engagement with communities in the Y-K region. Funding requirements for our share of additional joint Donlin Gold studies with Barrick, if any, will be determined later in 2017.

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 first quarter of 2017, the Galore Creek Partnership continued to advance technical studies to optimize the project design. We expect this effort to further improve the value and marketability of the Galore Creek project. 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 \$0.2 million in the first quarter of 2017, primarily 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 February 28, 2017, we had cash and cash equivalents of \$18.2 million and term deposits of \$80.0 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.

For the full year, we expect to spend approximately \$23 million, including \$11 million for general and administrative costs, \$10 million to fund our share of expenditures at the Donlin Gold project and \$2 million at the Galore Creek project.

Summary of Consolidated Financial Performance

	Three months ended	
	February 28, 2017	February 29, 2016
<u>(\$ thousands, except per share)</u>		
Loss from operations	\$(8,963)	\$(9,530)
Net loss	\$(10,143)	\$(9,977)
Net loss per common share		
Basic and diluted	\$(0.03)	\$(0.03)

Results of Operations

First quarter 2017 compared to 2016

Loss from operations decreased from \$9.5 million in 2016 to \$9.0 million in 2017 due to lower general and administrative expense. General and administrative expense decreased by \$0.6 million, primarily due to lower share-based compensation costs for stock options compared to the prior year. The current year grant to the Company's Directors is scheduled to vest over a two-year period. The prior year grant fully vested on the grant date.

Net loss increased from \$10.0 million (\$0.03 per share) in 2016 to \$10.1 million (\$0.03 per share). Lower operating costs in the current period were offset by a \$0.7 million net change in foreign exchange gains and losses.

Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Three months ended		
	February 28, 2017	February 29, 2016	
Cash used in operating activities	\$(4,417)	\$(7,736)	
Cash provided from (used in) investing activities	\$(7,668)	\$2,937	
Cash used in financing activities	\$—	\$—	

(\$ thousands)	At February 28, 2017	At November 30, 2016	Change
	Cash and cash equivalents	\$18,239	\$30,274
Term deposits	\$80,000	\$75,000	\$5,000

In the first quarter of 2017, cash, cash equivalents and term deposits decreased by \$7.0 million. The decrease was primarily related to a \$4.4 million used in operating activities for administrative costs and working capital changes, \$2.4 million to fund Donlin Gold and \$0.2 million to fund Galore Creek. The term deposits are denominated in U.S. dollars and are held at Canadian chartered banks.

First quarter 2017 compared to 2016

Cash used in operating activities decreased by \$3.3 million, primarily due to lower withholding taxes paid on performance share units vested. 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 affiliates increased by \$0.6 million due to the timing of funding requirements at Donlin Gold. An additional \$5.0 million was invested in term deposits in the first quarter of 2017. No cash was used in financing activities in the first quarter of 2017 or 2016.

Outstanding share data

As of March 27, 2017, we had 321,660,878 common shares issued and outstanding. Also as of March 27, 2017, the Company had: i) a total of 21,345,401 stock options outstanding; 18,428,801 of those stock options with a weighted-average exercise price of C\$4.07 and the remaining 2,916,600 with a weighted-average exercise price of \$4.58; and ii) 2,180,000 performance share units and 309,710 deferred share units outstanding. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 24,925,111 common shares.

Accounting Developments

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