

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 project, 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”, “strategy”, “goals”, “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 significantly 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 and the timing of such approvals;
- 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;
- our history of losses and expectation of future losses;
- 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;
- uncertainty of estimates of capital costs, operating costs, production and economic returns;
- commodity price fluctuations;
- risks related to market events and general economic conditions;
- 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 our properties;
- 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;
- risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
- uncertainties relating to the assumptions underlying our resource and reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;
- uncertainty related to inferred mineral resources;
- risks related to lack of infrastructure required to develop, construct, and operate our mineral properties;
- uncertainty related to title to 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;
- competition in the mining industry;

- risks related to governmental regulation and permits, including environmental regulation;
- risks related to our largest shareholder;
- risks related to conflicts of interests of some of the directors and officers of the Company;
- risks related to opposition to our operations at our mineral exploration and development properties from non-governmental organizations or civil society;
- risks related to the need for reclamation activities on our properties and uncertainty of cost estimates related thereto;
- credit, liquidity, interest rate and currency risks;
- risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;
- our need to attract and retain qualified management and technical personnel;
- uncertainty as to the outcome of potential litigation;
- risks related to global climate change; and
- risks related to U.S. federal income tax reform.

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.

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, 2018 and 2017. 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, 2017, 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.

References herein to \$ refer to United States dollars and C\$ to Canadian dollars.

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 2018 include:

- Advance the Donlin Gold project toward a construction/production decision.
- Maintain an effective corporate social responsibility program.
- Promote a strong safety culture; maintain a zero lost time accident record.
- Safeguard the Company’s treasury.

Third quarter highlights

Donlin Gold project

The NEPA review and Federal permitting for the Donlin Gold project were completed in the third quarter. On August 13, 2018, the U.S. Army Corps of Engineers (the “Corps”), the lead federal agency for the Donlin Gold Environmental Impact Statement (EIS), and the U.S. Bureau of Land Management (BLM) issued a favorable joint Federal Record of Decision (ROD) for the Donlin Gold project following completion of the federal National Environmental Policy Act (NEPA) process. Along with the ROD, the Corps issued a combined permit under Section 404 of the Clean Water Act (CWA) and Section 10 of the Rivers and Harbors Act. Additionally, the BLM issued the Offer to Lease for the right-of-way for those portions of the natural gas pipeline that would cross federal lands. The Pipeline and Hazardous Materials Safety Administration previously issued a special permit for the natural gas pipeline on June 5, 2018. To support issuance of the ROD, the Corps completed required consultation under the National Historic Preservation Act, Endangered Species Act, and Magnuson-Stevens Fishery Conservation and Management Act which protects essential fish habitat.

Several major State of Alaska permits were also issued and advanced during the quarter. After a public notice and comment period, the State of Alaska issued a Certificate of Reasonable Assurance under CWA Section 401 on August 10, 2018, indicating that the CWA 404 permit complies with the State’s water quality standards. The Alaska Pollutant Discharge Elimination System (APDES) water discharge permit was issued on May 24, 2018 and with no appeal, became effective on July 1, 2018. The State of Alaska Department of Fish and Game issued Title 16 Fish Habitat permits for the mine area and transportation corridor on August 30, 2018. On July 9, 2018, the State issued a 30-day public notice for proposed approval of the Donlin Gold Reclamation and Closure Plan. The public notice period was subsequently extended to 60 days until September 6, 2018, with a public hearing held on August 27, 2018, in Bethel. The draft integrated waste management permit was previously issued for public comment in the first quarter of 2018.

Other state permits and approvals, such as the Reclamation and Closure Plan, Integrated Waste Management, and the state portion of the pipeline Right-of-Way Lease, are scheduled to be finalized by the first quarter of 2019. The Alaska Dam Safety certificates which require additional fieldwork and more detailed engineering, are expected to be obtained as we advance toward a construction decision.

The Donlin Gold LLC board must approve a construction program and budget before development of the Donlin Gold project proceeds. The timing of the required engineering work and the Donlin Gold LLC board’s approval of a construction program and budget, the receipt of all required governmental permits and approvals, and the availability of financing, commodity price fluctuations, risks related to market events and general economic conditions among other factors, will affect the timing of and whether 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 LLC.

During the quarter, a group called the Yukon-Kuskokwim River Alliance was formed to protect salmon habitat in the Yukon-Kuskokwim Delta. This organization and 12 of the 56 village councils in the Calista Region (Native Village of Kasigluk, Orutsararmiut Native Council, Native Village of Eek, Tuluksak Native Community, Tununak Council, Native Village of Nunapitchuk, Chuloonawick Tribal Council, Native Village of Kwigillingok, Native Village of Kongiganak, Cheforak Traditional Council, Chevak Native Village, and Native Village of Napakiak) have adopted resolutions opposing development of the Donlin Gold project. Earthjustice, representing Orutsararmiut Native Council, Akiak Native Community IRA Council, Organized Village of Kwethluk, Native Village of Kwigillingok, Chuloonawick Tribal Council, and the Yukon-Kuskokwim River Alliance, requested an informal review of the State of Alaska's 401 certification by the Commissioner of the Alaska Department of Environmental Conservation. Donlin Gold LLC, with support from NOVAGOLD and Barrick, 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 LLC collaborated with Calista and TKC (owners of the mineral and surface rights, respectively) on grants, scholarships and community outreach efforts.

The owners of the Donlin Gold project (Barrick and NOVAGOLD) continue to study ways to further increase the project's value and to reduce initial capital outlays 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 Donlin Gold 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 this work into account before reaching a construction decision and will advance the Donlin Gold project in a financially-disciplined manner with a strong focus on environmental stewardship and social responsibility.

Our share of funding for the Donlin Gold project in the first nine months of 2018 was \$7.8 million, including \$5.2 million for permitting and community engagement, and \$2.6 million for ongoing optimization efforts. We expect to spend approximately \$8 million for permitting and \$3 million to continue optimization efforts, for our share of the 2018 work program. In addition, Donlin Gold LLC will continue to maintain its engagement with communities in the Y-K region.

We record our interest in Donlin Gold LLC as an equity investment, which results in our 50% share of Donlin Gold LLC'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 LLC.

Discontinued operation – Galore Creek

On July 27, 2018, we completed the sale of our 50% interest in the Galore Creek Partnership (GCP) and our 40% interest in the Copper Canyon mineral property to a subsidiary of Newmont Mining Corporation ("Newmont") to strengthen our balance sheet and contribute toward the development of the Donlin Gold project. The Company received proceeds of \$100.0 million on closing, a note for \$75.0 million receivable upon the earlier of the completion of a new Galore Creek project pre-feasibility study or July 27, 2021 and a note for \$25.0 million receivable upon the earlier of the completion of a Galore Creek project feasibility study or July 27, 2023, respectively. An additional note for \$75.0 million is receivable upon approval of a Galore Creek project construction plan by the owner(s).

The deferred payments of \$75.0 million and \$25.0 million were valued using a discounted cash flow approach. We assumed the payments will be received in three and five years, respectively, based on our best estimate of the timing of payments. We estimated the fair value of the \$75 million and \$25 million notes receivable at \$88.4 million, assuming payments in three and five years, respectively, at a discount rate of 3.6% based on quoted market values for Newmont debt with a similar term. The carrying values of the notes receivable are being accreted to \$75 million and \$25 million over three and five years, respectively. No value was assigned to the final \$75 million contingent note receivable due to the uncertainty with regards to the approval of a Galore Creek project construction plan.

Galore Creek is presented as a discontinued operation for all periods reported. In the first nine months of 2018, our share of GCP's equity loss was \$1.2 million and the Loss on the sale of Galore Creek, net of tax, was \$80.0 million. Our share of cash funding for GCP was \$1.5 million, primarily for care and maintenance, and supporting community initiatives.

Outlook

We do not currently generate operating cash flows. At August 31, 2018, we had cash and cash equivalents of \$14.0 million and term deposits of \$152.0 million. At present, we believe that these balances are sufficient to cover anticipated funding of the Donlin Gold

project and corporate general and administrative costs. Additional capital will be necessary if a decision to commence engineering and construction is reached for the Donlin Gold project. 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, 2017, as filed with the SEC and the Canadian Securities Regulators on January 24, 2018.

For the full year, we now expect to spend approximately \$23.5 million, \$4.5 million less than what was originally anticipated at the beginning of the year due to a reduction in permitting expenditures and optimization work at the Donlin Gold project and the sale of the Galore Creek project mid-year. The revised forecast comprises \$11 million for general and administrative costs, \$11 million to fund our share of expenditures at the Donlin Gold project and \$1.5 million previously funded for the Galore Creek project.

Summary of Consolidated Financial Performance

(\$ thousands, except per share)	Three months ended August 31,		Nine months ended August 31,	
	2018	2017	2018	2017
Loss from operations	\$(6,922)	\$(7,811)	\$(21,249)	\$(23,957)
Net loss from continuing operations	\$(8,043)	\$(9,781)	\$(25,242)	\$(28,011)
Net loss from discontinued operations	\$(80,582)	(612)	(81,229)	(987)
Net loss	\$(88,625)	\$(10,393)	\$(106,471)	\$(28,998)
Net loss per common share – basic and diluted				
Continuing operations	\$(0.02)	\$(0.03)	\$(0.08)	\$(0.09)
Discontinued operations	(0.25)	—	(0.25)	—
	\$(0.27)	\$(0.03)	\$(0.33)	\$(0.09)

Results of Operations

Third quarter 2018 compared to 2017

Loss from operations decreased from \$7.8 million in 2017 to \$6.9 million in 2018 due to reduced permitting costs at Donlin Gold and lower general and administrative costs.

Net loss from continuing operations decreased from \$9.8 million (\$0.03 per share) in 2017 to \$8.0 million (\$0.02 per share) in 2018, primarily due to lower operating losses, higher interest income and lower foreign exchange loss offset by higher interest expense on the promissory note payable to Barrick.

Net loss from discontinued operations of \$80.6 million (\$0.25 per share) results primarily from the loss on the sale of Galore Creek, net of tax, of \$80.0 million. The net book value of the assets disposed exceeded the net proceeds by \$105.3 million and was partially offset by the reclassification of cumulative foreign currency translation adjustments of \$13.8 million and a net deferred tax recovery of \$11.5 million.

First nine months 2018 compared to 2017

Loss from operations decreased from \$24.0 million in 2017 to \$21.2 million in 2018 due to lower general and administrative expense and lower project expenses at Donlin Gold. General and administrative expense decreased by \$2.2 million, primarily due to lower share-based compensation costs for stock options and PSUs compared to the prior year. The Company extended the vesting period for new stock option and PSU grants issued in the first quarter of 2018 to three years and eliminated the individual performance multiplier in the formula for long-term equity compensation, which had the potential to increase long-term equity incentive grants above the target amount.

Net loss from continuing operations decreased from \$28.0 million (\$0.09 per share) in 2017 to \$25.2 million (\$0.08 per share) in 2018, primarily due to the reduction in share-based compensation. Lower operating costs in the current period were partially offset by a \$0.9 million increase in interest expense on the promissory note payable to Barrick.

Net loss from discontinued operations was \$81.2 million (\$0.25 per share) and resulted primarily from the loss on the sale of Galore Creek, net of tax.

Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Three months ended August 31,		Nine months ended August 31,	
	2018	2017	2018	2017
Cash provided from (used in):				
Continuing operations:				
Operating activities	(1,462)	(1,679)	(7,954)	(7,436)
Investing activities	(102,332)	1,938	(103,815)	32
Financing activities	—	—	—	(196)
Discontinued operations:				
Investing activities	99,279	(477)	97,804	(1,252)
	At	At		
(\$ thousands)	August 31,	November 30,	Change	
	2018	2017		
Cash and cash equivalents	13,956	27,954	(13,998)	
Term deposits	152,000	56,000	96,000	

In the first nine months of 2018, total cash and term deposits increased by \$82.0 million due to net proceeds of \$99.3 million from the sale of Galore Creek, partially offset by \$7.8 million used to fund Donlin Gold, \$8.0 million for administrative activities and \$1.5 million to fund Galore Creek prior to the sale.

Third quarter 2018 compared to 2017

Cash used in operating activities decreased by \$0.2 million due to increased interest income and changes in working capital. Cash used in investing activities to fund Donlin Gold was \$0.7 million lower than the prior year quarter due to lower permitting costs and no drill program in 2018. Cash proceeds of \$100.0 million from the sale of Galore Creek were invested in term deposits. Investing activities in the prior year quarter included \$5.0 million in cash provided from term deposits. The term deposits are denominated in U.S. dollars and are held at Canadian chartered banks. Cash provided from investing activities of discontinued operations include \$99.3 million in net cash proceeds on the sale of Galore Creek.

First nine months 2018 compared to 2017

Cash used in operating activities increased by \$0.5 million, primarily due to changes in working capital. Cash used to fund Donlin Gold was \$0.2 million lower than the prior year period. Cash proceeds of \$100.0 million from the sale of Galore Creek were invested in term deposits. Investing activities in the prior year period included \$4.1 million in cash provided from term deposits. No cash was used in financing activities in the first nine months of 2018. Cash provided from investing activities of discontinued operations include \$99.3 million in net cash proceeds on the sale of Galore Creek partially offset by funding for Galore Creek prior to the sale.

Outstanding share data

As of September 25, 2018, the Company had 322,668,675 common shares issued and outstanding. Also as of September 25, 2018, the Company had: i) a total of 19,229,243 stock options outstanding; 13,633,043 of those stock options with a weighted-average exercise price of C\$3.87 and the remaining 5,596,200 with a weighted-average exercise price of \$4.23; and ii) 1,797,400 performance share units and 254,633 deferred share units outstanding. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 22,179,976 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.