

Item 1. 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, 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.

Second quarter highlights

Donlin Gold project

Permitting activities continued at the Donlin Gold project in the second quarter of 2018 and were focused on advancing major permits and approvals with state and federal agencies. In the second quarter, the U.S. Army Corps of Engineers (the “Corps”), the lead federal agency for the Donlin Gold Environmental Impact Statement (EIS), completed the final EIS, filed the notice of availability in the Federal Register and posted the document on the Donlin Gold EIS website at www.donlingoldeis.com. The Corps and Bureau of Land Management (BLM) will issue a single Federal Record of Decision (ROD) in the second half of the year. In the ROD, the Corps will document its decision on whether to issue the Clean Water Act Section 404 and Rivers and Harbors Act Section 10 permit for Donlin Gold. BLM will document its decision whether to issue the right-of-way (ROW) authorization for the portions of the proposed Donlin Gold pipeline on BLM lands. These are the key federal authorizations needed to proceed with site activities. The ROD will describe both the legal and technical basis for the Corps’ permitting decision. The permits that authorize project construction should be issued shortly after the ROD. Between publishing the final EIS and the issuance of the ROD, the Corps must complete several activities, including preparation of both the ROD and Section 404 permit which will be sent to the State to ensure that the decision complies with Alaska’s water quality standards. The Corps will also document its compliance with Section 404(b)(1) of the Clean Water Act; the detailed evaluation showing why the permitted project represents the least environmentally damaging practicable alternative compared to other project options reviewed. In addition, other consultations that had been commenced earlier in the EIS process would be finalized, including compliance with the National Historic Preservation Act, Endangered Species Act, and Magnuson-Stevens Fishery Conservation and Management Act which protects essential fish habitat. The EIS is required by the National Environmental Policy Act (NEPA), which 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 the Donlin Gold project. The EIS 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 LLC’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 LLC 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 LLC continues to advance other major permits and approvals, which include the following:

- The State of Alaska issued the APDES water discharge permit on May 24, 2018 (will be effective July 1, 2018);
- The State of Alaska published notice requesting comments on the draft integrated waste management permit on December 15, 2017 and the comment period closed on February 13, 2018;
- The State of Alaska published notice for the application for State Water Quality Certification on June 13, 2018; comments must be submitted by July 13, 2018;
- The Pipeline and Hazardous Materials Safety Administration issued a special permit for the Donlin Gold project on June 5, 2018; and
- The majority of key state and federal permits and approvals are scheduled to be finalized concurrent with or shortly after the Corps' ROD in 2018.

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 LLC and its contractors. Also, the Donlin Gold LLC 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 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 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 LLC.

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 enhance the project's value and the prospect to 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. A drill program was conducted in 2017, which included drilling and assaying of 16 core holes (7,040 meters), in support of ongoing 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 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 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 six months of 2018 was \$5.5 million, including \$3.5 million for permitting and community engagement, and \$2.0 million for ongoing optimization efforts. Our share of the 2018 work program and budget includes \$9 million to continue to advance the permitting process through issuance of the final EIS and ROD, and \$5 million to continue optimization efforts. 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.

Galore Creek project

In the second quarter of 2018, the GCP completed its data base consolidation and optimization with preparation now underway to mobilize the camp to support scheduled care and maintenance efforts and asset preservation work 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 the GCP was \$1.5 million in the first six months of 2018, primarily for care and maintenance, and supporting community initiatives. In 2018, our 50% share of the work program is expected to be \$3 million, primarily for site care and maintenance and to support community initiatives.

We record our interest in the GCP 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 GCP, 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, 2018, we had cash and cash equivalents of \$18.5 million and term deposits of \$52.0 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, 2017, as filed with the SEC and the Canadian Securities Regulators on January 24, 2018.

For the full year, we expect to spend approximately \$28 million, including \$11 million for general and administrative costs, \$14 million to fund our share of expenditures at the Donlin Gold project and \$3 million at the Galore Creek project.

Summary of Consolidated Financial Performance

(\$ thousands, except per share)	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Loss from operations	\$(8,195)	\$(7,558)	\$(14,974)	\$(16,521)
Net loss	\$(9,631)	\$(8,462)	\$(17,846)	\$(18,605)
Net loss per common share				
Basic and diluted	\$(0.03)	\$(0.03)	\$(0.06)	\$(0.06)

Results of Operations

Second quarter 2018 compared to 2017

Loss from operations increased from \$7.6 million in 2017 to \$8.2 million in 2018 due to higher project expenses at Donlin Gold and Galore Creek and higher general and administrative expense. Project expenses at Donlin Gold increased due to ongoing optimization studies.

Net loss increased from \$8.5 million (\$0.03 per share) in 2017 to \$9.6 million (\$0.03 per share) in 2018, primarily due to higher operating losses, higher interest expense on the promissory note, lower interest income and an unfavorable net change in foreign exchange gains and losses.

First six months 2018 compared to 2017

Loss from operations decreased from \$16.5 million in 2017 to \$15.0 million in 2018 due to lower general and administrative expense in the first quarter of 2018, partially offset by higher project expenses at Donlin Gold and Galore Creek. General and administrative expense decreased by \$1.9 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 decreased from \$18.6 million (\$0.06 per share) in 2017 to \$17.8 million (\$0.06 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 \$0.5 million increase in interest expense on the promissory note payable to Barrick.

Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Cash provided from (used in):				
Operating activities	\$(1,850)	\$(1,537)	\$(6,492)	\$(5,758)
Investing activities	\$(568)	\$4,987	\$(2,958)	\$(2,681)
Financing activities	\$—	\$—	\$—	\$(196)

(\$ thousands)	At	At	Change
	May 31, 2018	November 30, 2017	
Cash and cash equivalents	\$18,477	\$27,954	\$(9,477)
Term deposits	\$52,000	\$56,000	\$(4,000)

Second quarter 2018 compared to 2017

Cash used in operating activities increased by \$0.3 million due to increased general and administrative expense and changes in working capital. Cash used to fund Donlin Gold and Galore Creek was \$1.5 million higher than the prior year quarter due to ongoing optimization efforts at Donlin Gold. Cash provided from term deposits was \$4.1 million lower than in the prior year quarter. The term deposits are denominated in U.S. dollars and are held at Canadian chartered banks.

First six months 2018 compared to 2017

Cash used in operating activities increased by \$0.7 million, primarily due to increased general and administrative expense and changes in working capital. Cash used to fund Donlin Gold and Galore Creek was \$1.2 million higher than the prior year period. Cash provided from term deposits was \$0.9 million higher than the prior year period. No cash was used in financing activities in the first six months of 2018.

Outstanding share data

As of June 19, 2018, the Company had 322,533,022 common shares issued and outstanding. Also as of June 19, 2018, the Company had: i) a total of 19,610,710 stock options outstanding; 14,014,510 of those stock options with a weighted-average exercise price of C\$3.86 and the remaining 5,596,200 with a weighted-average exercise price of \$4.23; and ii) 1,797,400 performance share units and 280,118 deferred share units outstanding. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 22,586,928 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.

Item 1A. Risk Factors

Other than as set forth below, 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, 2017, as filed with the SEC on January 24, 2018. The risk factors in our Annual Report on Form 10-K for the year ended November 30, 2017, and those provided below, 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.

Uncertainty due to Stand for Salmon ballot initiative or related legislation which, if implemented as proposed, could adversely impact the development of the Donlin Gold project.

Stand for Salmon, a group formed to advance a ballot initiative under Alaska's Constitution, filed a proposed initiative in May 2017 that would revise Alaska's fish habitat law. The lawsuit challenging Lt. Gov. Byron Mallott's rejection of the proposed ballot initiative in September 2017 based on a determination that the proposed initiative improperly appropriated a valuable public resource in violation of the Alaska Constitution remains pending before the Alaska Supreme Court. The Stand for Salmon proposal closely resembles H.B. 199 as initially introduced during the 2017 Alaska legislative session by Rep. Louise Stutes (R-Kodiak). H.B. 199 was amended by Rep. Stutes several times during the legislative session, but was not acted on by the committee. Rep. Stutes stated that she intends to continue to work on the legislation during the legislative interim.

The Salmon First Initiative, which has been certified as Ballot Measure No. 1, would create a new multi-tiered system of permits for projects in fish habitat. Activities with insignificant potential impacts on anadromous fish habitat could be covered by a general permit; projects that do not have the potential to adversely affect anadromous fish habitat would be required to obtain a minor anadromous fish habitat permit; and projects that have the potential to adversely affect anadromous fish habitat would be required to obtain a major anadromous fish habitat permit.

Donlin Gold believes that, if the ballot initiative is not invalidated by a Supreme Court decision and were to be approved by the voters as proposed, Donlin Gold may be precluded from obtaining fish habitat permits required for the project because, among other reasons, the proposed initiative preclude the issuance of a fish habitat permit for a project that "necessitates water treatment, groundwater pumping, or other means of mechanical, chemical, or human intervention in perpetuity" or "will dewater or relocate a water body or portion of a water body, for five or more years." In addition, the initiative precludes the use of off-site mitigation for unavoidable effects on anadromous fish habitat and require that the permit applicant demonstrate that "anadromous fish habitat affected by the activity will likely recover or be restored within a reasonable period to a level that sustains the water body's, or portion of the water body's, natural and historical levels of anadromous fish, other fish, and wildlife that depend on the health and productivity of the anadromous fish habitat." Various components of the Donlin Gold project, e.g., the open pit, waste rock disposal area, and tailings impoundment, would permanently alter streams that support anadromous fish habitat.

Stand for Alaska, comprising a diverse group of Alaskans, including Alaska Laborers Local 341, Alaska Chamber of Commerce, the Resource Development Council, and Donlin Gold, was formed to oppose the Salmon First ballot initiative. At this time, neither the Company nor Donlin Gold can determine with certainty whether the Salmon First initiative or H.B.199 will be approved by the voters or enacted by the legislature in their current or a revised form; how the Alaska Supreme Court will rule on the pending appeal; or how the Stand for Salmon initiative or H.B.199 would be applicable to Donlin Gold's pending fish habitat permit applications or may affect the Donlin Gold project in the future.

The proposed sale of our 50% interest in Galore Creek and our 40% interest in Copper Canyon may not occur or may occur at a price lower than carrying value.

Part of our current business strategy is to sell all or part of our 50% interest in the Galore Creek Partnership and our 40% interest in Copper Canyon. Our management expects to continue to evaluate disposition opportunities on a regular basis and intends to pursue opportunities that management believes are in our long-term best interests. Competition in the mining business for limited sources of capital could adversely impact our ability to dispose of our interest in the Galore Creek Partnership and our 40% interest in Copper Canyon. As a result, we may not be successful in identifying a purchaser or in obtaining an offer at an acceptable price and on acceptable terms and conditions, or we may obtain and accept an offer at a price that is lower than our carrying value resulting in a loss. There is no assurance that we will be able to dispose of our interest in the Galore Creek Partnership; in which case we expect to continue with the joint development of the Galore Creek project through the Galore Creek Partnership, which would result in increased capital requirements for us to fund our portion of project development.

General economic conditions may adversely affect our growth, future profitability and ability to finance.

Some key impacts which can contribute to financial market turmoil potentially impacting the mining industry include contraction in credit markets resulting in a widening of credit risk, imposition of trade tariffs among various countries, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. The price of gold and gold mining company equities have experienced significant volatility over the past few years.

A worsening of gold prices or slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect our growth and ability to finance. Specifically:

- global economic conditions could make other investment sectors more attractive, thereby affecting the cost and availability of financing to us and our ability to achieve our business plan;
- the imposition of protectionist or retaliatory trade tariffs by countries may impact our ability to import materials needed to conduct our operations, or to export our products, at prices that are economically feasible for our operations, or at all;
- the volatility of metal prices would impact the economic viability of our mineral properties and any future revenues, profits, losses and cash flow;
- negative economic pressures could adversely impact demand for future production from our mineral properties;
- construction related costs could increase and adversely affect the economics of any of our projects;
- volatile energy, commodity and consumables prices and currency exchange rates would impact our future production costs; and
- the devaluation and volatility of global stock markets would impact the valuation of our equity and other securities.