

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, 2018 and February 28, 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.

First quarter highlights

Donlin Gold project

Permitting activities continued at the Donlin Gold project in the first quarter of 2018 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), has completed the final EIS and anticipates publishing the document, along with a Notice of Availability in the Federal Register in the second quarter. The final EIS also will be made available on the Donlin Gold EIS website at www.donlingoldeis.com. A Record of Decision (ROD) is expected to follow in the second half of the year. The final EIS presents a comprehensive environmental impact analysis that the Corps will use in making its decision on whether to issue the Clean Water Act Section 404 and Rivers and Harbors Act Section 10 permits, the key Federal authorizations for the project. 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 would then 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), 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 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, including:

- The close of the public comment period for the State of Alaska's draft water discharge and integrated waste management permits on February 13, 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, 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 economic conditions, 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 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.

As the Donlin Gold EIS is completed, the owners (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 of this work into account before reaching a construction decision.

Our share of funding for the Donlin Gold project in the first quarter of 2018 was \$1.7 million, including \$0.9 million for permitting and community engagement, and \$0.8 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 first quarter of 2018, 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 the Galore Creek Partnership was \$0.6 million in the first quarter 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 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, 2018, we had cash and cash equivalents of \$20.9 million and term deposits of \$56.0 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	
	February 28, 2018	February 28, 2017
Loss from operations	\$(6,779)	\$(8,963)
Net loss	\$(8,215)	\$(10,143)
Net loss per common share		
Basic and diluted	\$(0.03)	\$(0.03)

Results of Operations

First quarter 2018 compared to 2017

Loss from operations decreased from \$9.0 million in 2017 to \$6.8 million in 2018 due to lower general and administrative expense and lower costs at Donlin Gold LLC. General and administrative expense decreased by \$2.0 million 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 \$10.1 million (\$0.03 per share) in 2017 to \$8.2 million (\$0.03 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 \$0.3 million increase in interest expense on the promissory note payable to Barrick.

Liquidity, Capital Resources and Capital Requirements

(\$ thousands)	Three months ended	
	February 28, 2018	February 28, 2017
Cash provided from (used in):		
Operating activities	\$(4,642)	\$(4,221)
Investing activities	\$(2,390)	\$(7,668)
Financing activities	\$—	\$(196)

(\$ thousands)	At February 28, 2018	At November 30, 2017	Change
	Cash and cash equivalents	\$20,931	\$27,954
Term deposits	\$56,000	\$56,000	\$—

In the first quarter of 2018, cash, cash equivalents and term deposits decreased by \$7.0 million. The decrease was primarily related to \$4.6 million used in operating activities for administrative costs and working capital changes, \$1.7 million to fund Donlin Gold LLC and \$0.6 million to fund Galore Creek Partnership. The term deposits are denominated in U.S. dollars and are held at Canadian chartered banks.

First quarter 2018 compared to 2017

Cash used in operating activities increased by \$0.4 million, due to higher annual employee incentive payments. Cash used to fund affiliates decreased by \$0.3 million due to lower permitting costs for Donlin Gold LLC, partially offset by higher optimization costs for Donlin Gold LLC and higher care and maintenance costs for Galore Creek Partnership. In the first quarter of 2017, an additional \$5.0 million was invested in term deposits and \$0.2 million of withholding taxes were paid on performance share units vested. No cash was used in financing activities in the first quarter of 2018.

Outstanding share data

As of March 28, 2018, the Company had 322,303,842 common shares issued and outstanding. Also as of March 28, 2018, the Company had: i) a total of 20,077,650 stock options outstanding; 14,543,784 of those stock options with a weighted-average exercise price of C\$3.86 and the remaining 5,533,866 with a weighted-average exercise price of \$4.23; and ii) 1,809,000 performance share units and 332,074 deferred share units outstanding. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 23,123,224 common shares.

Accounting Developments

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