

NOVAGOLD RESOURCES INC

Form 10-Q

October 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended August 31, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission File Number: 001-31913

**NOVAGOLD RESOURCES INC.**

(Exact Name of Registrant as Specified in Its Charter)

**British Columbia**

(State or Other Jurisdiction of

**N/A**

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**201 South Main Street, Suite 400**

**84111**

**Salt Lake City, Utah, USA**

(Address of Principal Executive Offices) (Zip Code)

**(801) 639-0511**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Smaller reporting company

Non-accelerated filer

Accelerated filer

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 25, 2018, the Company had 322,668,675 Common Shares, no par value, outstanding.

NOVAGOLD RESOURCES INC.

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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”, “strategies”, “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:

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- 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.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## NOVAGOLD RESOURCES INC.

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Unaudited, US dollars in thousands)

|                                                | At<br>August 31,<br>2018 | At<br>November<br>30,<br>2017<br>Revised <sup>1</sup> |
|------------------------------------------------|--------------------------|-------------------------------------------------------|
| <b>ASSETS</b>                                  |                          |                                                       |
| Cash and cash equivalents                      | \$13,956                 | \$27,954                                              |
| Term deposits                                  | 152,000                  | 56,000                                                |
| Other assets                                   | 5,740                    | 883                                                   |
| Current assets                                 | 171,696                  | 84,837                                                |
| Notes receivable (note 5)                      | 88,663                   | —                                                     |
| Investment in Donlin Gold (note 6)             | 1,642                    | 1,100                                                 |
| Deferred income taxes                          | —                        | 9,761                                                 |
| Other assets                                   | 1,161                    | 6,531                                                 |
| Non-current assets held for sale (note 4)      | —                        | 296,640                                               |
| Total assets                                   | \$263,162                | \$398,869                                             |
| <b>LIABILITIES</b>                             |                          |                                                       |
| Accounts payable and accrued liabilities       | \$713                    | \$727                                                 |
| Accrued payroll and related benefits           | 1,960                    | 2,513                                                 |
| Other liabilities                              | 182                      | 182                                                   |
| Current liabilities                            | 2,855                    | 3,422                                                 |
| Promissory note (note 7)                       | 94,784                   | 90,040                                                |
| Non-current liabilities held for sale (note 4) | —                        | 21,378                                                |
| Total liabilities                              | 97,639                   | 114,840                                               |
| Commitments and contingencies (note 13)        |                          |                                                       |
| <b>EQUITY</b>                                  |                          |                                                       |
| Common shares                                  | 1,953,305                | 1,951,587                                             |
| Contributed surplus                            | 87,627                   | 83,534                                                |
| Accumulated deficit                            | (1,851,388)              | (1,744,917)                                           |

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|                                               |           |           |
|-----------------------------------------------|-----------|-----------|
| Accumulated other comprehensive income (loss) | (24,021 ) | (6,175 )  |
| Total equity                                  | 165,523   | 284,029   |
| Total liabilities and equity                  | \$263,162 | \$398,869 |

<sup>1</sup> See note 4 – Discontinued operations

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on October 2, 2018. They are signed on the Company's behalf by:

/s/ Gregory A. Lang, Director /s/ Anthony P. Walsh, Director

**NOVAGOLD RESOURCES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)**

(Unaudited, US dollars in thousands except per share amounts)

|                                                                                                                          | Three months ended<br>August 31,<br>2018 |                              | Nine months ended<br>August 31,<br>2018 |                              |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------|-----------------------------------------|------------------------------|
|                                                                                                                          |                                          | 2017<br>Revised <sup>1</sup> |                                         | 2017<br>Revised <sup>1</sup> |
| Operating expenses:                                                                                                      |                                          |                              |                                         |                              |
| General and administrative (note 9)                                                                                      | \$4,408                                  | \$4,646                      | \$13,989                                | \$16,163                     |
| Equity loss – Donlin Gold (note 6)                                                                                       | 2,514                                    | 3,165                        | 7,260                                   | 7,794                        |
|                                                                                                                          | 6,922                                    | 7,811                        | 21,249                                  | 23,957                       |
| Loss from operations                                                                                                     | (6,922 )                                 | (7,811 )                     | (21,249 )                               | (23,957 )                    |
| Other expense (note 11)                                                                                                  | (1,112 )                                 | (1,903 )                     | (3,839 )                                | (3,836 )                     |
| Loss before income taxes and other items                                                                                 | (8,034 )                                 | (9,714 )                     | (25,088 )                               | (27,793 )                    |
| Income tax expense                                                                                                       | (9 )                                     | (67 )                        | (154 )                                  | (218 )                       |
| Net loss from continuing operations                                                                                      | (8,043 )                                 | (9,781 )                     | (25,242 )                               | (28,011 )                    |
| Net loss from discontinued operations, net of tax (note 4)                                                               | (80,582 )                                | (612 )                       | (81,229 )                               | (987 )                       |
| Net loss                                                                                                                 | \$(88,625 )                              | \$(10,393 )                  | \$(106,471 )                            | \$(28,998 )                  |
| Other comprehensive (income) loss:                                                                                       |                                          |                              |                                         |                              |
| Unrealized gain (loss) on marketable securities, net of \$6, \$(2), \$41 and \$(23) tax recovery (expense), respectively | (26 )                                    | 48                           | (285 )                                  | 183                          |
| Foreign currency translation adjustments                                                                                 | (2,448 )                                 | 22,502                       | (3,785 )                                | 20,943                       |
| Reclassification of cumulative translation adjustment included in net loss from discontinued operations (note 4)         | (13,776 )                                | —                            | (13,776 )                               | —                            |
| Other comprehensive income (loss)                                                                                        | (16,250 )                                | 22,550                       | (17,846 )                               | 21,126                       |
| Comprehensive income (loss)                                                                                              | \$(104,875 )                             | \$12,157                     | \$(124,317 )                            | \$(7,872 )                   |
| 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 )                    |
| Weighted average shares outstanding                                                                                      |                                          |                              |                                         |                              |
| Basic and diluted (thousands)                                                                                            | 322,501                                  | 321,683                      | 322,366                                 | 321,586                      |

<sup>1</sup> See note 4 – Discontinued operations

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**NOVAGOLD RESOURCES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited, US dollars in thousands)

|                                                                                           | Three months ended<br>August 31,<br>2018 |             | Nine months ended<br>August 31,<br>2018 |             |
|-------------------------------------------------------------------------------------------|------------------------------------------|-------------|-----------------------------------------|-------------|
|                                                                                           | 2017                                     |             | 2017                                    |             |
|                                                                                           | Revised <sup>1</sup>                     |             | Revised <sup>1</sup>                    |             |
| Operating activities:                                                                     |                                          |             |                                         |             |
| Net loss                                                                                  | \$(88,625 )                              | \$(10,393 ) | \$(106,471 )                            | \$(28,998 ) |
| Adjustments:                                                                              |                                          |             |                                         |             |
| Loss from discontinued operations, net of tax                                             | 80,582                                   | 612         | 81,229                                  | 987         |
| Equity loss – Donlin Gold                                                                 | 2,514                                    | 3,165       | 7,260                                   | 7,794       |
| Share-based compensation                                                                  | 1,920                                    | 2,141       | 5,811                                   | 8,115       |
| Interest on promissory note                                                               | 1,657                                    | 1,361       | 4,744                                   | 3,881       |
| Foreign exchange (gain) loss                                                              | 205                                      | 851         | 323                                     | 818         |
| Accretion of notes receivable                                                             | (265 )                                   | —           | (265 )                                  | —           |
| Other                                                                                     | (308 )                                   | 74          | (326 )                                  | 9           |
| Changes in operating assets and liabilities:                                              |                                          |             |                                         |             |
| Other assets                                                                              | 235                                      | (154 )      | 297                                     | 311         |
| Accounts payable and accrued liabilities                                                  | (33 )                                    | 29          | (5 )                                    | (81 )       |
| Accrued payroll and related benefits                                                      | 656                                      | 635         | (551 )                                  | (272 )      |
| Net cash used in operating activities of continuing operations                            | (1,462 )                                 | (1,679 )    | (7,954 )                                | (7,436 )    |
| Investing activities:                                                                     |                                          |             |                                         |             |
| Proceeds from term deposits                                                               | 20,000                                   | 5,000       | 56,000                                  | 100,000     |
| Purchases of term deposits                                                                | (120,000)                                | —           | (152,000)                               | (91,900 )   |
| Funding of Donlin Gold                                                                    | (2,332 )                                 | (3,062 )    | (7,802 )                                | (8,040 )    |
| Other                                                                                     | —                                        | —           | (13 )                                   | (28 )       |
| Net cash provided from (used in) investing activities of continuing operations            | (102,332)                                | 1,938       | (103,815)                               | 32          |
| Net cash provided from (used in) investing activities of discontinued operations (note 4) | 99,279                                   | (477 )      | 97,804                                  | (1,252 )    |
| Net cash provided from (used in) investing activities                                     | (3,053 )                                 | 1,461       | (6,011 )                                | (1,220 )    |
| Financing activities:                                                                     |                                          |             |                                         |             |
| Withholding tax on share-based compensation                                               | —                                        | —           | —                                       | (196 )      |
| Net cash used in investing activities of continuing operations                            | —                                        | —           | —                                       | (196 )      |
| Discontinued operations:                                                                  |                                          |             |                                         |             |
| Net cash used in investing activities of discontinued operations                          | —                                        | (477 )      | (1,475 )                                | (1,252 )    |
| Effect of exchange rate changes on cash                                                   | (6 )                                     | 236         | (33 )                                   | 220         |
| Increase (decrease) in cash and cash equivalents                                          | (4,521 )                                 | 18          | (13,998 )                               | (8,632 )    |
| Cash and cash equivalents at beginning of period                                          | 18,477                                   | 21,624      | 27,954                                  | 30,274      |

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|                                                |           |           |           |           |
|------------------------------------------------|-----------|-----------|-----------|-----------|
| Cash and cash equivalents at end of period     | \$ 13,956 | \$ 21,642 | \$ 13,956 | \$ 21,642 |
| Non-cash transactions:                         |           |           |           |           |
| Notes receivable from the sale of Galore Creek | \$ 88,398 | \$ —      | \$ 88,398 | \$ —      |

<sup>1</sup> See note 4 – Discontinued operations

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**NOVAGOLD RESOURCES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EQUITY**

(Unaudited, US dollars and shares in thousands)

|                            | Nine months ended August 31, 2018 |              |                        |                        |            | Total equity |
|----------------------------|-----------------------------------|--------------|------------------------|------------------------|------------|--------------|
|                            | Common shares<br>Shares           | Amount       | Contributed<br>surplus | Accumulated<br>deficit | AOCI*      |              |
| November 30, 2017          | 322,219                           | \$ 1,951,587 | \$ 83,534              | \$(1,744,917)          | \$(6,175 ) | \$284,029    |
| Share-based compensation   | —                                 | —            | 1,949                  | —                      | —          | 1,949        |
| Stock options exercised    | 83                                | 977          | (977 )                 | —                      | —          | —            |
| Net loss                   | —                                 | —            | —                      | (8,215 )               | —          | (8,215 )     |
| Other comprehensive income | —                                 | —            | —                      | —                      | 1,774      | 1,774        |
| February 28, 2018          | 322,302                           | 1,952,564    | 84,506                 | (1,753,132)            | (4,401 )   | 279,537      |
| Share-based compensation   | —                                 | —            | 1,942                  | —                      | —          | 1,942        |
| Stock options exercised    | 24                                | 59           | (59 )                  | —                      | —          | —            |
| Net loss                   | —                                 | —            | —                      | (9,631 )               | —          | (9,631 )     |
| Other comprehensive loss   | —                                 | —            | —                      | —                      | (3,370 )   | (3,370 )     |
| May 31, 2018               | 322,326                           | 1,952,623    | 86,389                 | (1,762,763)            | (7,771 )   | 268,478      |
| Share-based compensation   | —                                 | —            | 1,920                  | —                      | —          | 1,920        |
| DSUs settled in shares     | 61                                | 293          | (293 )                 | —                      | —          | —            |
| Stock options exercised    | 146                               | 389          | (389 )                 | —                      | —          | —            |
| Net loss                   | —                                 | —            | —                      | (88,625 )              | —          | (88,625 )    |
| Other comprehensive loss   | —                                 | —            | —                      | —                      | (16,250)   | (16,250 )    |
| August 31, 2018            | 322,533                           | \$ 1,953,305 | \$ 87,627              | \$(1,851,388)          | \$(24,021) | \$ 165,523   |

|                            | Nine months ended August 31, 2017 |              |                        |                        |            | Total equity |
|----------------------------|-----------------------------------|--------------|------------------------|------------------------|------------|--------------|
|                            | Common shares<br>Shares           | Amount       | Contributed<br>surplus | Accumulated<br>deficit | AOCI*      |              |
| November 30, 2016          | 320,016                           | \$ 1,942,451 | \$ 82,573              | \$(1,705,901)          | \$(18,860) | \$300,263    |
| Share-based compensation   | —                                 | —            | 3,925                  | —                      | —          | 3,925        |
| PSUs settled in shares     | 1,513                             | 4,000        | (4,000 )               | —                      | —          | —            |
| Stock options exercised    | 124                               | 654          | (654 )                 | —                      | —          | —            |
| Withholding tax on PSUs    | —                                 | —            | (196 )                 | —                      | —          | (196 )       |
| Net loss                   | —                                 | —            | —                      | (10,143 )              | —          | (10,143 )    |
| Other comprehensive income | —                                 | —            | —                      | —                      | 3,539      | 3,539        |
| February 28, 2017          | 321,653                           | 1,947,105    | 81,648                 | (1,716,044)            | (15,321)   | 297,388      |
| Share-based compensation   | —                                 | —            | 2,049                  | —                      | —          | 2,049        |
| Stock options exercised    | 12                                | 288          | (288 )                 | —                      | —          | —            |
| Net loss                   | —                                 | —            | —                      | (8,462 )               | —          | (8,462 )     |
| Other comprehensive loss   | —                                 | —            | —                      | —                      | (4,963 )   | (4,963 )     |
| May 31, 2017               | 321,665                           | 1,947,393    | 83,409                 | (1,724,506)            | (20,284)   | 286,012      |
| Share-based compensation   | —                                 | —            | 2,141                  | —                      | —          | 2,141        |

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|                          |         |              |           |               |          |            |
|--------------------------|---------|--------------|-----------|---------------|----------|------------|
| Stock options exercised  | 46      | 662          | (662 )    | —             | —        | —          |
| Net loss                 | —       | —            | —         | (10,393 )     | —        | (10,393 )  |
| Other comprehensive loss | —       | —            | —         | —             | 22,550   | 22,550     |
| August 31, 2017          | 321,711 | \$ 1,948,055 | \$ 84,888 | \$(1,734,899) | \$ 2,266 | \$ 300,310 |

\* Accumulated other comprehensive income (loss)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**NOVAGOLD RESOURCES INC.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

**NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

NOVAGOLD RESOURCES INC. and its affiliates and subsidiaries (collectively, “NOVAGOLD” or the “Company”) operate in the mining industry, focused on the exploration for and development of gold mineral properties. The Company has no realized revenues from its planned principal business purpose. The Company’s principal asset is a 50% interest in the Donlin Gold project in Alaska, U.S.A. The Donlin Gold project is owned and operated by Donlin Gold LLC, a limited liability company that is owned equally by wholly-owned subsidiaries of NOVAGOLD and Barrick Gold Corporation (“Barrick”).

On July 25, 2018, the Company agreed to sell its 50% interest in the Galore Creek Partnership (GCP) and its 40% interest in the Copper Canyon mineral property in British Columbia, Canada (together the “Galore Creek” assets) to a subsidiary of Newmont Mining Corporation (“Newmont”). The transaction was completed on July 27, 2018 and the Company received \$100,000 on closing, a note for \$75,000 receivable upon the earlier of the completion of a new Galore Creek project pre-feasibility study or July 27, 2021, and a note for \$25,000 receivable upon the earlier of the completion of a Galore Creek project feasibility study or July 27, 2023, respectively. An additional note for \$75,000 is receivable upon approval of a Galore Creek project construction plan by the project owner(s).

Accordingly, the Galore Creek assets and liabilities as of November 30, 2017, are reflected as held for sale in the Condensed Consolidated Interim Balance Sheet, the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss and Cash Flows have been reclassified to present Galore Creek as a discontinued operation for all periods presented, and the amounts presented in these notes relate only to continuing operations unless otherwise noted. For additional information regarding discontinued operations, see note 4.

The Condensed Consolidated Interim Financial Statements of NOVAGOLD are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. These interim statements should be read in conjunction with NOVAGOLD’s Consolidated Financial Statements for the year ended November 30, 2017. The year-end balance sheet data was derived from the audited financial statements and certain information and footnote disclosures required by United States generally accepted accounting principles (US GAAP) have been condensed or omitted.

The functional currency for the Company’s Canadian operations is the Canadian dollar and the functional currency for the Company’s U.S. operations is the U.S. dollar. References in these Condensed Consolidated Interim Financial Statements and Notes to \$ refer to United States dollars and C\$ to Canadian dollars. Dollar amounts are in thousands, except for per share amounts.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Recently adopted accounting pronouncements

#### *Compensation—Stock Compensation*

In May 2017, Accounting Standard Update (ASU) No. 2017-09 was issued to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The adoption of this guidance, effective December 1, 2017, had no impact on the Consolidated Financial Statements or disclosures.

### Recently issued accounting pronouncements

#### *Restricted Cash*

In November 2016, ASU No. 2016-18 was issued related to the inclusion of restricted cash in the statement of cash flows. This new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. This update is effective in fiscal years, including interim periods, beginning after December 15, 2017 and early adoption is permitted. The adoption of this guidance will result in the inclusion of the restricted cash balances within the overall cash balance and removal of the changes in restricted cash activity. Furthermore, the Company will be required to reconcile cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the total shown in the Consolidated Statements of Cash Flows. The Company anticipates adopting this new guidance effective December 1, 2018, and does not expect it to have a material impact on the Consolidated Financial Statements or disclosures.

**NOVAGOLD RESOURCES INC.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

*Classification of Certain Cash Receipts and Cash Payments*

In August 2016, ASU No. 2016-15 was issued related to the statement of cash flows. The new guidance will require the Company to make an accounting policy election to classify distributions received from equity method investees Donlin Gold LLC using a cumulative earnings approach or a nature of the distribution approach. The election will affect the classification of future distributions on the statement of cash flows as cash inflows from operating activities or investing activities. The new guidance is effective for the Company's fiscal year and interim periods beginning December 1, 2018, and early adoption is permitted. The Company has evaluated this guidance and does not expect it to have a material impact on the Consolidated Financial Statements or disclosures. The Company anticipates retrospectively adopting the new guidance effective December 1, 2018.

*Leases*

In February 2016, ASU No. 2016-02 was issued related to leases, which was further amended in September 2017 by ASU No. 2017-13, in January 2018 by ASU No. 2018-01 and in July 2018 by ASU Nos. 2018-10 and 2018-11. The new guidance modifies the classification criteria and requires lessees to recognize the assets and liabilities arising from most leases on the balance sheet. The new guidance is effective for the Company's fiscal year beginning December 1, 2019 and early adoption is permitted. The Company anticipates adopting the new guidance effective December 1, 2019. Adoption of this guidance is not expected to materially increase the Company's assets and liabilities.

*Classification and Measurement of Financial Instruments*

In January 2016, ASU No. 2016-01 was issued to amend the guidance on the classification and measurement of financial instruments, which was further amended in February 2018 by ASU No. 2018-03. The new guidance requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The new guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for the Company's fiscal year beginning December 1, 2018 and early adoption is not permitted. The Company expects the updated guidance to result in a reclassification of unrealized holding gains and losses and deferred income taxes related to investments in marketable equity securities from Accumulated other comprehensive loss to Accumulated deficit in the Consolidated Balance Sheets upon adoption. Accumulated other comprehensive loss at August 31, 2018 included \$558 of net unrealized holding gains and deferred income taxes related to marketable equity securities that will be reclassified to Accumulated deficit upon adoption.

*Fair Value Measurement*

In August 2018, ASU No. 2018-13 was issued related to the disclosure requirements for fair value measurement. The new guidance is effective for the Company's fiscal year and interim periods beginning December 1, 2020, and early adoption is permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

**NOTE 3 – SEGMENTED INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The Chief Executive Officer considers the business from a geographic perspective considering the performance of our investments in the Donlin Gold project in Alaska, U.S.A. (note 6) and, prior to its disposal, the Galore Creek project in British Columbia, Canada (note 4).

**NOTE 4 – DISCONTINUED OPERATIONS**

The details of our Net loss from discontinued operations, net of tax are set forth below:

|                                          | Three months<br>ended August 31, |         | Nine months<br>ended August 31, |         |
|------------------------------------------|----------------------------------|---------|---------------------------------|---------|
|                                          | 2018                             | 2017    | 2018                            | 2017    |
| Equity loss – Galore Creek               | \$(556 )                         | \$(612) | \$(1,203 )                      | \$(987) |
| Loss on sale of Galore Creek, net of tax | (80,026)                         | —       | (80,026)                        | —       |
|                                          | \$(80,582)                       | \$(612) | \$(81,229)                      | \$(987) |

**NOVAGOLD RESOURCES INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

The loss on the sale of Galore Creek, net of tax, was calculated as follows:

|                                                                         |             |
|-------------------------------------------------------------------------|-------------|
| Cash consideration received on closing                                  | \$ 100,000  |
| Less closing costs                                                      | (721 )      |
|                                                                         | 99,279      |
| Fair value of notes receivable (note 5)                                 | 88,398      |
| Net proceeds                                                            | 187,677     |
| Less book values:                                                       |             |
| Investment in GCP                                                       | (248,367)   |
| Copper Canyon mineral property                                          | (44,577 )   |
| Reclassification of cumulative foreign currency translation adjustments | 13,776      |
| Deferred income tax recovery                                            | 11,465      |
|                                                                         | \$(80,026 ) |

The details of our Net cash provided from (used in) investing activities of discontinued operations are set forth below:

|                            | Three months ended August 31, 2018 |         | Nine months ended August 31, 2017 |           |
|----------------------------|------------------------------------|---------|-----------------------------------|-----------|
|                            | 2018                               | 2017    | 2018                              | 2017      |
| Funding of Galore Creek    | \$—                                | \$(477) | \$(1,475 )                        | \$(1,252) |
| Net cash proceeds received | 99,279                             | —       | 99,279                            | —         |
|                            | \$99,279                           | \$(477) | \$97,804                          | \$(1,252) |

The carrying amounts of Galore Creek's major classes of assets and liabilities, which have been re-presented as held for sale in the comparative Balance Sheet as of November 30, 2017, are as follows:

|                                  |           |
|----------------------------------|-----------|
| <b>Assets</b>                    |           |
| Investment in GCP                | \$251,461 |
| Copper Canyon mineral property   | 45,179    |
| Non-current assets held for sale | \$296,640 |
| <b>Liabilities</b>               |           |
| Deferred income tax liabilities  | \$21,378  |
| Non-current assets held for sale | \$21,378  |

## **Investment in Galore Creek**

The Galore Creek project is owned by GCP, a partnership in which Teck and a wholly-owned subsidiary of NOVAGOLD (now a subsidiary of Newmont subsequent to completion of the sale transaction on July 27, 2018) each own a 50% interest. GCP has a management committee comprised of four representatives, with two representatives selected by each owner. All significant decisions related to GCP required the approval of at least a majority of the GCP management committee representatives.

GCP prepares its financial statements under International Financial Reporting Standards, as issued by the IASB and presents its financial statements in Canadian dollars. In accounting for its investment in GCP, the Company converts and presents reported amounts in accordance with US GAAP and in U.S. dollars.

**NOVAGOLD RESOURCES INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

Changes in the Company's investment in GCP are summarized as follows:

|                               | Three months ended<br>August 31, |           | Nine months ended<br>August 31, |           |
|-------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                               | 2018                             | 2017      | 2018                            | 2017      |
| Balance – beginning of period | \$251,109                        | \$240,531 | \$251,461                       | \$241,404 |
| Share of losses               | (556 )                           | (612 )    | (1,203 )                        | (987 )    |
| Funding                       | —                                | 477       | 1,475                           | 1,252     |
| Foreign currency translation  | (2,186 )                         | 18,484    | (3,366 )                        | 17,211    |
| Sale of investment in GCP     | (248,367)                        | —         | (248,367)                       | —         |
| Balance – end of period       | \$—                              | \$258,880 | \$—                             | \$258,880 |

The following amounts represent the Company's 50% share of the assets and liabilities of GCP as of November 30, 2017, presented in U.S. dollars and in accordance with U.S. GAAP. As a result of recording the Company's investment at fair value in June 2011, the carrying value of the Company's 50% interest in GCP was higher than 50% of the book value of GCP. Therefore, the Company's investment did not equal 50% of the net assets recorded by GCP:

|                                                               |           |
|---------------------------------------------------------------|-----------|
| Current assets: Cash, prepaid expenses and other receivables  | \$197     |
| Non-current assets: Mineral property                          | 226,561   |
| Current liabilities: Accounts payable and accrued liabilities | (237 )    |
| Non-current liabilities: Reclamation obligation               | (7,645 )  |
| Net assets                                                    | \$218,876 |

**NOTE 5 – NOTES RECEIVABLE**

The Company has notes receivable from Newmont including: a \$75,000 note receivable upon the earlier of the completion of a new Galore Creek project pre-feasibility study or July 27, 2021; a \$25,000 note receivable upon the earlier of the completion of a Galore Creek project feasibility study or July 27, 2023; and an additional note for \$75,000 is receivable upon approval of a Galore Creek project construction plan by the owner(s). The Company estimated the fair value of the \$75,000 and \$25,000 notes receivable at \$88,398, 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 \$75,000 and \$25,000 over three and five years, respectively. No value was assigned to the final \$75,000 contingent note receivable due to the uncertainty with regards to the approval of a Galore Creek project construction plan.

**NOTE 6 – INVESTMENT IN DONLIN GOLD**

The Donlin Gold project is owned and operated by Donlin Gold LLC, a limited liability company in which wholly-owned subsidiaries of Barrick and NOVAGOLD each own a 50% interest. Donlin Gold LLC has a board of four member representatives, with two members selected by Barrick and two members selected by the Company. All significant decisions related to Donlin Gold LLC require the approval of at least a majority of the Donlin Gold LLC board members.

Changes in the Company's investment in Donlin Gold LLC are summarized as follows:

|                               | Three months<br>ended August 31, |         | Nine months<br>ended August 31, |         |
|-------------------------------|----------------------------------|---------|---------------------------------|---------|
|                               | 2018                             | 2017    | 2018                            | 2017    |
| Balance – beginning of period | \$1,824                          | \$1,300 | \$1,100                         | \$951   |
| Share of losses:              |                                  |         |                                 |         |
| Mineral property expenditures | (2,513)                          | (3,145) | (7,249)                         | (7,729) |
| Depreciation                  | (1 )                             | (20 )   | (11 )                           | (65 )   |
|                               | (2,514)                          | (3,165) | (7,260)                         | (7,794) |
| Funding                       | 2,332                            | 3,062   | 7,802                           | 8,040   |
| Balance – end of period       | \$1,642                          | \$1,197 | \$1,642                         | \$1,197 |

**NOVAGOLD RESOURCES INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

The following amounts represent the Company's 50% share of the assets and liabilities of Donlin Gold LLC. Donlin Gold LLC has capitalized as Mineral property the initial contribution of the Donlin Gold property with a carrying value of \$64,000 resulting in a higher carrying value of the Mineral property than the Company.

|                                                               | At<br>August<br>31,<br>2018 | At<br>November<br>30,<br>2017 |
|---------------------------------------------------------------|-----------------------------|-------------------------------|
| Current assets: Cash, prepaid expenses and other receivables  | \$2,423                     | \$ 2,075                      |
| Non-current assets: Property and equipment                    | 11                          | 23                            |
| Non-current assets: Mineral property                          | 32,692                      | 32,692                        |
| Current liabilities: Accounts payable and accrued liabilities | (792 )                      | (998 )                        |
| Non-current liabilities: Reclamation obligation               | (692 )                      | (692 )                        |
| Net assets                                                    | \$33,642                    | \$ 33,100                     |

**NOTE 7 – PROMISSORY NOTE PAYABLE**

The Company has a promissory note payable to Barrick with a principal amount of \$51,576, plus interest at a rate of U.S. prime plus 2%, amounting to \$43,208 in accrued interest. The promissory note resulted from the agreement that led to the formation of Donlin Gold LLC, where the Company agreed to reimburse Barrick for a portion of their expenditures incurred from April 1, 2006 to November 30, 2007. The promissory note and accrued interest are payable from 85% of the Company's share of revenue from future mine production or from any net proceeds resulting from a reduction of the Company's interest in Donlin Gold LLC. The carrying value of the promissory note approximates fair value.

**NOTE 8 – FAIR VALUE ACCOUNTING**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the significance of the inputs used in making the measurement. The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical,  
— unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for  
— substantially the full term of the asset or liability; and

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and  
— unobservable (supported by little or no market activity).

The Company's marketable equity securities are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of the marketable equity securities was \$1,116 at August 31, 2018 (\$1,448 at November 30, 2017), calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

The fair values of the \$75,000 and \$25,000 notes received from Newmont as part of the proceeds from the sale of the Galore Creek assets on July 27, 2018, were based on quoted market values for Newmont debt with a similar term.

**NOVAGOLD RESOURCES INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

**NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES**

|                                         | Three months ended August 31, |         | Nine months ended August 31, |          |
|-----------------------------------------|-------------------------------|---------|------------------------------|----------|
|                                         | 2018                          | 2017    | 2018                         | 2017     |
| Share-based compensation                | \$1,920                       | \$2,141 | \$5,811                      | \$8,115  |
| Salaries and benefits                   | 1,610                         | 1,604   | 4,923                        | 4,879    |
| Office expense                          | 671                           | 510     | 1,787                        | 1,574    |
| Professional fees                       | 162                           | 211     | 577                          | 673      |
| Corporate communications and regulatory | 40                            | 170     | 875                          | 893      |
| Depreciation                            | 5                             | 10      | 16                           | 29       |
|                                         | \$4,408                       | \$4,646 | \$13,989                     | \$16,163 |

**NOTE 10 – SHARE-BASED COMPENSATION**

|                             | Three months ended August 31, |         | Nine months ended August 31, |         |
|-----------------------------|-------------------------------|---------|------------------------------|---------|
|                             | 2018                          | 2017    | 2018                         | 2017    |
| Stock options               | \$941                         | \$919   | \$2,827                      | \$4,555 |
| Performance share unit plan | 939                           | 1,171   | 2,848                        | 3,400   |
| Deferred share unit plan    | 40                            | 51      | 136                          | 160     |
|                             | \$1,920                       | \$2,141 | \$5,811                      | \$8,115 |

Stock options

A summary of stock options outstanding as of August 31, 2018 and activity during the nine-months ended August 31, 2018 is as follows:

| Number of stock options (thousands) | Weighted-average exercise price per share | Weighted-average remaining contractual term | Aggregate intrinsic value |
|-------------------------------------|-------------------------------------------|---------------------------------------------|---------------------------|
|-------------------------------------|-------------------------------------------|---------------------------------------------|---------------------------|

|                                              |          |         | (years) |          |  |
|----------------------------------------------|----------|---------|---------|----------|--|
| November 30, 2017                            | 17,551   | \$ 3.24 |         |          |  |
| Granted                                      | 3,527    | 3.88    |         |          |  |
| Exercised                                    | (1,148 ) | 3.14    |         |          |  |
| Expired                                      | (130 )   | 3.38    |         |          |  |
| Forfeited                                    | (321 )   | 4.07    |         |          |  |
| August 31, 2018                              | 19,479   | \$ 3.32 | 2.12    | \$ 4,180 |  |
| Vested and exercisable as of August 31, 2018 | 15,090   | \$ 3.11 | 1.56    | \$ 4,180 |  |

**NOVAGOLD RESOURCES INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

The following table summarizes other stock option-related information:

|                                                                 | Nine months<br>ended August 31, |   |        |   |
|-----------------------------------------------------------------|---------------------------------|---|--------|---|
|                                                                 | 2018                            |   | 2017   |   |
| Weighted-average assumptions used to value stock option awards: |                                 |   |        |   |
| Expected volatility                                             | 50                              | % | 50     | % |
| Expected term of options (years)                                | 3                               |   | 3      |   |
| Expected dividend rate                                          | —                               |   | —      |   |
| Risk-free interest rate                                         | 1.8                             | % | 1.2    | % |
| Expected forfeiture rate                                        | 2.3                             | % | 2.5    | % |
| Weighted-average grant-date fair value                          | \$1.35                          |   | \$2.14 |   |

As of August 31, 2018, the Company had \$2,862 of unrecognized compensation cost related to 4,388,941 non-vested stock options expected to be recognized and vest over a period of approximately 2.25 years. During the nine months ended August 31, 2018, the intrinsic value of stock options exercised was \$1,114 and no cash was received.

**Performance share units**

A summary of PSU awards outstanding as of August 31, 2018 and activity during the nine-months ended August 31, 2018 is as follows:

|                        | Number of<br>PSU awards<br>(thousands) | Weighted-<br>average<br>grant day<br>fair value<br>per award | Aggregate<br>intrinsic<br>value |
|------------------------|----------------------------------------|--------------------------------------------------------------|---------------------------------|
| November 30, 2017      | 2,176                                  | \$ 4.10                                                      |                                 |
| Granted                | 873                                    | 3.85                                                         |                                 |
| Vested                 | —                                      | —                                                            |                                 |
| Performance adjustment | (1,240 )                               | 3.48                                                         |                                 |
| Forfeited              | (12 )                                  | 4.32                                                         |                                 |
| August 31, 2018        | 1,797                                  | \$ 4.39                                                      | \$ 5,409                        |

As of August 31, 2018, the Company had \$2,864 of unrecognized compensation cost related to non-vested PSU awards expected to be recognized and vest over a period of approximately 2.25 years.

The following table summarizes other PSU-related information:

|                                          | Nine months<br>ended August<br>31,<br>2018 2017 |         |
|------------------------------------------|-------------------------------------------------|---------|
| Performance multiplier on PSUs vested    | —%                                              | 113 %   |
| Common shares issued (thousands)         | —                                               | 1,556   |
| Total fair value of common shares issued | \$—                                             | \$4,506 |
| Withholding tax paid on PSUs vested      | \$—                                             | \$196   |

**NOTE 11 – OTHER INCOME (EXPENSE)**

|                              | Three months<br>ended August 31,<br>2018 2017 |           | Nine months<br>ended August 31,<br>2018 2017 |           |
|------------------------------|-----------------------------------------------|-----------|----------------------------------------------|-----------|
| Interest income              | \$750                                         | \$309     | \$1,228                                      | \$863     |
| Interest expense             | (1,657)                                       | (1,361)   | (4,744)                                      | (3,881)   |
| Foreign exchange gain (loss) | (205 )                                        | (851 )    | (323 )                                       | (818 )    |
|                              | \$(1,112)                                     | \$(1,903) | \$(3,839)                                    | \$(3,836) |

**NOVAGOLD RESOURCES INC.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited, US dollars in thousands except per share amounts)

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The Company provided technical services to Donlin Gold LLC for \$605 during the nine months ended August 31, 2018 (\$nil in 2017). As of August 31, 2018, the Company has accounts receivable from Donlin Gold LLC of \$258 (November 30, 2017: \$nil) included in other current assets.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**Obligations under operating leases**

The Company leases certain assets, such as office equipment and office facilities, under operating leases expiring at various dates through 2023. Future minimum annual lease payments are \$55 in the remainder of 2018, \$226 in 2019, \$199 in 2020, \$204 in 2021, \$210 in 2022 and \$18 in 2023, totaling \$912.



## 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](http://www.sec.gov) and with Canadian Securities Administrators on SEDAR at [www.sedar.com](http://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, Chefnak 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 |             | Nine months ended |             |
|-----------------------------------------------|--------------------|-------------|-------------------|-------------|
|                                               | August 31,         |             | 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

|                               | Three months ended<br>August 31, |         | Nine months ended<br>August 31, |         |
|-------------------------------|----------------------------------|---------|---------------------------------|---------|
| (\$ thousands)                | 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<br>August<br>31,<br>2018 | At<br>November<br>30,<br>2017 | Change   |
|---------------------------|-----------------------------|-------------------------------|----------|
| (\$ thousands)            |                             |                               |          |
| 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.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our financial instruments are exposed to certain financial risks, including credit and interest rate risks.

#### *Credit risk*

Concentration of credit risk exists with respect to our cash and cash equivalents, term deposit investments and notes receivable. All term deposits are held through Canadian chartered banks with high investment-grade ratings and have maturities of one year or less. The notes receivable are due from Newmont Mining Corporation, a publicly-traded company with investment grade credit ratings.

#### *Interest rate risk*

The interest rate on the promissory note owed to Barrick is variable with the U.S. prime rate. Based on the amount owing on the promissory note as at August 31, 2018, and assuming that all other variables remain constant, a 1% change in the U.S. prime rate would result in an increase/decrease of approximately \$1.0 million in the interest accrued by us per annum.

### Item 4. Controls and Procedures

Management, with the participation of our President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of August 31, 2018. On the basis of this review, our President and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated by the SEC under the Exchange Act) during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. The company's internal controls over financial reporting are based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of

the Treadway Commission.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we are a party to routine litigation and proceedings that are considered part of the ordinary course of our business. We are not aware of any material current, pending, or threatened litigation.

### 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 Salmon First 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. Lt. Gov. Byron Mallott rejected 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. Stand for Salmon filed an objection in State court to the Lieutenant Governor's rejection of the proposed initiative. On August 8, 2018, the Alaska Supreme Court issued a ruling on the case. The court concluded that two provisions of the initiative were unconstitutional because they would completely preclude certain natural resource and other development projects. However, instead of rejecting the initiative in its entirety, the court severed those two unconstitutional provisions from the remainder of the initiative. The revised version of the initiative will be placed on the ballot and addressed by the voters in November 2018.

The Stand for Salmon 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 were to be approved by the voters, it may be difficult for Donlin Gold to obtain new or modified fish habitat permits required for the project.

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 LLC, was formed to oppose the Stand for Salmon ballot initiative. At this time, neither the Company nor Donlin Gold can determine with certainty whether the Stand for Salmon ballot initiative will be approved by the voters or how the Stand for Salmon ballot initiative may affect the Donlin Gold project in the future.

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 prices 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 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

These disclosures are not applicable to us.

Item 5. Other Information.

None.

Item 6. Exhibits

See Exhibit Index.

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 2, 2018 **NOVAGOLD RESOURCES INC.**

By: /s/ Gregory A. Lang  
Gregory A. Lang  
President and Chief Executive Officer

(principal executive officer)

By: /s/ David A. Ottewell  
David A. Ottewell  
Vice President and Chief Financial Officer (principal financial and accounting officer)

## EXHIBIT INDEX

| Exhibit<br>No. | Description |
|----------------|-------------|
|----------------|-------------|

|      |                                                                                                  |
|------|--------------------------------------------------------------------------------------------------|
| 31.1 | <u>Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)</u> |
|------|--------------------------------------------------------------------------------------------------|

|      |                                                                                                  |
|------|--------------------------------------------------------------------------------------------------|
| 31.2 | <u>Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)</u> |
|------|--------------------------------------------------------------------------------------------------|

|      |                                                                                        |
|------|----------------------------------------------------------------------------------------|
| 32.1 | <u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u> |
|------|----------------------------------------------------------------------------------------|

|      |                                                                                        |
|------|----------------------------------------------------------------------------------------|
| 32.2 | <u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u> |
|------|----------------------------------------------------------------------------------------|

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 101 | <p>The following materials are filed herewith: (i) XBRL Instance, (ii) XBRL Taxonomy Extension Schema, (iii) XBRL Taxonomy Extension Calculation, (iv) XBRL Taxonomy Extension Labels, (v) XBRL Taxonomy Extension Presentation, and (vi) XBRL Taxonomy Extension Definition. In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by the specific reference in such filing.</p> |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|