

## LETTER TO SHAREHOLDERS



**Gregory A. Lang** | president and CEO

Over the past six years, we have been methodically advancing our two assets up the value chain: the 50%-owned Donlin Gold project in Alaska and the 50%-owned Galore Creek copper-gold-silver project in British Columbia. Our company's core priority throughout this period has been to position NOVAGOLD such that when the scarcity value of these tier-one properties is realized – and the market is willing to pay the right price for growth – our efforts will render NOVAGOLD the go-to gold stock. This revaluation can happen quickly.

Looking at the last time our share price rose quickly, in 2010, we faced more than a few headwinds and had some things to prove. Yet despite such adversity, NOVAGOLD's share price more than doubled within a matter of months. This is worth remembering, as this was before we had a feasibility study on Donlin Gold; before we had a pre-feasibility study on Galore Creek; before relations with our partner on the Donlin Gold project – strained by the baggage of the failed takeover attempt in 2006 – became truly friendly and close; before the seasoned management team we have in place today had been hired; and before the company's stated belief that permitting our project in Alaska would succeed had been demonstrated. Successfully turning all of these NOVAGOLD-specific headwinds into major tailwinds for our company will surely advance our unique story. I would add that a number of other factors that did not seem particularly critical at the time have been very positive for NOVAGOLD. Let us ponder some of them, as they will inevitably resonate with all of our shareholders. In 2010, miners – and investors – were ambivalent about grade; now grade is king. And even if the quality of the discoveries was low, exploration was yielding some success. Since the beginning of the decade, however, no new discoveries that could significantly move the needle for the majors have been found. Perhaps most important, miners – and again investors – were rather cavalier about where they secured and developed their projects. Now if a management team

claims to have one of the industry's best assets, it had better also be able to satisfyingly answer investors' likely question: "Where in the world is it?"

Between what we have done right in the areas within our control and what has happened to the industry, NOVAGOLD today is better positioned than ever. As we work and wait, it can be frustrating at times for all of us who want to see NOVAGOLD achieve its true potential. But we are convinced that the phenomenon we call "the tortoise and the hare" is going to provide the value we all seek. The price of gold will obviously have a say in the matter. Nonetheless, in terms of those items within our control, we are delivering on our strategy of derisking our flagship project, Donlin Gold, setting the stage for a timely construction decision. 2017, a year characterized by success across the board, was certainly no exception. We continued to execute on the company's stated strategy, making progress on all fronts – including completing a drill program that will help advance our optimization work at Donlin Gold, a one-of-a-kind asset where potential value generation is highest. In our view, Donlin Gold represents the world's most important gold development project and warrants a singular, laser-like focus. This truly will be a model mine, in no small part because of the exceptional level of dedication, collaboration, trust, and respect among all stakeholders as they continue to move the project forward. This is what motivates us. We believe that the best is yet to come – for our shareholders, for our partners, and for all of our project's local stakeholders.

A resource almost four times the size of the peer group average.



\* Donlin Gold resources as per the second updated feasibility study effective November 18, 2011, as amended January 20, 2012. Represents 100% of measured resources of 7.7 million tonnes at 2.52 g/t and indicated resources of 533.6 million tonnes at 2.24 g/t and includes proven and probable reserves. NOVAGOLD's share of total Donlin Gold resources is 50%. † Peer group data based on company documents, public filings, and websites. Comparison group of 15 projects based on large (2Moz P&P cut-off), North/South American gold-focused development projects.

Donlin Gold is now in the final stretch of the permitting process; publication of the Environmental Impact Statement (EIS) – a key step in project permitting, which, for an asset such as Donlin Gold, constitutes a major undertaking – is expected shortly. It’s an accomplishment that represents a significant milestone that – as mandated by the National Environmental Policy Act (NEPA) – involves preparation of comprehensive documentation, multiple public forums, and receipt of a multitude of comments designed to ensure that no issue voiced by a broad range of stakeholders goes unaddressed. In early 2017, Donlin Gold responded to more than 100 requests for additional information from the U.S. Army Corps of Engineers (the “Corps”), the project’s lead federal permitting agency. Utilizing this information, the Corps was able to reply to the received comments on the draft EIS, refine possible alternatives, and identify potential mitigation measures to be included in the final EIS. The preliminary final EIS was completed and distributed to the cooperating agencies in July 2017. Subsequently, they completed their review, on schedule, in mid-September. The Corps is currently finishing its final internal review of the EIS, with an anticipated publication date of early 2018 to be followed by the issuance of a Record of Decision (ROD) later in the year.

Donlin Gold will be obtaining over 100 permits, most of which are to be issued by the State of Alaska. In parallel with the NEPA process, Donlin Gold submitted applications for key state permits resulting in the issuance of the air pollution control permit in June 2017, as well as the release by the state late last year of the draft water discharge and integrated waste management permits for public comment. Other important state and federal permits and approvals are expected to be issued shortly after the Corps’ ROD. The hard work by Donlin Gold and its owners’ professional teams is producing tangible results as permitting advances toward final agency actions in 2018.

Donlin Gold is a truly unique project. Its endowment of approximately 39,000,000 ounces of gold resources in the measured and indicated category, along with its average grade of 2.2 grams per tonne, are in a category all by themselves. Moreover, with planned production averaging approximately 1,100,000 ounces of gold per year over its projected 27-year mine life and most likely beyond, considering the exploration potential that exists along an 8-kilometer gold mineralized belt (as per the 2011 second updated feasibility study), Donlin Gold represents an extraordinary project in our sector. Lastly – and very importantly – besides size, quality, and exploration potential, we never forget that Donlin Gold is located in Alaska, a state with gold production second only to Nevada and a culture that welcomes responsible mine development. In an age of extreme geopolitical uncertainty around the world, NOVAGOLD and its partner in the project, Barrick Gold, are truly blessed. On a personal level: Other than Barrick’s Goldstrike, which is now a mature mine, in a career spanning 40 years I have never come across any other project that shares these attributes.

In 2017, along with the significant achievements on the permitting front mentioned earlier, we made real progress in advancing our project optimization efforts. Launched in July 2017 by NOVAGOLD and Barrick, the drilling program – which included 16 core holes (7,040 meters) – has given us additional geochemical and structural data for portions of the deposit, which will further strengthen our understanding of the targeted mineralized zones. Assaying of the drill core is ongoing and will be incorporated into the optimization work, which will determine the best path forward for the project. Beyond evaluating enhancements to the project execution plan, we have also been assessing greater use of selective mining methods and investigating innovative technologies in logistics and automation. We were encouraged by these results. Such findings will contribute valuable data to complete our optimization work and help us elaborate an execution plan to develop Donlin Gold in the most cost-effective manner, while reducing execution risks and maintaining upside potential. We look forward to updating all of our stakeholders as our optimization efforts advance during 2018.

A discussion about the extraordinary progress we have achieved at Donlin Gold would not be complete without a special mention of our local partners – namely the Calista Corporation, owners of the project’s mineral rights, and The Kuskokwim Corporation (TKC), owners of the surface rights. In the context of the Alaska Native Claims Settlement Act (ANCSA), which provided twelve Alaska Native Regional Corporations the opportunity to select lands as partial

Nearly double the gold industry’s average grade.



Donlin Gold average grade\*

**2.24g/t**

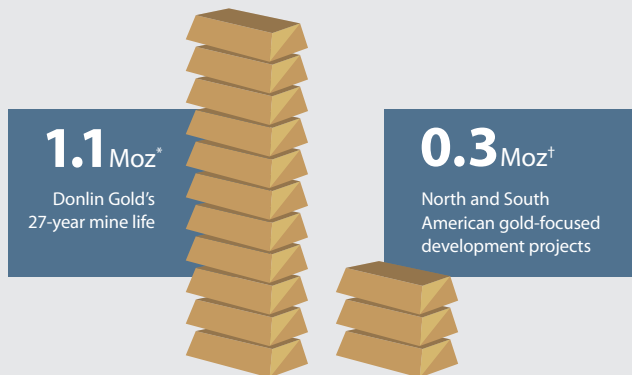


world average grade†

**1.13g/t**

\* Donlin Gold resources as per the second updated feasibility study effective November 18, 2011, as amended January 20, 2012. Represents 100% of measured resources of 7.7 million tonnes at 2.52 g/t and indicated resources of 533.6 million tonnes at 2.24 g/t and includes proven and probable reserves. NOVAGOLD’s share of total Donlin Gold resources is 50%. † 2016 average grade of open-pit and underground deposits with gold as primary commodity and over 1Moz in measured and indicated resources, sourced from SNL Metals & Mining.

One of only six mines in the world slated to produce >1M ounces a year.



\* Donlin Gold data as per the second updated feasibility study effective November 18, 2011, as amended January 20, 2012. Represents 100% of production of which NOVAGOLD's share is 50%. Projected annual gold production during full life of mine. † Peer group data based on company documents, public filings, and websites. Comparison group of 15 projects based on large (2Moz P&P cut-off), North/South American gold-focused development projects.

compensation for relinquishment of their aboriginal title claims, Calista selected the Donlin Gold mineral rights because of their known gold potential. TKC has also contributed valuable input to ensure that our development plan brings tangible, long-lasting benefits and responsible development to the region. ANCSA's vision was for Alaska's Native Corporations to realize the opportunity for self-determination through economic development of the lands selected for their natural resources potential – a vision Donlin Gold certainly embodies as one of the largest economic opportunities in the Yukon-Kuskokwim (Y-K) region. Together, with mutual support and involvement, we are building a foundation that will provide members of Calista and TKC, and their descendants, with the opportunity to thrive socially and economically, as well as support and maintain their subsistence way of life. As Donlin Gold continues to advance in its development, we will rise together.

Galore Creek is often only mentioned in passing, given our focus on advancing Donlin Gold, yet there is no denying that it effectively enjoys all of the key attributes that one finds in Donlin Gold: the size, scale, and quality; the jurisdictional appeal of being located in British Columbia; and the excellent partnerships required to successfully advance such an important project. Our belief that it will constitute one of the largest and lowest-cost copper mines in Canada reinforces our view that it will represent a very valuable asset to a potential developer. While we continue to evaluate opportunities to monetize our interest in the project – with our partner, Teck Resources – we are fortunate to have the flexibility to be patient sellers. The recent move in the price of copper is generating greater interest in the asset. When the time is right, we feel that Galore Creek will generate meaningful value for our shareholders.

We strongly believe that extensive engagement with all of our stakeholders is critical in ensuring our success. In that spirit, we went a step further in 2017 as members of our board of directors met with top institutional shareholders after the proxy season in order to gain greater insight into best practices in compensation and governance, as well as to initiate two-way communication to guide change as the company evolves.

With two exceptional assets located in top jurisdictions, I am more motivated and optimistic than ever that the year ahead will be pivotal for our company. We have a seasoned leadership team with us, and there is truly no aspect of the value chain that this group has not navigated successfully throughout their respective careers. For their outstanding contributions to NOVAGOLD's progress over the last year, my thanks go to my colleagues and our partners at Barrick and Teck, as well as the Native Corporations, local stakeholders, and government agencies with whom we have collaborated extensively. I also would like to thank our dedicated board of directors for providing us with much valued expertise and guidance every step of the way. Finally, I am sincerely grateful to our shareholders for their unwavering support and faith in the future of this great company.

**Gregory A. Lang**  
president and CEO  
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