

NOVAGOLD RESOURCES INC  
Form 10-Q  
April 04, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended February 29, 2016

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)

<u>British Columbia</u>	<u>N/A</u>
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

789 West Pender Street, Suite 720 Vancouver, British Columbia	<u>V6C 1H2</u>
<u>Canada</u> (Address of Principal Executive Offices) (Zip Code)	

(604) 669-6227  
(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 ý No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

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reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 March 28, 2016, the Company had 319,703,227 Common Shares, no par value, outstanding.

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NOVAGOLD RESOURCES INC.

TABLE OF CONTENTS

	<u>Page</u>
PART I - FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures about Market Risk	14
Item 4. Controls and Procedures	14
PART II - OTHER INFORMATION	15
Item 1. Legal Proceedings	15
Item 1A. Risk Factors	15
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 3. Defaults Upon Senior Securities	15
Item 4. Mine Safety Disclosures	15
Item 5. Other Information.	15
Item 6. Exhibits	15

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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 our 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 and Galore Creek projects, completion of transactions, market prices for precious and base metals, or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Statements concerning mineral resource estimates may also be deemed to constitute "forward-looking statements" to the extent that they involve estimates of the mineralization that will be encountered if the property is developed.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are based on a number of material assumptions, including those listed below, which could prove to be significantly incorrect:

- our ability to achieve production at any of our mineral exploration and development properties;
- estimated capital costs, operating costs, production and economic returns;
- estimated metal pricing, metallurgy, mineability, marketability and operating and capital costs, together with other assumptions underlying our resource and reserve estimates;
- our expected ability to develop adequate infrastructure and that the cost of doing so will be reasonable;
- assumptions that all necessary permits and governmental approvals will be obtained;
- 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
- that our activities will not be adversely disrupted or impeded by development, operating or regulatory risks.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- uncertainty of whether there will ever be production at our mineral exploration and development properties;
- uncertainty of estimates of capital costs, operating costs, production and economic returns;
- uncertainties relating to the assumptions underlying our resource and reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;
- risks related to our ability to commence production and generate material revenues or obtain adequate financing for our planned exploration and development activities;
- 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;
- 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 properties;

- credit, liquidity, interest rate and currency risks;
  - risks related to market events and general economic conditions;
  - uncertainty related to inferred mineral resources;
  - risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
  - risks related to lack of infrastructure required to develop, construct, and operate 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;
  - 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;
  - commodity price fluctuations;
  - risks related to governmental regulation and permits, including environmental regulation;
  - risks related to the need for reclamation activities on our properties and uncertainty of cost estimates related thereto;
  - uncertainty related to title to our mineral properties;
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- uncertainty related to unsettled aboriginal rights and title in British Columbia;
- our history of losses and expectation of future losses;
- uncertainty as to the outcome of potential litigation;
- risks related to our largest shareholder;
- risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;
- competition in the mining industry;
- our need to attract and retain qualified management and technical personnel;
- risks related to our current practice of not using hedging arrangements;
- risks related to conflicts of interests of some of the directors of the Company;
- risks related to global climate change;
- risks related to opposition to our operations at our mineral exploration and development properties from non-governmental organizations or civil society; and
- increased regulatory compliance costs relating to the Dodd-Frank Act.

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.

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## PART I - FINANCIAL INFORMATION

Financial Statements  
Item 1.NOVAGOLD RESOURCES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited, US dollars in thousands)

	At February 29, 2016	At November 30, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$36,938	\$41,731
Term deposits	80,000	85,000
Other assets	2,647	3,310
Current assets	119,585	130,041
Investment in Donlin Gold (note 4)	903	1,058
Investment in Galore Creek (note 5)	239,732	242,906
Mineral property	43,031	43,605
Deferred income taxes	9,583	9,711
Other assets	6,229	6,263
Total assets	\$419,063	\$433,584
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$1,308	\$3,066
Other liabilities	396	451
Current liabilities	1,704	3,517
Promissory note (note 6)	81,352	80,261
Deferred income taxes	20,241	20,510
Total liabilities	103,297	104,288
Commitments and contingencies (note 13)		
<b>EQUITY</b>		
Common shares	1,941,528	1,938,262
Contributed surplus	77,941	80,774
Accumulated deficit	(1,682,032)	(1,672,055)
Accumulated other comprehensive loss	(21,671)	(17,685)
Total equity	315,766	329,296
Total liabilities and equity	\$419,063	\$433,584

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 April 4, 2016. 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 LOSS  
 (Unaudited, US dollars in thousands except per share amounts)

	Three months ended	
	February 29, 2016	February 28, 2015
Operating expenses:		
Equity loss – Donlin Gold (note 4)	\$2,003	\$2,496
Equity loss – Galore Creek (note 5)	194	126
General and administrative (note 8)	7,324	8,502
Studies and evaluation	—	153
Depreciation	9	9
	9,530	11,286
Loss from operations	(9,530 )	(11,286 )
Other income (expense) (note 10)	(385 )	1,997
Loss before income taxes	(9,915 )	(9,289 )
Income tax expense	(62 )	(10 )
Net loss	\$(9,977 )	\$(9,299 )
Other comprehensive loss:		
Unrealized gain (loss) on marketable securities, net of \$(3) and \$10 tax (expense) recovery, respectively	36	(62 )
Foreign currency translation adjustments	(4,022 )	(31,760 )
Other comprehensive loss	(3,986 )	(31,822 )
Comprehensive loss	\$(13,963 )	\$(41,121 )
Net loss per common share		
Basic and diluted	\$(0.03 )	\$(0.03 )
Weighted average shares outstanding		
Basic and diluted (thousands)	319,343	317,780

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	
	February 29, 2016	February 28, 2015
Operating activities:		
Net loss	\$(9,977 )	\$(9,299 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity losses of affiliates	2,197	2,622
Share-based compensation	4,708	5,329
Interest on promissory note	1,091	995
Accretion of convertible notes	—	430
Depreciation	9	9
Deferred income taxes	(3 )	10
Foreign exchange gain	(525 )	(3,462 )
Other	211	(26 )
Withholding tax paid on share-based compensation	(4,275 )	(827 )
Net change in operating assets and liabilities (note 11)	(1,172 )	(1,403 )
Net cash used in operations	(7,736 )	(5,622 )
Investing activities:		
Proceeds from term deposits	40,000	45,000
Purchases of term deposits	(35,000)	(40,000)
Funding of affiliates	(2,063 )	(2,528 )
Net cash used in investing activities	2,937	2,472
Financing activities:		
Net cash used in financing activities	—	—
Effect of exchange rate changes on cash	6	(218 )
Decrease in cash and cash equivalents	(4,793 )	(3,368 )
Cash and cash equivalents at beginning of period	41,731	70,325
Cash and cash equivalents at end of period	\$36,938	\$66,957

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)

	Common shares		Contributed	Accumulated	Accumulated other comprehensive	Total
	Shares	Amount	surplus	deficit	income	equity
November 30, 2014	317,288	\$1,936,336	\$ 74,038	\$(1,640,103 )	\$ 34,845	\$405,116
Net loss	—	—	—	(31,952 )	—	(31,952 )
Other comprehensive loss	—	—	—	—	(52,530 )	(52,530 )
Share-based compensation and related share issuances	622	1,926	6,736	—	—	8,662
November 30, 2015	317,910	\$1,938,262	\$ 80,774	\$(1,672,055 )	\$ (17,685 )	\$329,296
Net loss	—	—	—	(9,977 )	—	(9,977 )
Other comprehensive loss	—	—	—	—	(3,986 )	(3,986 )
Share-based compensation and related share issuances	1,654	3,266	(2,833 )	—	—	433
February 29, 2016	319,564	\$1,941,528	\$ 77,941	\$(1,682,032 )	\$ (21,671 )	\$315,766

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") operates in the mining industry, focused on the exploration for and development of gold and copper mineral properties. The Company has no operations or realized revenues from its planned principal business purpose. The Company's principal assets include a 50% interest in the Donlin Gold project in Alaska, U.S.A. and a 50% interest in the Galore Creek project in British Columbia, Canada.

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, 2015. 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 to "\$" refer to United States currency and "C\$" to Canadian currency. Dollar amounts are in thousands, except for per share amounts.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently adopted accounting pronouncements

Consolidation – Amendments to the Consolidation Analysis

In February 2015, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) guidance was issued to amend current consolidation guidance. The amendments affect both the variable interest entity and voting interest entity consolidation models and primarily relate to: limited partnerships and similar legal entities; evaluating fees paid to a decision maker or a service provider as a variable interest; the effect of fee arrangements on the primary beneficiary determination; the effect of related parties on the primary beneficiary determination; and certain investment funds. The Company determined that these changes did not have an impact on its previous consolidation analysis and elected early adoption of the new standard effective for the Company's fiscal year beginning December 1, 2016. Application of the new guidance had no impact on the consolidated financial position, results of operations or cash flows.

Recently issued accounting pronouncements

Leases

In February 2016, ASC guidance was issued to amend lease accounting guidance. The new guidance amends the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases and amends disclosure requirements associated with leasing arrangements. The new guidance is effective for the Company's fiscal year beginning December 1, 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is currently evaluating this

guidance and the impact on its consolidated financial statements.

#### Classification and Measurement of Financial Instruments

In January 2016, ASC guidance was issued to amend the guidance on the classification and measurement of financial instruments. The new guidance significantly revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. 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. Early adoption for most of the provisions is not allowed. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

5

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## NOVAGOLD RESOURCES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

## 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. and the Galore Creek project in British Columbia, Canada. Segment information is provided on each of the material projects individually in notes 4 and 5.

## NOTE 4 – 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 Gold Corporation ("Barrick") and NOVAGOLD each own a 50% interest. Donlin Gold LLC has a board of four directors, with two directors selected by Barrick and two directors selected by the Company. All significant decisions related to Donlin Gold LLC require the approval of both Barrick and the Company.

Changes in the Company's 50% investment in Donlin Gold LLC are summarized as follows:

	Three months ended	
	February 29, 2016	February 28, 2015
Balance – beginning of period	\$ 1,058	\$ 1,618
Share of losses		
Mineral property expenditures	(1,964)	(2,453 )
Depreciation	(39 )	(43 )
	(2,003)	(2,496 )
Funding	1,848	2,352
Balance – end of period	\$903	\$ 1,474

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 February 29, 2016	At November 30, 2015
Current assets: Cash, prepaid expenses and other receivables	\$ 1,488	\$ 1,762
Non-current assets: Property and equipment	532	232
Non-current assets: Mineral property	32,692	32,692
Current liabilities: Accounts payable and accrued liabilities	(1,117 )	(936 )
Non-current liabilities: Reclamation obligation	(692 )	(692 )
Net assets	\$ 32,903	\$ 33,058

NOTE 5 – INVESTMENT IN GALORE CREEK

The Galore Creek project is owned by the Galore Creek Partnership (GCP) a partnership in which Teck Resources Limited ("Teck") and a wholly owned subsidiary of NOVAGOLD each own a 50% interest. GCP has a board of four directors, with two members selected by Teck and two members selected by the Company. All significant decisions related to GCP require the approval of both Teck and the Company.

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.

6

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## 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	
	February	February
	29,	28,
	2016	2015
Balance – beginning of period	\$242,906	\$283,247
Share of losses		
Mineral property expenditures	(59 )	(13 )
Care and maintenance expense	(135 )	(113 )
	(194 )	(126 )
Funding	215	176
Foreign currency translation	(3,195 )	(24,052 )
Balance – end of period	\$239,732	\$259,245

The following amounts represent the Company's 50% share of the assets and liabilities of GCP presented in U.S. dollars and in accordance with US 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 is higher than 50% of the book value of GCP. Therefore, the Company's investment does not equal 50% of the net assets recorded by GCP:

	At	At
	February	November
	29,	30,
	2016	2015
Current assets: Cash, prepaid expenses and other receivables	\$254	\$497
Non-current assets: Mineral property	215,657	218,532
Current liabilities: Accounts payable and accrued liabilities	(50 )	(365 )
Non-current liabilities: Payables and decommissioning liabilities	(7,068 )	(7,162 )
Net assets	\$208,793	\$211,502

## NOTE 6 – PROMISSORY NOTE

The Company has a promissory note payable to Barrick for \$51,576, plus interest at a rate of U.S. prime plus 2%, amounting to \$29,776 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 7 – 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 \$606 at February 29, 2016 (\$571 at November 30, 2015), calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

## NOVAGOLD RESOURCES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

## NOTE 8 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended	
	February 29, 2016	February 28, 2015
Salaries	\$1,692	\$ 1,518
Share-based compensation	4,708	5,329
Office expense	504	493
Professional fees	126	242
Corporate development and communications	294	920
	\$7,324	\$ 8,502

## NOTE 9 – SHARE-BASED COMPENSATION

	Three months ended	
	February 29, 2016	February 28, 2015
Stock options	\$3,668	\$ 4,104
Performance share unit plan	989	1,170
Deferred share unit plan	51	55
	\$4,708	\$ 5,329

In the first three months of 2016, the Company granted 4,586,700 share options to employees and directors with an exercise price of C\$5.02 per share and a fair value of C\$1.83 per share. The Company also granted 1,241,900 performance share units (PSUs) to employees with a fair value of C\$4.65 per unit. PSU grants made on January 4, 2014 vested and were paid out on December 1, 2015 in common shares of the Company at 140% of the PSU grant amount. The Company elected to remit PSU withholding taxes of \$4,275,000 using cash and issued the net amount of 1,377,364 shares to holders.

In the first three months of 2015, the Company granted 4,359,450 share options to employees and directors with an exercise price of C\$3.18 per share and a fair value of C\$1.28 per share. The Company also granted 1,377,250 PSUs to employees with a fair value of C\$3.86 per unit. PSU grants made on December 5, 2012 vested and were paid out on December 5, 2014 in common shares of the Company at 137% of the PSU grant amount. The Company elected to remit PSU withholding taxes of \$827,000 using cash and issued the net amount of 506,175 shares to holders.

## NOTE 10 – OTHER INCOME (EXPENSE)

	Three months ended	
	February 29, 2016	February 28, 2015

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Interest income	\$ 181	\$ 178
Interest expense	(1,091)	(1,643 )
Foreign exchange gain	525	3,462
	\$(385 )	\$ 1,997

8

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## NOVAGOLD RESOURCES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

## NOTE 11 – CHANGE IN OPERATING ASSETS AND LIABILITIES

	Three months ended	
	February 29, 2016	February 28, 2015
Decrease in receivables, deposits and prepaid amounts	\$634	\$332
Decrease in accounts payable and accrued liabilities	(1,751)	(1,659)
Decrease in other liabilities	(55)	(76)
	\$(1,172)	\$(1,403)

## NOTE 12 – RELATED PARTY TRANSACTIONS

In the first three months of 2016, the Company provided office rental and services to GCP for \$80 (\$91 in the first three months of 2015).

As of February 29, 2016, the Company has accounts receivable from GCP of \$27 (November 30, 2015: \$28) included in other current assets and a receivable of \$3,500 (November 30, 2015: \$3,546) from GCP included in other long-term assets.

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

## General

The Company follows ASC guidance in determining its accruals and disclosures with respect to loss contingencies. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

## Obligations under operating leases

The Company leases certain assets, such as office equipment and office facilities, under operating leases expiring at various dates through 2017. Future minimum annual lease payments are \$301 in the remainder of 2016, \$317 in 2017 and \$38 in 2018, totaling \$656.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the three month periods ended February 29, 2016 and February 28, 2015. This discussion should be read in conjunction with the condensed consolidated interim financial statements and notes thereto contained elsewhere in this report.

### 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 the financing to fund these objectives.

Our goals for 2016 include:

- Advance the Donlin Gold project toward a construction decision.
- Advance Galore Creek mine planning and project design.
- Evaluate opportunities to monetize the value of Galore Creek.
- Maintain a healthy balance sheet.
- Maintain an effective corporate social responsibility program.

### First quarter highlights

#### Advancement of the Donlin Gold project

Permitting activities continued at Donlin Gold in the first quarter of 2016 and were mainly focused on updating our Clean Water Act Section 404 permit application information and providing the U.S. Army Corps of Engineers (the "Corps"), the lead agency for the Donlin Gold EIS, with requested input and information as the Corps conducted public meetings in the Yukon-Kuskokwim (Y-K) region and Anchorage on the draft Environmental Impact Statement (EIS). The EIS is required by the National Environmental Policy Act (NEPA), the act that governs the process by which most major projects in the United States are evaluated. The EIS is also, in large part, a determining factor in the overall permitting timeline which commenced in 2012 for Donlin Gold. This document is comprised of four main sections which:

Outline of the purpose and need for the development of the proposed mine and the benefit it would bring to the stakeholders of Donlin Gold's Alaska Native Corporation partners, Calista Corporation and The Kuskokwim Corporation (TKC).

Identify and analyze a reasonable range of alternatives to the mine development proposed by Donlin Gold which comprise variations on certain mine site facility designs, as well as local transportation and power supply options.

Prepare an environmental analysis of the proposed action and reasonable alternatives (including a no action alternative), which identifies and characterizes the potential physical, biological, social, and cultural impacts relative to the existing baseline conditions. This portion constitutes the most extensive part of the EIS.

Describe potential mitigation measures intended to reduce or eliminate the environmental impacts described in the impact analysis section.

The Corps filed the draft EIS in November 2015. Following the filing of the draft EIS, the Corps issued a schedule for public meetings on the draft EIS, which are being held in the Y-K region and Anchorage. The Corps will accept comments on the draft EIS until the close of the 5-month comment period at the end of April 2016. This timeline

provides ample opportunity for all the stakeholders to become informed and comment on the EIS. The Corps' schedule anticipates that the final Donlin Gold EIS, which will include responses to all comments on the draft EIS, will be published in 2017. All Donlin Gold EIS documents, including the Corps' time table for the Donlin Gold EIS process, can be found on their website at [www.donlingoldeis.com](http://www.donlingoldeis.com).

In addition to actively participating in the NEPA process, Donlin Gold continues to work simultaneously with the Corps and other permitting agencies on major permit applications, including:

- working with the State to advance the review of Donlin Gold's air quality permit application and preparation of the air quality permit;

- finalizing Donlin Gold's water discharge permit application for submission to the State of Alaska;

- advancing Donlin Gold's integrated waste management and reclamation permit applications which have been submitted to the State of Alaska;

- coordinating and supporting the State, Federal, and native landowner reviews of the rights-of-way and lease applications for the gas pipeline; and

- supporting the Corps in finalizing the determination of the impacts on wetland areas, functions, as well as values and proposing compensatory mitigation as required by the Clean Water Act section 404 permitting process.

An extensive list of additional federal and state government permits and approvals must be obtained before the Donlin Gold project can commence construction. Preparation of the applications for some of these permits and approvals requires additional, more detailed engineering that were not part of the Donlin Gold feasibility study. Completion of this engineering will require a significant investment of funds, time, and other resources by Donlin Gold and its contractors. Also, the Donlin Gold board must approve a construction program and budget before construction of the Donlin Gold project can begin. The timing of the required engineering work and the Donlin Gold board's approval of a construction program and budget, the receipt of all required governmental permits and approvals, the availability of financing, among other factors, will affect whether and when construction of the Donlin Gold project will begin. Among other reasons, project delays could occur as a result of public opposition, limitations in agency staff resources during regulatory review and permitting, or project changes made by Donlin Gold.

Our share of funding for Donlin Gold in the first quarter of 2016 was \$1.9 million for permitting, community engagement and development efforts. Our 50% share of the 2016 work program is expected to be approximately \$9 million. The 2016 work program and budget includes funds to continue to advance the permitting process and provide input into the EIS process, through issuance of a final EIS in 2017. In addition, Donlin Gold will continue to maintain its engagement with communities in the Y-K region.

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

#### Galore Creek project

In the first quarter of 2016, the Galore Creek Partnership continued to advance technical studies in project mine planning and design, and waste rock and water management, and community commitments. We expect this effort to further improve the value and marketability of the Galore Creek project, which we continue to be open to monetizing, in whole or in part, to strengthen our balance sheet and focus primarily on the permitting of Donlin Gold.

Our share of cash funding for Galore Creek was \$0.2 million in the first quarter of 2016, primarily for technical studies, care and maintenance, and community commitments. In 2016, our 50% share of the work program is expected to be approximately \$1 million to continue to advance technical studies, community commitments and site care and maintenance.

We record our interest in the Galore Creek Partnership as an equity investment, which results in our 50% share of expenses being recorded in the income statement as an operating loss. The investment amount recorded on the balance

sheet primarily represents the fair value of our investment in the Galore Creek Partnership in 2011, recorded upon Teck's completion of their earn-in, as well as unused funds advanced to the Partnership, all in Canadian dollars, and translated to U.S. dollars at the current exchange rate.

A sustained decline in the long-term copper price is deemed to be an indicator of possible impairment for our investment in the Galore Creek Partnership and our 40% direct interest in the Copper Canyon mineral property. The Canadian dollar is the functional currency for our Canadian operations and therefore we assess whether there has been a potential impairment triggering event related to copper prices in Canadian dollars. Due to the continued strengthening of the U.S. dollar in relation to the Canadian dollar, there has not been a significant decline in the price of copper in Canadian dollar terms and therefore is not presently an indicator of possible impairment.



## Outlook

We do not currently generate operating cash flows. At February 29, 2016, we had cash and cash equivalents of \$36.9 million and term deposits of \$80.0 million. At present, we believe that these balances are sufficient to cover the anticipated funding at the Donlin Gold and Galore Creek projects in addition to general and administrative costs through completion of permitting at the Donlin Gold project. Additional capital will be necessary if permits are received at the Donlin Gold project and a decision to commence construction is reached. Future financings to fund construction are anticipated through debt financing, equity financing, project specific debt, 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. For further information, see the risk factors in our Annual Report on Form 10-K for the year ended November 30, 2015, as filed with the SEC and the Canadian Securities Regulators on January 27, 2016.

In 2016, we expect to spend approximately \$25 million, including \$10 million to fund our share of expenditures at the Donlin Gold and Galore Creek projects; \$1 million for joint Donlin Gold studies with Barrick and \$12 million for general and administrative costs, and \$2 million for working capital and other corporate purposes.

## Summary of Consolidated Financial Performance

	Three months ended	
	February 29, 2016	February 28, 2015
<u>(\$ thousands, except per share)</u>		
Loss from operations	\$(9,530)	\$(11,286)
Net loss	\$(9,977)	\$(9,299 )
Net loss per common share		
Basic and diluted	\$(0.03 )	\$(0.03 )

## Results of Operations

### First quarter 2016 compared to 2015

Loss from operations decreased from \$11.3 million in 2015 to \$9.5 million in 2016 due to lower general and administrative expense and lower costs at the Donlin Gold project. General and administrative expense decreased by \$1.2 million, primarily due to lower share-based compensation costs compared to the prior year. Our share of losses at the Donlin Gold project decreased by \$0.5 million, as 2016 activities continued to focus primarily on permitting and the draft EIS public comment period.

Net loss increased from \$9.3 million (\$0.03 per share) in 2015 to \$10.0 million (\$0.03 per share) in 2016, primarily due to a decrease in foreign exchange gains. The U.S. dollar significantly strengthened in relation to the Canadian dollar during the first quarter of 2015 and foreign exchange gains were realized by the Canadian parent company on its cash denominated in U.S. dollars, partially offset by foreign exchange losses on deferred income taxes and the then outstanding convertible note debt.

## Liquidity, Capital Resources and Capital Requirements

	Three months ended	
	February 29,	February 28,

<u>(\$ thousands)</u>	2016	2015
Cash used in operations	\$(7,736)	\$(5,622 )
Cash provided from (used in) investing activities	\$2,937	\$2,472
Cash used in financing activities	\$—	\$—

12

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	At February 29, 2016	At November 30, 2015	Change
<u>(\$ thousands)</u>			
Cash and cash equivalents	\$ 36,938	\$ 41,731	\$(4,793)
Term deposits	\$ 80,000	\$ 85,000	\$(5,000)

In the first quarter of 2016, cash and term deposits decreased by \$9.8 million. The decrease was primarily related to \$7.7 million used in operating activities for administrative costs, withholding taxes on vested performance share units and working capital changes, \$1.9 million to fund Donlin Gold and \$0.2 million to fund Galore Creek. The term deposits are denominated in U.S. dollars and are held at two Canadian chartered banks.

#### First quarter 2016 compared to 2015

Cash used in operations increased by \$2.1 million, primarily due to higher withholding taxes paid on performance share units vested, partially offset by reductions in working capital. Cash used to fund affiliates decreased by \$0.5 million due to the timing of funding requirements at Donlin Gold. No cash was used in financing activities in the first quarter of 2016 or 2015.

#### Outstanding share data

As of March 28, 2016, the Company had 319,703,227 common shares issued and outstanding. Also as of March 28, 2016, the Company had outstanding 20,547,131 stock options with a weighted-average exercise price of C\$4.52, 2,619,150 Performance Share Units and 265,528 Deferred Share Units. Upon exercise of the foregoing convertible securities, the Company would be required to issue a maximum of 24,741,384 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 currency, credit and interest rate risks.

#### Currency risk

We are exposed to financial risk related to the fluctuation of foreign exchange rates. We operate in Canada and the United States and a portion of our expenses are incurred in Canadian dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the U.S. dollar could have an effect on our results of operations, financial position or cash flows.

We have not hedged our exposure to currency fluctuations. At February 29, 2016, we are exposed to currency risk through our investment in the Galore Creek project, mineral properties, deferred income taxes and cash balances held in Canadian dollars.

Based on the above net exposures as at February 29, 2016, and assuming that all other variables remain constant, a \$0.01 depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of approximately \$3.0 million in our consolidated comprehensive income (loss).

#### Credit risk

Concentration of credit risk exists with respect to our cash and cash equivalents and term deposit investments. All deposits are held through two large Canadian chartered banks with high investment-grade ratings and have maturities of less than one year.

#### 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 February 29, 2016, 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 \$0.8 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 February 29, 2016. 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

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, 2015, as filed with the SEC on January 27, 2016. The risk factors in our Annual Report on Form 10-K for the year ended November 30, 2015, 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.

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

Exhibits

See Exhibit Index.

15

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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: April 4, 2016 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 No.	Description
<u>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
101	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.