papa doesn't play poker

Dr. Thomas Kaplan | Chairman, Board of Directors

Last November, Greg Lang, Mélanie Hennessey, and I embarked on an "informational roadshow" in Europe. It was our first time meeting existing and prospective shareholders since the advent of several events significant to NOVAGOLD: the sale of our half interest in Galore Creek to Newmont Mining Corporation, the issuance of the Record of Decision (ROD) for Donlin Gold, and the merger of our partner, Barrick Gold Corporation, with Randgold Resources Limited. Each was a positive development for us; combined, they constituted a possible game-changing catalyst for NOVAGOLD – once sentiment rewards the sector in general, and, in particular, gives the premium valuations to those few reliable "unicorns" that have had unalloyed good news to report.

There was a bit of *déjà vu* about the experience, as fund managers newer to the story asked about the genesis of our personal engagements with NOVAGOLD – and why our team had acquired such a fine reputation for doing everything that we said we were going to do. On more than one occasion, we found ourselves highlighting a philosophy of management, including investor relations, that revolved around the importance of credibility and keeping faith with all of our stakeholders. As I said in the quote I contributed to our press release when we made the Galore deal with Newmont:

> *This transaction is a win win for all parties. For NOVAGOLD's shareholders, it is the continuation of a laser-focused strategy of unlocking the value of its assets and transforming the Company into a pure play on Donlin Gold, which we believe is the most important gold development story in the industry. Beginning in 2012 with the successful spin-off of NovaCopper (now Trilogy Metals) so that our shareholders could benefit from a rare high-grade copper asset in a premier jurisdiction, to the disciplined and unhurried sale of our interest in Galore Creek to a first-rate acquirer, the Board and management are proud of the fact that their commitments to investors have been scrupulously kept.*
>
> *NOVAGOLD is expected to end this year with over $150 million in cash, with a further $100 million of guaranteed payments to follow over the next five years. Should Galore Creek proceed to a construction decision, NOVAGOLD will receive an additional $75 million. The owners of our shares should be delighted by the fact that to implement its business strategy, our Company does not expect to raise more money until a construction decision is made on Donlin Gold.*
>
> *Reminding ourselves of our consistent refrain that such a decision, in turn, is expected to be taken at a point when gold is apparently resuming its long-term bull market trajectory which should imply much, much higher share prices. For those who believe as we do, that there comes a time when the shares are more precious than the metal itself, this set of circumstances should be seen for what it is: a very rare case of a mining company continuing every day, month, and year to honor its promises to do the right thing for its shareholders.*

Having witnessed the price the industry has paid for its follies, I believe there is a very special place for gold miners who deliver on their promises. Superimposed onto this observation is my equally strong belief that we are in the final stage of a correction within a secular bull market in gold. While that doesn't mean that all gold mining companies will do well going forward, I am convinced that the special nature of NOVAGOLD means that ours will do *extremely* well. As the largest investor in the company as well as its chairman, I believe that the upside case is clear in a bullish gold price environment. Having found or taken control of great assets in silver, platinum, and hydrocarbons that multiplied in value in the past, I believe I really do know whereof I speak. Donlin represents a truly great asset and then some. It is, in fact, *unique*, which makes NOVAGOLD an exceptionally special situation worthy of anyone's portfolio – specialist or generalist. At the moment, such boundless enthusiasm seems far removed from the reality of the marketplace. So as a seasoned player in the natural resources space who strongly believes in the notion that if an investor has covered the *downside* the upside will take care of itself, let me actually begin by focusing first on the downside protections we've put in place for NOVAGOLD's owners in order to ensure that your company, effectively an unexpiring warrant without time decay, is prepared to prosper.

What is NOVAGOLD? A pure play on a permitted mining project that we believe will constitute the single largest pure gold mine in the world – in one of the few parts of the world where mining is welcomed and the rule of law isn't a novelty. Donlin won't be nationalized, *de facto* or *de jure*. Indeed, the project enjoys tremendous support at the local, state, and federal levels. And we have a well-managed, tier-one partner in Barrick Gold. Moreover, NOVAGOLD has a balance sheet that, between cash on hand and guaranteed receivables, exceeds $250 million, with maybe more to come. With federal permitting behind us and Galore Creek monetized, NOVAGOLD's current obligated burn rate is nominal at a time when we are flush with cash. If gold prices go down before they revive in full, we simply cannot go out of business under any reasonable scenario – at a time when producers *could* go out of business and, at the very least, companies that are burning cash may have to raise funds at the worst possible moment. Not us. NOVAGOLD would be one of the few precious metals players positioned to survive a downturn without needing to raise capital – or even struggling, for that matter. For any investor, these downside protections provide a true differentiator. Though our stock may or may not go up during such a washout, our durability implies that we will be the equity our shareholders will least worry about in their portfolio. As we often say, we can afford to sleep well at night – if not about the world in general, then at least insofar as our company is concerned. While I don't believe that the fundamentals of gold, or the industry, require a washout to set the stage for gold's next big move higher, these head fakes do happen. This is not a scenario we fear – our team having been in that movie several times over the years, and knowing from experience how to position ourselves financially to profit from market displacements.

Let me go further with those assurances. We have deliberately positioned ourselves in such a manner that we would likely not need to raise capital even if the resumption of the gold bull market is delayed by a temporary downturn in gold price. If anything, under certain circumstances the company might determine that its shares are worth more than the metal itself and buy some back. Your management is nothing if not investor-friendly. Put differently, an investor can expect that, when gold puts in its bottom, we will not have diluted our fully intact optionality to our reserves and, importantly, our optionality to a deposit that likely has many more ounces in front of it than perhaps any other – and certainly any found in a safe place.

These assertions point to the ultimate incongruity of our share price. As of this writing, our shares are trading below $4. This does not represent a market-clearing price. Those who believe our half of Donlin Gold – which I believe constitutes without a doubt one of the most important development-stage gold assets in the world – to be worth only a billion dollars in today's fire-sale environment are so steeped in negative market sentiment that they have lost perspective. This, of course, is normal investor sentiment at the end of a cyclical downturn. Nonetheless, a billion dollars for half of an asset that we expect could be worth a significant multiple of that amount when gold enters the next phase of the bull market is unrealistic in my view. Think of NOVAGOLD in these terms: a unique asset that cannot, as the saying goes, be "recreated in a garage." Then you'll understand why I believe that buying NOVAGOLD today is like having a second bite of (the) Apple when Steve Jobs came back into the picture. Yes, I believe it is *that* good of an opportunity.

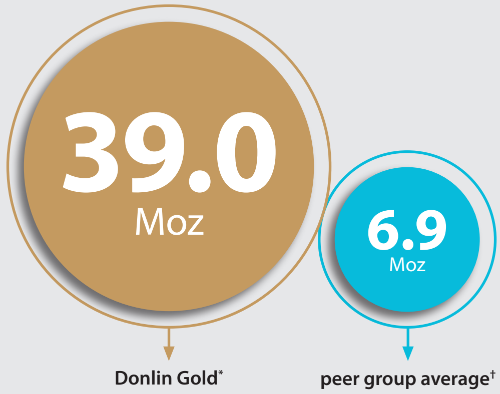
Our high level of conviction doesn't just revolve around the reality that the company controls a rare asset. It's also driven by the fact that – seldom in any industry but particularly in our own – management has done everything right over the past decade since NOVAGOLD very nearly went out of business. Indeed, we can't think of a single misstep made by our team since then. They haven't made stupid decisions that impaired shareholder value, broken promises, left unchecked any box on their business plan, or forsaken any partner either legally or ethically. They've also been blessed with the benevolence of *la fortuna*, a key attribute of any successful company. Whatever could have gone right for NOVAGOLD *has* gone right – from having truly decent people as counterparts, to the diligent work of the various government permitting agencies, to delivering with our partners at Barrick better-than-expected drill results in 2018, to having fabulous and lucky management. The latter point is actually quite important. General Eisenhower, echoing the commentary of Cardinal Mazarin and Napoleon, once remarked that he'd *"rather have a lucky general than a smart general.… They win battles and make me lucky."* The ideal, of course, is to have both – and we do.

Doing what you say you're going to do is a wonderful way to maintain credibility, both domestically and professionally. In our household, my wife pretty much sets the rules for the children and, candidly, me. Over the years, from toddler to teenager, our kids have expected that their mother would give them the parameters by which they could know what is and isn't acceptable conduct. Being indulgent souls, Daphne and I tend to be rather liberal in our parenting and peace along the frontier is not terribly hard to enforce. Thus, by and large, only when a significant line is crossed do I get conscripted into service. As that is not too often, our domestic sport has become an amusing and often elegant dance, where degrees of latitude are carefully measured lest "Papa" be activated. Perhaps because when I am annoyed I apparently have all the subtlety of a Predator drone, my deployment is the scenario everyone wishes to avoid and, if engagement is inevitable, to keep it brief. There's a reason for this sentiment: All participants know that I don't bluff. As it's said within the family: "Papa doesn't play poker." Being that my deterrence tends to be both believed and conveyed in a stentorian fashion, the restoration of calm is generally rapid.

I know many people who are quite different in public compared to their private lives. I'm not one of them. For better or worse, I treat everyone in my ecosystem about the same. Personally, I think I'm always adorable. Others will dispute that. Speaking now for Greg and myself, what does not appear to be in dispute, however, is that we both share a strong commitment to valuing and honoring our word.

We know that reputation is hard won and easily lost. My children know that I feel this way, as do my colleagues and partners. If I say that I'm going to do something, I'll do it. It makes life simpler and allows me to feel, and perhaps actually be, virtuous. It's also good business. Quaint as that may sound in our increasingly transactional world, this code stems from a deep philosophical attachment to a values-based and purpose-driven life. It also comes from being, as the French would say, *bien élevé* ("well brought up") in business by partners who taught me in my youth that your word should be your bond – because it's the right thing to do. It also gives you the reputation that is, after all, the coin of the realm in life. As goes the Russian proverb: *"With lies you may get ahead in the world – but you can never go back."* Through leading by example, these mentors gave me the greatest gift of all: namely, understanding the art of *practicing integrity*. I use the word "practicing" here because we all know that, being human, we make mistakes for which we should blush. Moreover, it is well-nigh impossible to avoid trade-offs and negotiations. And what is negotiating, other than socially acceptable – indeed institutionalized – dissembling? With that being said, within the realm of common sense, we can attest to the notion that, by and large, codes of conduct really do work.

A resource five times the size of the peer group average.



* Donlin Gold project estimates as per the second updated feasibility study effective November 18, 2011 and amended January 20, 2012. Represents 100% of measured and indicated resources, of which NOVAGOLD's share represents 50%. Measured and indicated resources are inclusive of proven and probable reserves. Measured resources total 8M tonnes grading 2.52 g/t Au, and indicated resources total 534M tonnes grading 2.24 g/t Au. Proven reserves total 8M tonnes grading 2.32 g/t Au, and probable reserves total 497M tonnes grading 2.08 g/t Au.

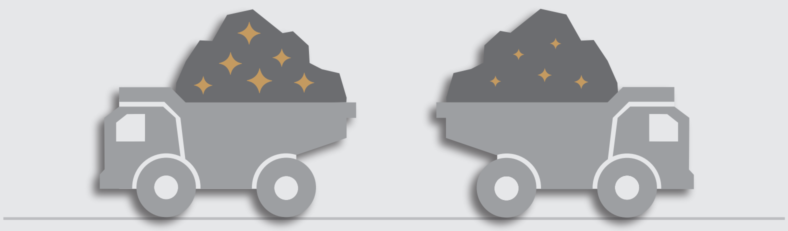
† Peer group data based on company documents, public filings and websites. Comparison group of 17 projects based on large (2Moz P&P cut off), North/South American gold-focused development projects with >75% projected revenues from gold.

There are nonetheless multiple perils embedded in this philosophy. First and foremost, it lends itself to being taken advantage of – and occasionally mugged – by those who don't share similar ethical precepts. It also makes being competitive harder at times. For reasons that I perceive better now than in my youth, however, a more philosophical posture – especially when stress-tested in reality – has proven to be a key determinant of success. This approach certainly has not prevented me from being extraordinarily lucky in exploration – the riskiest part of a risky business – or in the fortuitous timing of our more intrepid acquisitions. Such susceptibility for lucky breaks has given my team at Electrum a comparative advantage that we've pressed on numerous occasions over the past 25 years. Our track record can attest to the fact that the fruits have much, much more outweighed any limitations presumably imposed by my personal ethos, summed up by Electrum's corporate motto:

Intelligence is a commodity;
Character is a currency.

One of the best examples of the *buona fortuna* that I believe emanates from this precept was the fruit that fell into my lap in December 2008 when, with the wise counsel of The Electrum Group's President (and fellow NOVAGOLD Director) Igor Levental, we entered the NOVAGOLD saga as something of a white knight, purchasing the company's shares for the very first time in order to save it from existential challenges across an extraordinarily broad front. Putting aside the fact that the economic environment at that time was not particularly permissive of any investment at all, our intervention appeared – even to our closest friends – as akin to catching a falling knife. The news on NOVAGOLD was littered with fires that desperately needed to be put out: debt coming due; class-action lawsuits; environmental disputes with the EPA (regarding a modest gold property that was remediated and divested many years ago); loss of credibility with investors and analysts; and hostility from at least one of its key partners. I could go on. But being that we were not irrational by nature – and that it's much more fun to speak to what transpired afterward – we reached the conclusion that taking control of the company would prove to be worth it.

Double the gold industry's average grade.



Donlin Gold average grade*

2.24 g/t

world average grade†

1.12 g/t

* Donlin Gold data as per the second updated feasibility study effective November 18, 2011, as amended January 20, 2012. Represents measured and indicated resources which are inclusive of proven and probable reserves. Measured resources total 8M tonnes grading 2.52 g/t Au, and indicated resources total 534M tonnes grading 2.24 g/t Au. Proven reserves total 8M tonnes grading 2.32 g/t Au, and probable reserves total 497M tonnes grading 2.08 g/t Au.
† 2017 average grade of open-pit and underground deposits with gold as primary commodity and over 1 Moz in measured and indicated resources, sourced from S&P Global Market Intelligence.

As a bit of background, I had long coveted exposure to the Donlin story. Watching from a distance from the early 2000s, I felt that I had missed the chance as NOVAGOLD's shares rose from pennies to several dollars on the back of drilling that produced what were clearly among the best exploration results in the gold industry. I wasn't the only one who saw this potential; Barrick not only shared my view, but also tried to buy the company in 2006. The failure of their takeover attempt was to have enormous implications for both companies. While it was separate company-specific and financial crisis-related factors that crippled NOVAGOLD and led to our intervention, what was never in dispute was that Donlin Gold constituted a rare combination of both jewel and elephant.

I often tell the story about how I gave my team 48 hours to perform the due diligence on NOVAGOLD before pulling the trigger on the deal – a time frame that should appear to be reckless any time geology is involved. My reasoning was redolent of the joke about the two hikers who run into a bear in the woods: One hiker starts to run, while the other calmly kneels and starts to put on his running shoes. The man already running shouts to his companion and asks what he's doing. The one tying his laces answers, "Sorry, but I reckon I don't have to outrun the bear, I just have to outrun you." Similarly, I said to my team, "We don't have to believe NOVAGOLD about Donlin; we just have to believe Barrick." Barrick being a first-rate company, the due diligence from public sources was remarkably straightforward. Only after we had made our investment in NOVAGOLD did we send our chief geologist, Dr. Larry Buchanan, to walk the property and share his impressions. "Is the deposit what we thought at Donlin?" I asked upon his return. "Oh no," said Larry. Mercifully, he quickly added, "With an 8km strike being 5 or so percent of the property package, the next Donlin could be at Donlin. Congratulations."

The problems the company faced nonetheless were real and rather daunting. It took some doing to clean up those burdens that made our exercise appear death-defying. But the company was turned around, we raised capital with allies – especially the Paulson and Soros funds – and NOVAGOLD's shares, having been priced for bankruptcy, returned by 2010 to the level at which Barrick had made its 2006 bid.

In 2011, not long after Barrick and NOVAGOLD announced the results of the feasibility study on Donlin, I was introduced to Greg Lang, a 25-year veteran of Barrick and its predecessor companies. Greg's career had been marked by both escalating promotions and successive wins. After running Barrick's Australian operations, he had been given responsibility for much of the Western Hemisphere where, by the time we had met, he had served eight years as president of Barrick Gold North America. His experience in overseeing the permitting and building of large mines – including the Cortez Hills Mine in Nevada, which impressively came in within budget and on time – epitomized what I was looking for. Having concluded that the Donlin deposit displayed all the makings of the Holy Grail for a gold investor, I sought a CEO who could take Donlin through permitting. When Igor Levental and Gil Leathley spoke about Greg, it seemed fated. His Homestake pedigree, one he shared with Igor and Gil, was an added plus. Indeed, I have always found that most everyone who worked well with the legendary Harry Conger possessed that subtle combination of intelligence and character that I seek in my colleagues.

As it happened, my appetite coincided with Greg Lang's desire to be engaged with a pure play on the asset he thought could be the greatest gold mine in the world. He was an educated consumer, having sat on the Barrick side of the table during the hostile takeover attempt, and then as a Barrick representative on the Donlin Gold LLC board. We had an immediate meeting of the minds, nodding to each other as we ticked off the attributes that rendered Donlin not just a great development-stage asset, but also possibly the best. Never before, said Greg, had a gold mine started with nearly 40 million ounces in measured and indicated resources.* Some, including Goldstrike, would eventually reach that. But *started* there? And there was probably more gold, we agreed. For an engineer, of course, for whom grade is king, the high grades and consistency of the orebody, as well as the site's gentle topography, moderate climate, and the excellent community relations that Rick Van Nieuwenhuyse had nurtured, all made Greg feel that this would be not just a mine, but possibly one of the finest of the dozens he had visited around the world throughout his career. Once in production, we calculated, it could potentially represent the largest pure gold producer in the world.

As if this weren't enough, the project is in what I believe to be the safest address in the world. Before going into energy in East Texas, I had made my bones in Bolivia, Zimbabwe, South Africa, and the Congo. At the time of Electrum's investment in NOVAGOLD, I happened to be one of the largest holders of mineral rights in the Islamic world, from West Africa to Pakistan. In due course, by the time I met Greg, resource nationalism had led me to conclude that the era characterized by the mantra "go where the gold is" was coming to a close. Sure, it took longer to permit a mine in the United States, but at least you could keep your property when the marathon ended. You needn't fear waking up to find out that what you thought you had in your possession the night before was no longer what you owned in the morning – never mind additional factors such as political instability, insurgencies, and terrorism. Finding myself repeating the old Woody Allen line *"I'm not afraid of death; I just don't want to be there when it happens,"* I realized that the credo that had guided me through the years – namely, "*acquire category-killer assets that give the greatest leverage to the investment thesis*" – needed the following corollary: *"…in jurisdictions that will allow one to keep the fruits of that leverage."* With a sentimental tear to acknowledge the more swashbuckling successes of my youth, I shifted Electrum's portfolio from "half North America/half 'other'" to "90% North America."

I've never looked back. Apart from the fact that the list of previously investible countries has literally imploded, destroying billions of dollars of value in even well-managed companies and proving Electrum's strategic withdrawal to North America to be both right and luckily timed – Greg and I were now becoming more convinced that Donlin could be not just the *best* asset in the gold development space, but literally *unique.*

Uniqueness is a bold claim. But the contention is fairly straightforward. We have yet to find an asset that compares in its combination of size, grade, exploration potential, production profile, all-in cash costs, mine life, and jurisdictional safety. In other words, what I believe to be the greatest undeveloped gold deposit in the world is located in the second-largest gold-producing state, in one of the safest jurisdictions in the world. I consider Donlin Gold to be the very definition of *unique*. Donlin is an asset that, when the sentiment in this

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sector improves even slightly, we believe will be one of *the* "go-to" undeveloped assets in the space. This is our objective. For Electrum will only make money to the extent that our co-investors will. And we want to make *a lot* of money.

In order to meet this objective, we have *not* done a few basic things. First, we've never been tempted to use our cash or equity to do something stupid. Sadly for the fortunes of our industry, using common sense has been a differentiator in and of itself. As Voltaire put it, *"Common sense is not so common."* If, by every metric, you believe you own one of the best assets on the planet, you don't simply "deworsify," as the famed Peter Lynch put it so well. Deal junkies we are not.

The second thing we haven't done is over-promise and under-deliver. We've told the truth and done everything we said we were going to do. *Everything*. Before we were approached with the offer to do a capital-raising the last time, in January 2012, the newly minted CEO and Chairman of NOVAGOLD laid out a clear roadmap for our investors:

- **We promised to spin off our Alaskan copper assets.** That company, spun off as NovaCopper and now trading under the name Trilogy Metals to reflect its polymetallic attributes, has performed well – with hopefully much more good news to come.

- **In order to make NOVAGOLD the pure play on Donlin in the marketplace, we promised to sell Galore Creek, a beautiful asset but "a project too far" for a development-stage company with a flagship as ambitious as Donlin Gold.** We could have let Galore go in a fire sale. We didn't. We sold it for real money in a market where win-win monetization has been the exception, not the rule. The cash position we find ourselves in, with more guaranteed and potential payments to come, is the envy of our space.

- **We said that, if given an opportunity to show the flexibility of the deposit, we would take it.** The drill results Donlin Gold delivered earlier this year blew through even our own expectations. Who gets 130 meters of 6 grams, and 64 meters of 5 grams?* We reckon these were some of the best drill results reported by any project for quite a while. There's potentially a lot more gold at Donlin along the mineralized belt. I believe my chief geologist was right when he suggested that "the next Donlin could be at Donlin."

- **Finally, we stated that this project would be permitted.** When anyone pushed back, assuming Donlin must be in the same category as Pebble and that, as a consequence, permitting in Alaska would be a nightmare, we just shrugged our shoulders. The facts suggested the opposite. All we have ever heard from our local stakeholders and partners, the Calista Corporation and The Kuskokwim Corporation (TKC), were strong indications of support. And, after a thorough search online, we couldn't find any signs of brewing opposition. In fact, the only references to the project in 2012, from a media standpoint, were positive. Six years later, we received the first-ever joint federal record of decision – delivered in a formal ceremony in the presence of the lead agencies, the U.S. Army Corps of Engineers and the Bureau of Land Management (BLM) – that included input from those who held the reasonable concerns that any big project would bring (but no substantial opposition). For those who know this industry, that's an amazing occurrence practically anywhere in the world. And in a referendum that coincided with the November midterm elections, Alaskan voters rejected a proposition that would have added additional complexities to a resource development permitting process that is truly comprehensive and respectful of the environment and all its stakeholders.

The process leading to the ROD took *six years*. Not surprisingly, our team adopted an expression for NOVAGOLD's steadfastness – "The Tortoise and the Hare" – highlighting the phenomenon of more advanced and higher-profile projects getting picked off by political turmoil while we chugged along, steadily but determinedly, to the finish line. As an environmentalist myself, I can assure you that we did not cut corners. And we never sought to do so. The process was worth every penny and every year to get it done right. As an investor, I can tell you that having permitted what may become the largest pure gold mine in the world, in a safe place in the world, is like catnip. I reckon a lot more investors will own NOVAGOLD in due course. The only question will be at what price they purchase their shares. As for myself, having been in the story for 10 years, I have never been more excited about NOVAGOLD. I feel no investor fatigue or any of that stuff. I won't claim that this is the

* As seen in the February 20, 2018 press release entitled "NOVAGOLD's Donlin Gold Project Reports Excellent Results from 2017 Drill Program."

case with all investments, but it pretty much sums up my attitude when I like what management is doing, the projects are diligently making their way up the value chain, and no evidence exists to contradict my thesis on the investment.

If anything, in the case of NOVAGOLD, my sentiment has been mightily reinforced by the state of the gold industry. Let's review some of the reasons why:

▶ Over the last decade, the average grade of gold mines has collapsed by half – and I suspect that it will fall below a gram per tonne. Donlin is multiples of that. So much for the quality (and hence lower operating cost) side of the equation.

▶ During the same period, there have been fewer gold discoveries of any size (by that I mean more than 5 million ounces) than in recent memory. Donlin Gold has 6 million ounces of inferred mineral resources!* Unlike with hydrocarbons, the mining industry doesn't possess tools such as 3D seismic. If a discovery is to be made, it's usually by prospectors on donkeys (or perhaps only slightly more likely now, 4-wheel drives). And if those 1,000:1-10,000:1 odds are successfully bucked, it could take 20-plus years to take the project up the value chain from discovery to first pour.

▶ It is thus no accident that megamergers are happening in the gold space. Whether it's Barrick with Randgold or, most recently, Newmont and Goldcorp, the big guys simply have no choice but to merge and buy assets. They don't necessarily want to; they have to. With no real discoveries of size and the years if not decades it takes to put them into reserves, the majors are burning through their reserves faster than they can replace them. Unlike with peak oil, the peak gold that Goldcorp's Chairman, Ian Telfer, has spoken about is not an illusion. The gold industry has none of the variables that have so rocked the hydrocarbon markets. No new technologies have emerged, such as fracking or horizontal drilling, to effect game-changing productivity. Even if there were, it wouldn't matter: There are simply no known vast shale-like resources to be tapped. In many ways, the horse has not only already left the barn, the barn door has been closed.

▶ Jurisdictional risk has gone from being regarded as an occasional nuisance to an existential threat. Were I to name the jurisdictions that have been struck off my investible list, it would hurt to hear it. Projects that were slated to go on line won't – and some that did have been subjected to mine closure due to social disruption or political fiat. Where allowed to continue, some companies have been extorted (at times with the threat of violence) out of most, if not all, of the financial rewards due to them for their risk-taking and value enhancement – what I call "stealth nationalization." In an increasing number of places, the brazenness of the confiscatory policies is such that "stealth" would constitute a charming euphemism. Because it is politically impossible for neighboring countries to hold an investor-friendly line, there will assuredly be more such offences in the future. This wave, after all, is occurring during relatively good times. As I have come to know most of our investors and consider them kindred spirits, I feel compelled to share yet another dire observation – posed as a question: What are the odds that the governments of gold-producing countries – which are often dependent on the price of multiple raw materials – will let the precious metals miners keep the windfall that may come if we have another severe economic crisis and gold powers higher while most commodities collapse? It's not so difficult to imagine. That dichotomy actually happened during the last financial crisis. Gold – a currency – held its own or went up while much more economically sensitive commodities fell.

▶ While miners can't find gold, and governments are continually seeking for ways to debase their currencies, central banks themselves have reportedly gone from sellers of gold to net buyers. As what was for decades a source of supply has reversed to become a new source of demand, this pivot by the official sector is momentous. Central bankers, quite cognizant of the fragility of their paper reserves, are less likely to sell when gold prices resume their long-term uptrend. Human nature is to not take a career risk in a rising price environment. If anything, it's to add more. This is especially so as the People's Bank of China continues to buy. The uncharted waters in which monetary and now fiscal policy have veered make for fascinating scenarios. Consider this to be but one of the dozens of black swans darkening our skies.

* Donlin Gold project estimates as per the second updated feasibility study effective November 18, 2011 and amended January 20, 2012. Represents 100% of inferred mineral resources, of which NOVAGOLD's share represents 50%. Inferred mineral resources total 92.2M tonnes grading 2.02 g/t Au. See "Cautionary Note Concerning Reserve & Resource Estimates" on page 39 of the 2018 Annual Report.

Lest there be no misunderstanding regarding this last point: I do not believe that a black swan is necessary for gold to do well. In fact, as a parent and a citizen, I would hate for *any* black swan to alight. I'm simply more than persuaded that the fundamentals suggested by Economics 101 – namely, that of supply and demand – point to a new, far higher equilibrium price. Similarly, do we need a fall to $900 before gold surpasses $1,900? We do not. But that doesn't mean that it cannot happen. Shake-outs before a blistering move higher are classic chart patterns. Think of a V-bottom and you may recall a few. Being that, once again, I'm of the prosaic view that if you take care of the downside, the upside will sort itself out – a discipline that has served me well in the 25 years I have been in this business – I have, again, found my salvation in NOVAGOLD.

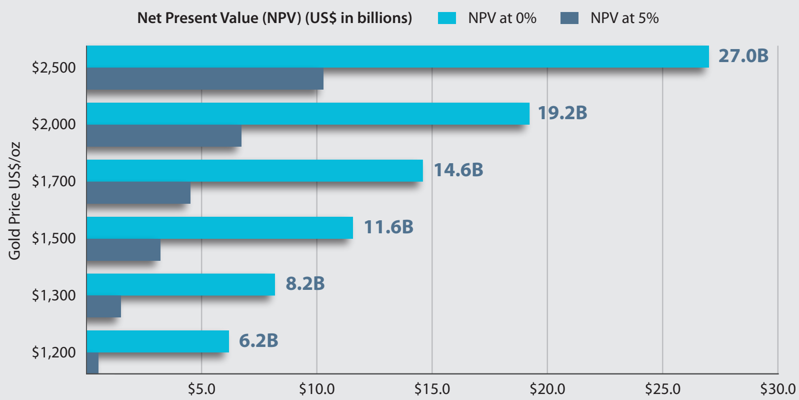
The last part of this letter consists of an appraisal of one of the most frequently asked questions of us these days: How will the merger of Barrick with Randgold play out with regard to Donlin? At the very least, these thoughts will highlight and reaffirm the fine positioning of your company, albeit through a different, more kaleidoscopic, prism than those I have used previously.

I believe that the merger has only added to our good fortune. In fact, I call it our "white swan," as a re-energized Barrick will only serve to put a new focus on Donlin – one way or the other. If we take it up the value chain together in preparation for higher gold prices, that will be great. If they choose to sell their 50% to someone more excited about what Donlin represents, also great. Of course we cannot speak for our partner and will not predict how our common project will shake out in their priorities, but I will say this: In terms of the investor analysis, *it really doesn't matter; I believe all scenarios are favorable for NOVAGOLD.* How can that possibly be true? Let me explain – in a sequential fashion that paraphrases some of our exchanges when we discuss our approach to Donlin, and how Barrick might see their options:

When will you build Donlin? We have a strategy regarding our flagship asset's future, which has been articulated many, many times: Donlin will be built when the gold price resumes its long-term uptrend and we can make not just an acceptable return, but a spectacular return.

So we're clear: It is my belief that practically no gold mine should be built during this twilight period, which I see as a midterm correction during a long wave bull-market cycle. Those who say you have to build as fast as possible to capture a cycle, regardless of a market price for gold, are missing the plot. It's actually a myth. Barring a few super high-grade freaks of nature, to my mind it is reckless *speculating* to build a gold project today, and prudent *investing* to wait for higher prices. For there is truly no opportunity cost to taking one's time. We are not in consumer goods or technology or other industries in which there exists a first-mover advantage to get to market. It really doesn't exist in gold. In fact, the opposite is true: It pays to be patient. Having bucked the 10,000:1 odds to find something really big, the question is not "How quickly can you go into production?" but rather "*Why not wait?*" Why build a mine and sell gold at $1,200 when you can do the work necessary to optimize the operation while gold climbs back to $1,600 or $1,700? The pushback to this fundamentally optimistic assertion is "Yes, but how do you *know* gold will rise?" My response is that I don't know for sure, but I strongly believe that it will surpass the old highs and that, if I am by chance wrong in my timing or fundamentals, then I pray to heaven not to be burdened with a producing mine, depleting my resources during a period of low or declining prices. Can the real way to make money in mining possibly be to sell your endowment at any price, or would it rather be to believe in gold mining enough to be paid appropriately for it? *And if you aren't going to be paid appropriately for it, should you want to build it at all?* I don't have to add that, were the price of gold to actually go down before it makes new highs, the company building a mine could go out of business. This is, of course, the worst of all worlds: rushing to production at

Donlin Gold's upside value with higher gold prices.



Donlin Gold estimates as per the second updated feasibility study effective November 18, 2011, as amended January 20, 2012. All dollar figures are in USD, represent 100% of the project of which NOVAGOLD's share is 50%, and reflect after-tax net present value (at a 0% and 5% discount rates) of the Donlin Gold project using the feasibility study reference date of 1/1/2014 (start of Year -05) as the first year of discounting. Estimated project development costs of approximately $172M to be spent prior to the reference date are treated as sunk costs. At a 5% discount rate, the net present value is: $547M @ $1,200 gold; $1,465M @ $1,300 gold; $3,147M @ $1,500 gold; $4,581M @ $1,700 gold; $6,722M @ $2,000 gold; and $10,243M @ $2,500 gold. The project requires a gold price of approximately $902 per ounce to break even on a cash flow basis.

$1,200; getting crushed or worse if gold goes to $900 before going to $1,900; and then having a bankrupt mine or a massively diluted vehicle that is then bought by, I don't know, a savvy player like Mark Bristow – or even me, for that matter – in order to reopen or recapitalize it for when higher prices return. *It makes no sense.* It is an unforgiving error of commission because it simply does not need to happen. Unless, that is, one operates in a jurisdiction that has "use it or lose it" provisions. I would argue, however, that if you have that kind of gun to your head, there's a good chance you're already dead – just not buried yet.

Given the work ahead to best position and prepare Donlin for future development, time is on our side. What do we lose by waiting? Nothing. We've seen that just sitting can prevent disaster. What about the argument that one could lose the juiciest part of an upswing in prices by not being a producer? Let's play that out. If I consider selling forward at a much higher gold price, I would be locking in a fairer price for my endowment than if I sold it at $1,200 with all its attendant drawbacks. That has to be better than selling at the whim of the market. Philosophically, I do not love hedging. I believe that there are times when it is smart and times when it is silly, but just being rationally objective, I would rather consider hedging some gold at higher prices as part of a project financing than selling gold at today's prices. Of course, mentioning the word "hedging" at these higher prices, especially (ironically) to those who have no problem parting with the company's gold at $1,200 in their pursuit of production at any price, is likely to prompt a vigorous debate. The outcome of the Socratic dialogue, however, usually ends up with my winning the argument – because I have logic on my side. In other words, gold bulls get it; those who aren't bullish on the fundamentals for gold sometimes don't. But that's fine. If you aren't constructive on the price of gold, you aren't going to buy our stock anyway. Nor should you. I know I wouldn't either. As we say, "Bears don't buy shares."

What will the new leadership of Barrick do? It's way too early to tell, but not too early to game it out. Let's look at some possible scenarios:

- Barrick decides it has plenty on its plate and, for whatever reason, decides to sell their share of Donlin Gold. We would be thrilled, as it would trigger a sale process that would shine a very strong light on the unique virtues of Donlin. As Donlin is accretive in terms of pretty much any acquisition metric – including the big ones like reserves, production, grade, cash costs, mine life and jurisdictional risk – highlighting these facts with a sale process would be likely to strengthen our share price. As we have a right of first refusal, we would help Barrick sell their share and, with partners, may consider participating in its purchase. Owning more of Donlin would amount to a gift, and we believe that there are plenty of motivated buyers who would want to participate in the story – and work with us to promote a narrative in a far more invigorated way than we've experienced heretofore with the pre-merger Barrick.

- Barrick decides to continue to frame the narrative and talk about Donlin as we have: a unique asset with great leverage to higher prices in the future – in a jurisdiction that has never caused them grief. This will be great for us too. It's one thing for NOVAGOLD to sing about the virtues of Donlin. But Barrick's reach is farther and deeper, and its influence will only be accentuated by the merger. Knowing the new management of Barrick, I can't see them educating the myriad analysts who cover them without insisting that they should get NOVAGOLD's market-driven valuation of Donlin factored into their own valuation. After all, with Galore gone, it's pretty much an apples-to-apples equation. This works for us and, indeed, is likely to lead to a virtuous circle if our shares rise and Barrick receives equal credit for its share, leading them to point that out and so on. If anything, the Newmont/Goldcorp tie-up, which is more heavily tilted toward safer jurisdictions, adds a competitive impetus to Barrick highlighting its own premium North American assets.

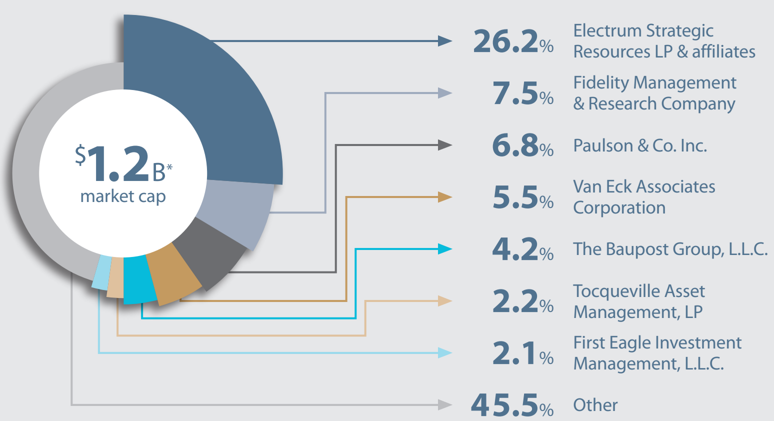
- If Barrick is inclined to keep Donlin, and the Randgold mantra of a 20% IRR at $1,000 gold is upheld in North America as it was in Africa, Donlin will not make the cut. So we'll have to wait for higher prices to materialize – as well as the likely revision of that particular criterion for ultra-large and long-lived mines in safe jurisdictions. This clearly works for us. After all, it's the embodiment of our strategy!

- If the optimization is so successful as to make the economics sing at prices that would make Barrick wish to proceed with production, that revelation works for us as well. It could also make us the premier takeover candidate in gold. I may disagree with the strategy, but I won't be disagreeing with all of the M&A activity around us. The ultimate outcome would be beyond my control, as a 50% interest in Donlin would be tantalizing to anyone inclined to remain in our industry.

- Barrick could be proactive and approach us to merge. The problem here would be that the virtues that make NOVAGOLD a unique pure-play vehicle would be diluted by the broader Barrick portfolio. Barrick could, of course, offer to buy us for cash, but I would ask you: Where else would one be able to deploy the money so exquisitely in a pure play on what we feel represents the best of the best, and the safest, that this industry has to offer? Unless we are really paid for the future, it would make no sense. Barrick could attempt a hostile takeover (as it did in 2006), but I really don't believe they'd go down that route for many reasons, including the fact that we proved to be a most loyal partner during Barrick's darkest times, not to mention that the ethics of the matter would be fraught. Do ethics matter in today's world? I believe they do. And in any event, enough of our shareholders are a fiercely independent lot.

In essence, no matter how one games this out, we believe that NOVAGOLD and its shareholders emerge as the winners. Our ideal scenario is for Barrick – or anyone else that steps into their shoes – to continue optimizing Donlin and prepare the project for the day we all decide to make a construction decision. Under that scenario, which we consider likely, gold prices should be significantly higher. It would be reasonable to expect that our share price in that case would likewise be a lot higher. We would hope that the shares of our partner would be a lot higher as well, while their shareholders, feeling more comfortable about balance sheets, will by then be reaching for high-quality growth in the one part of the world in which nobody has experienced problems of resource nationalism or instability. And we will all own a mine throwing off dividends for generations.

Long-term shareholders who understand and share our investment thesis.



* Market Capitalization based on 325.1 million shares issued and outstanding and NG share price of $3.64 as of January 25, 2019. Shareholder positions are based on the latest 13-D, 13-F or 13-G filings as of September 30, 2018.

Such a remarkable positioning clearly did not happen in a vacuum. In readying ourselves to be able to survive the worst and outperform during the good times to come, I wish to express my personal appreciation to all of those who make this journey so rewarding. To everyone who contributed to achieving an incredibly smooth outcome on permitting, you have my deepest thanks. I am especially grateful to Calista and TKC for their steadfastness in working so constructively with Barrick and the Donlin Gold team during this process. But the thanks extend as well to all of the state government entities – from the Governor's office down to the local level – that have been so helpful in assisting the Corps and the BLM in their task. In the successful conclusion of the sale of Galore to a fine company, Newmont, we were blessed to have great collaborators such as Teck Resources Ltd. and the Tahltan Nation, with whom we kept faith by delivering an equally excellent partner. For a fruitful drill program at Donlin, and all individuals working on the optimization work, I am grateful to Barrick and the Donlin Gold team. Lastly, on a more personal note, I wish to invoke Aristotle's maxim that "Friendship is like a partnership" and thank my friends and partners – the management team led by Greg Lang, the board of NOVAGOLD, and our wonderfully supportive and value-adding shareholders – for making the role of Chairman a joy rather than a duty, as together we take up the value chain the single most exciting asset in the gold space.

Dr. Thomas Kaplan
Chairman, Board of Directors
February 11, 2019