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NG.TO - Q1 2017 NovaGold Resources Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the NOVAGOLD First Quarter 2017 Conference Call and Webcast. (Operator Instructions)

I would now like to introduce your host for today's conference call, Ms. Melanie Hennessey. You may begin ma'am.

Melanie Hennessey - *NovaGold Resources Inc. - VP of Corporate Communications*

Thank you, Kevin. Good morning, and thank you, everyone for joining us for NOVAGOLD's first quarter financial results to hear an update on the development of the Donlin Gold and Galore Creek projects.

On today's call, we have Greg Lang, NOVAGOLD's President and CEO; and David Ottewell, NOVAGOLD's Vice President and CFO.

Just a reminder that at the end of the formal part of the presentation, we will be taking questions both by phone and by e-mail.

I would like to remind our listeners that our materials do contain forward-looking information and projections that may differ from actual results. Please refer to the risks and uncertainties disclosed in our quarterly report filed on Form 10-Q and other NOVAGOLD reports and documents filed on SEDAR and EDGAR.

With that, I have the pleasure of turning the call over to Mr. Lang. Greg?

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

Thank you, Melanie, and good morning, everyone. We will be reviewing our first quarter results and providing an update on our 2 projects. Our 50% owned flagship asset, Donlin Gold, continues to progress through permitting and is poised to become one of the largest producers in the gold industry. Galore Creek, which is held in 50-50 partnership with Teck, if developed, would be Canada's largest and lowest-cost copper mine.

Turning to Slide 5, to support the Corps of Engineers as they progress in advancing the Donlin Gold EIS, Donlin Gold has responded to more than 100 requests for additional information in the first quarter. This assists both the Corps and AECOM, the contractor doing the EIS, as they respond to comments received on the draft EIS, refine the alternatives considered and identify mitigation measures for the final EIS.

Interagency workshops were also held by the Corps to discuss and address 4 key areas of the draft EIS comments, these being water management, tailings management, spill risks, and mercury transport as well as barging operations. The Corps anticipates the publication of the final EIS in early 2018. We have also advanced other major permit applications and approvals such as the Corps accepting the jurisdictional wetland determination in support of the 404 Clean Water Act permit.



In collaboration with Calista and other interested parties, we are developing a compensatory wetland mitigation plan for Donlin Gold and a special permit to construct a natural gas pipeline has advanced with a notice published in the Federal Register. We are continuing to be encouraged as everything is on track as we work through the final stages of permitting.

Moving to Slide 6. We are proud of the relationships we have with our projects community partners. Together, we are building a foundation that will enable the residents of the Y-K region to thrive as Donlin Gold comes to fruition.

In the first quarter, Donlin kicked off their 2017 meeting circuit by providing updates at various villages and intertribal gatherings. As part of our workforce development initiatives, meetings were held with the school district counselors to discuss the project status and student outreach opportunities.

Donlin Gold is also participating in a number of job fairs in Bethel. We also had an opportunity this quarter to meet with the Alaska legislative leadership and to provide a project update and introduce Andy Cole, the New General Manager on the Donlin project.

In Northern British Columbia, Galore Creek continues to sponsor and participate in a number of Tahltan community initiatives.

I will now pass the call over to Dave, who will walk us through the financials.

David A. Ottewell - NovaGold Resources Inc. - CFO, Principal Accounting Officer and VP

Thanks, Greg. Turning to Slide 7. Our share of Donlin Gold and Galore Creek funding totaled \$2.6 million for the quarter as expected. For the full year, we continue to expect to spend approximately \$10 million to fund Donlin Gold and \$2 million for Galore Creek.

Slide 8 highlights our first quarter operating performance. For the first quarter, we had \$9 million operating loss, \$0.5 million lower than the prior year quarter.

General and administrative expense was lower due to lower share-based compensation cost. Stock options granted to directors in the prior year quarter vested immediately. Stock options granted to directors in the first quarter of this year vest over a 2-year period, resulting in lower expense recognized in the current year quarter.

Our share of Donlin Gold and Galore Creek expenses were consistent with prior year quarter, and other expenses were higher in the current quarter due to foreign exchange losses resulting from a stronger Canadian dollar in relation to the U.S. dollar. The prior year quarter had a foreign exchange gain.

Our cash flow highlights are outlined on Slide 9. During the first quarter, our cash and term deposits decreased by \$9.8 million as planned and similar to the prior year quarter. Cash spending is higher in first quarter each year to settle our year-end accounts, including professional fees and annual employee incentive programs.

We ended the quarter with cash and term deposits totaling \$98 million and continue to expect to end the year with approximately \$82 million.

Greg, back to you.

Gregory A. Lang - NovaGold Resources Inc. - CEO, President and Non-Independent Director

Thank you, Dave. Yes, I worked on many great assets over my career, but yet, the distinctive qualities of Donlin Gold continue to amaze me. With the resource containing 39 million ounces of gold, it's almost 4x the size of the average development-stage project.



Slide 10 provides an updated peer comparison which includes 17 gold development-focused projects greater than 2 million ounces of size in the Americas.

Turning to Slide 11. We are comparing the grade of Donlin versus the other 2 next largest gold deposits. It clearly illustrates that beyond scale, Donlin's grade of 2.24 grams is in a league of its own.

Our comparison is taken a step further on Slide 12, where Donlin Gold has doubled the worldwide average grade. This is a very important quality in the context of the many challenges facing the precious metals industry, as reserves grades continue to decline and sources for emerging production become increasingly scarce.

Slide 14 is an illustration of the exploration potential at Donlin. We've drilled less than half of the gold bearing system. And there is certainly room to add to reserves when the time is right.

Slide 15 illustrates the leverage that Donlin provides both on the project level and the company level.

Moving to Slide 16. Barrick and NOVAGOLD recognize what a unique asset we have, and we're working diligently to realize the full potential. We're progressing on studies and identifying optimized scenarios that would maximize the project's value and reduce initial capital outlay. This included reviewing the geology and resource model, mine design, and the use of selective mining methods. Additionally, we are also looking at employing modular construction, automating certain mine functions and other innovative ideas for infrastructure and logistics. We continue to evaluate third-party opportunities to reduce upfront capital, particularly related to the infrastructure items.

Our findings will be reflected in an updated study. The owners will take all of this information into account before reaching a construction decision. Time is on our side and we have a healthy balance sheet, affording us the flexibility and strength to do things properly and make sound decisions at the right time.

We continued to make tangible progress in permitting Donlin. As illustrated on Slide 17, we are in the enviable position of advancing one of the industry's most valuable assets up the value chain when the availability of major high-grade gold projects with great upside potential is virtually nonexistent. This situation is not likely to change, particularly at a time when global exploration spending is at a 10-year low and there are no signs of any new discoveries of this magnitude or quality on the horizon.

Moving to Galore Creek on Slide 18. This is also a very significant large-scale project in a great jurisdiction. When the time is right, we will monetize this asset to help fund our future obligations on Donlin.

Our major shareholders share our understanding of the gold industry and confirm our belief that NOVAGOLD offers a unique opportunity. One where it is only a matter of time before its true value is realized.

To sum it all up. NOVAGOLD has projects in safe jurisdictions. We've got the people with the experience necessary to advance projects like these. We'll be a large scale producer. We've got supportive shareholders and supportive local communities. And we've maintained a strong balance sheet as we've progressed our way through the permitting.

Thank you, operator. Now, open the line for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John Bridges with JPMorgan.



John David Bridges - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just wondered, there is a comment in the 10-Q about time line and other permits and things that still need to be done. Presumably working on those concurrently, would -- what sort of time line do you expect in other requirements after the permits are given to you, hopefully, early in 2018? Would you be ready to press the button within months of that? Or are there still things that need to be done that may be contingent on having the permits in hand?

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

John, thank you for joining our call. Yes, the Army Corps of Engineers has published on their website that they'll complete the final EIS and publish it in March of next year. So more or less 1 year from now. And then it will take them probably 3 to 4 months to write the record of decision. During that time period, we'll be wrapping up all the various other major permits and right of ways that we need. So if you're looking for the earliest that we could say, okay, it's time to get started, would be in the second half of 2018.

John David Bridges - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And the other permits and things that you need would be done in months rather than a longer period?

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

Yes, they would, John, and we're working on those. We're working largely all of the permit applications concurrently, but some -- then the major one, of course, being the EIS, and the minor ones being the state permits. You don't need every permit approval in hand to begin construction activities. So we're focused on the ones primarily that you need to start working at the site and establishing the upriver ports and the access roads.

John David Bridges - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. Okay, great. And you mentioned the responses that the Corps is working on. Could you categorize them into certain packages? What were the issues which were raised and what mitigation you'll able to be putting in place?

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

John, they were probably a little over 100 requests for additional information. Barging was probably the largest request for additional information, and we've wrapped that up. And the other one -- there is the last one that we're completing really is the issue of mercury transport and mercury in the environment. There was request for additional information there. And we expect to have all the information that was requested in the hands of the Corps really in the next couple of weeks. We're just about wrapped up now.

John David Bridges - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay, cool. Just finally, there's a lot of interest in copper at the moment. Have you been seeing the people making -- giving you calls on Galore on the back of expectations for a much stronger copper price?

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

We certainly have, John. We're -- I think interest in the copper space really picked up towards the end of last year and it's persisted into this year as copper has moved from \$2 to \$2.60 a pound. And we're not motivated sellers, but we are paying attention and talking to people about the asset.



Operator

Our next question comes from Alexandra Foty with National Bank Financial.

Alexandra Foty - *National Bank Financial, Inc., Research Division - Associate*

So I just had a question about the docket that you recently opened with the Pipeline and Hazardous Materials Safety Administration. And so you're looking to receive a special permit to allow use of the proposed stream-based design for the natural gas pipeline. I'm wondering if given that the 2 months comment period that's required, do you see any changes to the time line to submit the final EIS? And also does the request for the special permit have any effect on the NEPA process?

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

No, the -- we're advancing the permits for the natural gas pipeline concurrently with the EIS, and the gas pipeline is not on the critical path in our activities. And we're really trying to get everything to get wrapped up right about the time of the final EIS and record of decision. Some of the permits such as the gas pipeline right of way do have annual holding fees. So we want to make sure that we have them when we need them, but not prematurely because of the fees.

Operator

(Operator Instructions) I'm not showing any further questions at this time.

Gregory A. Lang - *NovaGold Resources Inc. - CEO, President and Non-Independent Director*

All right. Everyone, thank you for joining our call this morning. And we'll continue to update everyone at our next quarter.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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