

NOVAGOLD Resources Inc. First Quarter 2019 Conference Call and Webcast Transcript

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Speakers: **Thomas S. Kaplan**
Chairman

Gregory Lang
President and Chief Executive Officer

David A. Ottewell
Vice President and Chief Financial Officer

OPERATOR:

Thank you for standing by. This is the conference operator. Welcome to the NOVAGOLD First Quarter 2019 Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star and zero.

I would now like to turn the conference over to Melanie Hennessey, Vice President, Corporate Communication. Please go ahead.

MELANIE HENNESSEY:

Thank you, Arielle, and good morning everyone. We are pleased that you have joined us on NOVAGOLD's First Quarter Financial Results and for an update on the Donlin Gold Project. On today's call we have Greg Lang, NOVAGOLD's President and CEO, and David Ottewell, NOVAGOLD's Vice President and CFO. We also have our Chairman, Dr. Thomas Kaplan, who will be on-hand to answer questions at the end of the call. At the end of the webcast, we will take questions both by phone and by email.

Before we get started, I would like to remind our listeners that any statements made today may contain forward-looking information, such as projections and goals, which are likely to involve risks detailed in our various EDGAR and SEDAR filings, and forward-looking disclaimers included in this presentation.

With that, I have the pleasure of introducing Greg Lang, NOVAGOLD's President and CEO. Greg?

GREGORY LANG:

Thank you, Melanie. Good morning everyone. Our 50% owned, federally permitted Donlin Gold Project is in Alaska, the second largest gold producing in the state, in the U.S., and is located approximately 300 miles west of Anchorage, as shown on Slide 4.

On Slide 5, we highlight two state permits received in the first quarter: the Alaska Department of Environmental Conservation issued the final Waste Management Permit; and the Alaska Department

of Natural Resources issued the final Reclamation and Closure Plan Approval in January. We are advancing other state permits regarding the project's transportation corridor and pipeline. Additionally, we are commencing work needed for the Alaska Dam Safety Certificate that will carry on into 2020.

With permitting largely complete, we are increasing our focus on continuing to integrate scoping level optimization work into a study that will cum the basis for an updated project development plan.

Slide 6 outlines the permit work that the team has already accomplished over the past year, heavily de-risking the Donlin Gold Project, while staying on track with our strategy. With federal permits in hand we have the right but not the obligation to conduct work onsite. Highlighted in green are the two most recent state permits that were received in the first quarter which I mentioned in the previous slide. We will keep you updated as other permits come in.

A big part of our activities in Alaska is working with both Chalista and TKC, our native corporation partners. Over the past few months we continued our outreach efforts and met with tribal councils and key stakeholders in the YK region. In the first quarter, NOVAGOLD and Donlin Gold participated in several community activities. Some of the highlights included meeting with career counsellors in the Lower Kuskokwim School District with the goal of engaging youth in an upcoming career fair and participating in the Alaska Forum on the environment where we received the Green Star Certification Certificate that recognizes businesses for their efforts in sustainable environmental stewardship. Additionally, Donlin Gold hosted their Annual Safety Expo ahead of the Iron Dog Race in Alaska. We attended the State of Alaska legislative session in Juneau where we met with state representatives and senators, as well as the newly elected governor Michael Dunlevy.

Transparent and open communications with local communities is an essential part of our day-to-day responsibilities in the region.

With that, I'll turn it over to our Chief Financial Officer, David Ottewell.

DAVID A. OTTEWELL:

Thank you, Greg. Slide 8 highlights our first quarter operating performance. For the first quarter we reported a \$6.3 million net loss, \$1.9 million lower than the prior year. The net loss decreased primarily due to lower share based compensation costs, lower permitting costs at Donlin Gold, increased

interest income and accretion of notes receivable, partially offset by higher interest expense on the promissory note payable to Barrick and foreign exchange losses.

NOVAGOLD's cash flow highlights are outline on Slide 9. In the first quarter we spent \$5.2 million, \$1.8 million lower than the prior year quarter. Total spending decreased due to lower permitting costs at Donlin Gold, increased interest income on term deposits and the sale of Galore Creek in July 2018, partially offset by withholding taxes paid on vested PSUs.

We ended the quarter with \$161.8 million in cash and term deposits.

In 2019, we continue to expect to spend a total of \$24 million, including \$13 million for our share of Donlin Gold and \$11 million for corporate, general and administrative costs. At Donlin Gold, 2019 spending is expected to increase with the commencement of field work and detailed engineering to support the application for Alaska dam safety certificates.

Looking ahead, as a result of our sale of Galore Creek last year, we have \$100 million receivable from Newmont with an additional \$75 million contingent on Galore Creek construction.

Back to you, Greg.

GREGORY LANG:

Thank you, Dave. Now for a brief overview of Donlin Gold. With its significant size, high grade, incredible output and a mine life measured in decades, along with excellent exploration upside, strong local partnerships and jurisdictional appeal, Donlin Gold is expected to be a pacesetter in the precious metals industry for years to come. I will speak to each of these attributes in the coming slides.

Beginning with size, on Slide 12 we compare Donlin to 17 other development stage projects in the industry. If you look at the peer group average, with 39 million ounces Donlin is unique and more than five times the size of the average peer group.

Another key attribute shown on Slide 13 is the outstanding quality of the deposit. Donlin's grade at 2.25 grams is double the industry average. Given the rapid decline in gold reserves and grade, deposits such as this are needed to sustain the industry.

Beyond the size and quality, Donlin Gold has longevity with an anticipated production profile of greater than 1 million ounces a year over a 27-year mine life. With a mine life measured in decades, once in production the project is expected to be the largest contributor in the region and will bring great benefits to its stakeholders for many years to come.

The bubble chart on Slide 15 shows the scale of the project and how it compares to the ten largest gold producing mines in the world. Only six are expected to produce more than a million ounces a year this year, further illustrating that projects like Donlin are very scarce and needed to replenish the industry's diminishing reserves.

Slide 16 depicts the challenges of finding new gold deposits as defined by the blue bars. Gold is getting harder to find, and even as the price has moved up and exploration spending increased, there have been very few new discoveries. That puts Donlin in a great position when gold resumes its upward trend.

Given that it can take on average over 20 years to go from discovery to production, we are in a great spot with the federal permitted project and control of the development timeline.

As shown on Slide 17, we have roughly 1,400 holes in this deposit with over 90% of the being core holes, giving us a very detailed understanding of the geology and mineralization.

Beyond the drilling completed to date, there is still substantial exploration potential along the 8 kilometre mineralized belt as shown on Slide 18. The ACMA and Lewis deposits, which are marked in the blue area, contain the 39 million ounce resource and only occupy about 3 kilometres of the 8 kilometre belt. When the time is right, we will resume exploration drilling.

Donlin brings exceptional leverage to a rising gold price as shown on Slide 19. In the current environment, we have a project with modest rates of return that increase substantially in a rising gold price environment. We have the flexibility and patience to wait for the right time to proceed with development.

Another unique aspect of the project is that our property is located on private land that's owned by two Alaska native corporations. Chalista owns the mineral estate and TKC owns the surface rights. This land was set aside for mining-related activities and transferred to the native corporations for their economic self-determination. We have life-of-mine agreements with both partners who have been involved and supportive from the very start. We are thankful to Chalista and TKC for their support and their commitment to Donlin has been key to our success.

As Slide 21 shows, being in a geopolitically safe jurisdiction is another key attribute. Alaska offers jurisdictional stability and welcomes responsible new resource development.

With permitting largely complete, the timeline for development as shown on Slide 22 is within the project owner's direct control. Our focus is shifting more to finalizing optimization work that will ultimately be reflected in a study that will serve as the basis for an updated development plan.

An important part of our engagement effort includes outreach to our shareholders and investors throughout the year. Over 50% of our shares are held by our top shareholders, as shown on Slide 23, for whom we are extremely grateful, not only for their support of our strategy, but their foresight and superior gold leverage opportunities that this company represents through Donlin.

NOVAGOLD strives to create a balanced development plan that enhances economic growth, provides a safe and healthy workplace and preserves traditional lifestyles while bringing tangible and long-lasting benefits to our community partners. As shown on Slide 24, we implement our social responsibility programs and commitments in a number of important areas on an ongoing basis. We are all, to one extent or another, vested and contributing our time to various outreach efforts in Alaska.

We have moved Donlin Gold further up the value chain and look forward to the next chapter as we advance the project. It's our belief that our company is truly well positioned to create value for our shareholders.

To conclude, with a strong balance sheet of \$162 million in cash, a unique asset in a safe jurisdiction, the right partnerships and people to take this project forward, I have no doubt that Donlin has the potential to become one of the most coveted assets in the precious metals industry.

Operator, we can now open the line for questions.

OPERATOR:

Thank you. We will now begin the question-and-answer session. To join the question queue you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question comes from Lucas Pipes of B. Riley FBR.

LUCAS PIPES:

Hey, good morning everyone. How are you doing? I wanted to follow-up a little bit, Greg, on the optimization study that you mentioned. Could you share with us a little bit more in regards to timing, and then what parts you're most focused on at this time? Thank you very much.

GREGORY LANG:

Good morning, Lucas. Thanks for joining the call.

Our partner, we've been working very closely with them the last couple of months. As you might imagine there's a lot of data for the new executive to get their arms around, and we're continuing to pursue that with them and advance our execution plan for this year. I think we're still some months out from committing to a firm date on when Barrick will finish getting their arms around the project, and as they do we'll keep everyone posted.

LUCAS PIPES:

Excellent, thank you. Then you touched on it in terms of the major changes we've seen in the industry with consolidation. Greg, what do you think could this mean for Donlin and NOVAGOLD? Would appreciate your perspective on that?

GREGORY LANG:

Lucas, we don't really give a lot of thought to what's happening around us in the industry. I think it's fascinating, and really this year, we're financially strong and we're in a great spot to continue to move our project forward.

THOMAS S. KAPLAN:

Hi. Lucas, it's Tom. Can everyone hear me?

LUCAS PIPES:

Hey Tom, I can hear you. Yes.

THOMAS S. KAPLAN:

Great. I'll add just one wrinkle to Greg's answer. When we look back upon the value proposition and the upside potential of Donlin being unlocked, I believe that I will be proven to be right that the Barrick-Rand Gold merger is indeed the white swan that I referred to in my last comments in the conference call that preceded this one, as well as in my Letter to Shareholders. The first of that white swan's offspring—little swans are called cygnets. The first white cygnet from that is what we just witnessed between Newmont and Barrick. Twenty-five years ago the frontier gold rush, the 'go where the gold is' phenomenon that led from the United States being the most coveted jurisdiction for gold mines to people moving into Peru when Newmont went in with Buenaventura on Yanacocha, and of course Freeport to Indonesia and then ultimately Africa and then everywhere else.

As you know, for a number of years I've believed that that era is over, and again, I have standing (ph 18:39). It was very, very good for me in a number of these countries, but about seven or eight years ago we realized that it was ultimately all going to come around to jurisdiction; that if one really wanted to be able to get maximum premium valuation for assets, not to mention the ability to sleep at night, you were going to want to be in safe jurisdictions - North America, Australia and the like - and so we withdrew from almost everything in the developing world. And the reason was we thought resource nationalism would rear its head, and it's the nature of resource nationalism that it's not something that could be contained. When someone sees that their neighbour over the fence is getting a better deal from a mining company, they demand the same, and so on and so on.

Before the frontier spirit took hold, U.S. assets were valued primarily using 0% discount rate because of their safety and also growth potential. They were arbitrated against riskier jurisdiction like Canada, Australia and South Africa. What just happened between Barrick and Newmont is a watershed event, and every investor and analyst in mining should have absolutely no doubt that a major, major game-changer has just occurred.

What Barrick did with Newmont is they have highlighted that the most attractive assets in the world are in the United States. Now, Nevada, of course, is the number one gold producer in the country, but number is Alaska, and we believe that we are already on track when one day we recommence drilling, to be able to overtake the reserves of Nevada. Now, obviously if there's more drilling in Nevada, all power to them, but the point is this. For NOVAGOLD shareholders in particular, and for shareholders of high quality U.S. assets, these arm wrestling match that just took place over Nevada reaffirmed that the assets worth fighting for in the gold industry are in safe jurisdiction. Nevada obviously qualifies, so does Alaska. These are both places where research analysts, fund managers and other stakeholders will be very happy to take their families without any risk. It's a place where investors know that when they go to sleep at night, when they wake up in the morning whatever they thought they owned the night before, they still own. It's a place where the rule of law isn't a novelty.

We think that what just happened has validated our thesis that the United States would not only be coming back but that it would be given the premier status in the world.

Now, the best way to play the rebirth of the American gold mining premium is through NOVAGOLD. We are a 50% owner of an asset that will rival Nevada in terms of size; the grade we already know; the mine in one or two stages would actually be bigger than the gold mines in Nevada, any single gold mine. Donlin could prove to be a multi-mine district. Remember, we have 45 million ounces identified on 3 kilometres of an 8-kilometre belt, and that 8 kilometres represents maybe 5% of the total property. It's a quirk of history that it hasn't yet been explored, but there are other targets on this property. In other words, Donlin could be in its own right another Nevada.

Now, that's great enough, but remember, the last deal that was made between Barrick and Newmont was 61.5/38.5, Barrick having operatorship. I'm sure that there's very good reason for all of that. What matters to us is that we are 50/50 with joint operatorship that gives neither party any advantage over the other, which means that we are a pure play on an asset that could one day rival Nevada and we have half of it with joint operatorship.

One day, when investors are coming back into this space, you can imagine the bullet points on the analyst reports. You can imagine what bankers will be telling their clients and brokers will be telling their clients. Would you like a half interest in the next Nevada? With Nevada now being on

everybody's lips, as I said, this is the first white swan. There may very well be others, but what has just happened will be that moment when people will go back and they say, 'You know what? They rang the bell for the NOVAGOLD thesis.' How quickly it takes for people to come around to it, it doesn't really matter because once they do, the uplift, the complete revaluation based on the jurisdiction, not to mention all of the other aspects that make Donlin in the aggregate unique, is going to be a game changer.

I just wanted to make sure that everyone understands that what we just saw is not another ho-hum moment in the mining industry. It is as much a ringing of the bell as when Newmont went to Yanacocha and unleashed the 'go to where the gold is' mentality. Fortunately, we have as much gold as any deposit you're likely to find in the rest of the world; it just happens that it's in the best jurisdiction in the world.

LUCAS PIPES:

Tom, thank you so much for that detailed description. It's great to hear that and great to hear that highlighted. Thank you.

THOMAS S. KAPLAN:

Thank you, Lucas.

OPERATOR:

Once again, if you have a question, please press star, then one. Our next question comes from Terence Moore (ph 25:26), a Private Investor.

TERENCE MOORE:

Good morning everyone. First thing, I was looking at your Measured & Indicated. You've got Measured 6 million, roughly 6 million ounces, Indicated 33 million ounces. Would you do me the honour of differentiating those two and explaining why the Indicated is not in the Measured?

GREGORY LANG:

Good morning, Terence. You've actually asked a question which would require a fairly in-depth answer, but I guess the simplest way to put it is a function of drill hole density, and I would observe

that we strictly adhere to the industry and statutory requirements in how we compute and report our reserves and resources.

TERENCE MOORE:

Okay. Well, Indicated, the vast amount, your 39 million overwhelmingly is in Indicated. Is Indicated—that does not have a sound of finality to it. In other words, my question is, is there a possibility that you will wind up with much less than 39 million ounces?

GREGORY LANG:

Terence, no, I think to give more sense of the classification, there's Measured & Indicated, then Inferred. Only if you're looking for a category that's, if you would say at-risk to either get increased or decreased, it's typically in the Inferred. Measured and Indicated are very, very solid.

TERENCE MOORE:

Okay.

GREGORY LANG:

I would direct you to our webpages which have really very in-depth, detailed technical descriptions of the criteria that supports each one of those various classifications.

TERENCE MOORE:

Okay.

GREGORY LANG:

If you have trouble locating it, please feel free to reach out to us and we will direct you to the appropriate spot in our data.

TERENCE MOORE:

No, I've got it up on my computer now. I can find it. I appreciate that.

Now, my next question is what is the projected date for production to start, if there is one?

GREGORY LANG:

Well, Terence, at this stage we have not announced a development plan. It's our strategy to position this asset that when the prices and the markets are right we're in a position to go forward.

Tom, would you like to expand on that question a little bit?

THOMAS S. KAPLAN:

Sorry, did you look to me?

GREGORY LANG:

Yes.

THOMAS S. KAPLAN:

When the conditions are right, when the gold price is higher—can everyone hear me?

GREGORY LANG:

Yes.

TERENCE MOORE:

Yes.

THOMAS S. KAPLAN:

Hello?

TERENCE MOORE:

Hello? Yes, I can hear you.

GREGORY LANG:

Yes, we can hear you, Tom.

TERENCE MOORE:

Are we still on?

GREGORY LANG:

Terence, we seem to have encountered a communication barrier there. But really, to answer your question a little bit more-

THOMAS S. KAPLAN:

I'm back on. Sorry about that. I hope you can hear me now.

GREGORY LANG:

Much better.

THOMAS S. KAPLAN:

Much better? Great. Basically, when the gold price is right, and we'll know it when we see it; don't ask me what that price is going to be. You'll see it in the an exploding share price. You'll see it in investor sentiment. People will understand that the next leg of the bull market is moving. That's when we—and of course we have a partner—and Barrick will make a construction decision.

TERENCE MOORE:

Tom, the reason I asked that is because I've been an investor in NOVAGOLD for many years, literally many, and I remember—and correct me if I'm mistaken, by my memory is usually pretty good—that at one point NOVAGOLD was offered a buyout at \$17 a share which NOVAGOLD turned down. That was-

THOMAS S. KAPLAN:

That's correct. That was before I was a shareholder in the Company, by the way.

TERENCE MOORE:

Yes.

THOMAS S. KAPLAN:

That was 2006 when Barrick made a hostile bid. Correct. I came into the Company on December 31st, 2008.

TERENCE MOORE:

Okay.

THOMAS S. KAPLAN:

It was a very, very different story at that time. The one thing that I can tell you is that if you've read the Annual Report you will see that every promise we've ever made to investors from the time that we have come into the Company, we have fulfilled each and every one of them. I don't think there are many companies that over the last decade would be able to say they haven't made one mistake. And the result is that we have a federally permitted project in the United States with one of the best management teams in this space. We haven't done anything to dilute shareholder value; to the contrary, we've spun off Trilogy which is now a \$0.25 billion company in its own right. We've sold Galore, not for pennies but for real money. We are now a pure play on 50% of an asset that in its own right could rival Nevada.

Now, you've been an investor for a long time and you've clearly seen that the last decade has been very difficult for gold stocks over the most part. Nonetheless, what I would suggest is that where we are now, in a position to be able to wait for the higher gold prices that will allow us to get the kind of great return that everyone should be looking for before they build a gold mine in this environment, we are I think better positioned than any other company in this industry.

I hope to be able to reward you. One thing I can assure you, I sit exactly on your side of the table. If anything, you could say that the owner lives above the shop. I love the story more now than when we got into it 10 years ago, and I was pretty excited then, but the fact that all of the boxes have been checked, the fact that we have been de-risked, the fact that all of the upside is so very clearly obvious and that we are sitting with enough cash to be able to survive any downdraft in the industry that could devastate other companies that are producing or developing—prematurely in my view—

TERENCE MOORE:

Yes, sir.

THOMAS S. KAPLAN:

This is exactly the kind of vehicle that you should be looking for. I know personally this is exactly the kind of vehicle that I want, and I don't know of anyone that is better, because if there were I would be buying it.

TERENCE MOORE:

I appreciate that. I'm still with the Company. I've got a good position with you, but let me wrap this up because somebody else might have a question. I can't ask all the questions. You mentioned Galore Creek which was one of the things I was going to bring up because you did not address that. You sold 50% of Galore Creek, but we still retained 50%. What is the status of Galore Creek as far as development?

GREGORY LANG:

Tom, I'll take that question.

THOMAS S. KAPLAN:

Yes, please take that one, Greg. Thank you.

GREGORY LANG:

Yes, Terence, we had owned 50% of Galore Creek and it was co-owned by Teck. Now we sold 100% of our 50% interest, so Galore Creek is now owned by Teck and Newmont.

TERENCE MOORE:

Oh, okay. All right. I did not understand it. I thought we still had 50% of that.

Last thing, gentlemen. Let me make a comment here. I am glad to see that Paulson owns a lot of your stock because I am also into Detour and Detour was an absolute mess, it was a scam until Paulson took over the Board and straightened that company up. I have a lot of hope for Detour too, under Paulson's leadership. Just thought I would throw that in there that I think it's a good point that Mr. Paulson and his companies are heavily invested in NOVAGOLD.

GREGORY LANG:

Well, we're very pleased to have them as shareholders and I'm sure your remarks will find their way to Paulson Group.

TERENCE MOORE:

I hope so. Okay. Gentlemen, thank you very much. Sorry to take up so much time.

GREGORY LANG:

All right. Thank you.

THOMAS S. KAPLAN:

Thank you, Terence.

OPERATOR:

This concludes-

GREGORY LANG:

Everyone, thank you for your interest in NOVAGOLD. We appreciate you taking the time to join our call. Thank you.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.