



NOVAGOLD Resources Inc.

Second Quarter 2022 Financial Results

Conference Call and Webcast Transcript

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Speakers: **Melanie Hennessey**
Vice President, Corporate Communications

Gregory Lang
President and Chief Executive Officer

David Ottewell
Vice President and Chief Financial Officer

Operator:

Welcome to the NOVAGOLD Second Quarter 2022 Financial Results Conference Call and Webcast.

As a reminder, the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

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

Melanie Hennessey:

Thank you Ariel. Good morning everyone. We are pleased that you've joined us for NOVAGOLD's 2022 second quarter financial results and also 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. At the end of the webcast, we will take questions on the phone and respond to the questions received by email.

I would like to remind participants that as stated on Slide 3, 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.

I now have the pleasure of turning the presentation over to our President and CEO, Greg Lang. Greg?

Gregory Lang:

Thank you Melanie. I'm glad you could all join us today.

Before we get started, I want to take a moment to acknowledge the recent and tragic passing of our dear friend, colleague, and long-time director, Igor Levental, with whom I had the pleasure of working with for well over 30 years. He will be sorely missed, as will his counsel, his characteristic sense of humour, and his love of life. NOVAGOLD's Chairman, Dr. Kaplan, wrote a beautiful tribute to Igor. This can be found on our website under Board of Directors.

Last year's drill program finished strongly with high-grade intercepts and some of the best drill results for an open pit project industry-wide. Final results for the 2021 drill program were released in the first quarter and provided the basis for our activities that commenced at the Donlin Gold project site earlier this year in February, with the largest forecast spend on the project in over a decade.

Following the excellent results of 2021, we are encouraged by the significant drill program for this year. Drilling is focused on upside prospects in the ACMA and Lewis pits, where drilling has thus far been limited. In the second quarter, the team of 150 people at Donlin were advancing drill activities at a good pace, with more than 70% of the planned drilling completed to date.

We expect the first set of assay results from this program to be issued this summer. Geologic modeling and interpretation work to update the resource model is underway, including engineering activities for use in an updated feasibility study that, subject to Donlin Gold board approval, is expected to commence in the second half of this year.

The 34,000 metre drill program is focused on technical, exploration, tight-spaced grid drilling, both in-pit and below pit in the ACMA and Lewis areas, as shown in the circled areas on Slide 7. These results will be added to the geologic modeling and interpretation work for an updated resource model. This program will enable the commencement of an updated feasibility study.

While we continue with the drill program permitting and modeling work, we have not lost sight of one of the project's most important attributes and that's Donlin Gold's exploration potential. As highlighted on Slide 8, the incredible upside exists to increase ounces and extend the mine life beyond the already known three decades at Donlin, a footprint that covers only three kilometres of an eight kilometre gold-bearing trend which is on less than 5% of our total land package up in Alaska.

Donlin Gold's 2022 expenditures are anticipated to be \$60 million, as shown on Slide 9, for which NOVAGOLD is responsible for half. Beyond drilling, geologic modeling, and interpretation work, this commitment also supports the advancement of environmental activities and finances our community and external affairs efforts.

The health and safety of our workforce at Donlin Gold is a priority. Both NOVAGOLD and Donlin Gold have implemented strict safety protocols and COVID-19 mitigation measures remain in place to ensure the staff rotations are conducted in both an efficient and safe manner. Slide 10 shows some of our Donlin Gold employees during the field season. Donlin currently has 150 employees, contractors, and student interns, most of which are local hires from the 24 communities in the Yukon-Kuskokwin region of Alaska.

Slide 11 contains noteworthy updates from the second quarter, including a list of all the major federal and state permits received since 2012. Alaska's Division of Environmental Protection water permit upheld the 401 certification of the Clean Water Act. Following the state's decision, Earth Justice and OMC requested that the Commissioner conduct additional adjudicatory hearings on the part of the Division of Water's decision related to potential water temperature effects in Crooked Creek.

The Commissioner denied the appeal on the State of Alaska's issuance of water rights for the mine and transportation facilities; however, in the second quarter, Earth Justice appealed his decision to the Alaska Superior Court. A briefing schedule has not been set by the court, and Donlin Gold and the owners will continue to support the State of Alaska in its defense of their thorough and diligent permitting processes.

Donlin Gold has applied for a new air quality permit, which is expected to be in place when the extension of the current permit expires about a year from now. We expect the State of Alaska will issue a draft for the new permit for public comment in the second half of this year.

Donlin Gold is fortunate to enjoy time-tested partnerships with Calista and TKC, owners of the mineral and surface rights. This project is on private land that was designated for mining activities through the 1971 Alaska Native Claims Settlement Act and is a key attribute that distinguishes Donlin from most other mining assets in Alaska.

Our longstanding commitment to meaningful tribal consultation throughout the project development and permitting has been demonstrated over decades of reliable and independent engagement with the communities, and it shows. Donlin Gold received its federal permits in 2018, and most of the key permits from the state are also in place. This represents a tremendous achievement and is the product

of a substantial undertaking over many years that ensured a diligent, thorough, transparent, and inclusive process for all stakeholders in the Y-K region.

In the second quarter, Donlin Gold participated in and sponsored multiple local events with Calista and TKC, providing a wide range of critical support and engagement activities throughout the region. As shown on Slide 13, some of these Donlin Gold activities included signing a new agreement with Stony River, a village in the Y-K region—we now have a total of nine shared value statements that include educational, environmental, and social initiatives to support the villages; sponsoring state-wide events, including the Native Youth Olympics and the Arctic Encounter Symposium, the largest annual Arctic policy event in the United States; as a principal sponsor of the 50th anniversary of the Iditarod, a 1,000-mile sled dog race, often referred to as the last great race. We are also working with TKC to charter flights to send drinking water to Red Devil after a flood temporarily contaminated the local wells. We are also sponsoring and participating in numerous other events during the second quarter.

As shown on Slide 14, NOVAGOLD has approached the disclosure of our environmental, social, and governance performance pragmatically as a development-stage Company, disclosing benchmarks that we believe are the most relevant measures of our performance at this stage. NOVAGOLD recognizes the importance of climate change and the impact on decisions in the Y-K region, the investment community, project design, compliance, and corporate governance. We believe that mines can be developed in collaboration with people who have the local knowledge to help minimize the environmental impacts while providing benefits from economic activity.

We recently released our 2021 sustainability report that outlines the work that has been done both at NOVAGOLD and Donlin Gold. You can view this report on our website under the Sustainability tab.

I'll now turn the call over to Dave Ottewell, NOVAGOLD's Vice President and CFO, who will give an update on our second quarter financials. Dave?

David Ottewell:

Thanks Greg.

Turning to Slide 16, we highlight our second quarter operating performance. We reported an operating loss of \$13.8 million in the quarter, a \$4.6 million increase from 2021, primarily due to the expanded Donlin Gold work program. Other income expense includes an increase in the fair value of markets and securities and foreign exchange movements partially offset by lower accretion income due to the maturity of the \$75 million Newmont note in July last year.

Second quarter cash flows are highlighted on Slide 17. Cash and cash equivalents decreased by \$12.8 million primarily to fund our share of Donlin Gold and also for corporate administrative expenses. Compared to the prior-year quarter, the increase in spending was again due to Donlin Gold's expanded work program.

On Slide 18, we note our strong treasury. Our financial position includes cash and cash equivalents of \$72 million, term deposits of \$70 million, and \$25 million due from Newmont in 2023. For the full year, we continue to anticipate spending \$46 million, including \$30 million at Donlin, \$13 million for corporate G&A, and \$3 million for withholding taxes on share-based compensation and working capital.

I will now turn the presentation back over to Greg Lang. Greg?

Gregory Lang:

Thank you Dave.

In our view, Donlin Gold is a rare gold development asset. The reason for such a unique status beyond providing investors with pure leverage to gold lies in the project's key attributes as shown on Slide 19, namely size—no other gold mine has started production with 30 million ounces measured in indicated resources; scale, expected to be a million ounce a year producer with a projected life of at least 27 years; will have low production costs due to the high grade for a large scale open pit at 2.25 grams, nearly twice the industry average; growth exploration potential is planned beyond the 27 years of production; and being in Alaska, one of the great mining jurisdictions in the world and on private land designated for mining.

On Slide 20, Donlin Gold is compared to the other development-stage projects. At 39 million ounces, it's far and away the largest of emerging projects in the gold industry. If it were in production today for the feasibility study, we would be the largest gold mine in the industry with an average production of over a million ounces a year, approximately four times the other development-stage projects.

The next slide just compares the top three gold producing operations and the five largest development-stage projects. Clearly Donlin is in the top tier of gold mining assets. The grade at 2.25 grams is double the current industry average, which provides Donlin Gold with exceptionally low cash costs.

Our stock shareholders, some of whom have provided support for well over a decade, together form an important part of the equation. On Slide 24, our largest institutional shareholders, such as Paulson & Company, Fidelity, BlackRock, the Saudi Public Investment Fund, First Eagle, and Exor, see the investment opportunity in NOVAGOLD and clearly understand how the extraordinary gold development asset at Donlin can provide true octane to their portfolios as the strong case for gold unfolds and gathers momentum. The Company is very appreciative of their continued interest and commitment.

In closing, it is our belief that Donlin Gold is poised to become one of the greatest gold stories in the development space. We have protected these resources, substantially de-risked the project over many years, and are committed to responsible mining and dedicated to building trust and transparency as we continue to work to find ways to improve and enhance the project to build a lasting legacy.

Thank you. We will now open the call for questions.

Operator:

Thank you. We will now begin the question-and-answer session.

Gregory Lang:

Thank you everyone. Melanie, have there been any questions come in online?

Operator:

We do have a question from the phone line. Our first question come from Fran Esposito, private. Please go ahead.

Fran Esposito:

Hi NOVAGOLD. I really love your company, but I just want to ask you a simple question. When do you plan on starting to mine?

Gregory Lang:

All right, Fran, thank you for your comment on the Company and following us.

This year we'll be finishing up the drill program and we have stated with our partner that we will make a decision on the feasibility study in the second half of this year. Assuming we move forward, the updated feasibility study will take about a year, year and a half, and at that point we will be in a position to make a construction decision and, depending on the scale of the project, approximately three to four years to build.

Fran Esposito:

Okay, so we're looking at maybe two years before we start, and then as we start and the mine gets built in another four years, so we're actually looking at about five or six years down the road?

Gregory Lang:

That's correct, Fran.

Fran Esposito:

Okay, perfect. At least I got a good answer. Thank you very, very much. I've been following you guys for better than 15 years, and I always liked your company.

Gregory Lang:

Well, thank you for that, Fran. We appreciate your dedication over the ups and downs of the last 15 years.

Operator:

Our next question comes from Lucas Pipes of B. Riley Securities. Please go ahead.

Lucas Pipes:

Hey, good morning everyone. I wanted to ask a quick question.

The total budget for Donlin, \$60 million, splits 50/50. One, to what extent are you concerned that inflationary pressures may exert upside pressure on that budget, and then as you look out to next year, what are some of the items that may drop off, given the drill program has been completed, and what are some of the items that might be added, again looking out to next year? Thank you very much.

Gregory Lang:

All right, Lucas, well thank you for joining the call and your question. I'll break it into pieces.

As far as the inflationary pressures on this year's program, most of our expenditure this year is drilling-related, and thus far our productivity has been very strong at the drill rigs. Because there is such a high fixed component of operating a camp, the main thing you can do to control the cost is have good drill productivity, so we've been achieving great productivity. We're about 70% through the program, and because of the productivity, we anticipate our drilling-related costs, which is most of our budget, to come in below the budget.

So inflation, we're certainly feeling some of the effects, such as fuel for the camp and bringing employees in and out, but by and large the impact has been minimal at the worst this year. Looking forward to next year, I don't anticipate significant inflationary pressures as we move forward with the feasibility study, and I think certainly as we update the new feasibility study, we will take into account current market conditions into our capital and operating costs. We're fortunate that we're at a stage right now where we are not really—we're mindful of what's happening with inflation, but it's not impacting our day-to-day activities this year.

Thank you, Lucas. Did that address the question you raised?

Lucas Pipes:

Yes, that's very helpful.

In terms of the drill program, when would it be fully completed in terms of spending?

Gregory Lang:

We've got about 70% of the drilling completed to date, and the assays are coming in a little slowly this year, but we will be ready to release the first approximately one-third of the results in the near future. We would expect at the current rate of drilling that drilling will be done sometime in September-October range, and that we would have a couple months' lag time on continuing to get the assays back.

Lucas Pipes:

Got it. Okay. That's very helpful, Greg. Really appreciate the colour and best of luck.

Gregory Lang:

All right. Thank you Lucas.

Operator:

This concludes the question-and answer-session. I would like to turn the conference back over to Greg for any closing remarks.

Gregory Lang:

Thank you Operator and thank you everyone for taking the time to get an update on NOVAGOLD this morning. Stay safe.

Operator:

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