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NG.TO - Q4 2017 NovaGold Resources Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

Lucas Nathaniel Pipes *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to NOVAGOLD 2017 Year-end and Fourth Quarter Conference Call and Webcast. (Operator Instructions) And as a reminder, this conference may be recorded. I would now like to introduce your host for today's conference, Ms. Melanie Hennessey, Vice President of Corporate Communications. Ma'am, you may begin.

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

Thank you, Sabrina. Good morning, everyone. We are pleased that you are with us today for NOVAGOLD's fourth quarter and year-end financial results as well as an update on the Donlin Gold and Galore Creek 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 call, there will be time for questions, both by phone and by e-mail, and the operator will prompt you for how to ask brief questions.

But before we get started, I would like to remind our listeners that our materials do contain forward-looking information and also projections that may differ from actual results. Please refer to the risks and uncertainties that are disclosed in our annual report filed on Form 10-K for the year ended November 30, 2017, and also other NOVAGOLD reports and documents filed on SEDAR and EDGAR.

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

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

Thank you, Melanie, and we appreciate everyone taking the time to join our call this morning. We will be reviewing our 2017 year-end and fourth quarter results as well as providing an update on our 2 projects, which we co-own with senior producers.

The first is our flagship property, the Donlin Gold project in Alaska, which is co-owned with Barrick and continues to progress through permitting. It is poised to become one of the largest producers in the gold industry. Our other project, Galore Creek in British Columbia, is co-owned with our partner, Teck, and is one of the largest undeveloped copper deposits in Canada.

I wanted to start the call up this morning by providing an update of the achievements in 2017, particularly as it relates to the advancement of permitting at Donlin Gold.

As outlined on Slide 5, a tremendous amount of work was accomplished by our team as we provided the Corps with all of the information required to complete the final EIS. We secured the issuance of some major state permits and conducted a drill program in support of our ongoing optimization



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work. Together, we have been committed in making sure we successfully complete the permitting for Donlin and lay the foundation to develop this one-of-a-kind asset.

The Corps is finishing its last revisions to the final EIS, which is planned to publish in early 2018, followed by the issuance of a Record of Decision in the second half of the year. Other key federal and state permits and approvals will follow concurrently or shortly after the Corps issues a Record of Decision. Specifically, the air quality permit was issued in June, followed by the draft release of the water discharge and integrated waste management permits for comments in December 2017. By all counts, permitting is advancing toward completion in 2018.

Moving to Slide 6. Another key focus in 2017 was Donlin Gold's optimization work, which we advanced together with Barrick. As part of this work, we have been evaluating selective mining practices to increase the mine grade. To that end and to collect geochemical and structural data proportion to the deposit as well as further strengthen our understanding of the targeted mineralized zones, a drill program consisting of 16 holes and about 7,000 meters was completed last November. Assaying of the core is ongoing, and we are satisfied with the results to date and the validation it brings to our ongoing optimization work.

We clearly have a large and remarkable ore body with exceptional size and grade, yet both owners are striving to optimize its development, such that we can be among the largest producers, but with lower upfront capital costs and a robust execution plan.

To further advance these efforts, the owners have retained an external engineering firm to support our ongoing optimization work. And as such, we will be integrating the data from our latest drill program to further advance these efforts.

Other opportunities include innovative technologies in logistics and automation, modular construction techniques and third party participation in the infrastructure and development. All of this will help us determine the best path forward for the project, and we anticipate updates on these efforts in 2018.

As shown on Slide 8, throughout the past year, we supported both the Donlin Gold and Galore Creek Project teams in their community engagement efforts by participating in meetings, tours, events and other activities across Southwest Alaska and Northern British Columbia. Several Donlin site tours were carried out for key stakeholders in the Y-K region with our Native Corporation partners, Calista and TKC, as well as village visits and presentations to the traditional village councils, residents and students.

We proudly supported the Elder/Foster Grandparent Program that supports elders in the Donlin region as they work to continue to increase school children's readiness and connection to their culture. Donlin Gold also partnered with CISCO to offer information technologies to be used in the Kuspuk School District.

At Galore Creek, bursaries were awarded to Tahltan First Nation members pursuing postsecondary education, an important initiative, which fosters continuous learning. Also imperative in ensuring our success is maintaining frequent and consistent engagement with our shareholder base, which is why following the 2017 proxy season, several members of our board met with our top institutional shareholders to discuss compensation and governance matters. These efforts initiated an important dialogue regarding changes to ensure the effective management of the company as it evolves.

And with that, I'll turn it over to our CFO, David Ottewell.

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

Thank you, Greg. Slide 9 highlights our 2017 operating performance. For the year, we reported a \$39 million net loss, \$5.2 million higher than the prior year. The operating loss increased by \$3.6 million due to the Donlin Gold drill program, increased care and maintenance activity at Galore Creek and higher G&A costs, partially offset by lower permitting cost at Donlin Gold.

Other expense increased due to higher interest expense on the Barrick promissory note and foreign exchange movements due to the strengthening of the Canadian dollar.



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NOVAGOLD's cash flow highlights are outlined on Slide 10. For the year, we spent \$21.3 million, of which \$13 million was to fund our share of the Donlin Gold and Galore Creek projects and \$8.3 million was used for operating activities, including administrative costs and working capital. Cash used to fund our projects increased \$3.3 million over the prior year due to the drill program at Donlin Gold.

The prior year also included \$4.3 million used for withholding tax on share-based compensation.

Finally, on Slide 11, we expect to spend approximately \$28 million in 2018. Spending is expected to increase this year due to the additional Donlin Gold optimization work and increased care and maintenance activity at Galore Creek. We expect to end the year with approximately \$56 million cash and term deposits.

Greg, back to you.

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

Thank you, Dave. As illustrated on Slide 12, our optimization efforts are well justified. Donlin Gold is a unique project. Its endowment of 39 million ounces of gold in the measured and indicated category is about 4x the size of its peer group average. The project also boasts great grade, almost twice what we see in the gold industry today. Donlin will also be a large producer, the largest among the next generation of mines, averaging over 1 million ounces a year over its remarkable lifespan.

We've only just started exploring the trend at Donlin. And when permitting is behind us, we look forward to resuming drilling on this vast project. We're in a rising gold pricing environment, and this slide illustrates the leverage that the project brings in times like these.

Donlin also enjoys the benefits of being on private land that was designated for mining activities. It's owned by 2 Alaska Native Corporations, Calista and TKC, and we have life of mine agreements in place with both of these entities.

Slide 18 shows how far we've come in the last 2 years. Permitting is a long undertaking, and it's not the most exciting portion of the life of the mine. It requires an incredible amount of effort and focus from everyone involved to ensure a successful outcome and lay a foundation from which to develop one of the best deposits in the industry. And this is at a time when availability of major long life high-grade projects with great exploration potential and in jurisdictions like Alaska is almost nonexistent. Donlin Gold will be a life-changing project for the local stakeholders and our community partners.

Turning to Galore Creek on Slide 19. The focus in 2017 was on site care and maintenance with the majority of the work conducted over the summer months, and about half of our employees were members the Tahltan First Nation. Our primary objective is the advancement of our flagship Donlin Gold project. Our intention remains to sell all or part of our interest and redeploy the proceeds towards Donlin Gold. We want to make sure that the value we would receive for our interest in this high-grade project is reflective of the scarcity value. With escalating copper prices, Galore Creek could be a core asset for many major companies.

Turning to Slide 20, we've listed some of the catalysts which are on the horizon. The most important one is the Donlin Gold final EIS, which is expected to be published in the coming months. Following that, we look forward to providing updates on our optimization efforts and the next steps forward as permitting gets behind us.

NOVAGOLD enjoys the support of the strong base of institutional shareholders, many who view their investment in our company as an un-expiring warrant on gold.

And to wrap it up, the company is in great shape financially, we're steadily advancing our projects with our partners, our optimization efforts are very exciting, and we look forward to updating everyone on our activities this year.

Operator, we can now open the line for questions.



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will come from the line of John Bridges with JPMorgan.

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

I was just wondering, the 7 holes that you put in to look at some activity and that sort of thing, what exactly were you trying to do there? If you were trying to sort of do some engineering on how accurately you can mine, then I would have thought -- I would have expected a larger number of holes. Are you sort of targeting a specific high-grade zone or are you testing a number of different zones? What was the drill program meant to achieve?

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

Thank you for joining on our call today. As part of our ongoing optimization work, we've studied more selective mining methods as a means of enhancing the grade. And in essence, it's basically using somewhat smaller equipment then giving yourselves the opportunity to be more particular about your grade control. And the drilling is conducted to verify this hypothesis. And certainly, we're satisfied that we are doing that. There's a lot of drill holes in Donlin, so our program last year really targeted areas that could enhance our understanding of the ore body and the structural controls associated with the intrusives.

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

Is this a low strip ratio portion of the ore body? Is this a underground target or a number of -- or a mix of both?

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

John, we're primarily focused on the open pit activities, which is the subject of the current permitting process. So we think there is certainly potential below the ore body, but that's many, many years down the road.

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

Okay. And then you're expecting to see the EIS come out early in 2018. So maybe that's in the next month or 2. And then once the final EIS is out, it's only later in the year that the Record of Decision is issued and you can start making concrete steps. Is that correct?

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

That's correct, John. The Army Corps of Engineers has stated that they will publish the EIS in about 2 months' time. That's on their website. And then they will take about 4 months to write a Record of Decision, which is essentially the conclusion of the formal EIS process. That then goes out for public comment. So sometime in the third quarter of the year, we should be pretty well wrapped up with the federal permitting process. And we have that almost behind us, John.

Operator

And the next question will come from the line of Lucas Pipes with B. Riley FBR.



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Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

Great job on the progress, and I wanted to touch on some of the points that John just raised. And with the goal post in sight and you mentioned in the release the optimization work, to what degree can you pursue these 2 paths? Meaning, the last couple of yards on the permitting and then the optimization simultaneously. And what do you think are kind of the most relevant dates to keep in mind on the optimization front?

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

All right. Lucas, you raised very important question, and that we are, of course, very sensitive to our activities, staying within the project that we're just about ready to have approval on. So our optimization efforts will focus on the known mineral occurrences and the activities of which the Corps of Engineers and the other agencies are reviewing. So the key milestone for us really is getting this permit work behind us. And we are looking to conclude our optimization work concurrently as we wrap up the last stages of the permitting. So later in the year, I think we'll be in a position to share some of the things we've learned in the last couple years with studies with Goldcorp and Barrick.

Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

That's great, great. Excellent. And then I remember reading in the -- I think it was the regulatory filing last night, that Galore Creek remains open for sale, partial or in full. And I just wondered if the stronger copper price has also shown itself in maybe a little bit more inbound activity. And if you could just give us an update on Galore Creek and the level of things you're expecting to see?

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

Sure, Lucas. You're absolutely right. As copper has started making a move about this time a year ago, the inbound interest for our Galore Creek project certainly picked up. And I think we're going to find that our patience on the sale of Galore will be rewarded because, all along, we said, "Hey, we think this is a valuable asset and when the time is right, we'll monetize it." And with copper about \$3 a pound, certainly, the interest has picked up, and it's with companies that have the wherewithal to take on a project like this. So we're pleased with that, and we're actively considering the best path forward in the right time. We've been very fortunate all along that our treasury is very strong. We'll finish the year with, as Dave pointed out, just under \$60 million, which will carry us well into the future.

Operator

(Operator Instructions)

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

Well, everyone, there being no further questions, we'll conclude the call this morning. Thank you for all dialing in, and have a good day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a wonderful day.



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