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NG.TO - Q2 2018 NovaGold Resources Inc Earnings Call

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Stephen David Walker *RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NOVAGOLD Second Quarter 2018 Conference Call. (Operator Instructions) I would now like to introduce your host for today's conference, Ms. Melanie Hennessey, Vice President, Corporate Communications. You may begin.

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

Thank you, Bruce, and good morning, everyone. We appreciate you joining us for NOVAGOLD's second quarter results and to take a look at the key milestones achieved during the quarter and also for updates on 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. At the end of the webcast, we will take questions, both by phone and by e-mail.

But before we get started, I would just like to remind all of you that some of the statements today and in the presentation do contain forward-looking information, such as projections and goals, which are likely to involve risks that are detailed in our various EDGAR and SEDAR filings and in various forward-looking disclaimers included in this presentation. And with that, I have the pleasure of introducing Greg Lang, NOVAGOLD's President and CEO. Greg?

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

Thank you, Melanie, and good morning, everyone. Today, we will be reviewing our second quarter results and providing an update on our 2 projects. Our flagship asset in Alaska, Donlin Gold, is in the final throes of permitting. The project is poised to become one of the largest producers in the gold industry. Galore Creek, a 50% partnership with Teck, is located near Stewart in British Columbia and has the potential to be one of the largest and lowest-cost copper mines in Canada. During the second quarter, we provided support to the Army Corps of Engineers as they completed the Donlin Gold final EIS and filed the notice of availability in the Federal Register on April 30. As per Slide 5, the next steps in the federal process is the issuance of the Record of Decision, for which the Corps and Bureau of Land Management are working on a single Federal Record of Decision, along with the Clean Water Act Section 404 and Harbors Act Section 10 permits in the second half of the year. Progress has made -- been made on other federal permits with the issuance of the special permit for the natural gas pipeline on June 5. Likewise, for major state permits, we have made significant progress with the completion of the state air quality permit and the water discharge permit that were issued on May 24. Other key state and federal permits and approvals are scheduled to be finalized concurrently with or shortly after the Record of Decision. We were also delighted to see the press release by the State of Alaska last April, and the governor's quote and support for Donlin is highlighted on Slide 6. We are fortunate to have a broad base of support from the state. Support from our native corporation partners, Calista and TKC, has been a key factor in the success of this project. Slide 7 highlights excerpts from Calista and TKC's final EIS letters to the Corps of Engineers.



JUNE 28, 2018 / 3:00PM, NG.TO - Q2 2018 NovaGold Resources Inc Earnings Call

NOVAGOLD and Barrick's technical teams, along with third-party engineering firms, are optimizing the project as planned, studying opportunities to improve capital efficiencies and integrating the results from the 2017 drill program into Donlin Gold's geologic and resource model. We are also evaluating enhancements to the project execution plan, while maintaining the project's upside potential as highlighted on Slide 8. One of the opportunities being studied is the ability to mine more selectively, which could improve feed grade. They have also identified innovative technologies in logistics and automation and modular construction techniques to improve efficiencies. Another component to reduce the upfront capital cost would be evaluating third-party participation in certain infrastructure. These technical studies and cost-savings opportunities have the potential to benefit the project when the owners proceed to update the feasibility study and initiate engineering work necessary to advance the design. We expect to provide an update on our progress and the next steps in this program later in the year. Barrick and NOVAGOLD remain committed to advancing the Donlin Gold project in a financially disciplined manner with a strong focus on environmental stewardship and social responsibility.

On Slide 9, we have included a quote from Kelvin Dushnisky, Barrick's President, addressing NOVAGOLD's press release that was issued on April 30 in regards to the publication of the Donlin Gold final CIS.

Our engagement efforts with the broad stakeholder base are the foundation of all our activities. The outreach efforts in the broader Y-K region is an important and essential element of our day-to-day activities, taking part in frequent engagements with the local communities by hosting and participating in events, presentations and workshops. We appreciate the level of commitment and interaction with our partners, TKC and Calista, the residents and the organizations located in the project's region. In the second quarter, some of the highlights included the Bethel Job Center Career Fair, presentations at gatherings and conferences throughout the state, village and stakeholder meetings throughout the Y-K region and a comprehensive economic development strategy. And with that, I'll turn the call over to our CFO, David Ottewell.

David A. Ottewell - NovaGold Resources Inc. - VP & CFO

Thanks, Greg. Slide 11 highlights our second quarter operating performance. We reported an \$8.2 million operating loss and \$9.6 million net loss in the second quarter. For the quarter and the first 6 months, an increase in Donlin Gold optimization costs were offset by lower permitting costs, while other expense increased due to higher expense on the Barrick promissory note. For the first 6 months, general and administrative costs were \$1.9 million lower than the prior year as a result of lower share-based compensation costs for stock options and PSUs due to changes implemented in our share-based compensation program in the first quarter.

NOVAGOLD's cash flow highlights are outlined on Slide 12. During the second quarter of 2017, we spent \$6.5 million, of which \$4.6 million was to fund our share of the Donlin Gold and Galore Creek projects and \$1.9 million was used for administrative costs, net of working capital and interest. We ended the quarter with cash and term deposits at \$70.5 million. We continue to expect to spend a total of \$28 million for the full year. Greg?

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

Thank you, Dave. Turning to our flagship asset on Slide 13. Donlin Gold has all the key attributes that are required to build a modern, cost-effective mine. Donlin Gold has size and grade and also league-leading output, a low-cost structure. This is a company making mine with excellent exploration upside, strong local partnerships and, importantly, jurisdictional safety. Donlin Gold represents tremendous value for a broad stakeholder base. Our largest shareholders view NOVAGOLD as the best way to gain exposure to one of the richest gold deposits in the industry with 39 million ounces of gold, nearly 4x the average of its peer group. Donlin is in a league on its own when compared to the other development gold projects presented on Slide 14 with greater than 2.5 million ounces in reserves located in North America.

Another key attribute shown on Slide 15 is the excellent quality of the deposit. With measured and indicated resource grade of 2.25 grams per tonne, it's double the industry average. Donlin Gold is one of the highest grade known open-pit gold deposits. Its grade makes the asset more attractive in precious metals industries, where reserve grades are declining and sources of emerging production are becoming increasingly scarce. Beyond the size and the quality, Donlin Gold has longevity with an anticipated production profile averaging more than 1 million ounces a year, over approximately a 27-year mine life. Clearly, at the top of the list, as shown on Slide 16, when compared to the same gold-focused development peer group as presented earlier. Once in production, the project will contribute great economic benefits to all of our stakeholders for decades to come.



JUNE 28, 2018 / 3:00PM, NG.TO - Q2 2018 NovaGold Resources Inc Earnings Call

Slide 17 depicts Donlin's 8-kilometer mineralized belt, and the ACMA and Lewis pits, which are delineated in a white border, contain the [39] million ounce resource (corrected by company after the call). During the years of active exploration between 2006 and 2011, Donlin Gold's resource grew by 135%. As you can see, the trend has multiple targets that warrant exploration in the future. Donlin Gold is located in Alaska, the second-largest gold producing state after Nevada, that offers jurisdictional stability and a time-honored tradition of respect for the rule of law and responsible mining.

As highlighted on Slide 18, jurisdiction is an important issue today in the resources sector. Mine development in many countries from Africa to Asia is getting increasingly more challenging. Investing in the wrong region carries risks well beyond what you experience in North America. We have come a long way in recent years, as shown on Slide 19, when we embarked on the complex path of securing the state and federal permits, which we need to proceed with site activities. The time invested upfront to build a solid foundation from which to grow responsibly and sustainably has been critical to our success to date. When considering the longevity of the future mine, it's worth investing the time needed to develop what is expected to be a very important and long-lived operation.

It's very gratifying to be in the final stretch of Donlin Gold's permitting process, with the Corps publishing the final EIS and the balance of the permitting activities winding down. Looking ahead, we've outlined the next steps in Donlin Gold's development on Slide 20. The optimization efforts focused on lowering upfront capital and enhancing the project's execution plan will be reflected in an updated study. We expect to provide additional information on our progress and the next steps for this program after receipt of the Record of Decision. Barrick and NOVAGOLD will take all this work into account before reaching a construction decision. We remain very methodical in our approach to obtain optimum and sustainable value.

Moving to Galore Creek, on Slide 21, the resource database and optimization work was completed in the second quarter. Mobilization of the camp for the summer care and maintenance program and asset preservation work began with a week-long safety orientation program. In many respects, Galore Creek is similar to the Donlin Gold project with size, scale, quality, longevity, explorational potential and jurisdictional appeal and equal ownership by NOVAGOLD and Teck, a major mining company. However, since our focus is advancing our Donlin Gold project, we are committed to objective -- our objective to sell all or part of our interest in Galore to strengthen our balance sheet and to support the continued development of the Donlin Gold project.

As shown on Slide 22, we are fortunate to have an excellent shareholder base, who are true believers in the opportunity and the leverage which NOVAGOLD presents. Over half of our shares are held by our top 6 investors. Ahead of our Annual General Meeting of Shareholders in early May, we engaged with shareholders representing 82% of the company's issued and outstanding shares. Our active shareholder engagement program continues to be a high priority and as an integral part of our corporate governance practices. Regardless of financial need, market trends or economic conditions, we are committed to investor engagement to update and listen to our existing shareholders as well as attract new investors who, we believe, have an opportunity to invest in a high-quality vehicle that has the best and substantially derisked large-scale project in North America. To conclude, we remain steadfast in our commitment to develop what will be one of the most coveted precious metal assets in the world. Thank you. Operator, we can now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Lucas Pipes from B. Riley.

Edward Conrad Beachley - B. Riley FBR, Inc., Research Division - Associate

Ted Beachley here for Lucas. So my first question is, after the Record of Decision is complete and the optimization project wraps up, how soon after can we expect the construction decisions for Donlin? Do you have any rough idea right now?

JUNE 28, 2018 / 3:00PM, NG.TO - Q2 2018 NovaGold Resources Inc Earnings Call

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

No, I think we're working with Barrick to conclude the optimization studies after the Record of Decision is released, and then we'll assess where the markets are and go from there.

Edward Conrad Beachley - B. Riley FBR, Inc., Research Division - Associate

Okay. Great. And then just secondly, how has interest been for Galore creek? And do you see it picking up at all in the current copper environment?

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

Interest in our Galore Creek project, which we're known to be interested in selling, has picked up in the last year as copper prices have moved higher. So we're evaluating that, and we'll take it as it comes in the second half of the year.

Operator

And our next question comes from the line of John Bridges from JPMorgan.

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

We're looking forward to that Record of Decision. Interesting detail on the new outlook for the Phase 1 scale of development. And third-party participation, where would you think that could be helpful?

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

The opportunities we're looking at for third-party participation, some of them are pretty standard, such as leasing the mining equipment or entering into an agreement for the oxygen plant. But we're also looking at maybe it might make sense to bring in a partner on the gas pipeline and other aspects of the infrastructure. Those are the major ones. But there's also opportunities in the ownership and operation of the ports that will supply the mine. So all of those things are being contemplated as we wrap up the optimization work.

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

I was just wondering, are there sort of favorable funding arrangements for First Nations companies that set up to help you with some of the developments?

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

Yes, John, there are opportunities along those lines that we're looking at, and there's been some interest there. So we'll continue to look at those and all other opportunities to reduce the upfront capital.

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

Great. And you mentioned the gas pipeline. The -- you've got the permit now. How long is that permit open for? Do you have to start building it by any particular date?



JUNE 28, 2018 / 3:00PM, NG.TO - Q2 2018 NovaGold Resources Inc Earnings Call

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

No, John. Most of the permits, when you think about it, we're requesting approval for a mine that will have a mine life in decades. So most of the permits are for the life of mine and don't really have a sunset. Some of the permits, such as air quality, need to be renewed periodically, generally on a 2- to 3-year horizon.

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

Okay. And then there has been some sort of talk about third parties coming in. Maybe too early, but I just wonder, are there any CAs in place at the moment with other parties you might be sort of thinking about coming in to join you?

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

Nothing that we would comment on, John.

Operator

And our next question comes from the line of Stephen Walker from RBC Capital Markets.

Stephen David Walker - *RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst*

Just a couple of follow-up questions on Galore Creek. The last technical study was published in September of 2011. And I know Teck has been talking about optimizing the value on some of its assets, including -- or at least getting recognition for the value in some of its assets -- undeveloped assets, including Galore Creek. Is there any plan -- or are there any plans to update that technical study or provide a broader update given the work that's been done over the last several years on the property?

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

Stephen, well, thank you for listening in on our call today. We've been very methodical in our approach to Galore. Certainly, as copper prices have moved up, we've seen -- it's a much more visible asset with our partner, which, we think, is certainly very helpful for what we want to do. But we -- we're not really planning on any updated studies in the near term.

Stephen David Walker - *RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst*

Great. And just as a follow-on. Presumably, 2 things. Is there a formal process going on for Galore at this point? And secondly, is there -- presumably Teck has a right of first refusal should something happen and somebody look to buy a portion or all of your share in Galore Creek?

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

Stephen, there is no formal process underway at this time. But to your question on the right of first refusal, yes, if we present an offer to Teck, they have 90 days to exercise their right of first refusal and match any offer that we would present them.

Operator

And at this time, I'm showing no further questions. I would like to turn the call back over to Greg Lang for any closing remarks.



JUNE 28, 2018 / 3:00PM, NG.TO - Q2 2018 NovaGold Resources Inc Earnings Call

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

All right. Well, everyone, thank you for joining our call today. And we look forward to updating everybody in a couple of months when we receive the Record of Decision.

Operator

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

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