

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

Date: June 27th, 2019

Time: 8:00 AM PT

Speakers: **Gregory Lang**
President and Chief Executive Officer

David A. Ottewell
Vice President and Chief Financial Officer

Melanie Hennessey
Vice President Corporate Communications

OPERATOR:

Welcome to the NOVAGOLD Second Quarter 2019 Conference Call and Webcast. 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, one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, zero.

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

MELANIE HENNESSEY:

Thank you, Sava. Good morning everyone. We are pleased that you have joined us for NOVAGOLD's second quarter financial results and for also an update on the Donlin Gold Project. On today's call, we have Greg Lang, NOVAGOLD's President and CEO; and David Ottewell, the Company's Vice President and CFO. Just a reminder that 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 and projections and goals which are likely to involve risks detailed in our various EDGAR and SEDAR filings and also forward-looking disclaimers that are 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, and good morning, everyone. Our 50% owned, federally permitted Donlin Gold Project is up in Alaska, the second largest gold producing state in the U.S. We are located due west of Anchorage, Alaska, as shown on Slide 4.

On Slide 5, we highlight some of the activities that are underway at the Donlin Gold Project. Alaska's Division of Mining, Land and Water issued preliminary land use decisions authorizing facilities associated with the project's transportation corridor. Alaska's Division of Oil and Gas and Pipeline Coordinator's Section issued a decision to authorize sections of the gas pipeline on State lands.

These activities are needed for the pipeline right-of-way. Public comments for these permits closed in March and final approvals are anticipated by year-end.

With permitting well in hand, we are shifting some of our focus on furthering our geological understanding and integrating scoping level optimization work into a study that will ultimately become the basis for an updated project development plan.

In addition to the ongoing permitting activities, in the second quarter, we initiated safety training and reopened the camp at Donlin for the geotechnical program required for the approval of the Alaska Dam Safety Certificates for the tailings storage facility and water retention dams. It's great to see people from the region coming back to work at Donlin Gold.

Slide 6 provides a high-level summary of the extensive work the team has accomplished year-to-date. We continue to advance and de-risk Donlin Gold staying true to our original strategy laid out years ago. We will continue to receive more State permits throughout the year and we'll keep you updated as they come through.

In the second quarter, we also participated in numerous community activities, including the removal of 35,000 pounds of hazardous waste from eight village landfills. We also supported the 2019 Iditarod Sled Dog Race, which was won by a local resident, Pete Kaiser, whom Donlin Gold has sponsored for many years.

In addition, we participated in the Alaska Academic Decathlon in Aniak, a non-profit event benefiting 140 youth in the Project's region. We believe that NOVAGOLD and Donlin's community engagement act as catalysts for sustainable improvements in the quality of life for many affected by poverty and lack of opportunities for young people.

It is one of our core responsibilities to engage and support locally for the benefit of all of our stakeholders.

With that, I'll turn the call over to our Chief Financial Officer, David Ottewell. Dave?

DAVID A. OTTEWELL:

Thank you, Greg. Slide 8 highlights our operating performance. For the second quarter, we reported a \$5.5 million net loss, \$4.1 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, accretion of notes receivable, and foreign exchange gains, partially offset by higher interest expense on the promissory note payable to Barrick.

NOVAGOLD's cash flow highlights are outlined on Slide 9. In the second quarter we spent \$4.8 million, \$1.6 million lower than the prior-year quarter. Total spending decreased primarily due to lower permitting costs at Donlin Gold, interest income on term deposits, and the sale of Galore Creek in July 2018. We ended the quarter with \$157 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 in the second half of the year with the commencement of field work and detailed engineering to support the application for Alaska Dam Safety Certificates.

As a result of our sale of Galore Creek last year to Newmont, we have \$100 million in notes receivable, with an additional \$75 million contingent on the Galore Creek construction decision.

Greg?

GREGORY LANG:

Thank you, Dave. As you can see from Slide 11, with Donlin Gold's successful completion of the federal permitting and the advancement of its State permitting, we are now preparing for the next stage of development. This has only occurred because of the strong foundation we have in place. The Donlin Gold Project has many significant attributes that set it apart from other gold projects and makes Donlin Gold the right development opportunity for today and for the future. I will address each of the attributes in the coming slides.

On Slide 12, we compare Donlin Gold's almost 40 million ounces in resources to the other 16 development stage gold projects in the industry. If you look at the peer group average, Donlin is better

than twice the size of the nearest comparable and more than five-fold bigger than the average of all of these projects.

When we look at Slide 13, we see another key attribute of the Donlin Gold Project. The grade, which looks better and better as the global average continues to decrease, at 2.25 grams, we're double the industry average. Given the continued decline in grades and gold reserves on a global scale, we are confident that the demand for projects like Donlin will become more urgent.

The Donlin Gold Project has longevity. In its first five years, it will produce 1.5 million ounces a year followed by a mine life of almost three decades at a million ounces a year. As shown on Slide 14, there are few existing or proposed mines with this level of output.

The Donlin Gold peer group comprised of development stage open pit gold deposits highlights the unique nature of our project. If it was built today, Donlin would be the largest gold mine in the industry. Donlin will be a big mine, and on Slide 15, what is highlighted is the scarcity and the scale of the project globally when compared to the top 10 largest producing mines in the world today.

Only six of these mines are expected to produce 1 million ounces a year in 2019 and many of these scale deposits have been mined for a long time and are rapidly being depleted. Some of the mines are in jurisdictions that have many challenges that are not part of the equation up in Alaska.

The supply/demand fundamentals for gold are compelling today. Slide 16 depicts the challenges of finding new gold deposits, as shown by the blue bars, and in recent years you will notice that gold is getting harder to find despite increased exploration spending. Current gold production has been estimated to decrease by almost 50% from current levels in the coming years.

When the value of gold moved up, exploration spending also increased. But in spite of this, there have been no new discoveries of any scale. The major gold producers are rapidly depleting their reserves and these are not being replaced by new discoveries.

On top of this, it is now common for a project to take 20 years to go from discovery to production. These market fundamentals put NOVAGOLD in a great position as gold has resumed its upward trend.

The Donlin Gold deposit is already very well defined. We understand the mineralization, the geology and the grade. As shown on Slide 17, we have roughly 1,400 drill holes in this deposit, over 90% of them core. While the Donlin Gold deposit is well known, there are future opportunities for additional drilling and expansion of the resource.

There is substantial exploration potential along the 8 kilometer trend that has been indicated by past drilling as shown on Slide 18. The ACMA and Lewis deposits, which are shown in the blue area, contain the 39 million ounce resource and occupy less than half of the trend. When the time is right, we will renew exploration drilling.

This bar chart depicts what NOVAGOLD is all about as an investment opportunity. Through its half ownership in Donlin, the Company offers exceptional leverage in a rising gold price environment, as shown on Slide 19.

We have a project that today has a modest rate of return that increases substantially as gold prices rise. This mine will be built in the right market, in the right price environment. As shown on this slide, as prices increase, the returns on this project are robust.

Another key attribute of the project is being located in Alaska with a compelling land tenure, as shown on Slide 20. Our property is rare. It is located on private land owned by two Alaska Native Corporations; Calista owns the mineral estate and TKC owns the surface rights.

We have life of mine agreements with both partners, who have been deeply involved and supportive from the start. This land was set aside for mining-related activities and transferred to the Native Corporations for their economic self-determination and this is an area that has little economic opportunity.

The Native groups have an owners' interest in seeing this project go forward. We are thankful for Calista and TKC's long-term support and commitment to Donlin Gold and their contribution to our continued success.

Alaska is the second-largest gold producing state after Nevada. It offers jurisdictional stability and is very open to new, responsible resource development. As highlighted on Slide 21, a safe geopolitical jurisdiction sets the Donlin Gold Project apart in its peer group.

Predictable laws and stable government systems are essential considering the complications facing the industry. While we have been working through the State permitting process and have completed the Federal permitting process, the timeline for development, as shown on Slide 22, is now directly within the project owner's control.

We have shifted some of our focus to integrating scoping level optimization work into a steady plan that should serve as a basis for an updated development plan. At NOVAGOLD, we have been working with our partner, Barrick, to conduct extensive field programs collecting additional geotechnical information to advance the engineering of the tailings dam.

More than 50% of our shares are held by our top seven shareholders, as shown on Slide 23, and many of you are on the call today and we thank you. We are grateful for your continued support and your detailed understanding of NOVAGOLD's strategy with respect to Donlin Gold.

We take an active role in following through on our commitments to our community partners through local community outreach. As shown on Slide 24, we implement our social responsibilities and other programs in a number of important areas on an ongoing basis. With some recent examples that include helping the villages in the region, supporting their youth in their educational pursuits, promoting the health and safety of our people onsite and throughout the region.

We also recognize the importance of preserving traditional lifestyles, while bringing tangible, long-lasting benefits to our community partners. We are all, through one extent to the other, fully vested in Donlin Gold becoming an integrated and contributing part of that community.

With Federal permits in hand, and State permitting progressing, the Donlin Project is being further de-risked and brought up the value chain.

To conclude, with a strong balance sheet of \$157 million in cash, a unique asset and safe jurisdiction, and 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 sought after pure play gold assets in the world. We are in an exceptional position to create value for our shareholders.

Thank you for your continued support. Operator, we can now open the line for questions.

OPERATOR:

Certainly. We will now begin the question-and-answer session. To join the question queue you may press star, 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, two. We will pause for a moment as callers join the queue.

Our first question comes from John Bridges with JPMorgan. Please go ahead.

JOHN BRIDGES:

Thanks. Morning, Greg, everybody. As you mentioned in your report of the ongoing work with your partner, I just wondered if there is any news on the scoping study and where you were with that process, and maybe any news with respect to your partners' attitude towards the project?

GREGORY LANG:

All right. Well, good morning, John. I'll try and break that into pieces. Yes, we continue to work with the new technical team at Barrick, just reviewing all of the work that's been done on Donlin and this is, as you might guess, is a lot of work over many decades. This is a very in-depth review that they are conducting.

We're continuing to work our way through that and we're also entering into discussions on what the work program could look like for next year. I would describe our partner as certainly very engaged and very interested in the project and the work that's been done today.

JOHN BRIDGES:

Okay. A question that was coming up to me in the last week or so was, your stock has performed very well. Now it's easy to point to the sensitivity of NOVA to a higher gold price. But I was wondering if there is anything else which had spurred the performance in the last couple weeks?

GREGORY LANG:

Well, John, certainly, we've gotten a lot of questions in that regard, because our share price has done really exceptionally well in the last month. Yes, I think, John, it's a combination of factors. I think, first off we've positioned this Company really to be a go-to gold stock when prices move. We are well known out there in the investment community and I think prices started to move and everybody knows NOVAGOLD and the story.

I think our investment thesis of having a great asset in a great jurisdiction resonates now more than ever. I think also, those are the obvious attributes of the project and the Company, and then overlay on top of that, we have seen some increased volume as the Company has been planned to be added to the Russell 3000 Index. A lot of factors working in our favor in the last month or so.

JOHN BRIDGES:

Okay. That's interesting. Let me—I'll let somebody else take the floor. But thanks for the questions and congratulations.

GREGORY LANG:

Thanks for calling in, John.

OPERATOR:

Once again, if you have a question, please press star, one.

Our next question comes from Lucas Pipes with B. Riley FBR. Please go ahead.

MATT KEY:

Hey, good morning everyone. This is Matt Key here asking a question for Lucas. I wanted to get your opinion, just kind of on general macro stuff, recent strength in gold prices over the past month or so. First, do you think it's indicative of kind of a long-term growth trend in gold prices? Will the recent strength factor into your timeline of the Donlin Project at all? Thank you.

GREGORY LANG:

All right. Well, good morning to you and give our regards to Lucas. I think, the strength we've seen in gold is I think a combination of different factors. The dovish language out of the Fed has got people

thinking more about gold, it's putting a little bit of pressure on the U.S. dollar and that's also good for gold. The markets are getting pretty frothy and there is a lot of money looking for a home.

There are some political concerns out there in the—on the planet. I think it's—I wouldn't say it's any one reason we are seeing the rise in gold price, but a combination of all of them, which I think is frankly very healthy. You don't like to see gold move on just a peer trade. You want to see it move more on the fundamentals.

I think that's what we're seeing right now. Gold is behaving like it is, which is to say it's a currency and it's showing a lot of strength as the world gets more and more skeptical of the fiat currencies and paper money.

MATT KEY:

Got it. That's very helpful. Thank you. Just one more quick one for me. I was wondering if you'd go into a little bit more detail on the timeline of the additional exploration drilling and if that drilling will be focused primarily at the ACMA and Lewis pit or in kind of the other areas of the Donlin property which aren't in the original mine plan?

GREGORY LANG:

Well, no timeline available this morning. We're still working with our partner on when it would make the most sense to resume drilling. I think as they get their arms around the projects and the potential, we'll be dealing with that as we prepare our budgets and work programs for 2020.

MATT KEY:

Got it. Thank you. Thank you for answering my questions and best of luck going forward.

GREGORY LANG:

All right. Thank you for calling in.

OPERATOR:

Once again, if you have a question, please press star, one.

Our next question comes from John Bridges with JPMorgan. Please go ahead.

JOHN BRIDGES:

Hi, Greg. Since your listeners are a bit shy this morning, I thought I'd lob in another one.

GREGORY LANG:

All right.

JOHN BRIDGES:

You comment in your text about exploration around tailings dams and that sort of thing. Is that related to the increased sensitivity to the stability of tailings dams? Or is it something else?

GREGORY LANG:

John, I think, what you're referring to probably is the geotechnical work that we're doing around our tailings dams and this is something—surely there is more sensitivity regarding tailings dams with what's happened in the industry, but this is work we had to do anyway. It's necessary to get the last of the permits and I think it's certainly work we could've deferred but I think it's the owners—it really just kind of reinforces both owners' commitment to steadily advance this project in a measured way and just position it so when the time is right we're able to make the construction decision.

I think, really, John that the basic reason behind it is just we needed to have it done and we're proceeding with it. I think this work represents the largest annual budget we had at the Donlin Project in many, many years.

JOHN BRIDGES:

Well, that's encouraging. Many thanks, Greg, and the best of luck.

GREGORY LANG:

Any time, John. Thank you.

OPERATOR:

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

GREGORY LANG:

Thank you, Operator, and everyone, thank you for joining in on our call this morning and we look forward to continuing to update you in the coming months. Good day.

OPERATOR:

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