

NOVAGOLD Resources Inc. Third 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

Melanie Hennessey
Vice President Corporate Communications

OPERATOR:

Thank you for standing by. This is the Conference Operator. Welcome to the NOVAGOLD Third 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've joined us for NOVAGOLD's third quarter financial results and also for an update on the Donlin Gold Project. On today's call, we have Dr. Thomas Kaplan, NOVAGOLD's Chairman; 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 text.

Before we get started, I would like to remind our listeners 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.

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 primary asset is the federally permitted Donlin Gold Project in Western Alaska that is 50% owned by NOVAGOLD and 50% by our long-term partner, Barrick Gold. Donlin is located about 300 miles west of Anchorage, Alaska, as shown on Slide 4.

Slide 5 provides an overview of the achievements the NOVAGOLD team has accomplished this year. Federal permitting is complete and state permitting for the pipeline right-of-way lease, transportation corridor leases and dam safety certificates are progressing nicely. The Donlin camp was reopened in May and safety training was concluded earlier in the quarter. During July, Donlin Gold commenced a

site investigation and the collection of geotechnical information for the advancement of engineering for the tailings dam. We are also making good progress on our project optimization work and continue to invest an incredible amount of time and resources in our outreach efforts on various initiatives with our Native Corporation partners, Calista and TKC.

On Slide 6, looking a little deeper into our third quarter activities, we are in the final stage of integrated scoping-level optimization work into a study that will serve as the basis for an updated project development plan when the time is right. With federal permitting complete, our operational focus in the quarter centred on furthering our geologic understanding and integrating optimization analysis into our studies. NOVAGOLD is working with Barrick's new Management and technical team to advance the project in a financially disciplined manner with a strong focus on engineering excellence, environmental stewardship, strong safety culture and continued community engagement.

Approval of the Alaska Dam Safety Certificate for the tailing storage facility requires a thorough and step-wise process to deliver a final dam construction package to the State for approval. This program consists of geotechnical core drilling, test pits, overburden and various hydraulic tests and geophysical surveys. Final approvals are expected by year-end to authorize facilities associated with the project's transportation corridor and the sections of the gas pipeline that reside on State lands.

We are dedicated to keeping our community partnership strong and engage in environmental, educational and cultural activities. To that end, in the third quarter, NOVAGOLD and Donlin participated in numerous activities, including those highlighted on Slide 7. We were key sponsors of a program to remove household hazardous material from 14 isolated villages on the Kuskokwim River. NOVAGOLD and Donlin Gold continue their outreach efforts with our Native Corporation partner, Calista, via meetings with tribal councils and key stakeholders in the Yukon-Kuskokwim region during the quarter. We believe that our community engagement and support can act as catalysts for sustainable improvements in the quality of life for many people affected by poverty and lack of economic opportunities.

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 third quarter, we reported an \$8.1 million net loss from continuing operations, similar to the prior year. Higher cost at Donlin Gold due to the commencement of field work to support the applications for Alaska Dam Safety Certificates increased interest expense on the promissory note payable to Barrick and foreign exchange losses were offset by lower share-based compensation costs and increased interest income and accretion of notes receivable.

In the third quarter of 2018, we sold our interest in the Galore Creek Project and recorded a loss of \$80.6 million.

NOVAGOLD's cash flow highlights are outlined on Slide 9. In the third quarter, we spent \$4.1 million, \$0.3 million higher than the prior-year quarter. Total net spending increased primarily due to higher costs at Donlin Gold related to the commencement of field work, partially offset by increased interest income on term deposits. In the prior-year quarter, we received net proceeds of \$99.3 million from the sale of our interest in Galore Creek. We ended the current quarter with \$152.9 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, as highlighted on Slide 10. At Donlin Gold, 2019 spending is expected to increase in the fourth quarter with the ramp-up of field work and detailed engineering to support the applications for Alaska Dam Safety Certificates.

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

With that, I'll turn the call back over to Greg.

GREGORY LANG:

Thank you, Dave. Yes, these are exciting times to be in the gold space and invested in a unique project like Donlin. It's federally permitted with a strong, long-term partnership in the communities of Western Alaska, and in a jurisdiction where the rule of law is not a novelty.

On Slide 11, we compare Donlin Gold's almost 40 million ounces in resources to 14 other development stage projects. If you take a hard look at the peer group, you'll see that Donlin is better than twice the size of the nearest comparable and more than a fivefold bigger than the average.

The scale of the resource is a key attribute. Another attribute is the grade, as shown on Slide 12. The average grade of Donlin sets it apart from other large-scale open pit deposits. Donlin's grade at 2.25 grams is double the industry average.

With scale and grade, if Donlin was built today, it would be the largest gold mine in the industry. For an investor, there's additional value that comes with the mine, with a multi-decade lifespan. As currently envisioned, in its first five years, Donlin Gold would produce 1.5 million ounces a year, followed by over a million ounces a year over its almost 30-year mine life, as shown on Slide 13. There are a few existing or planned mines with an output like this.

Looking at comparable-scale mining operations, Donlin would rank among the top producers. Slide 14 shows the 10 largest producing mining operations globally. Only four of these mines are expected to produce more than a million ounces this year, further illustrating that projects like Donlin are scarce and are needed to replace the industry's diminishing reserves.

With years of study behind us, and roughly 1,400 drill holes, as shown on Slide 15, we have a deep understanding of the deposit and of the resources, as we prepare for the next stage of development.

The ACMA and Lewis Deposits can be seen on Slide 16. The topography at Donlin is clearly favourable for development. It's a rare mining project today that both the mineral and surface rights to the project land are privately owned. In our case, our long-term partners, Calista and TKC, are the owners.

As shown on Slide 17, the ACMA and Lewis Deposits, which contain the 39 million ounce resource, occupy only 3 kilometres of an 8 kilometre gold-bearing trend. Our focus is on continuing the optimization program. However, there are clearly significant future opportunities for substantial expansion of the resource. When the time is right, we will resume exploration.

Mining is an important part of the Alaska economy, as shown on Slide 18, with numerous exploration and development projects like Donlin advancing. With other resource industries experiencing low or no growth, the opportunities in mining present good paying jobs, close to home for Alaskans living in the remote part of the State. The shrinking population of the smaller communities is a serious concern for many residents of Western Alaska, and Donlin Gold offers a different future with training and opportunities for younger people to live and work closer to home.

As highlighted on Slide 19, being in a geopolitically safe jurisdiction is another key attribute of the Donlin Gold Project. As the second-largest gold producing state in the U.S., Alaska supports and welcomes responsible development. In fact, the Fraser Institute ranked Alaska fifth globally using its Investment Attractiveness Index, something that many other gold development projects do not have in their favour. Alaska's a great place to be doing business.

There's tremendous value in having a project like Donlin located on private land. As shown in blue, on Slide 20, Calista owns the mineral rights and TKC owns the surface rights. Donlin has life of mine agreements with both partners, who have been deeply involved and supportive from the very beginning. We've been partners since 1995 and we are thankful for Calista and TKC's long-term support and commitment to the project. We support their mandate through the Alaska Native Claim Settlement Act to help them develop their land for the economic benefit of the regions and the stakeholders involved. They have an owner's interest in seeing the project go forward.

Positive Record of Decision in August last year and the completion of the federal permitting process were significant milestones in the advancement of Donlin Gold. This was the first ever joint Record of Decision that was signed by two Federal agencies. As shown on Slide 21, the lead for the Corps and the BLM at the time were present for the signing ceremony. We are very pleased with the Record of Decision and the project was approved in its entirety, with no unusual stipulations.

The NOVAGOLD team has reached some significant milestones, particularly with the receipt of key federal permits. While we had been working through the state permitting process, the timeline for development, shown on Slide 22, is now within the owner's control. We've taken the next steps with the start of an extensive field program this year. We will continue to advance Donlin in a financially disciplined manner with a strong focus on environmental stewardship and social responsibility.

As shown on Slide 23, we implement our social programs in four important areas, promoting the health and safety of our people on site and throughout the region and on the river during the various seasons. We support the well-being of communities and assisting their youth with education and recognizing the importance of preserving traditional lifestyles while bringing tangible, long-lasting benefits to our community partners.

With that, I will now turn the call over to our Chairman, Dr. Kaplan, who will give us his insights into Gold. Tom?

DR. THOMAS KAPLAN:

Thank you very much, Greg. I'd like to take the opportunity of the quarterly call to be able to highlight some of the features that make Donlin, that make NOVAGOLD, in my mind, and that of the Electrum Group, the largest shareholder, the very best vehicle from a risk/reward basis in the entire gold space. I'll do that by highlighting, not only our leverage and the fact that we're in a place where we can eat the fruits of that leverage when the time comes as shareholders to do so, but also some of the changes which we're now starting to see in the gold market. Obviously, the sentiment as well as the price of gold is markedly changing and has been considerably altered over the course of the last several months.

Starting with Page 24. What you see is the leverage to gold that Donlin enjoys. You'll see there's the different NPVs. You'll see it at NPV 5% and you see it at NPV 0%. It's my belief, after having been in this business for 25 years, that there's very, very few high-quality assets, particularly with exploration potential, but absolutely within jurisdictions that are favourable, will trade with 0% NPV. This is extrinsic of the fact that so much of the world's debt is trading below 0%, thus rendering gold a high-yielding currency by comparison. What you see here is a story, which regardless of your NPV assumptions, is going to explode in value, if you're remotely bullish on gold.

I'm on record as having said that I do believe that gold will have its first real stop in the trading range between \$3,000 and \$5,000 an ounce. What we can see with Donlin is that the leverage is absolutely extraordinary. This, for us, is what makes Donlin so attractive. It's the fact that the leverage is there and that, when the time comes to ring the cash register, we will actually be able to keep it. It's also that which will make NOVAGOLD one of the very few go-to stocks within the investment universe.

Moving to Page 25. Our view is that gold is engaged in a long-term secular bull market, one which started at \$250 an ounce, went to \$1,900, has been in a correction pattern, and is now embarking, with the possibility of some head fakes here and there to shake out newcomers, on a move that will take us way past new highs and into a completely different equilibrium level when you consider that the first 12 years of what we call Leg 1 of the gold bull market saw gold end every year higher than where it began. Regardless of whether there was a strong dollar, a weak dollar, inflation fears, deflation fears, political stability, political instability, strong commodities, weak commodities, every year gold ended higher.

That is what we call a bull market. The fact that something could go from \$250 to \$1,900 and then have a correction is perfectly normal. I would point out, for those of you who enjoy charts as I do, my background is as a historian and I view charts as being emblematic of human brain waves, in both instances, in the 1970s, as well as what we're experiencing now, we saw beautiful saucer bottoms, which preceded very, very strong impulsive moves to the upside. Those bottoms or those saucers tend to get tested but our opinion is that whether or not we have those head fakes, this is the time that people should be understanding that you have confirmation that gold is embarking on the next move of the bull market, one which I would hazard to guess could easily last as long as the first leg, certainly the second leg. So we're talking about really decades-long moves. This is just the beginning of what has the potential to be the generational trade for all of us.

I've never been uncomfortable with being alone in my thesis and taking the view that eventually people will come around to my point of view and I have no problem waiting years for that to happen. If you look on Slide 26 and 27, however, what you'll notice is that gold is starting to attract more adherence, not only people who have understood its virtues from a supply/demand standpoint for a number of years, people like John Hathaway, people like John Paulson, Nagip Suarez [phonetic 23:03], Eric Sprott, myself, some others, who are in the space and have been in it for years.

So, it's starting to attract a very broad range of other intellectual disciplines. I think it's fair to say, having almost coined the phrase 'hyper rationality,' that nobody would accuse Ray Dalio of being either irrational or sentimental when it comes to investment analysis. And yet, Ray has put it in a very beautifully succinct way: "Gold is a currency. We have dollars. We have euros. We have yen. We have gold. If you don't have 10% of your assets in gold, there's no sensible reason other than you don't know history and you don't know the economics of it." Without going into any of the other macro

aspects that he rightly points to, I love the way that he concludes "Don't let traditional biases rather than an excellent analysis stand in the way of you doing this." What he's referencing is the fact that up until literally several months ago, other than a very few intrepid people out there, the idea of being able to raise the concept of investing in gold in any way, was viewed as being just on the precipice of being a cave dweller. Gold was a barbarous relic. If you were in an IC and you were talking about looking at gold, people were looking at you as if you were a throwback to a different era.

What we see now is that you can be viewing it from the point of view as a trader, a long-term investor. It doesn't matter. You're in a position now where some very, very smart money names are starting to look at the favourable attributes of gold and not being shouted down or derided as being gold bugs or any other form of insect. That ranges from people with a great sense of smell as to trades, like Jeff Gundlach and Paul Tudor Jones and Stanley Druckenmiller, to those who've seen multiple cycles, like Jacob Rothschild, Paul Singer, to those who view it through the prism of the emerging markets, like Ken Rogoff. Very interestingly, not long ago, Mark Mobius, whose expertise of course is in the emerging markets, made the comment that the long-term prospect of gold is up, up, up. I think you have to be buying it at any level.

So, there are different ways to look at gold in terms of people understanding that from a risk standpoint it represents a great trade. I'd also like to point to an article that was in Barron's just a few weeks ago, in which Jens Nordvig made a comment at the very end of his interview, in which he said, "Many central banks are stepping up gold purchases. They scramble to find reserve currencies they like. Nobody is crying when gold goes up. So, there's really no anchor on how high it can go."

This is actually a very important point that he's making. There was a time in the '80s and the '90s, when conceptually central banks might have stepped in to sell gold. Either because they wanted to take a profit, because the path of least resistance for a central banker was to sell something that was declining, or because there were fears that a rise in gold price might indicate inflation, which, back in the old days, was viewed as being the central responsibility of the central banks to try to inhibit.

Now central bankers who have returned to the market and are buying gold in large quantities because they, more than anybody else, understand the precarious nature of the reserves they hold, be it funds or other currencies which can be printed at will, central bankers are now competing with investors for a very, very scarce asset. And as far as they're concerned, gold can go as high as the market wants to

take it because they would love for people to start thinking that they have managed to be successful in reintroducing inflation into the global economy. So, the psychology, as well as the arithmetic of the central banks is now in your favour. The central bank trend is clearly your friend.

Now you have others who like Sam Zell, who've never really looked at gold and are looking at I think very intelligently from the standpoint of supply and demand, I say that because that tends to be the area in which I focus, because I do believe that there are many, many macro reasons to own gold. But I think that the secret sauce in terms of our aspect of looking at gold is from the vantage point of the industry, which is so absolutely challenged.

So, let's look at Slide 28. This is a beautiful formation just as a picture of the gold bull market. As I expressed, it shows gold leg one going from \$250 to \$1,900. We've had the pull back and now with that saucer bottom, we have embarked upon the next leg.

What's going to take it higher? Pure supply and demand, Economics 101. The demand drivers are clear: diversification, safe haven, currency debasement, central bank purchasing, protection from inflation, deflation and emerging market demand.

It's the supply pressures that are so exciting for someone who's in the business. The discovery rates of gold are at an all-time low. Exploration budgets are at an all-time low. Ore grades have collapsed, falling by 50% over the last decade.

As a consequence, it's just basic math. If you have one mine producing at a gram a tonne, another at two grams a tonne and all other factors are equal, the one producing at a gram a tonne has a cost base that's twice as high as the one that's producing at two grams a tonne.

If rates are falling, costs are rising. Jurisdictional risks, which a decade ago people who didn't care about; to the contrary, people paid premiums for assets in difficult jurisdictions. That's completely flipped. It used to be when I got into the business 25 years ago that people started to say, "You have to go where the gold is." Doesn't matter, doesn't matter what the jurisdiction is. If anything, they convinced themselves that it was better to go to Africa, to Asia, to South America, because it appeared to be easier to permit and the country seems to be more welcoming of mining.

Well, it is easier to permit in those other jurisdictions and having a permitted mine in a safe jurisdiction for us is the Holy Grail. That's where you're going to see the 0% discount rate. That's where you're going to see people flocking, not creating bubbles, in those scarce assets in safe jurisdictions.

But, it also means that the first wave of investment that's really going to be the most juicy is into those vehicles that provide you with great assets in safe places. It also means that a lot fewer mines are going to be developed than people thought, because it's much harder to get financing for a mine in a jurisdiction where essentially they want to take you over. Some of them are clever and they wait until you've actually got to door A at the airport, others not as clever. And, they indicate that they're going to change the rules while you're developing it or before you've gone into production.

Meanwhile, on top of all of this is the fact that the central bankers who could be relied upon to provide gold, are now competing to acquire the gold, while the mining companies who are supposed to be minting money can't even find it.

So, let's look on Page 29. This chart tells everything you need to know. What you see is the decline in reserves, what you see is the decline in discoveries, and effectively (inaudible 32:06) the barn door has been closed even if you (inaudible 32:10). You've made that discovery to production, it'll be over 20 years, especially if it's going to be in places where you really want to commit your capital for 20 years and not worry about changes in regime, insurgencies, de jure or de facto confiscation.

So, if you want to be in places where you actually permit something, that after you permit it, you know that you can keep it, there aren't really very many opportunities, and even if they existed, it would take decades, which basically means that the horse is already out of the barn, nothing's going to change that in our view. There are no new technologies out there. This isn't like hydrocarbons.

If you go to Page 30, what you see is that the majors are burning through their reserves faster than they can replace them. But unlike in the hydrocarbon industry, and I know that one extremely well, there is no such thing as horizontal drilling, there is no such thing as fracking, and the reality is, there is no such thing as huge trapped reserves that a new technology would be able to come in and disrupt and exploit. It's over.

Page 31, again refers to the central banks being buyers. I would view the central banks as being the smartest of the smart money in this instance, because they more than anybody else really understand how flimsy the reserves they hold are and there's no question. If anything, the trend among populations is that they want to see their gold repatriated from other places back to their own homelands because they understand that gold represents the one financial asset that does not reflect somebody else's liability to repay you. It's that kind of autonomy that provides a safe haven for central banks, as well as individuals. By being able to have gold, you are able to play the role of your own central banker just with assets that nobody else is responsible for being able to repay you for.

On Page 32, we're very proud of this chart. We have an extremely strong, an extremely faithful shareholder base, who have understood that over the years every promise that we've ever made, every target that we've ever aimed for, every strategic objective that we described in detail, all of them have been met.

There is not one promise that this management team, beginning with Greg Lang and his executive group, but also myself, the Electrum Group and those who have been supporting management, have not fulfilled.

Our shareholders have seen it. We promised to turn NOVAGOLD into a pure play on Donlin. That meant selling Galore not for pennies but for real money. That meant spinning out Trilogy, which in and of itself has been a very strong success story in the marketplace. That meant being able to permit Donlin at a time when people really weren't sure what it looks like to permit a major project in Alaska, especially when it's going to be a project that in either one or two phases is going to be the largest single gold producing mine in the world but in the safest jurisdiction in the world. We did it.

Everything that we said that we would do has been done and this is reflected in the kind of shareholder base that anyone would be proud of. People who've been with us for a very long time, like, Paulson, Fidelity, Van Eck, we have new people who have made us the first development story that they've added to their portfolios, people such as First Eagle and EXOR.

This is really, really a great group and it indicates that, on a wide variety of levels, our strategy of being able to take Donlin up the value chain and be a pure play on an entire district, what we think actually

has the potential to be as big as the joint venture between Barrick and Newmont, is an extraordinary story. It's a way for people to get all the leverage they could want in the ideal jurisdiction.

So, on Page 33 to summarize, what you have in NOVAGOLD on a 360-degree basis, is you've got a Company which has an extraordinary balance sheet between cash on hand and factorable receivables, almost a quarter of \$1 billion with the heavy lifting of permitting behind us.

The assets I think could redefine what a Tier 1 asset looks like in terms of its size, its grade, its exploration potential. The fact that it is permitted in North America, optimization between Barrick and ourselves is going along extremely well. The shareholders are supportive and smart money.

Our production profile will make us one of the largest assets, potentially the largest single gold producing asset in the world. And it's being taken up the value chain by a management team that's been there, done that with a track record of success in difficult jurisdictions. But the truth is, your Company has a pure play on the unique Donlin gold assets, which also happens to be located in the best jurisdiction in the world. What you own we will be able to keep.

With that, I turn it back to Greg, and open up the field for questions. Thank you very much.

GREGORY LANG:

Thank you, Tom. We're now happy to take any questions.

OPERATOR:

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. Once again, to ask a question at this time, press star, one. We will pause for a moment as callers join the queue.

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

LUCAS PIPES:

Hey. Good morning, everyone, and thank you very much, Tom, for the description on the gold markets and appreciated those different perspectives you were providing there, very helpful. I wanted to ask a little bit about kind of putting this gold price in perspective to the equity valuation of NOVAGOLD. Tom, Greg, kind of how you think about valuation of NOVAGOLD shares today, and then in the past, you've commented on not doing a down around, but when we look over to kind of recent months, you got pretty close, and I would say, at one point, crossed the prior share issuance level. Is that something that you'd be looking at or given the very bullish view on gold, is that something where you think look, the trend is our friend, we can wait and be patient here? Thank you very much for your perspectives.

DR. THOMAS KAPLAN:

Greg, shall I go ahead?

GREGORY LANG:

Yes.

DR. THOMAS KAPLAN:

Hi, Lucas. How are you? Great to have you on the call. Look, we are gold bulls and everything that we have seen over the last few months has only reinforced our conviction that this bull market will be the likes of which one rarely gets to experience in their lifetime.

In fact, if anything, one of the most pleasant surprises for me is the way in which just over the last three, four months, a generalist going on Bloomberg or CNBC can make the case for gold with only a hint of a raised eyebrow from the interviewer. That I did not expect to come until gold had made new highs.

Now, don't view that as a contrary indicator, don't view that as being a sign that gold has topped. There will be pullbacks along the way. But what this tells me is that, whereas I would have thought that some people would take the risk of talking about gold, only when gold made new highs, because that's human nature, that's the uniqueness of gold.

The way in which gold has built many hooks on which people of various stripes looking at gold through various lenses can hang their hat comfortably and intellectually, shows me that the gold bull market is going to be sharper and it's going to go higher than even I predicted.

In other words, the dissonance phase, which I expected to last for months, if not much more, is truncated. But the fact is gold remains the most underestimate—under-owned financial asset. So, you have more people going out there and putting on record that you can buy gold and not a bug or a cave dweller. And that, in turn, as gold prices go up is going to allow more and more fund managers to feel comfortable that they can go to their brokers and ask for interesting stories, and I think that you really could see a bubble, when they asked for really interesting stories in places where they might be willing to go on vacation. So, it could be Nevada, where people might want to go and gamble or whatever happens in Vegas, stays in Vegas, or it could be whale watching or salmon fishing in Alaska. It could be going to the Great Barrier Reef in Australia. But the first thing that they're going to be thinking of is give me great assets with great management in places that I can tell my IC, you want the gold exposure. This gives us leverage in places where we can keep it. That to me will be a bubble.

That is going to happen perhaps sooner than I would have otherwise expected because what I'm not seeing is people coming into the gold space talking about it and being rebuked, ridiculed or derided. I remember when Bob Zoellick was at the World Bank and he made an oblique reference to gold being part of a basket of reference points for central bankers. He was pilloried, pilloried.

That era is over now. A lot of it has to do with central bank behaviour. A lot of it has to do with macros. A lot of it has to do that we're in such uncharted waters where 30% of debt is yielding below zero. I mean we are in such uncharted waters, that whether it's looking at gold from the supply/demand standpoint, which to me is the fundamental underpinning of why I feel on a risk-adjusted basis gold is the best investment in the world.

But it could also be Mark Mobius' point of view, or Ken Rogoff's point of view about emerging markets, or it could be central bankers, or it could just be the wanting a currency that can't be debased. This means we are in for a big deal and people can get away with expressing their view without being impugned.

That is huge from a psychological standpoint and the arithmetic impact of that is that there is going to be much more money being willing to go into gold at much higher prices, because people will feel less afraid of being ridiculed.

As far as we're concerned, witnessing this, and I would be misleading you if I said that at any point, we were remotely with our finger on the trigger, I've said we don't do down rounds because we don't do down rounds.

But what I've also said is if you look at our past experience in silver, in platinum, in hydrocarbons, usually the rounds that we do, and it's not meant to be this way deliberately, are usually about double or triple where the previous round was and that's because every time we raise capital, and this was what we did in 2012, when we raised \$330 million, we always raised more than enough money in that round, so that we can get to the next milestone, and sit and hunker down until the market resumes going in our direction, at which point, then we can think about doing a raise. There is zero reason for NOVAGOLD to even be considering doing a raise until the stock is many times more than where it is today.

If I had to make a prediction, I would say that once we take out the \$9.50, anyone who wanted to sell at that point really could, within—at the 2012 offering. But, more than that, it means that we're on our way to where we were in 2010. We went from \$5 to \$16 in a matter of weeks, when we had lots of headwinds, people were skeptical about what it's like to permit in Alaska.

We didn't have a management team that could build a mine. We had a weak balance sheet. There were all kinds of issues that need to be resolved. Relations with Barrick were very different than they are now. Those things are now tailwinds rather than headwinds. So, I can easily see our Company going into the \$20s or \$30s, when someone would say, "You know what? Let's start talking about building this mine."

Now by the way, I'm not delusional, okay? It's a matter of fact, that in silver we made a couple of hundred times our money, a hundred times in platinum and a hundred times in hydrocarbon. Those were with great assets. They were great assets, but they weren't unique.

Donlin is truly unique in the world and there's no reason for us to dilute our holdings at low prices. At this point, I would say that our shares are more valuable than the metal itself. Other than that, Lucas, I don't have a strongly held opinion. Back to you.

LUCAS PIPES:

Okay. Okay. Tom, this has been very helpful and I very much share your opinion. I have more questions, but I'll jump back into queue for now. Really appreciate all the colour. Thank you.

DR. THOMAS KAPLAN:

Thank you, Lucas.

OPERATOR:

Lucas, if you have any more questions, please go ahead as you are the last person in the queue.

LUCAS PIPES:

Great. All right. Well, Greg, question for you on the development plans. Unfortunately, I couldn't attend the Denver Gold Forum but, the feedback I got is that you are considering a kind of smaller project scale. Could you elaborate on that, kind of what exactly you're looking at there and when you may have finalized plans on that front? Thank you very much.

GREGORY LANG:

Sure. Lucas, for some time, we've been looking at Donlin sort of a little bit different light than was conceived in the feasibility study. The feasibility study always envisioned Donlin as a large-scale mining project and a capital-intensive project. That feasibility study was completed in 2011 and that was largely driven by Barrick, and in those days they had a much stronger balance sheet and a goal to get to 9 million ounces a year. So, it was always conceived as bigger is better. But the work we've been doing in the last year or so has been a staged development approach, where we would look at building a starter project that's perhaps half scale of what we've permitted and then expanding it out of cash flow at some stage in the future. That's certainly an approach that's been done many times in the gold industry and both NOVAGOLD and Barrick are very interested in advancing.

So, I think, to give you some bookends, it would be a project about half the throughput of what was originally conceived with smaller equipment and there are opportunities to enhance the grade

particularly in the early years, and that's where our focus has been and where the drilling that we've done on the project has led us to.

So we're pretty encouraged by that. We've been meeting with representatives from our partners the last couple of days here at our office in Salt Lake City, John Steele, Rob Krcmarov, Grigore Simon and others, and we're laying out the program for 2020. We'll be releasing the particulars of that program when we announce our 2020 budget, and the work plan then. So a couple months from now, we'll put a little bit more color on what's ahead for the Donlin project in the next year.

LUCAS PIPES:

All right. That's very helpful. Thank you. Thank you, Greg. Then my last question is to—in regards to some of the comments—a comment you made on the lack of major discoveries in the gold space and how the majors are kind of feasting on their prior discoveries and essentially cutting into the principal if you kind of think about it in financial terms. Do you think there is the ability of the majors to change that course? If they were to increase their exploration budgets, would they be able to find more or do you think it's we're just in a new era where even if significant capital was deployed you couldn't really change that trend? Thank you for your perspective.

DR. THOMAS KAPLAN:

Lucas, I think that it's already game over. That's one of the reasons why in answer to your first question I basically took a relaxed view that \$0.25 billion, no debt, low burn rate, time is on our side, we're not a \$6 stock, we're not a \$7 stock. We're a \$26 or \$27 stock. On our way to potentially much higher. One of the reasons is, it's already the perfect storm in terms of the gold price, and one of the reasons that it's a perfect storm is because the majors are not making big discoveries.

They're just simply not. Not new ones that are going to be able to really fill their pipeline in any significant way. Their best chance of increasing reserves is probably like what you see in Barrick and Newmont in Nevada working near existing discoveries. There is an expression if you're—it's a bad expression in today's world perhaps and actually coming from conservationists, but the expression is "If you're going out in search of elephants, go to elephant country."

I happen to believe that one of the great virtues of Donlin, and there are so many of them, is the fact that it's been so underexplored. We have 40-plus-million ounces on 3 kilometres of an 8-kilometre

belt. You saw that particular chart, but that 8-kilometre belt, which we think means that our resources could double potentially, that 8-kilometre belt is only a few percentage points of the entire land package.

Now why hasn't that been more explored? That's a function of personalities. After the failed takeover bid by Barrick of NOVAGOLD, before we came into the story, Barrick basically almost put down their tools in a sense, they said, "Look, we're going to do what we need to do, but we're not going to give NOVAGOLD a stick with which they can beat us over the head and say you see there was so much more here and there was a reason for us to and our shareholders to reject the takeover bid." Never underestimate the power of personalities to change a reality.

Had Barrick taken this asset, we would have a whole different world for Barrick. First of all, they wouldn't have to try to build Pascua Lama, which is a very, very, very tough story. And, if they wanted more copper they didn't have to go to Zambia. They could have had it at Galore Creek. So Barrick was really smart. They knew what they wanted to do.

Unfortunately, for them, they lost, and they became very bitter towards the previous management team. Those relations have certainly ameliorated when the Electrum Group came in and became their counterparty in many respects.

Of course, was absolutely shown by the fact that Greg Lang, who was President of Barrick North America, after 30 years being with Barrick and its predecessor companies, for the first time left in order to be able to join with NOVAGOLD. He became CEO, I became Chairman because we both saw in NOVAGOLD an asset that was unique.

But, another part of the asset that people rarely think about is the unbelievable white swan that exists that the next Donlin could be at Donlin. My geologist from Electrum believes that there is great potential to be able to find another Donlin at Donlin.

What we certainly know is that when you talk about adding reserves, there are very few companies in the world that have 5, 6 million ounces adjacent to the pit that just needs a few more drill holes to add them into the reserve category. There haven't been that many 5-, 6-million-ounce discoveries in the

gold space in the last three, four, five years. That would be a big deal in gold, and yet, it's just sitting there, and the fact is that we have more good drill holes along strike.

I think that in terms of being able to add reserves for any company, the lowest hanging fruit is step out drilling at Donlin and regional exploration. This story is just beginning. None of that is factored into the potential NPVs of this story just from the 40 million ounces at \$2,000 gold, which to me is not even a real number. You're talking about an asset that's worth \$20 billion. Half of that accrues to us, which takes us into the \$20s and \$30s, which is my belief, approximates reasonable valuation, but with so many future opportunities. It's like having an incredible option on gold in the right place, but where you're given no value for the exploration upside or the potential that you could have additional game changing events.

When I look at the gold industry and I see what people are producing from, not to mention the places they're producing from, and then I compare us being able to be a pure play on the next Nevada, that to me is all I need to know. I don't know about other mining companies; I'm not going to judge who has the best prospects or not. We are seeing that in some instances people are producing at higher grades than the reserve grade, which indicates some high-grading going on, as you said eating into the principal, selling a little bit of the family silver perhaps. All we know is that we're dealing with a grade that's practically twice the industry average.

We'll have the largest single gold-producing mine in the world in the safest place in the world with exploration upside that's right there. For us, it's the perfect story. We can't sell it. If you're bullish on gold, my problem is I couldn't even think of anything else I'd rather replace it with, and I've been doing this for 25 years and my whole business revolves around great assets. I've had great assets. I have controlled great assets. My teams have found great assets. But never unique assets. This for us is the Holy Grail.

LUCAS PIPES:

Tom, I really appreciate your perspective. Best of luck. Excited to follow the progress and look forward to speaking again soon. Thank you.

DR. THOMAS KAPLAN:

Thank you, Lucas.

GREGORY LANG:

Well, everyone, that concludes our call this morning. Thank you for taking the time to get an update.

OPERATOR:

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