NOVAGOLD Resources Inc.
Fourth Quarter and Year-End 2019 Conference Call and Webcast Transcript

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Speakers:

Gregory Lang
President and Chief Executive Officer

David A. Ottewell
Vice President and Chief Financial Officer

Thomas S. Kaplan
Chairman

Mélanie Hennessey
Vice President Corporate Communications

Operator:

Welcome to the NOVAGOLD 2019 Year-End Financial Results 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 then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

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

Mélanie Hennessey:

Thank you, Ariel, and good morning, everyone.

We are pleased that you've joined us for NOVAGOLD's 2019 year-end financial results and 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, but 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 over various EDGAR and SEDAR filings, and 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 A. Lang:

Thank you, Mélanie, 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. As shown on the image on Slide 4, Donlin is located approximately 300 miles west of Anchorage, Alaska.

Slide 5 highlights the 2019 activities with the receipt of several state permits, the advancement of the Geotechnical Field program, and progress on our ongoing optimization efforts. With the receipt of the final easements for the access road and fibre optic cable, land-use permits, and site authorizations for the proposed transportation facilities, our track record of successfully permitting this project was enhanced.

Additionally, Alaska's Division of Oil and Gas is finalizing the right-of-way authorizations for the natural gas pipeline, which is expected to be received in the first quarter of this year. This work takes an unwavering attention to detail and transparency from Donlin Gold with the support and contributions of Calista, TKC, and the communities that are closest to the mine site. We greatly appreciate the dedicated efforts of the entire team and the State of Alaska in advancing permits and approvals for the project, and their commitment to environmental and governance best practices.

Approval of the dam's safety certificate for the tailing storage facility and water retention structures is a multiyear commitment to deliver the final design package to the State. Activities commenced in mid-2019 to advance engineering work on the tailings facility and other structures to a feasibility level stage, as required by the dam's safety certificate application.

Donlin Gold also progressed on its optimization efforts in 2019 and gathered additional data to establish a solid plan in 2020 that will give the owners a greater understanding of the geologic model and the higher-grade gold mineralization controls, all of which have the potential to benefit the project and serve as the basis for an updated study.

We are dedicated to keeping our community partnerships strong and engage on environmental, safety, and cultural initiatives. To that end, in 2019 NOVAGOLD and Donlin Gold participated in numerous community activities and projects, including those highlighted on Slide 6. We were the key sponsors of a program to remove nearly 100,000 pounds of hazardous material from 14 isolated villages on the Kuskokwim River. We supported education and training to prepare youth to enter the workforce. With the support of its owners, Donlin Gold continued its outreach efforts with our Native Corporation Partner, Calista Corporation, via meetings and tribal councils, and other stakeholder engagements throughout the year. We believe that community engagement and support can act as a catalyst for sustainable improvements in the quality of life for many affected by poverty and lack of opportunities in the project's region.

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

David A. Ottewell:
Thank you, Greg.

Slide 7 highlights our operating performance for the fourth quarter and year. Our fourth quarter net loss from continuing operations increased by $1.5 million to $7.9 million, primarily due to the Geotech program that Greg mentioned, partially offset by lower G&A costs. For the year, share-based compensation expense included in G&A decreased by $1.5 million due to changes in the Company's long-term incentive program.

The vesting period for new stock options and PSUs were extended to three years from two years. Other income was favourably impacted by interest income on funds received from the sale of Galore Creek in July 2018.

Cash flows are highlighted on Slide 8. Cash used in continuing operations during the fourth quarter of 2019 and for the year included higher spending at Donlin Gold due to the geotechnical fieldwork, offset by lower G&A costs and higher interest income. We ended the year with cash and term deposits of $148.5 million.

Turning to Slide 9, we note our healthy treasury. We also have $100 million receivable from Newmont in the next three years and the potential for another $75 million, should the Galore Creek project owners approve a construction plan. In 2020, we anticipate spending approximately $31 million, which includes $20 million to fund our share of expenditures at the Donlin Gold project, the majority earmarked for the drilling program, with the balance on permitting and community engagement, and $11 million for G&A costs.

Greg?

Gregory Lang:
Thank you, Dave. These are exciting times to be in the gold space, and particularly invested in a unique project like Donlin Gold, a Federally permitted project with strong long-term partnerships with the communities in Western Alaska. We're in a jurisdiction where the rule of law is not a novelty.
On Slide 10 we compare Donlin's almost 40 million ounces in Resources to 14 other development stage projects in the industry. Compared to the peer group, Donlin is better than twice the size of the average and double that of the nearest comparable.

The scale of the resource is a key attribute, another is the grade, as shown on Slide 11. The average grade of Donlin sets it apart from other open pit deposits. At 2.25 grams, it's double the industry average. With scale and grade, if it was built today, Donlin would be the largest producing gold mine in the industry. For the long-term investor, there's additional value that comes with a mine that has a multi-decade lifespan.

As currently envisioned, in its first five years, Donlin would average 1.5 million ounces a year production, followed by over a million ounces throughout its life of mine, as shown on Slide 12. There are few mines in the world, existing or proposed, with that level of gold production.

Looking at comparable scale mining operations around the globe, Donlin would rank among the top operations. Slide 13 shows the 10 largest producing operations globally; only four are expected to produce more than a million a year in 2019, further illustrating that projects like Donlin are scarce, and they are needed to replenish the industry's diminishing reserves.

As shown on Slide 14, the ACMA and Lewis deposits contain the 39-million-ounce Resource but occupy only 3 kilometres of an 8-kilometre trend. We have done extensive drilling over the years and our focus is on continuing the optimization program. However, there are clearly opportunities for substantial expansion of the resource along the known mineralized trend. When the time is right, we will resume exploration drilling.

As highlighted on Slide 15, being in a geopolitically safe jurisdiction is another key attribute of the Donlin Gold project. Some of the largest gold miners in the world are recalibrating their risk discount for many of the world's mining jurisdictions. As the second-largest gold producing State in the United States, Alaska supports and welcomes responsible development. Recently, the Fraser Institute ranked Alaska fifth globally, using its investment attractive indexes, something that many other gold development projects do not have in their favour. Alaska is a great place to do business.

There's tremendous value in having a project like Donlin Gold located on private land. As seen in blue on Slide 16, Calista owns the mineral rights and, locally, the Kuskokwim Corporation owns the surface rights. Donlin has life of mine agreements with both partners who have been deeply involved and supportive from the start. We've been partners since 1995 and are thankful to Calista and TKC for their commitment to Donlin Gold and for the project's continued success. We support their mandate through the Alaska Native Claim Settlement Act to help them develop their land for the economic benefit of the region and all the stakeholders involved. They have an owner's interest in seeing the project go forward.

The NOVAGOLD team has reached some significant milestones, particularly with the receipt of the key Federal permits and many of the major state permits as well. The timeline for development is now within the owners' control, as shown on Slide 17. We look forward to carrying out the planned drill program in 2020 and continuing work over the next few years to advance the dam safety certificate to a final construction package. It's exciting to be drilling again. It's been 12 years since we had a program of this scale at Donlin Gold. The owners will continue to advance Donlin in a financially disciplined manner with a strong focus on environmental stewardship and social responsibility.

As shown on Slide 18, we implement our social responsibility programs in four important areas: promoting the safety and health of our people on-site and throughout the region; supporting the well-being of communities and assisting their youth in education; partnering to improve the environment; and recognizing the importance of preserving traditional lifestyles while bringing tangible, long-term benefits to the communities.

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

Thomas S. Kaplan:
Thank you, Greg. I hope everyone can hear me.

It's a pleasure to be able to follow such an exposition by Greg Lang and Dave Ottewell on the strength of the Donlin project and of NOVAGOLD as a vehicle with which to be able to play gold. We believe that the Donlin project represents the greatest single option, or warrant, on the upside of gold that exists in the marketplace. Fortunately, there have been a number of events which have taken place over the last year which have only reinforced our conviction.

If you look at the slide on Page 18 [sic], the point here is to evidence that while it's not quite true that history repeats itself, it often rhymes. I think that this chart represents something which will be akin to the kind of move that we see in gold. For a variety of reasons, I believe that the fundamentals of gold suggest that the move can be even larger. Only so as not to scare people, we don't put up the chart of what gold really could do based on what the Dow Jones has done since the early 1980s. But I personally would not be surprised if that happened.

Most of that, but not all of it, would be a function of supply and demand, but we now live in uncharted waters in political, economic and social spheres that make gold a cornerstone holding of any portfolio. The question is not whether, but when, all fiduciaries realize that they have to go back to being able to have some presence in gold. When that happens, this kind of a chart, as we see on Slide 19, could turn out to be more akin to an appetizer than the main course because the gold simply isn't out there. To the extent that it is, when you consider that a project like Donlin, which would be the largest single gold producing pure gold mine in the world, as produced to the feasibility study—and we reckon it will get there in one or two phases—that's only at 1.5 million ounces, yes, that's enormous in terms of the gold industry. That will be the Tier 1 of Tier 1 in a Tier 1 jurisdiction, but it still isn't going to move the needle.

When you take into account the time lag between discoveries of which there are really none in the industry to speak of, and production, a timeline that now goes into two decades or more on average, you can see that the horse has already left the barn. For those reasons, I can tell you that when you look at the state of the industry itself, this chart on Slide 19 could indeed prove to be an understatement.

One of the most interesting aspects of 2019, for the gold investor in general, is the speed with which we have seen an acceleration and acceptance of the bullish gold narrative by, what I would call boldface names, people who have extraordinary track records or who are regarded as really a great source of expertise in their space, even if they are not investors. This is incredibly important, and I want to make sure that I parse that.

The gold investor by nature tends to be contrarian, so when he sees a number of people starting to agree with him, it tends to make him nervous. Even if those names happen to be people with exceptional long-term track records, the gold investor tends to feel more comfortable being alone. One takeaway from this call is throw that out the window because the reality is that what we have seen in 2019 will represent a watershed for the gold space and, ultimately, the gold price.

The fundamentals for gold have never been better. From a macro standpoint, you have to own it for a dozen reasons, but most importantly, without recourse to any of the fear factors which relate to reasons why gold can protect the portfolio, the carnage within the gold industry itself is one that is leading to a major supply/demand disequilibrium. In other words, even a non-gold bug can look upon gold just on the basis of economics 101 and say, "That's something that I want to own because that industry is challenged, and I'd like to be able to be a beneficiary of that, either by owning gold or by owning those very few assets which give me extraordinary leverage to gold in a jurisdiction that will allow me to keep the fruits of that leverage."

When you see people who are hyper-rational, like Ray Dalio, making the case for gold, or Jeff Gundlach or Paul Tudor Jones or Jacob Rothschild or Paul Singer, or even Ken Rogoff talking about it from a completely different standpoint, you really have to ask yourself what's going on here.

One of the beauties of recent commentary on gold is that people have chosen reasons to be constructive on gold for wildly different rationales, some of it is macro, some of it is micro. What you're going to see is a characteristic of the next up-leg in the bull market. Of course, I always provide this caveat that we could have a head fake to the downside before you get that next big move. But I do believe that next big move will take us well beyond $1,900 into a whole new equilibrium level.

But the point is that as that leg establishes itself and gains momentum, you will probably be surprised by how many people come out of the woodwork to say that they're constructive on gold, because it is, after all, as recognizable a brand, probably more so than Coca-Cola or Apple, but also being willing to give very different reasons for their newfound optimism. That, in turn, will provide validation for a wider range of institutional investors for whom there is no representation in their portfolio. So, always consider that despite the fact that we're looking at very smart money, which is starting to become constructive on gold over the last couple of years and gaining momentum over the last year, this smart money is going to be able to provide the intellectual hook and the credentials for the world's big money to be gravitating towards having an allocation to gold. Even a 1% allocation to gold would cause gold to multiply because the fact is we now live in an era in which two of the most dynamic economies in the world, China and India, compete on who's going to be buying more gold at the time when what used to be the previous seller of gold, big seller other than miners, Central Banks, are now competing with those countries and with private investors.

This is the kind of sea change that a smart investor should be positioning himself for. This is the kind of sea change that enabled the youngsters in the red suspenders to make the money that the old-timers couldn't make after 30 years of watching paint dry and the Dow Jones trade in a range. When the Dow finally popped in the 80s, it was people looking at it with fresh eyes who actually said—yes, I know what this usually means—wow, This time it's different. There are a lot of things going on in the United States, there's the Reagan and Thatcher revolution. There are other issues going on. Maybe the Dow is a place that, even though it's broken out over a thousand, which is interesting, maybe it really does have legs.

I believe that this is a very similar juncture in gold. I think that whether you look back and you bought it at $1,500, $1,600, $1,200, $1,100, or $2,200, it won't matter; that years from now you'll look back on that and you will say it was a buy at any level. Interesting enough, Mark Mobius, who's expertise is, of course, the emerging markets, basically said, "I think you have to be buying at any level, frankly." That sounds like bull market euphoria but considering that this is probably the most under-owned, leastcrowded trade in the financial world, I view this as being incredible validation for the bull market that hasn't even yet picked up steam.

Now, when we go to Page 22, we get back to the supply/demand equation that I was referencing. The supply pressures are very obvious, and there are very few assets like Donlin which can even make a dent in those issues. We know that discovery rates are lower than they have been in modern times. How many times do you actually find 5 million ounces these days? It's extremely rare. Then, of course, where did you find it? If you have a world-class asset, but it's not in a safe part of the world, it may well be worth zero.

The exploration budgets are not big enough to be able to solve the problem, but even if they were, as I mentioned previously—think about this for a moment—the time it takes to be able to find a prospect and take it through to a mine are now, on the average, over 20 years. In other words, for all intents and purposes, while you people and I are in the prime of our lives enjoying a bull market in gold, the gold that is found today probably still will not have come out of the ground while you're still holding that trade. That's a profound point. Don't forget it.

The game is already over, people just don't know it yet and, oh, by the way, let's superimpose onto that reality check that the odds of being able to make a discovery that leaps to a mine of any size has been variously estimated at between 1,000-to-1 to 10,000-to-1. When you have an asset like Donlin, which to the benefit of Barrick shareholders, as well as NOVAGOLD shareholders, is really one of those unbelievable, dare I say it, unicorns—if one can still use that word—that really has to be taken into account.

I mean, Donlin has more ounces just in the immediate vicinity of the pit that could be put into the reserve category with a few more drill holes than one of the largest discoveries in modern times elsewhere. You're really dealing with something that is a unique beast within the context of an industry that, on a quantitative basis, is producing faster than they can replace reserves; haven't been able to make meaningful discoveries where, because of that, the production costs are rising. Of course, that's a direct function of the fact that ore grades have collapsed, so you not only have quantitative disequilibrium, you also have qualitative disequilibrium, which directly goes to the bottom line of what a production cost of an asset will be. Central Banks who are buying gold, and most countries are no longer favourable jurisdictions in which to mine it.

The Holy Grail, as we say about Donlin, is to be able to get assets that give you leverage to all of those issues in a place that will allow you to keep it. But, if you look on the left-hand side, why buy gold in the first place? Well, it is, as Ray Dalio said, “Once you strip away the emotion, just another currency,” like the Yen, the Aussie, the Swiss, the Dollar, the Euro, except it’s the only currency that can’t be debased by fiat, and as we’ve seen, the mining companies can’t even produce it.

As an asset diversifier, as a safe haven appeal, as a protection against the currency debasement that really, in their hearts, every Central Bank wants to promote, the fact that the Central Banks have shown their hand by being buyers of gold at a time when they know better than anyone else the value of their real reserves, you have to appreciate that the outlook for gold is extremely bullish. By the way, on Central Banks buying, this is the ultimate insider buying because they, more than anyone else, know the true value of their treasury, and if they are saying we want to be able to have something that isn’t someone else’s liability, look upon that kind of insider buying as reinforcement for your own interest in gold. They’re not dumb money. For decades they were making money by selling gold. Now, the smart ones are starting to make money by buying gold, and as gold goes up, the positive reinforcement of the price rise will cause Central Banks, if anything, to accelerate their buying.

For sure the Central Banks who own gold are not going to turn to be major sellers because their populations now are completely cognizant of the fact that a lot of the stuff that they own simply is duplicable and has little intrinsic value.

On Page 23, as you can see, discoveries are at a historic low in modern times. The exploration budgets, even if they make discoveries today, wouldn’t yield fruits likely for decades. That points to wanting to be in great assets in safe places. The underinvestment in gold means that the majors either have to merge in order to be able to project some element of growth, or they have to be able to buy projects which are in development stage pipeline because the discovery phase, grassroots discoveries, the truth is that there are very few CEOs in this business who will survive or who will be in the business long enough to see the fruits of the exploration discoveries they made today. The key is being able to get, once again, great development stage assets in jurisdictions where their shareholder base are saying this is where we want to be represented. We want to be represented in countries where the rule of law isn't a novelty.

The decline in discoveries and grade as global production is peaking that you see on your Page 25 really suggests to us that gold production is peaking. I was in the energy business when people were talking about peak oil. There's a big difference between oil or hydrocarbons in general and gold. First of all, it's easier to find oil. I mean, there are actually tools for it; you have 3-D seismic. We don't have that in mining. One of the best ways to make a discovery is with the seasoned geologist in a 4x4; it used to be on a donkey but now it's a 4x4.

The reality is that unlike in hydrocarbons—and this is the key, this is why energy and mining are very different—you do not have large quantities of untapped gold resources which would be able to come into the market very quickly in the event of a new technology, like fracking or horizontal drilling. It just doesn't exist, so the Resources aren't there and the ability to make virgin discoveries is far less than in hydrocarbon. If oil were to go up, there's plenty of it to be able to come out and suppress the price. But as I've said, in gold it's completely the opposite.

[Central Banks are] the ultimate insider buyers. They know better than we do, the quality of the assets that they hold. The fact that Central Banks know well enough not to sell it and new Central Banks in the marketplace for diversifying their assets are buying gold is absolutely positive. They are ringing a bell.

In terms of the fear factors—I don't normally like to go there, but, well, I am talking to people who manage portfolios—on Page 27, the performance of gold in recessions—not that we may ever have one again, apparently—is extremely good. For those of you who did survive the recession of 2007, '08, '09, will remember that one of the only asset classes that really performed while equities and even commodities were collapsing, was the currency that is gold. I would also say that having remembered selling my oil company in November of 2007 when dollar/euro was around $1.47, in that area, the fact that gold is a multiple of what it was in 2007 with dollar strength should show you that those who say that gold requires dollar weakness are missing the point. There are times when dollar and gold can do very well. If you get a dollar crisis, of course, that's a whole other issue and the flight to gold would only be accelerated.

When we look at the gold space, we say to ourselves as investors, where are we going to get the greatest leverage? On Page 28, what you can see—and this is without any optimization, just based on the feasibility numbers in 2011 where the inputs were at their peak—when you look at the leverage to gold that Donlin has, you have every reason to want to say if you want to be in this space I want to own some shares of NOVAGOLD as a pure play on something that could literally be the next Nevada; or I want diversified production with strong managers and jurisdictional diversification, and you'll buy Barrick. Either way, it's all good for us. Whatever is good for Barrick is good for NOVAGOLD, and, tandemly, whatever is good for NOVAGOLD is good for Barrick because the truth is we may be a pure play on the asset, but they've got the same 50% as we do, and I do believe that as NOVAGOLD accelerates it could add dollars per share to Barrick. Whether you want a pure play or whether you want diversified production, you've got two great plays in the marketplace.

I would mention something; again, another prediction. I do believe that as gold goes higher, the advent of jurisdictional risk, the paucity of discoveries and projects with the kind of exploration upside that we have, you will see the market go back to according U.S. assets, maybe Canadian, hopefully even Mexican, 0% discount rates. If they can show that there's exploration upside with leverage in a safe jurisdiction, that's going to be catnip.

Fortunately, we have investors who know our story, understand our story, and are going to reap the fruits of great leverage to the gold price with a management that they have seen over the last eight years; has carried out every promise it ever made, bar none; has delivered on every milestone; and has shown that not only don't they do anything stupid but that they do every task that they've been given correctly and with the kind of best practices, environmental stewardship, and community buy-in that can make all of our shareholders extremely proud of the NOVAGOLD story and, indeed, the Donlin story.

We're extremely grateful to our shareholder base. We have no doubt that we're going to see a lot of new additions to this chart. It's not a question to us of whether but when.

To sum up the NOVAGOLD opportunity, number one, unlike almost any other company, as you can see from Slide 30, we combine attributes that are extremely rare. I believe Donlin indeed, in terms of its overall attributes, size, grade, exploration potential, production profile, mine life, jurisdictional safety, is unique in the world. Now, when you put that into a vehicle that has a strong balance sheet—you've seen that our cash flow is more than eminently manageable—we have a fabulous Tier 1 asset, big, high-grade, Federal permits—the optimization work, hopefully, is going to show even better results.

We're getting along beautifully with our partners at Barrick, our shareholders, and our stakeholders, be it our large shareholders or small shareholders, through to our Native Corporation partners, really couldn't be better. Our production profile will make this one of the ultimate trophies, the largest, single pure-gold mine in the world located in the safest place in the world. The management team has done everything it said it would. Candidly, they could run any of the major mining companies in and of themselves. Last, but I think not least, I think this is indeed going to be the gating factor: We are in a jurisdiction where the rule of law is not a novelty; where when you go to sleep at night as an investor, you know that when you wake up in the morning, what you thought you owned the night before, you still own. That to me is going to be the gating factor for many investors. When brokers come to them and they say we have a management team coming in with a world-class asset, they're going to say that's great. Would love to meet them. Just one question, where in the world is that asset? If it happens to be an asset that they'd be willing to take their family to visit, I think that's the one that they're going to take to their investment committee, and we're glad to be able to provide the consummate vehicle on being able to give a portfolio manager that opportunity.

I will conclude with that, and I do believe that the team is opening itself up for questions.

Operator:
Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two. Once again, to join the question queue, please press star then one now.

Our first question comes from Lucas Pipes of B. Riley FBR.

Lucas Pipes:
Hey, good morning, everyone. I wanted to ask about the 2020 drilling program and what specifically kind of key objectives are for this campaign. Thank you.

Gregory Lang:
Good morning, Lucas. Yes. This program is really building on a program we conducted a couple of years ago when we were advancing the hypothesis that the high-grade structures are contiguous enough to mine discretely. Working with our partner, we re-looked and re-visited the geologic model, and the hypothesis held up through the first round of drilling, and this year's program will extend, is targeted to extend the high-grade mineralized structures we encountered before, particularly in the early phases of the mine life. We think the program has sufficient value that we are investing over $20 million to advance these theories.

It's always, whenever we drill at Donlin, it's always exciting. We've never been disappointed, and we're looking forward to updating all of our stakeholders as the results come in.

Lucas Pipes:
That sounds very interesting. Best of luck with that campaign and look forward to the results on that as well. My second question might be just a touch early, but when I think back to the second feasibility study and, obviously a lot of assumptions in there and some of them under review, such as with the drilling program, but a mining cycle has come and gone; cost CapEx inflation has come and gone in the mining sector. When you think about kind of capital cost for Donlin today, do you envision big pluses, big minuses? Where are the kind of major pieces of potential variation compared to the second feasibility study? Thank you.

Gregory Lang:
Thank you, Lucas. I think probably the most material change to the overall capital for the project is advancing the concept to build it in two stages. That in itself significantly reduces the capital up front. That's something we've certainly done with many projects over the years that I have been involved with, and it makes a lot of sense for both owners. The benefit of a smaller scale project to begin with is you can mine more discretely and enhance the grade, particularly in the early years. We think there's opportunity to, through higher grade, offset some of the economies of scale we lose.

But back to your question, the market is still pretty much in favour of projects like Donlin right now compared to where it was five, six years ago. Heavy equipment demand is soft and most of the major inputs through the project are slightly down from where we saw a few years ago. I wouldn't say it's dramatic, but there is—the upward pressure has decreased. Also, the State of Alaska where most of the labour would be sourced from is experiencing an economic downturn with the weakness in oil prices. Labour, which is a big input to projects like this, is down a little bit. Also, as we are getting further advanced in our thinking, the opportunity to bring in third-party participation for some of the capital is very timely.

So, quite a few factors moving in the right direction and nothing worrisome in the trends that we've seen in recent years.

Lucas Pipes:
Thank you very much, Greg. That's very helpful. Maybe one question for Tom. Tom, thank you very much for all the colour on the project and the broader market environment for gold. I wanted to ask you a little bit more about the comments regarding the insider buying, as you put it, from the Central Banks. Do you anticipate that trend to continue and maybe to accelerate? What do you think is ultimately driving them towards gold? Thank you very much.

Thomas S. Kaplan:
First of all, thank you, Lucas. Let me take that answer in two parts. What's driving them is that more than ever before, the Central Banks are in uncharted waters in terms of their twin mandates. Whether they acknowledge the mandate or not, it's a combination of inflation, as well as promoting growth and lower unemployment. Certainly, in most of the Western world there is a direct correlation between economic distress and the kind of political dichotomy that you're seeing in Europe, as well as (audio interference 46:42) the United States.

So, (audio interference 46:48) special mandate to their work. Economics have been thrown out the window. You now have (audio interference 47:00) to a Central Banker. They understand that in the end there is no free lunch, and being able to have assets that do not represent someone else's liability, to honour it or to repay it—when you own gold, you really own something—this is very attractive to them.

The first area of importance for the gold investor is that the Central Banks who, up until a number of years ago, were sellers, particularly during the bear market for gold, have now pivoted. The path of least resistance for a bureaucrat is not to buck the trend; that's for sure. The first thing that they do is to stop selling because when they see the price go up, if they've advocated to their bosses that they should sell gold, and it turns out that that didn't work, they can lose their job. Now, think about the psychology of that. They are not paid two-and-twenty to actually take a risk; they're paid to, first and foremost, do no harm, which means follow the trend, follow the conventional wisdom, and not get fired for being too out of their lane.

What you've seen with the Western Central Banks is that they're not going to be sellers because nobody wants to be, as the expression gross, a shmuck, so you stop selling. But what you've also seen in the developing world is that having bought the gold, they are making money on it. Also, it's diversification away from the dollar. If you want to be less tied to the Dollar, as for example, Russia and China would like to be, ideally, for reasons that have to do with their own relations with the United States or in relations in general that can be subjected to sanctions, then you try to diversify away from the Dollar. One of those areas is gold.

You not only have Central Banks not selling, which in and of itself would be a watershed, but you have Central Banks buying, competing with investors who are, therefore, (audio interference 49:34). You have the Chinese and Indians competing over a scarce asset. That's already something you should probably own some of. When the Central Banks are (audio interference 49:52) are reversing from a 40-year period of divesting themselves, (audio interference 50:04) that's icing on the cake. I think that that path will continue.

There will be times where people will say let's take a breather, let's pause, because they'll get a little bit nervous, but this will go to new all-time highs and then people will be rationalizing, I could buy it at $2,500 than it was at $1,500 and they'll have multiple hooks in which to hang their hat. It's one of the reasons why I highlight smart money, taking their own diversified reasons for arguing in favour of gold now, first of all, by demythologizing it and taking (audio interference 50:41) love to hate and hated to love to something that a smart man could take a look at, that's huge.

I believe that we will take another step function when it becomes the asset that every prudent needs to own. By the way, if you look back at the history of the prudent man role, it only goes back to the essence of defining the safety of an asset versus the ultimate safe asset, which is gold. For all of those reasons, I see that we have what could turn out to be a very virtuous circle that will only accelerate with rising prices. It'll be very volatile because people will get scared, you'll have downdrafts, they'll be washed out of the market, but I think you should expect that those vacuums would be filled relatively quickly by people coming into gold for reasons that I may not even understand or understand today but hopefully will understand at that time.

I hope that answers your question.

Lucas Pipes:
Tom, that's very helpful. I very much appreciate it. To everyone on the team, best of luck and great job so far. Thank you.

Thomas S. Kaplan:
Thank you, Lucas.

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

Gregory Lang:
Well, everyone, thank you for joining us on our call this morning, and we look forward to updating you on our progress throughout the year.

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