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NG.TO - Q3 2016 NovaGold Resources Inc Earnings Call

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## CORPORATE PARTICIPANTS

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**David Ottewell** NOVAGOLD RESOURCES INC. - VP, CFO

**Greg Lang** NOVAGOLD RESOURCES INC. - President, CEO

## CONFERENCE CALL PARTICIPANTS

**John Bridges** JPMorgan - Analyst

## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to the NOVAGOLD RESOURCES third-quarter 2016 conference call and webcast. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference call may be recorded.

I would now like to turn the conference over to Melanie Hennessey, Vice President of Corporate Communications. You may begin.

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**Melanie Hennessey** - NOVAGOLD RESOURCES INC. - VP Corporate Communications

Thank you. Good morning everyone. We are pleased that you are with us today for NOVAGOLD's third-quarter financial results and to also hear the latest on the permitting activities at Donlin Gold as well as an update on the Galore Creek project.

On today's call, we have Greg Lang, NOVAGOLD's President and CEO, and David Ottewell, NOVAGOLD's Vice President and CFO. At the end of the formal part of the presentation, we are taking questions both by phone and by email.

Before we get started, I would like to remind our listeners that some of our statements 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 also in various forward-looking disclaimers included in this presentation.

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

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**Greg Lang** - NOVAGOLD RESOURCES INC. - President, CEO

Thank you Melanie, and good morning everyone.

NOVAGOLD is in great shape. We are a streamlined company focused on our key objective of completing the permitting at Donlin Gold to advance the Alaska-based project. With our partner, Barrick, we are moving up the value chain, further enhancing what we believe will be the most valuable gold development project in the industry. We have not wavered from this key objective since we started the process in 2012, when we raised the capital needed to take us through permitting and beyond.

Additionally, we are fortunate to have an incredible polymetallic asset in British Columbia. Galore Creek, with our partner Teck, could be a core asset to any company.

After more than two decades of exploration and development activities, as shown on Slide 5, there is still a lot of work ahead prior to making a construction decision, but we can all see that it's just a matter of time before we can expect to have secured the necessary permits for Donlin Gold.



This is a major achievement and an important step for project derisking as we work on Donlin Gold's ability to become a significant cash flow generator for many decades to come.

For us, permitting a venture that is slated to potentially be the largest pure gold producing mine in the world in the safest jurisdiction is a very big deal. It's important to look back and see the tremendous progress that has been achieved to date. The Corps has now completed the public scoping process, worked with cooperating agencies to define and select a reasonable range of alternatives to be studied. They have prepared a complete preliminary draft EIS that was reviewed by 11 cooperating agencies, published a draft EIS for public review, and completed a six-month public comment period throughout the Y-K region. This is a testament to the incredible amount of collaboration, commitment and hard work by everyone involved.

The process and insights we have received along the way have helped further strengthen the quality of the Donlin Gold EIS analysis.

We are getting close to the finish line, and any way we look at it, time is on our side. What matters is that we are approaching Donlin Gold in the right way and we continue to move forward.

In the third quarter, the Corps began reviewing and categorizing the comment submissions received during the public comment period, and they are initiating the work to complete the final EIS, as shown on Slide 6. We greatly appreciate the feedback and participation by the Alaska Native Corporations, business groups, communities and the state and federal agencies. The comments will help shape the future of the project for the state and the Y-K region.

As partners, stakeholders and neighbors, we value enormously the relationships that have been cultivated over many years with the local communities that surround our project. Calista and TKC, our Native Corporation partners, have been active in our outreach efforts as we continue to openly and transparently communicate to the residents as the project advances. Carefully reviewing the draft EIS comments is an important part of preparing a final EIS and ensures that all technical issues are thoroughly considered and addressed in the analysis.

Overall, few new issues were raised during the public comment period and most matters had already been addressed in the draft EIS. The Corps is working to release the target date for the final EIS, which will bring forward a record of decision on Donlin Gold's Clean Water Act Section 404 wetlands permit.

Other major state and federal permit processes have been advancing concurrently, including the integrated waste management permits, reclamation plan approval, water discharge permit, dam safety permits, pipeline authorizations and so on.

In the third quarter, local engagement in Alaska was focused on village visits, participation in community events, promotion of safety, and advancement of workforce development initiatives. Since 2014, Donlin has been an annual sponsor of the rural Elders Mentor Program that places local elders in the Y-K schools around the region. We are also heavily involved in supporting scholastic opportunities and technical skills developments to prepare the residents for employment at the Donlin Gold mine.

Moving to Slide 7 on Galore, this project is often given just too cursory a look as we have been focused on Donlin Gold, but it is a great asset. Like Donlin, it enjoys size and grade that is world-class. We hold the belief that it will one day be one of Canada's largest and lowest cost copper mines. The Galore Creek Partnership has been focused on completing targeted studies to optimize project design. Reports were completed on the first phase of the tunneling evaluation and material handling with enhancements to the mining, waste rock and water management plans. These efforts will further improve the value and marketability of Galore Creek, which we plan to monetize to further strengthen our balance sheet and redeploy capital for Donlin Gold.

In the last quarter, Galore Creek sponsored the Tahltan Literacy Camps which took place in the villages in northern BC. These provide high-quality learning opportunities for aboriginal children during the summer months.

I will now hand it off to Dave Ottewell, who will take us through our financial results. David?

**David Ottewell** - NOVAGOLD RESOURCES INC. - VP, CFO

Thank you Greg.

Turning to Slide 8, our share of Donlin Gold and Galore Creek funding was on track at \$2.7 million for the quarter and \$7.9 million year-to-date. For the full year, we continue to expect to spend approximately \$10 million to fund Donlin Gold and Galore Creek.

Slide 9 highlights our third-quarter operating performance. Our share of expenses at the Donlin Gold project were lower, as planned, as activities focused on the EIS and permitting. At Galore Creek, the prior year benefited from the sale of surplus equipment.

The third-quarter operating loss was \$6.4 million, similar to the prior-year quarter. Also for the third quarter, net loss increased by \$1.1 million, primarily due to a foreign exchange gain realized in the prior-year third quarter.

NOVAGOLD's cash flow highlights are outlined on Slide 10. Cash decreased by \$3.2 million during the third quarter of 2016 with \$2.4 million used in operating activities for administrative costs, \$2.7 million to fund our share of the Donlin Gold and Galore Creek projects, partially offset by working capital changes of \$1.9 million, including the receipt of tax credits related to past exploration work performed at Galore Creek.

We ended the quarter with cash and term deposits totaling \$108.5 million after year-to-date spending of \$18.2 million. For the full year, we expect to spend approximately \$23 million, \$2 million lower than our original forecast. Our spending outlook for the year includes approximately \$10 million to fund our share of expenditures at the Donlin Gold and Galore Creek projects, \$11 million for general and administrative costs, and \$2 million for working capital and other.

Greg, back to you.

**Greg Lang** - NOVAGOLD RESOURCES INC. - President, CEO

Thank you Dave.

Turning to Slide 11, I'll briefly recap the attributes that make the Donlin Gold project unique. We've got reserves and resources of almost 40 million ounces of gold and an additional 6 million ounces in inferred material.

Turning to Slide 12, when you compare Donlin to the other development stage projects throughout the industry, it is far and away the largest. When you look at the production profile of these emerging producers, Donlin Gold is better than twice the closest competitor. It will produce 1.5 million ounces a year its first five years, followed by a life of mine average of 1 million ounces a year.

On Slide 13, what really drives the high production and competitive costs at Donlin is the grade. The grade at 2.25 grams is twice the world average gold grade and where the industry was many years ago.

On Slide 14, just a snapshot down the mineralized belt at Donlin. Our 40 million ounces are contained in less than half of an 8-kilometer gold bearing system.

Slide 15 illustrates the tremendous leverage that the project and NOVAGOLD has to higher gold prices.

On Slide 16, as we work together to accomplish our goals, relationships with our partner have never been better. We have been investing the resources needed to provide strategic and day-to-day support to Donlin Gold and ensure the timely and efficient completion of permitting.

The partners continue to strengthen their relationships with stakeholders at the local, regional, state and federal levels. We share alignment at all levels in both companies, from the senior management to the teams in the field. As the Donlin Gold EIS and permitting processes progress, the

owners are studying ways to further enhance the project's value and minimize initial capital outlays. We are looking at modular construction techniques, more selective mining, as well as the automation of certain mining activities. These studies identified many opportunities that have the potential to increase the project's value. The work being completed will benefit the project's owners when it's time to update the feasibility study and initiate the engineering work necessary to advance the project through detailed design. The owners will take all of this into account before reaching a construction decision. As mine builders, we have seen from experience that the more work we put into the front end, the better outcome at the back end.

On Slide 17, our partners at Calista and TKC were very visible throughout the public comment period. Slide 17 shares their perspectives on the importance of Donlin Gold to them and their people.

It is also great to have the support of the state of Alaska. Donlin is moving forward at a time of fiscal crisis in the state caused by the drop in oil prices.

Slide 19 highlights our shareholder base. Our top five shareholders hold over 50% of the equity in the Company and have been with us a long time and appreciate the strategic value of an asset like Donlin.

So, just to wrap it up, we've got a strong balance sheet, great assets in safe places. We enjoy strong local and state support. We've got the team that knows how to take these projects forward, and we are operating in a safe political jurisdiction.

Thank you. We will now open the lines for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). John Bridges, JP Morgan Analyst.

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### John Bridges - JPMorgan - Analyst

Good morning. I just wondered. The record decision you're expecting next year, can you sort of fine-tune that into first half, second half, a particular quarter, or what sort of timing do you expect?

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### Greg Lang - NOVAGOLD RESOURCES INC. - President, CEO

The Corps of Engineers is updating the work plan to get to the final EIS. It could be 10 months, could be 16, somewhere in that range. At this stage, we are not overly concerned about a month or two either way, but we will certainly update everyone when the Corps publishes their final schedule.

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### John Bridges - JPMorgan - Analyst

Okay. So are you thinking first half now or second half?

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### Greg Lang - NOVAGOLD RESOURCES INC. - President, CEO

Probably, to be cautious, I would say second half, but we will keep everybody up-to-date.

**John Bridges** - JPMorgan - Analyst

Okay. And given that you are looking at a sort of stage one project, I just wondered how much work you can do on that while you are waiting for the permits. Can you basically have something that you can work with straight out of the gate once you have permits in hand, or are there any sort of -- any things that are going to hold you back?

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**Greg Lang** - NOVAGOLD RESOURCES INC. - President, CEO

Right now, we are working with our partner on developing the plan of action for next year, and that will really drive the schedule to a construction decision. And I would expect we will provide some detail on that with our year-end news release.

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**John Bridges** - JPMorgan - Analyst

Okay, so I'm too early for you?

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**Greg Lang** - NOVAGOLD RESOURCES INC. - President, CEO

Just a little bit, John.

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**John Bridges** - JPMorgan - Analyst

Okay, sorry about that. Thanks and keep up the good work, and best of luck.

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**Operator**

(Operator Instructions). I'm showing no questions at this time.

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**Greg Lang** - NOVAGOLD RESOURCES INC. - President, CEO

Well, everyone, thank you for joining our call this morning. We look forward to updating you in a couple of months' time. Thank you.

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**Operator**

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

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