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NG.TO - Q2 2017 NovaGold Resources Inc Earnings Call

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NOVAGOLD Second Quarter 2017 Conference Call and Webcast. (Operator Instructions)

As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Ms. Melanie Hennessey, Vice President of Corporate Communications. Ma'am?

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

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

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 will take questions both by phone and by e-mail.

Before we get started, I would like to remind our listeners that our materials do contain forward-looking information and projections that may differ from our actual results. Please refer to the risks and uncertainties disclosed in our annual report filed on Form 10-K for the year ended November 30, 2016, and also other NOVAGOLD reports and documents filed on SEDAR and EDGAR.

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

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

Thank you, Melanie. Good morning, everyone. Today, we will be reviewing our second quarter results and providing an update on our 2 projects. Our 50% owned flagship asset, Donlin Gold, continues to progress through permitting and is poised to become one of the largest producers in the gold industry. Galore Creek, a 50% partnership with Teck, is one of the largest undeveloped copper deposits in Canada.

During the second quarter, Donlin Gold continued to work with the Army Corps of Engineers and other cooperating agencies to ensure that all the required information for the final EIS was delivered in a timely and complete fashion. The corps has scheduled to issue the final EIS in early 2018.

Donlin Gold also advanced other major state and federal permit applications and approvals. The Pipeline and Hazardous Materials Safety Administration published a public notice initiating a comment period on the request for a permit to construct the natural gas pipeline. This comment period closed in June with no substantive comments received.



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The Alaska Department of Environmental Conservation concluded the comment period for the air quality permit in May and again, no substantive comments were received. Several other major state permit applications were also filed in the second quarter such as the integrated waste management permit and the water discharge permit.

It's very encouraging to see that these permitting activities remain very much on track.

We are thrilled to be advancing the optimization efforts with our partner as shown on Slide 6. The recently-announced drill program will capitalize on the flexibility found in Donlin Gold's unique characteristics of large size, superior grade and strong exploration potential. On the basis of what we know now about the structural controls and the evaluations done to date, plus what we know from the original feasibility study, grade is clearly on our side. As part of the ongoing optimization work, more selective mining methods has been identified as an opportunity for improvement. Additional structural data collection will enhance our understanding of the targeted mineralized zones. This opportunity is sufficiently encouraging that the partners have increased the Donlin Gold budget this year by 40% and have resumed drilling after 7 years to collect additional data that will validate the structural interpretations and support other ongoing optimization work.

As noted in the quotes on Slide 7, our joint effort is to build the best-in-class, not to mention largest pure gold mine in the world, but also to do it sensibly in terms of economics and, closely related to that, timing. So that Donlin will be built only when it will benefit our and Barrick shareholders and all our other stakeholders. Patience has afforded us to potentially have it all. The optimization studies are looking good enough for us to spend some additional money. We clearly have a large and remarkable ore body with grades already more than 2x the industry average. That's a tremendous advantage when one is laying out the optimal development for a big mine. Yet both NOVAGOLD and Barrick are striving to be better and optimize its development such that it can be among the largest producers but with lower upfront capital.

Many of the inputs into the feasibility study were at peak prices, but there are opportunities beyond that for reduction in capital costs through third-party participation in our infrastructure and the leasing of mining equipment. With reduced upfront capital costs and exceptional exploration upside, our aim is sustaining our production profile as one of the largest gold producers in the world for decades to come. This is a remarkable objective but that's where we're heading with this work. We view Donlin Gold as an ore body that will keep on giving, and the alignment between the 2 companies has simply never been better.

Moving to Slide 8. We have long believed that in order to maintain a social license to operate, a company must have a thorough understanding and respect for the language, values and culture of the people in the region where our projects are located. Our work in the region over the last 20 years has been critical in building a foundation of broad community support.

In the second quarter, Donlin Gold continued village meetings across the Y-K region. Donlin also returned as a principal sponsor and volunteer at the 45th Iditarod Trail Sled Dog Race. I'd like to congratulate all the mushers who participated in this year's race with special recognition to Pete Kaiser, who is from the region near the Donlin Gold project and finished in the Top 10.

Donlin also supported Aniak's 4th Annual Academic Decathlon and Career Fair as well as other activities in the region. At Galore Creek, we continue to support various local Tahltan community initiatives. I'll now turn the call over to our CFO, David Ottewell. Dave?

David A. Ottewell - NovaGold Resources Inc. - CFO, Principal Accounting Officer and VP

Thank you, Greg. Turning to Slide 9. Our share of Donlin Gold and Galore Creek funding totaled \$3.1 million for the second quarter as expected. For the full year, we expect to spend approximately \$14 million to fund Donlin Gold and \$2 million to fund Galore Creek. Our forecasted spending for the full year at Donlin Gold has increased by \$4 million as a result of the recently-announced drill program.

Slide 10 highlights our second quarter operating performance. For the quarter, we reported a \$7.6 million operating loss and an \$8.5 million net loss as expected and similar to the prior year quarter.

The operating loss and net loss for the first 6 months were also consistent with the prior year as our activities continue to focus on Donlin Gold permitting.



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NOVAGOLD's cash flow highlights are outlined on Slide 11. During the second quarter of 2017, we spent \$4.7 million, of which \$3.1 million was used to fund our share of the Donlin Gold and Galore Creek projects and \$1.5 million was used for administrative costs, net of working capital and interest. We ended the quarter with cash and term deposits of \$93.5 million.

Finally, on Slide 12, we have increased our 2017 budget from \$23 million to \$27 million, including our \$4 million share of the drill program at Donlin Gold. We expect to end the year with approximately \$78 million in cash and term deposits.

Greg, back to you.

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

Thank you, Dave. I'll quickly recap the attributes that make the Donlin project unique and why we have focused this company solely on Donlin. In terms of size, Donlin is an immense endowment. Its size and production profile clearly distinguish it from its peers.

On Slide 14, the grade. Donlin is a high-grade open-pit mine. Many new mines have been built on grades of about 1 gram. Donlin is better than twice those grades, and it's the grade where the industry was 10 years ago.

Donlin will be a large scale producer. As envisioned in the feasibility study, it will produce 1.5 million ounces its first 5 years followed by decades of an average of 1 million ounces a year. This is substantially bigger than any of the other emerging producers.

On Slide 16, the reserve pit, as shown in the right border on the left-hand side of the diagram, contains the currently-defined 39 million ounces of measured and indicated resources at Donlin Gold. When the time is right, we will tap into Donlin Gold's potential along strike and at depth and test other targets as shown on the diagram at Dome, Quartz and Snow.

Donlin has positive returns in the current price environment as highlighted on Slide 17. These returns become robust as the bull market in gold resumes. One of the unique attributes that Donlin has is that it's on private land owned by 2 Alaska Native corporations. They have been vocal advocates for the project through our permitting. They are supporting our plans and encouraging us to go forward with the project. We're nearing the completion of permitting. Permitting in the United States is a rigorous disciplined process and the last few years we have spent advancing through permitting is nothing in the context of a mine whose life is measured in decades.

Our Galore project on its own is a substantial endowment of copper, gold and silver. And it is among the highest grade undeveloped copper deposits in the world. And when the time is right, we will sell it to further strengthen our balance sheet to advance Donlin.

As evidenced by our top shareholders, we're an institutional quality investment in the gold developers. Many of our top shareholders have been with the company for years, and we are appreciative of their continued support.

To wrap it up, for the last few years, we have been focusing our resources on one unwavering strategy, to advance and derisk Donlin Gold in order to provide the most attractive way for our stakeholders to profit from the next phase of the long-term bull market in gold. I'm proud to report that year after year, we have been successful in executing on our stated objectives without interruption. We believe that this is the most important gold development project in the world, and we are making material and indeed exciting progress on all fronts.

Operator, we can now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from John Bridges of JPMorgan.



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

I just wanted to -- it's good to hear that you're drilling up presumably the higher grade targets for this optimization study. Just wondering if you could give us a bit more detail on what you're trying to do with that and what sort of shape of project you might come up with.

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

John, first off, I love drilling. It's one of the most exciting activities that the company can undertake, and it's great to be doing it after a long break. We've been working with Barrick in-depth on this project really almost from the ground up, understanding the geology, the mineralization controls and looking at various opportunities. A large-scale mining operation inherently has higher dilution. With smaller mining equipment, you can take advantage of the tighter structural controls. So we're -- we've got some pretty exciting theories in that regard, and the best way to test the theory is to get out and drill. And we're really sufficiently excited by the opportunity that -- in these rather capital-challenged times, we're willing to invest additional money and we'll -- as the results come in, we'll certainly update everybody on what they mean to the project.

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

So it's geotechnical drilling to figure out if you can be more selective in mining? Or more geology to find out where the higher grades portions of the ore body exist?

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

Yes, the program has multiple objectives, John. We'll be collecting additional geotechnical work to see if there's opportunities, for example, steeper pit walls. We'll be testing some of the structures and even collecting additional hydrologic data. So it's a pretty broad program just targeted on enhancing our understanding of the ore body and flushing out some of the opportunities that may lead to enhanced grade.

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

Okay. And it's good to hear that the permitting is advancing according to plans with no objections, so that's great. Congratulations and look forward to hearing Q3 and maybe some drill results? Are you going to give us some information along the way or you're going to keep it all close to your chest?

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

Well, we will work with our partner on the timing of releasing the data, John, but we're certainly glad to be drilling.

Operator

Our next question is from [David Vicenza], investor.

Unidentified Participant

Just a few questions. It's hard for me to understand how NOVAGOLD's market cap is \$1.4 billion and yet you own an asset that's worth \$20 billion and how the market doesn't recognize that. It means you're undervalued by a factor of 15x, 18x. How do you feel about that?



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

Well, I would be very pleased if you were -- if that was indeed the case. I think, gold developers are valued, I think, based on the assets of their gold in the ground and the quality of their deposits. When I look at our peer groups, I think we're appropriately valued now. But I think certainly, as we continue to advance the project and further derisk it through permitting and ultimately take the project forward, I think you're correct. The value of our shares will multiply as we become -- get through permitting and into development. And certainly as a producer with an endowment of over 20 million ounces, I think there's certainly room to run for the shares.

Unidentified Participant

Yes, but to me, you're a \$25 stock all day long. The permit, when do you expect -- I think on one of the previous conference calls, you said the first quarter of 2018, is that your target?

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

Yes, the Army Corps of Engineers, who is the leading federal agency involved with the permitting, keeps an up-to-date website, and you can look -- find the Donlin Gold EIS. And they have stated that they will publish the final EIS in March of next year and issue a record of decision approximately 3 to 4 months later. So we're, give or take, a year away from finishing up the federal permitting process. And while we're working our way through that, as noted on the call, we're pursuing the other various state and federal permits that are necessary for the operation. But clearly, the environmental impact study is the largest and most time-consuming part of this process.

Unidentified Participant

And another question. Would you ever consider paying dividends in bullion instead of -- and that could be done through intermediaries by having wholesale coin dealers ship bullion to stockholders. Would you ever consider something like that?

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

David, that's certainly an interesting idea and we're quite a ways from it but...

Unidentified Participant

I know. I just invite you to think about it. That's all.

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

Yes, when the time is right, we'd love to be a dividend-paying company.

Unidentified Participant

Okay, here's the last question I have. Your legal department, I'm sure you have quite a few law firms involved. What is your opinion of the naked short, so they're down on the COMEX. In the past 2 weeks, you've had 4 billion of naked shorts dumped at market, not limit orders, market orders. And then you had within the last 5 days, another 2 billion of naked shorts through the banks. Do you -- does that smell bad to you? It smells bad to me. I mean, do you -- it seems like it's totally manipulated the price of gold. And with the prejudice to you and Barrick and everybody else. What is your opinion of that?

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

Well, I -- over the last couple of months, our -- we were part of the GDXJ. And when they announced the rebalancing of the index, we certainly saw a lot of downward pressure on our stock in higher-than-normal volumes. I think with this GDXJ rebalancing behind us, just in the last week, we're seeing shares trade in the pattern that we're used to seeing them trade, which is largely in concert with gold price and on news as the company progresses through its projects.

Unidentified Participant

Yes, but who would dump 6 billion at market? I mean, most investors would have limit orders. I mean, it just -- what hedge fund -- or just do you have any -- I guess, here's my question, do you have any suspicion that the gold price is being artificially slammed because quite frankly, it's the only thermostat for foul play in the financial arena?

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

David, we appreciate your thought-provoking questions, but as a matter of practice, we don't really comment on trading in our shares. And I do note we're a fairly liquid stock and I think that invites frequency trading. But I don't see anything sinister in any of it. It all looks, given our circumstances, pretty normal.

Operator

(Operator Instructions) I see no other questions in queue. I'd like to turn it back to Mr. Lang for closing remarks.

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

All right. Well, everyone, thank you for joining our call this morning, and we look forward to keeping you updated as we progress with our drilling and permitting activities. Have a good day.

Operator

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

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