



**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2015, 2014 and 2013**

*(Expressed in thousands of Canadian Dollars)*



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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Northern Dynasty Minerals Ltd.

We have audited the accompanying consolidated statements of financial position of Northern Dynasty Minerals Ltd. and subsidiaries (the “Company”) as at December 31, 2015, December 31, 2014, and the related consolidated statements of comprehensive loss (income), cash flows and changes in equity for the years ended December 31, 2015, 2014, and 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northern Dynasty Minerals Ltd. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2015, 2014, and 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 of the financial statements, the Company incurred a net loss of \$33,829,000 and \$31,347,000 during the year ended December 31, 2015 and 2014, respectively and had a deficit of \$379,124,000 as at December 31, 2015. This condition, along with other matters as set forth in Note 1, indicates the existence of material uncertainties that raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans concerning these matters are also discussed in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte LLP

Chartered Professional Accountants  
March 29, 2016  
Vancouver, Canada

**Northern Dynasty Minerals Ltd.**  
**Consolidated Statements of Financial Position**  
(Expressed in thousands of Canadian Dollars)

|   | Notes | December 31<br>2015 | December 31<br>2014 |
|---|-------|---------------------|---------------------|
| <b>ASSETS</b>                           |       |                     |                     |
| <b>Non-current assets</b>               |       |                     |                     |
| Mineral property, plant and equipment   | 4     | \$ 147,088          | \$ 123,608          |
| <b>Total non-current assets</b>         |       | 147,088             | 123,608             |
| <b>Current assets</b>                   |       |                     |                     |
| Available-for-sale financial assets     | 5     | 1,579               | 287                 |
| Amounts receivable and prepaid expenses | 6     | 1,075               | 962                 |
| Restricted cash                         | 7(b)  | 453                 | 1,206               |
| Cash and cash equivalents               | 7(a)  | 7,509               | 9,447               |
| <b>Total current assets</b>             |       | 10,616              | 11,902              |
| <b>Total Assets</b>                     |       | <b>\$ 157,704</b>   | <b>\$ 135,510</b>   |
| <b>EQUITY</b>                           |       |                     |                     |
| <b>Capital and reserves</b>             |       |                     |                     |
| Share capital                           | 8     | \$ 435,069          | \$ 389,227          |
| Reserves                                |       | 99,035              | 84,031              |
| Deficit                                 |       | (379,124)           | (345,295)           |
| <b>Total Equity</b>                     |       | 154,980             | 127,963             |
| <b>LIABILITIES</b>                      |       |                     |                     |
| <b>Non-current liabilities</b>          |       |                     |                     |
| Deferred income taxes                   | 13    | -                   | 1,514               |
| <b>Total non-current liabilities</b>    |       | -                   | 1,514               |
| <b>Current liabilities</b>              |       |                     |                     |
| Payable to a related party              | 9     | 677                 | 383                 |
| Trade and other payables                | 10    | 2,047               | 5,650               |
| <b>Total current liabilities</b>        |       | 2,724               | 6,033               |
| <b>Total Liabilities</b>                |       | 2,724               | 7,547               |
| <b>Total Equity and Liabilities</b>     |       | <b>\$ 157,704</b>   | <b>\$ 135,510</b>   |

Events after the reporting date (note 7(b))  
Commitments (note 15)

*The accompanying notes are an integral part of these consolidated financial statements.*

These consolidated financial statements are signed on the Company's behalf by:

/s/ Ronald W. Thiessen

Ronald W. Thiessen  
Director

/s/ Marcel H. de Groot

Marcel H. de Groot  
Director

## Northern Dynasty Minerals Ltd.

### Consolidated Statements of Comprehensive Loss (Income)

(Expressed in thousands of Canadian Dollars, except for share information)

|  | Notes   | Year ended December 31 |                   |                   |
|--|---------|------------------------|-------------------|-------------------|
|  |         | 2015                   | 2014              | 2013              |
| <b>Expenses</b>  |         |                        |                   |                   |
| Exploration and evaluation expenses                                      | 4, 12   | \$ 8,718               | \$ 12,877         | \$ 1,991          |
| General and administrative expenses                                      | 12      | 8,272                  | 9,059             | 5,970             |
| Legal, accounting and audit  | 2(b)    | 17,001                 | 8,325             | 275               |
| Share-based compensation   | 8(d)    | 903                    | 3,877             | 641               |
| Loss from operating activities   |         | 34,894                 | 34,138            | 8,877             |
| Foreign exchange loss (gain)   |         | 618                    | (221)             | (340)             |
| Interest income  |         | (99)                   | (281)             | (1,136)           |
| Interest expense   | 3       | 144                    | -                 | -                 |
| Other income   |         | (214)                  | -                 | -                 |
| Gain on discontinuance of equity method                                  | 4(a)    | -                      | -                 | (5,062)           |
| Loss before tax  |         | 35,343                 | 33,636            | 2,339             |
| Deferred Income tax (recovery) expense                                   | 13      | (1,514)                | (2,289)           | 184               |
| <b>Loss for the year</b>   |         | <b>\$ 33,829</b>       | <b>\$ 31,347</b>  | <b>\$ 2,523</b>   |
| <b>Other comprehensive (income) loss</b>                                 |         |                        |                   |                   |
| <b>Items that may be subsequently reclassified to loss</b>               |         |                        |                   |                   |
| Foreign exchange translation difference                                  | 4, 8(e) | (23,300)               | (9,945)           | (6,874)           |
| Deferred income tax on investment in a foreign subsidiary                | 8(e)    | -                      | -                 | 128               |
| Reversal of deferred income tax on investment                            | 8(e)    | -                      | -                 | (141)             |
| Decrease (increase) in fair value of available-for-sale financial assets | 5       | 113                    | (8)               | -                 |
| <b>Other comprehensive income for the year</b>                           |         | <b>\$ (23,187)</b>     | <b>\$ (9,953)</b> | <b>\$ (6,887)</b> |
| <b>Total comprehensive loss (income) for the year</b>                    |         | <b>\$ 10,642</b>       | <b>\$ 21,394</b>  | <b>\$ (4,364)</b> |
| <b>Basic and diluted loss per common share</b>                           | 11      | <b>\$ 0.23</b>         | <b>\$ 0.33</b>    | <b>\$ 0.03</b>    |

The accompanying notes are an integral part of these consolidated financial statements.

# Northern Dynasty Minerals Ltd.

## Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)

|   | Notes | Year ended December 31 |                 |                  |
|---|-------|------------------------|-----------------|------------------|
|   |       | 2015                   | 2014            | 2013             |
| <b>Operating activities</b>   |       |                        |                 |                  |
| Loss for the year   |       | \$ (33,829)            | \$ (31,347)     | \$ (2,523)       |
| <u>Non-cash or non operating items</u>  |       |                        |                 |                  |
| Deferred income tax (recovery) expense  |       | (1,514)                | (2,289)         | 184              |
| Depreciation  |       | 279                    | 282             | -                |
| Loss on disposal of equipment   |       | 5                      | 13              | -                |
| Interest received on cash held  |       | (99)                   | (149)           | (633)            |
| Interest receivable on loan   |       | -                      | (131)           | (503)            |
| Interest accrued on loans from Cannon Point and Mission Gold                                |       | 144                    | -               | -                |
| Gain on discontinuance of equity method   |       | -                      | -               | (5,062)          |
| Gain on disposal of surplus site inventory  |       | (173)                  | -               | -                |
| Share-based compensation  |       | 903                    | 3,877           | 641              |
| Unrealized exchange (gain) loss   |       | -                      | (211)           | (332)            |
| <u>Changes in working capital items</u>   |       |                        |                 |                  |
| Restricted cash   |       | 826                    | 171             | (1,269)          |
| Amounts receivable and prepaid expenses   |       | (8)                    | 303             | 84               |
| Amounts receivable from a related party   |       | -                      | -               | 3                |
| Trade and other payables  |       | (4,374)                | 1,747           | 1,246            |
| Payable to related party  |       | 294                    | (76)            | 311              |
| <b>Net cash used in operating activities</b>  |       | <b>(37,546)</b>        | <b>(27,810)</b> | <b>(7,853)</b>   |
| <b>Investing activities</b>   |       |                        |                 |                  |
| Acquisition of plant and equipment  | 4     | (28)                   | -               | -                |
| Cash contribution to the Pebble Limited Partnership   |       | -                      | -               | (1,055)          |
| Net cash received on assuming control of the Pebble Limited Partnership                     |       | -                      | -               | 6,507            |
| Proceeds from disposal of equipment   | 4     | 70                     | 50              | -                |
| Proceeds from disposal of available-for-sale financial assets                               | 9(b)  | 280                    | -               | -                |
| Proceeds from disposal of surplus site inventory  |       | 173                    | -               | -                |
| Interest received on cash and cash equivalents  |       | 99                     | 149             | 633              |
| <b>Net cash from investing activities</b>   |       | <b>594</b>             | <b>199</b>      | <b>6,085</b>     |
| <b>Financing activities</b>   |       |                        |                 |                  |
| Cash received on the acquisition of Cannon Point and Mission Gold, net of transaction costs | 3     | 12,347                 | -               | -                |
| Net proceeds from the private placement of special warrants                                 | 8(c)  | 17,485                 | 11,273          | -                |
| Net proceeds from the private placement of common shares                                    | 8(b)  | 5,166                  | -               | -                |
| Proceeds from the exercise of share purchase options  | 8(c)  | 7                      | -               | 30               |
| <b>Net cash from financing activities</b>   |       | <b>35,005</b>          | <b>11,273</b>   | <b>30</b>        |
| <b>Net decrease in cash and cash equivalents</b>  |       | <b>(1,947)</b>         | <b>(16,338)</b> | <b>(1,738)</b>   |
| Effect of exchange rate fluctuations on cash and cash equivalents                           |       | 9                      | (10)            | (4)              |
| Cash and cash equivalents at beginning of the year  |       | 9,447                  | 25,795          | 27,537           |
| <b>Cash and cash equivalents at end of the year</b>   | 7(a)  | <b>\$ 7,509</b>        | <b>\$ 9,447</b> | <b>\$ 25,795</b> |
| <b>Supplementary cash flow information</b>  | 7(a)  |                        |                 |                  |

The accompanying notes are an integral part of these consolidated financial statements.

## Northern Dynasty Minerals Ltd.

### Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian Dollars, except for share information)

|  | Notes | Share capital      |                   | Reserves  |  |                                |                                     | Deficit             | Total equity      |
|--|-------|--------------------|-------------------|---|--|--------------------------------|-------------------------------------|---------------------|-------------------|
|  |       | Number of shares   | Amount            | Equity settled share-based compensation reserve | Foreign currency translation reserve (note 8(e)) | Investment revaluation reserve | Share Purchase Warrants (note 8(c)) |                     |                   |
| Balance at January 1, 2013   |       | 94,999,764         | \$ 389,189        | \$ 50,784                                       | \$ 347   | \$ (2)                         | \$ -                                | \$ (311,425)        | \$ 128,893        |
| Shares issued for cash on exercise of share purchase options                                     | 8(d)  | 10,100             | 30                | -   | -  | -                              | -                                   | -                   | 30                |
| Fair value of options allocated to shares issued on exercise                                     | 8(d)  | -                  | 8                 | (8)   | -  | -                              | -                                   | -                   | -                 |
| Share-based compensation   |       | -                  | -                 | 641   | -  | -                              | -                                   | -                   | 641               |
| Loss for the year  |       | -                  | -                 | -   | -  | -                              | -                                   | (2,523)             | (2,523)           |
| Other comprehensive income for the year net of tax   |       | -                  | -                 | -   | 6,887  | -                              | -                                   | -                   | 6,887             |
| Total comprehensive income for the year  |       |                    |                   |   |  |                                |                                     |                     | 4,364             |
| <b>Balance at December 31, 2013</b>  |       | <b>95,009,864</b>  | <b>\$ 389,227</b> | <b>\$ 51,417</b>                                | <b>\$ 7,234</b>                                  | <b>\$ (2)</b>                  | <b>\$ -</b>                         | <b>\$ (313,948)</b> | <b>\$ 133,928</b> |
| Balance at January 1, 2014   |       | 95,009,864         | \$ 389,227        | \$ 51,417                                       | \$ 7,234   | \$ (2)                         | \$ -                                | \$ (313,948)        | \$ 133,928        |
| Special warrants issued net of transaction costs   | 8(c)  | -                  | -                 | -   | -  | -                              | 11,552                              | -                   | 11,552            |
| Share-based compensation   | 8(d)  | -                  | -                 | 3,877   | -  | -                              | -                                   | -                   | 3,877             |
| Loss for the year  |       | -                  | -                 | -   | -  | -                              | -                                   | (31,347)            | (31,347)          |
| Other comprehensive income for the year net of tax   |       | -                  | -                 | -   | 9,945  | 8                              | -                                   | -                   | 9,953             |
| Total comprehensive loss for the year  |       |                    |                   |   |  |                                |                                     |                     | (21,394)          |
| <b>Balance at December 31, 2014</b>  |       | <b>95,009,864</b>  | <b>\$ 389,227</b> | <b>\$ 55,294</b>                                | <b>\$ 17,179</b>                                 | <b>\$ 6</b>                    | <b>\$ 11,552</b>                    | <b>\$ (345,295)</b> | <b>\$ 127,963</b> |
| Balance at January 1, 2015   |       | 95,009,864         | \$ 389,227        | \$ 55,294                                       | \$ 17,179  | \$ 6                           | \$ 11,552                           | \$ (345,295)        | \$ 127,963        |
| Special warrants issued net of transaction costs   | 8(c)  | -                  | -                 | -   | -  | -                              | 17,485                              | -                   | 17,485            |
| Conversion of special warrants into common shares  | 8(c)  | 73,562,735         | 29,037            | -   | -  | -                              | (29,037)                            | -                   | -                 |
| Common shares issued pursuant to a private placement, net of transaction costs                   | 8(b)  | 12,573,292         | 5,046             | -   | -  | -                              | -                                   | -                   | 5,046             |
| Common shares issued as referral fees relating to a private placement                            | 8(b)  | 300,000            | 120               | -   | -  | -                              | -                                   | -                   | 120               |
| Common shares issued for the acquisition of Cannon Point, net of transaction cost                | 3(a)  | 12,881,344         | 4,062             | -   | -  | -                              | -                                   | -                   | 4,062             |
| Options and warrants issued for the acquisition of Cannon Point                                  | 3(a)  | -                  | -                 | -   | -  | -                              | 217                                 | -                   | 217               |
| Common shares issued for the acquisition of Mission Gold   | 3(b)  | 27,593,341         | 7,564             | -   | -  | -                              | -                                   | -                   | 7,564             |
| Options and warrants issued pursuant to the acquisition of Mission Gold, net of transaction cost | 3(b)  | -                  | -                 | -   | -  | -                              | 2,255                               | -                   | 2,255             |
| Common shares issued upon exercise of share purchase options                                     | 8(c)  | 18,800             | 7                 | -   | -  | -                              | -                                   | -                   | 7                 |
| Fair value allocated to shares issued on options exercised                                       | 8(d)  | -                  | 6                 | -   | -  | -                              | (6)                                 | -                   | -                 |
| Share-based compensation   | 8(d)  | -                  | -                 | 903   | -  | -                              | -                                   | -                   | 903               |
| Loss for the year  |       | -                  | -                 | -   | -  | -                              | -                                   | (33,829)            | (33,829)          |
| Other comprehensive income (loss) for the year net of tax  |       | -                  | -                 | -   | 23,300   | (113)                          | -                                   | -                   | 23,187            |
| Total comprehensive loss for the year  |       |                    |                   |   |  |                                |                                     |                     | (10,642)          |
| <b>Balance at December 31, 2015</b>  |       | <b>221,939,376</b> | <b>\$ 435,069</b> | <b>\$ 56,197</b>                                | <b>\$ 40,479</b>                                 | <b>\$ (107)</b>                | <b>\$ 2,466</b>                     | <b>\$ (379,124)</b> | <b>\$ 154,980</b> |

The accompanying notes are an integral part of these consolidated financial statements.

# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

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### 1. NATURE AND CONTINUANCE OF OPERATIONS

Northern Dynasty Minerals Ltd. (the "Company") is incorporated under the laws of the Province of British Columbia, Canada, and its principal business activity is the exploration of mineral properties. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "NDM" and on the New York Stock Exchange-MKT ("NYSE-MKT") under the symbol "NAK". The Company's corporate office is located at 1040 West Georgia Street, 15<sup>th</sup> floor, Vancouver, British Columbia.

The consolidated financial statements ("Financial Statements") of the Company as at and for the year ended December 31, 2015, include financial information for the Company and its subsidiaries (note 2(c)) (together referred to as the "Group" and individually as "Group entities"). The Company is the ultimate parent. The Group's core mineral property interest is the Pebble Copper-Gold-Molybdenum Project (the "Pebble Project") located in Alaska, United States of America ("USA" or "US").

The Group is in the process of exploring and developing the Pebble Project and has not yet determined whether the Pebble Project contains mineral reserves that are economically recoverable. The Group's continuing operations and the underlying value and recoverability of the amounts shown for the Group's mineral property interests, is entirely dependent upon the existence of economically recoverable mineral reserves; the ability of the Group to obtain financing to complete the exploration and development of the Pebble Project; the Group obtaining the necessary permits to mine; and future profitable production or proceeds from the disposition of the Pebble Project.

During the year ended December 31, 2015, the Company raised an aggregate of \$23.8 million in cash through the private placement of common shares (note 8(b)) and special warrants (note 8(c)) and it received an aggregate amount of \$12.7 million in cash and cash equivalent and approximately \$1.7 million in other financial assets (mainly publicly traded marketable securities) as a result of the acquisition of two publicly listed entities (note 3).

As at December 31, 2015, the Group has \$7.5 million in cash and cash equivalents for its operating requirements. The Group has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required in order to progress any material expenditures at the Pebble Project. Additional financing may include any of or a combination of debt equity and/or contributions from possible new Pebble Project participants. There can be no assurances that the Group will be successful in obtaining additional financing. If the Group is unable to raise the necessary capital resources and generate sufficient cash flows to meet obligations as they come due, the Group may, at some point, consider reducing or curtailing its operations. As such there is material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern.

In July 2014, the United States Environmental Protection Agency (the "EPA") announced a proposal under Section 404(c) of the Clean Water Act to restrict and impose limitations on all discharges of dredged or fill material ("EPA Action") associated with mining the Pebble deposit. The Company believes that the EPA does not have the statutory authority to impose conditions on the development at Pebble prior to the submission of a detailed development plan and its thorough review by federal and state agencies, including review under the National Environmental Protection Act ("NEPA"). The Pebble Limited Partnership (the "Pebble Partnership"), a wholly-owned subsidiary of the Company, along with the State of Alaska and the Alaska Peninsula Corporation, an Alaska Native village corporation with extensive land holdings in the Pebble Project area, filed for an injunction to stop the EPA Action with the US Federal Court in Alaska (the "Court"). However, the Court has deferred judgment thereon until the EPA has issued a final determination. The Company appealed the Court's decision to the 9<sup>th</sup> Circuit Court of Appeals. The appeal was denied in May 2015. The Pebble Partnership still holds the option to pursue its statutory authority case in the instance that EPA finalizes a pre-emptive regulatory action under the Clean Water Act 404(c). In September 2014, the Pebble Partnership initiated a second action against the EPA in federal district court in Alaska charging that the EPA violated the Federal Advisory Committee Act ("FACA"). In November 2014, the U.S. federal court judge in Alaska granted, in relation to the FACA case, the Pebble

# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

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Partnership's request for a preliminary injunction, which, although considered by the Company as a significant procedural milestone in the litigation, does not resolve the Pebble Partnership's claims that the EPA Actions with respect to the Bristol Bay Assessment and subsequent 404(c) regulatory process, violated FACA. In June 2015, the EPA's motion to dismiss the FACA case was rejected and as a result the FACA case is moving forward. The Company expects its legal rights will be upheld by the Court and that the Company will ultimately be able to apply for the necessary permits under NEPA. On October 14, 2014, the Pebble Partnership filed suit in the federal district court in Alaska charging that the EPA has violated the Freedom of Information Act by improperly withholding documents related to the Pebble Project, the Bristol Bay Watershed Assessment and consideration of a pre-emptive 404(c) veto under the Clean Water Act.

The EPA has moved for summary judgment claiming that its search for and disclosure of documents was adequate. The Pebble Partnership has opposed the motion pointing out several deficiencies in the EPA's search parameters and pointing out the agency's overly broad assertion of the deliberative process privilege to withhold documents. On August 24, 2015, the U.S. federal court judge granted in part and deferred in part the EPA's motion for summary judgement on the *Freedom of Information Act* ("FOIA") litigation. The court accepted the EPA's position that it had made an adequate search for documents but left the matter open should the EPA not meet its obligations in the FACA litigation or if additional documents surface. Additionally, the judge ordered the EPA to produce a sample of 183 partially or fully withheld documents so that it could conduct an in camera review of the sample and test the merits of the EPA's withholdings under the deliberative process privilege. Before producing this sample to the Court, the EPA chose to voluntarily release 115 documents (or 63% of the sample ordered by the Court), relinquishing its claim of privilege as to these documents.

In briefings before the Court, the Pebble Partnership argued that the voluntary release of 63% of the agency's same documents conclusively demonstrated that the EPA had been over broad in its assertion of the deliberative process privilege, particularly because the content of the voluntarily released documents was not in fact deliberative. The Court agreed, finding that EPA "improperly withheld documents in full," and that "many of the documents that defendant released should have been released to begin with because the portions that defendant released were not deliberative." It then ordered the EPA to review an additional 65 documents. Of these 65 documents, the EPA voluntarily released 55 documents in whole or in part (or 85% of the documents). Given the EPA's high rate of release, the Pebble Partnership submitted a brief to the Court arguing that the EPA should be forced to review the remaining documents being withheld and arguing that judgment should not be granted to the agency at this time. A decision has not yet been issued. The Court agreed, concluding that it had "no confidence that [EPA] has properly withheld documents, either in full or in part, pursuant to the deliberative process privilege." The Court reiterated its earlier finding that EPA had been withholding documents that "should never have been withheld to begin with." As a result, the Court ordered the Agency to re-evaluate all remaining documents EPA is withholding in response to the Pebble Partnership's January 2014 FOIA request and to submit these documents for in camera review.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) *Statement of Compliance*

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"s) that are effective for the Group's reporting year ended December 31, 2015. These Financial Statements were authorized for issue by the Board of Directors on March 23, 2016.

### (b) *Basis of Preparation*

These Financial Statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information and for financial instruments classified as available-for-sale, which are stated at



## Northern Dynasty Minerals Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

their fair value (note 2(e) and note 5). The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

Comparative information in the statement of loss and comprehensive loss has been reclassified to separately reflect legal, accounting and audit expenditures as a separate line item. This line item is predominantly comprised of legal costs incurred by the Group in response to the EPA's activities surrounding the Pebble Project. These expenditures were previously included under general and administrative expenditures. There is no impact of the expense reclassification on loss and comprehensive loss for the year or basic and diluted loss per share. Statements of financial position, cash flows and changes in equity are not affected.

#### (c) Basis of Consolidation

These Financial Statements incorporate the financial statements of the Company, the Company's subsidiaries, and entities controlled by the Company and its subsidiaries listed below:

| Name of Subsidiary                          | Place of Incorporation   | Principal Activity   | Ownership          |
|---|--------------------------|--|--------------------|
| 0796412 BC Ltd.                             | British Columbia, Canada | Not active. Wholly-owned subsidiary of the Company.                          | 100%               |
| 3537137 Canada Inc. <sup>1</sup>            | Canada                   | Holding Company. Wholly-owned subsidiary of the Company.                     | 100%               |
| Pebble Services Inc.                        | Nevada, USA              | Management and services company. Wholly-owned subsidiary of the Company.     | 100%               |
| Northern Dynasty Partnership                | Alaska, USA              | Holds 99.9% of the Pebble Limited Partnership and 100% of Pebble Mines Corp. | 100%<br>(indirect) |
| Pebble Limited Partnership                  | Alaska, USA              | Holding Company and Exploration of the Pebble Project.                       | 100%<br>(indirect) |
| Pebble Mines Corp.                          | Delaware, USA            | General Partner. Holds 0.1% of Pebble Limited Partnership.                   | 100%<br>(indirect) |
| Pebble West Claims Corporation <sup>2</sup> | Alaska, USA              | Holding Company. Subsidiary of the Pebble Limited Partnership.               | 100%<br>(indirect) |
| Pebble East Claims Corporation <sup>3</sup> | Alaska, USA              | Holding Company. Subsidiary of the Pebble Limited Partnership.               | 100%<br>(indirect) |
| U5 Resources Inc. <sup>4</sup>              | Nevada, USA              | Holding Company. Wholly-owned subsidiary of the Company.                     | 100%               |
| Cannon Point Resources Ltd. <sup>5</sup>    | British Columbia, Canada | Not active. Wholly-owned subsidiary of the Company.                          | 100%               |
| MGL Subco Ltd. <sup>6</sup>                 | British Columbia, Canada | Not active. Wholly-owned subsidiary of the Company.                          | 100%               |
| Delta Minerals Inc. <sup>6</sup>            | British Columbia, Canada | Not active. Wholly-owned subsidiary of MGL Subco Ltd.                        | 100%<br>(indirect) |
| Imperial Gold Corporation <sup>6</sup>      | British Columbia, Canada | Not active. Wholly-owned subsidiary of Delta Minerals Inc.                   | 100%<br>(indirect) |
| Yuma Gold Inc. <sup>6</sup>                 | Nevada, USA              | Not active. Wholly-owned subsidiary of Imperial Gold Corporation.            | 100%<br>(indirect) |

# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

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Notes to the table above:

1. Holds 20% interest in the Northern Dynasty Partnership. The Company holds the remaining 80% interest.
2. Holds certain of the Pebble Project claims.
3. Holds certain of the Pebble Project claims and claims located south and west of the Pebble Project claims. In January 2015, two of the Company's wholly-owned subsidiaries, Kaskanak Inc. and its wholly-owned parent, Kaskanak Copper LLC, were merged with Pebble East Claims Corporation, with the latter surviving the merger.
4. Holds certain mineral claims located north of the Pebble Project claims.
5. Acquired during the year ended December 31, 2015 (note 3(a)).
6. Acquired during the year ended December 31, 2015 (note 3(b)).

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Company has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

Intra-Group balances and transactions, including any unrealized income and expenses arising from intra-Group transactions, are eliminated in preparing the Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### (d) *Investment in Joint Ventures*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in a joint venture is accounted for using the equity method. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of changes in net assets of the joint venture attributable to the Group. An investment is accounted for using the equity method from the date on which the investee becomes a joint venture.

### (e) *Foreign Currencies*

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Group. The functional currency of US Resources Inc., Pebble Mines Corp., the Pebble Partnership and its subsidiaries, is the US dollar and for all other entities within the Group, the functional currency is the Canadian dollar. The functional currency determinations were conducted through an analysis of the factors for consideration identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair

# Northern Dynasty Minerals Ltd.

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value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Before assuming control of the Pebble Partnership in 2013, the Group's investment in the Pebble Partnership under joint venture (note 4(a)) was translated at the end of each reporting period and exchange differences arising on translation of the US denominated investment were recognized directly in the foreign currency translation reserve through other comprehensive income or loss (note 8(e)).

The results and financial position of entities within the Group which have a functional currency that differs from that of the Group are translated into Canadian dollars as follows:- (i) assets and liabilities for each statement of financial position are translated at the closing exchange rate at that date; (ii) income and expenses for each income statement are translated at average exchange rates for the period; and (iii) the resulting exchange differences are included in the foreign currency translation reserve within equity.

### *(f) Financial Instruments*

#### Non-derivative financial assets:

The Group has the following non-derivative financial assets: available-for-sale financial assets (note 5) and loans and receivables.

#### *Available-for-sale financial assets*

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investments or (iii) financial assets at fair value through profit or loss. The Group's investments in marketable securities are classified as AFS financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income or loss and accumulated in the investment revaluation reserve within equity. When an investment is derecognized, the cumulative gain or loss in the investment revaluation reserve is transferred to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The change in fair value attributable to translation differences that result from the amortized cost of the monetary asset is recognized within other comprehensive income or loss. The change in fair value of AFS equity investments is recognized in other comprehensive income or loss.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of cash and cash equivalents, restricted cash (note 7), and amounts receivable (note 6).

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### *Cash and cash equivalents and restricted cash*

Cash and cash equivalents and restricted cash in the statements of financial position are comprised of cash and highly liquid investments having maturity dates of three months or less from the date of purchase, which are readily convertible into known amounts of cash.

The Group's cash and cash equivalents and restricted cash are invested in business and savings accounts and guaranteed investment certificates at major financial institutions and are available on demand by the Group for its programs and, as such, are subject to an insignificant risk of change in value.

### Non-derivative financial liabilities:

The Group's non-derivative financial liabilities comprise trade and other payables (note 10) and a payable to a related party (note 9(b)).

All financial liabilities fall within the classification of other financial liabilities versus financial liabilities through profit or loss, and are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

### Impairment of financial assets:

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to profit or loss in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as AFS, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

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When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

### Derivative financial assets and liabilities:

The Group has no derivative financial assets or liabilities.

### *(g) Exploration and Evaluation Expenditure*

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the acquisition date fair value of exploration and evaluation assets acquired in a business combination or an asset acquisition. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or an asset acquisition. Costs incurred before the Group has obtained the legal rights to explore an area are expensed.

Acquisition costs, including general and administrative costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation ("E&E") assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and when the Group has sufficient information to reach a conclusion about technical feasibility and commercial viability.

Industry-specific indicators for an impairment review arise typically when one of the following circumstances applies:

- Substantive expenditure on further exploration and evaluation activities is neither budgeted nor planned;
- title to the asset is compromised;
- adverse changes in the taxation and regulatory environment;
- adverse changes in variations in commodity prices and markets; and
- variations in the exchange rate for the currency of operation.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective assets.

### *(h) Mineral property, plant and equipment*

Mineral property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of mineral property, plant and equipment consists of the acquisition costs transferred from E&E assets, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, including costs to further delineate the ore body, development and construction costs, removal of overburden to initially expose the ore body, an initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located and, if applicable, borrowing costs.

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Mineral property acquisition and development costs are not currently depreciated as the Pebble Project is still in the development stage and no saleable minerals are being produced.

The cost of an item of plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of plant and equipment, less their estimated residual value, using the declining balance method at various rates ranging from 20% to 30% per annum.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment consists of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Residual values and estimated useful lives are reviewed at least annually.

### *(i) Impairment of Non-Financial Assets*

At the end of each reporting period the carrying amounts of the Group's non-financial assets are reviewed to determine whether there is any indication that these assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. This increase in the carrying amount is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. The Group has not recorded any impairment charges in the years presented.

### *(j) Share Capital and Special Warrants*

Common shares and special warrants (note 8(c)) are classified as equity. Transaction costs directly attributable to the issue of common shares, share purchase options and special warrants are recognized as a deduction from equity, net of any tax effects. Upon conversion of the special warrants into common shares, the carrying amount of the special warrants, net of a pro rata share of the transaction costs, is transferred to common share capital.



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### (k) *Share-based Payment Transactions*

#### Equity-settled share-based payments

The Group operates an equity-settled share-based option plan for its employees and service providers (note 8(d)). The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in the equity-settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes ("direct employee") or provides services similar to those performed by a direct employee.

The fair value is measured at grant date for each tranche, which is expensed on a straight line basis over the vesting period, with a corresponding increase in the *equity-settled share-based payments reserve* in equity. The fair value of the share purchase options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted and forfeiture rates as appropriate. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

### (l) *Income Taxes*

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is provided using the balance sheet liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (m) *Restoration, Rehabilitation, and Environmental Obligations*

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for

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and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds, creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Group have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Group are not predictable.

The Group has no material restoration, rehabilitation and environmental obligations as the disturbance to date is immaterial.

#### *(n) Loss per Share*

The Group presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Group by the weighted average number of common shares and fully prepaid special warrants (note 8(c)) outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

#### *(o) Segment Reporting*

The Group operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties. The Group's core asset is the Pebble Project, which is located in Alaska, USA.

#### *(p) Accounting Standards, Amendments and Revised Standards Not Yet Effective*

*Effective for the Group's financial year commencing on January 1, 2016*

- Amendments to IAS 1, *Presentation of Financial Statements*
- Amendments to IAS 16, *Property, Plant and Equipment*
- Amendments to IAS 27, *Separate Financial Statements*
- Amendments to IAS 28, *Investments in Associates*
- Amendments to IAS 38, *Intangible Assets*
- Amendments to IFRS 10, *Consolidated Financial Statements*
- Amendments to IFRS 11, *Joint Arrangements*
- Annual improvements to IFRS 2012 – 2014 Cycle ("*AIP 2012-2014*")

The Group has not early adopted these revised standards and amendments and is currently assessing the impact, if any, that these amendments will have on the Group's Financial Statements. The annual improvements has amendments to four standards and anticipates the amendments will have no material effect on the Group's consolidated financial statements.



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### *Effective for annual periods commencing on or after January 1, 2018*

- IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which was issued by the IASB in May 2014, supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions involving Advertising Services*. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and certainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is currently evaluating the impact that IFRS 15 may have on its financial statements.

- IFRS 9, *Financial Instruments* ("IFRS 9"), replaces IAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The standard incorporates a number of improvements: a) includes a logical model for classification and measurement (IFRS 9 provides for principle-based approach to classification which is driven by cash flow characteristics and the business model in which an asset is held); b) includes a single, forward-looking "expected loss" impairment model (IFRS 9 will require entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timely basis); and c) includes a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity (IFRS 9's new model aligns the accounting treatment with risk management activities). IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group anticipates that the adoption of IFRS 9 will have no material impact on its financial statements given the extent of its current use of financial instruments in the ordinary course of business.

### *Effective for annual periods commencing on or after January 1, 2019*

- On January 13, 2016, IASB issued IFRS 16, *Leases* ("IFRS 16") and revised IAS 17, *Leases* ("IAS 17"). IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors.

The Group anticipates that the adoption of IFRS 16 will not have a significant impact other than the accounting for any office lease the Group may have entered into where the minimum lease term is more than 12 months. As of the date of these financial statements, the Group has not entered into any long term lease (refer note 15(a)).

### *(q) Significant Accounting Estimates and Judgments*

The preparation of these Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### *Sources of estimation uncertainty*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and

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liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

1. The Group uses the Black-Scholes Option Pricing Model to calculate the fair value of share purchase options granted for determining share-based compensation included in the loss for the year. Inputs used in this model require subjective assumptions, including the expected price volatility from three to five years. Changes in the subjective input assumptions can affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Group's share purchase options. The weighted average assumptions applied are disclosed in Note 8(d).
2. Significant assumptions about the future and other sources of estimation uncertainty are made in determining the provision for any deferred income tax expense included in the loss for the year and the composition of deferred income tax liabilities included in the Statement of Financial Position.

### *Critical accounting judgments*

These include:

1. In terms of IFRS 6, *Exploration and Evaluation of Mineral Resources*, management identified indicators that required testing the Group's mineral property interest ("MPI") for impairment. The Group used judgment in determining from an analysis of facts and circumstances that no impairment of the MPI was necessary.
2. IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") defines the functional currency as the currency of the primary economic environment in which an entity operates. IAS 21 requires the determination of functional currency to be performed on an entity by entity basis, based on various primary and secondary factors. In identifying the functional currency of the parent and its subsidiaries, management considered the currency in which financing activities are denominated and the currency that mainly influences the cost of undertaking the business activities in each jurisdiction in which the Group operates.
3. The Group has employed judgement that going concern was an appropriate basis for the preparation of the Financial Statements, as the Group has prioritized the allocation of available financial resources to meet key corporate Pebble Project expenditure requirements in the near term (refer note 1).

### **3. ACQUISITIONS**

During the year ended December 31, 2015, the Company acquired two publicly listed entities as described below:

#### *(a) Acquisition of Cannon Point Resources Ltd.*

On October 29, 2015, by way of a plan of arrangement (the "Cannon Point Arrangement") dated August 31, 2015, the Group acquired 100% of the issued and outstanding common shares of Cannon Point Resources Ltd. ("Cannon Point"), a TSX-Venture listed entity whose only major asset was cash and cash equivalents, by issuing 12,881,344 common shares in the Company to the former shareholders of Cannon Point in an exchange ratio of 0.376 of a Northern Dynasty common share for each issued Cannon Point common share. Additionally, the Company issued an aggregate of 4,394,500 of its warrants and non-employee options (note 8(c)) to the holders of Cannon Point's outstanding warrants and options. Cannon Point was delisted immediately after the acquisition by the Company.

Prior to the completion of the acquisition and pursuant to the Cannon Point Arrangement, on September 1, 2015, Cannon Point advanced to the Company \$4,250 (the "Cannon Point Cash Advance") with a one year term at an interest rate of 15% per annum. The Group accrued \$103 in interest on the Cannon Point Cash Advance up to the date of the acquisition.

As of the date of acquisition, Cannon Point did not meet the definition of a business under IFRS 3, *Business Combinations* ("IFRS 3"). The Company has accounted for the acquisition of Cannon Point as issuance of its equity for cash and cash equivalents and other financial assets, net of financial liabilities, under IAS 39, *Financial*

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*Instruments: Recognition and Measurement ("IAS 39") and IAS 32, Financial Instruments: Presentation ("IAS 32").*  
The following are the assets and liabilities of Cannon Point acquired and consideration provided by the Group:

|   | Fair value |
|---|------------|
| Cash and cash equivalent, including Cannon Point Cash Advance | \$ 4,397   |
| Amounts receivable  | 126        |
| Accounts payable and accrued liabilities assumed              | (140)      |
| Fair value of financial instruments acquired                  | \$ 4,383   |

Consideration:

|   |          |
|---|----------|
| Issuance of 12,881,344 common shares in the Company                   | \$ 4,166 |
| Issuance of 4,394,500 share purchase warrants and options (note 8(c)) | 217      |
| Total consideration   | \$ 4,383 |

The fair value of financial assets and liabilities as a result of the acquisition of Cannon Point has been allocated to the common shares and share purchase options/warrants issued in proportion to their relative fair values determined as follows:

- the fair value of the common shares were determined with reference to the quoted market price on the date of issuance; and
- the fair value of the warrants and non-employee options were determined using the Black Scholes Options Pricing model and based on the following weighted average valuation inputs: Exercise price – \$1.63; Valuation date share price – \$0.55; Expected volatility – 87%; Risk free rate – 0.49%; Remaining life – 0.82 years; and Dividend yield – nil%.

The Company incurred \$104 in transaction costs relating to the acquisition of Cannon Point and recorded it within equity.

*(b) Acquisition of Mission Gold Ltd.*

On December 24, 2015, by way of a plan of arrangement (the "Mission Gold Arrangement"), the Group acquired 100% of issued and outstanding common shares of Mission Gold Ltd. ("Mission Gold"), a TSX-Venture listed entity which held cash and cash equivalents of approximately \$9,000 and common shares of a public listed company with a fair value of \$1,684; these common shares were received by Mission Gold as a consideration for the sale of its Alto Parana titanium project prior to and as a condition for closing of the transaction with the Company.

The Group issued 27,593,341 common shares in the Company to the former shareholders of Mission Gold at an exchange ratio of 0.5467 of a Northern Dynasty common share for each issued and outstanding common share of Mission Gold. In addition, the Group issued an aggregate of 16,673,348 Northern Dynasty warrants (note 8(c)) to the holders of Mission Gold's outstanding warrants. Concurrent to its acquisition by the Group, Mission Gold was delisted and amalgamated with a wholly-owned subsidiary of the Company; namely, MGL Subco Ltd.

Pursuant to the Mission Gold Arrangement, Mission Gold provided the Company with a credit facility of \$8.4 million (the "Mission Gold Credit Facility") with a 6-month term at an interest rate of 15% per annum. The Group however, only drew down \$2 million of the Mission Gold Credit Facility before the acquisition of Mission Gold was completed. The Group accrued \$41 in interest on the \$2 million from the Mission Gold Credit Facility up to the date of the acquisition.

As of the date of acquisition, Mission Gold did not meet the definition of a business under IFRS 3. The Company has accounted for the acquisition of Mission Gold as issuance of its equity for cash and cash equivalents and other

## Northern Dynasty Minerals Ltd.

### Notes to the Consolidated Financial Statements

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financial assets, net of financial liabilities, under IAS 39 and IAS 32. The following are the assets and liabilities of Mission Gold acquired and consideration provided by the Group:

|  | Fair value |
|--|------------|
| Cash and cash equivalent received, including draw-down on the Mission Gold Credit Facility | \$ 8,338   |
| Common shares of a publicly listed company   | 1,684      |
| GST receivable and other amounts receivable  | 81         |
| Fair value of financial instruments acquired   | \$ 10,103  |

Consideration:

|   |           |
|---|-----------|
| Issuance of 27,593,341 common shares            | \$ 7,838  |
| Issuance of share purchase warrants (note 8(c)) | 2,265     |
| Total consideration                             | \$ 10,103 |

The fair value of financial assets and liabilities as a result of the acquisition of Mission Gold has been allocated to the common shares and share purchase warrants issued in proportion to their relative fair values determined as follows:

- the fair value of the common shares were determined with reference to the quoted market price on the date of issuance; and
- the fair value of the warrants were determined using the Black Scholes Options Pricing model and based on the following weighted average valuation inputs: Exercise price – \$0.97; Valuation date share price – \$0.43; Expected volatility – 83%; Risk free rate – 0.59%; Remaining life – 4.06 year; and Dividend yield – nil%.

The Company incurred \$284 in transaction costs relating to the acquisition of Mission Gold and recorded it within equity.

# Northern Dynasty Minerals Ltd.

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### 4. MINERAL PROPERTY, PLANT AND EQUIPMENT

The Group's exploration and evaluation assets are comprised of the following:

| <i>Year ended December 31, 2015</i>                 | Mineral Property<br>interest | Plant and<br>equipment | Total             |
|---|------------------------------|------------------------|-------------------|
| <b>Cost</b>   |                              |                        |                   |
| Beginning balance                                   | \$ 112,541                   | \$ 1,155               | \$ 113,696        |
| Additions during the year                           | -                            | 28                     | 28                |
| Dispositions during the year                        | -                            | (151)                  | (151)             |
| Ending balance                                      | \$ 112,541                   | \$ 1,032               | \$ 113,573        |
| <b>Accumulated depreciation</b>                     |                              |                        |                   |
| Beginning balance                                   | \$ -                         | \$ (278)               | \$ (278)          |
| Charge for the year <sup>(1)</sup>                  | -                            | (279)                  | (279)             |
| Eliminated on disposal                              | -                            | 76                     | 76                |
| Ending balance                                      | \$ -                         | \$ (481)               | \$ (481)          |
| Foreign currency translation difference (note 8(e)) | 33,743                       | 253                    | 33,996            |
| <b>Net carrying value - Ending balance</b>          | <b>\$ 146,284</b>            | <b>\$ 804</b>          | <b>\$ 147,088</b> |

| <i>Year ended December 31, 2014</i>                 | Mineral Property<br>interest | Plant and<br>equipment | Total             |
|---|------------------------------|------------------------|-------------------|
| <b>Cost</b>   |                              |                        |                   |
| Beginning balance                                   | \$ 106,697                   | \$ 1,222               | \$ 107,919        |
| Additions during the year (note 4(b))               | 5,844                        | -                      | 5,844             |
| Dispositions during the year                        | -                            | (67)                   | (67)              |
| Ending balance                                      | \$ 112,541                   | \$ 1,155               | \$ 113,696        |
| <b>Accumulated depreciation</b>                     |                              |                        |                   |
| Beginning balance                                   | \$ -                         | \$ -                   | \$ -              |
| Charge for the year <sup>(1)</sup>                  | -                            | (282)                  | (282)             |
| Eliminated on disposal                              | -                            | 4                      | 4                 |
| Ending balance                                      | \$ -                         | \$ (278)               | \$ (278)          |
| Foreign currency translation difference (note 8(e)) | 10,095                       | 95                     | 10,190            |
| <b>Net carrying value - Ending balance</b>          | <b>\$ 122,636</b>            | <b>\$ 972</b>          | <b>\$ 123,608</b> |

- (1) Depreciation has been included in the loss for the year and has been classified as exploration and evaluation expenses.

# Northern Dynasty Minerals Ltd.

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### *Mineral Property Interest*

#### *(a) Pebble Project*

The Pebble Project comprises of a contiguous block of 2,402 mineral claims covering approximately 417 square miles located in southwest Alaska, 19 miles (30 kilometers) from the villages of Iliamna and Newhalen, and approximately 200 miles (320 kilometers) southwest of the city of Anchorage. Mineral rights were acquired by the Group in 2001. In July 2007, the Group established the Pebble Limited Partnership (the "Pebble Partnership") to advance the Pebble Project toward the feasibility stage. The Group's contribution to the Pebble Partnership was the Pebble Project. A wholly-owned subsidiary of Anglo American plc ("Anglo American") participated in the Pebble Partnership and provided approximately \$595 million (US\$573 million) in funding until its withdrawal in December 2013, when the Group re-acquired a 100% interest in the Pebble Partnership and control of the Pebble Project.

#### *(b) Other Claims*

During the year ended December 31, 2014, the Group received claims from Liberty Star Uranium & Metals Corp. and its subsidiary, Big Chunk Corp. ("Liberty Star") in settlement of amounts advanced to the arm's-length party. These claims form part of the Pebble Project claims discussed in (a).

## 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's available-for-sale financial asset is comprised of investments in marketable securities of Canadian publicly listed companies.

|                       | <b>December 31<br/>2015</b> | December 31<br>2014 |
|-----------------------|-----------------------------|---------------------|
| Marketable securities | \$ 1,579                    | \$ 287              |

## 6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

|                      | <b>December 31<br/>2015</b> | December 31<br>2014 |
|----------------------|-----------------------------|---------------------|
| Sales tax receivable | \$ 164                      | \$ 70               |
| Amounts receivable   | 514                         | 143                 |
| Prepaid expenses     | 397                         | 749                 |
| <b>Total</b>         | <b>\$ 1,075</b>             | <b>\$ 962</b>       |

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### 7. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

#### (a) Cash and Cash Equivalents

|                                    | December 31<br>2015 | December 31<br>2014 |
|------------------------------------|---------------------|---------------------|
| Business and savings accounts      | \$ 7,509            | \$ 9,130            |
| Guaranteed investment certificates | -                   | 317                 |
| <b>Total</b>                       | <b>\$ 7,509</b>     | <b>\$ 9,447</b>     |

#### Supplementary cash flow information

Non-cash investing and financing activities:

- During the year ended December 31, 2015, the Group acquired certain entities by issuing equity instruments (note 3).
- During the year ended December 31, 2014, the Group received marketable securities as consideration for 650,000 special warrants issued (note 8(c)).
- During the year ended December 31, 2014, the Group received claims from Liberty Star in settlement of amounts advanced to the arm's-length party (note 4).
- During the year ended December 31, 2013, the Group acquired assets and liabilities held in the Pebble Limited Partnership upon discontinuance of the equity method (note 4).

#### (b) Restricted Cash

At December 31, 2015, restricted cash in the amount of \$453 (December 31, 2014 – \$1,206) was held in the Pebble Partnership for certain equipment demobilization expenses relating to its activities undertaken while the Pebble Partnership was subject to joint control of the Group and Anglo American (note 4(a)). This cash was not available for general use by the Group. Subsequent to the reporting period, the Group incurred \$393 in demobilization expenses which was refunded from restricted cash. The remaining unutilized balance of \$60 was refunded to Anglo American.

### 8. CAPITAL AND RESERVES

#### (a) Authorized Share Capital

At December 31, 2015, the authorized share capital comprised an unlimited (2014 – unlimited) number of common shares with no par value. All issued shares are fully paid.

#### (b) Private Placement

On December 23, 2015, the Group completed a private placement of 12,573,292 common shares in the Company at a price of \$0.412 per share for gross proceeds of approximately \$5,180,200. The Group issued 300,000 common shares as referral fees to an arm's length third party and recorded the fair value of these common shares of \$120 as share issuance cost. Other legal and regulatory costs incurred in relation to the private placement was \$14.

# Northern Dynasty Minerals Ltd.

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### (c) Share Purchase Warrants and Options, Other than Options Issued under the Group's Incentive Plan

The following reconciles warrants and non-employee options (options which are not issued under the Group's incentive plan (note 8(d)), each exercisable to acquire one common share of the Company, at the beginning and end of the year:

| Exercise price per common share (\$)   | Expiry date                     | Year ended December 31, 2015 |            |                       |             | Balance at end of year |
|--|---------------------------------|------------------------------|------------|-----------------------|-------------|------------------------|
|  |                                 | Balance at beginning of year | Issued     | Exercised/ conversion | Expired     |                        |
| Special warrants issued for cash <sup>(1)</sup>  |                                 |                              |            |                       |             |                        |
| nil  | Not applicable                  | 27,622,642                   | 45,940,093 | (73,562,735)          | -           | -                      |
| Warrants and options issued pursuant to the acquisition of Cannon Point <sup>(2)</sup> (note 3(a)) |                                 |                              |            |                       |             |                        |
| 0.37   | December 2, 2015                | -                            | 28,200     | -                     | (28,200)    | -                      |
| 0.40   | December 2, 2015                | -                            | 47,000     | -                     | (47,000)    | -                      |
| 2.13   | December 17, 2015               | -                            | 3,149,000  | -                     | (3,149,000) | -                      |
| 0.29   | January 29, 2016 <sup>(3)</sup> | -                            | 150,400    | -                     | -           | 150,400                |
| 0.37   | January 29, 2016 <sup>(3)</sup> | -                            | 220,900    | -                     | -           | 220,900                |
| 0.40   | January 29, 2016 <sup>(3)</sup> | -                            | 150,400    | -                     | -           | 150,400                |
| 0.43   | January 29, 2016 <sup>(3)</sup> | -                            | 37,600     | -                     | -           | 37,600                 |
| 0.37   | July 23, 2017 <sup>(4)</sup>    | -                            | 18,800     | (18,800)              | -           | -                      |
| 0.37   | June 30, 2019                   | -                            | 56,400     | -                     | -           | 56,400                 |
| 0.40   | June 30, 2019                   | -                            | 225,600    | -                     | -           | 225,600                |
| 0.37   | March 10, 2021                  | -                            | 9,400      | -                     | -           | 9,400                  |
| 0.40   | March 10, 2021                  | -                            | 150,400    | -                     | -           | 150,400                |
| 0.37   | December 15, 2021               | -                            | 37,600     | -                     | -           | 37,600                 |
| 0.40   | December 12, 2022               | -                            | 75,200     | -                     | -           | 75,200                 |
| 0.29   | December 8, 2024                | -                            | 37,600     | -                     | -           | 37,600                 |
| <b>Total</b>   |                                 | -                            | 4,394,500  | (18,800)              | (3,224,200) | 1,151,500              |
| Warrants and options issued pursuant to the acquisition of Mission Gold <sup>(2)</sup> (note 3(b)) |                                 |                              |            |                       |             |                        |
| 0.55   | July 9, 2020                    | -                            | 13,801,672 | -                     | -           | 13,801,672             |
| 3.00   | September 14, 2017              | -                            | 2,871,676  | -                     | -           | 2,871,676              |
| <b>Total</b>   |                                 | -                            | 16,673,348 | -                     | -           | 16,673,348             |
| <b>Grand Total <sup>(5)</sup></b>  |                                 | 27,622,642                   | 67,007,941 | (73,581,535)          | (3,224,200) | 17,824,848             |



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| Exercise price per common share (\$)            | Expiry date    | Year ended December 31, 2014 |            |                       |         | Balance at end of year |
|---|----------------|------------------------------|------------|-----------------------|---------|------------------------|
|   |                | Balance at beginning of year | Issued     | Exercised/ conversion | Expired |                        |
| Special warrants issued for cash <sup>(1)</sup> |                |                              |            |                       |         |                        |
| nil   | Not applicable | -                            | 27,622,642 | -                     | -       | 27,622,642             |

- (1) The Group issued special warrants for cash during fiscal years 2014 and 2015. Each of the Group's share purchase warrants ("Special Warrant") was convertible, without payment of any additional consideration by the holder, into one common share of the Company, either at the option of the holder or automatically within a maximum of a two year period from the issuance date. At December 31, 2015, all Special Warrants issued were converted into common shares. During the year ended December 31, 2015, the Group incurred a total of \$1,112 in advisory, finders', regulatory, and legal fees on the financing (2014: \$353).
- (2) Warrants and options issued pursuant to the acquisition of Cannon Point and Mission Gold were recognized at their relative fair value (note 3).
- (3) Subsequent to the reporting date, all the options other than 75,200 options expired unexercised.
- (4) The options were exercised on November 27, 2015 at an average market share price of \$0.40.
- (5) At December 31, 2015, warrants and non-employee options had a weighted average exercise price of \$0.93 and weighted average remaining life of 3.94 years.

### (d) Share Purchase Option Compensation Plan

The Group has a share purchase option plan approved by the Group's shareholders that allows the Board of Directors to grant share purchase options, subject to regulatory terms and approval, to its officers, directors, employees, and service providers. The share purchase option plan (the "2014 Rolling Option Plan") is based on the maximum number of eligible shares equaling a rolling percentage of up to 10% of the Company's outstanding common shares including any issuances from the Group's Restricted Share unit ("RSU") and Deferred Share unit ("DSU") plans, calculated from time to time. Pursuant to the 2014 Rolling Option Plan, if outstanding share purchase options ("options") are exercised and the number of issued and outstanding common shares of the Company increases, then the options available to grant under the plan increase proportionately (assuming there are no issuances under the RSU and DSU plans). The exercise price of each option is set by the Board of Directors at the time of grant but cannot be less than the market price, being the 5-day volume weighted average trading price calculated the day before the grant. Options can have a maximum term of five years and typically terminate 90 days following the termination of the optionee's employment or engagement. In the case of death or retirement, any outstanding vested options will expire the earlier of the expiry date or one year from date of death or retirement. The vesting period for options is at the discretion of the Board of Directors at the time the options are granted.

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The following reconciles the Group's options outstanding at the beginning and end of the year:

|                               | 2015              |   | 2014              |   |
|-------------------------------|-------------------|---|-------------------|---|
|                               | Number of options | Weighted average exercise price (\$/option) | Number of options | Weighted average exercise price (\$/option) |
| <b>Continuity of options</b>  |                   |   |                   |   |
| Balance at beginning of year  | 7,687,000         | 1.95  | 3,735,700         | 4.13  |
| Granted                       | 3,657,500         | 0.50  | 5,875,100         | 1.56  |
| Expired                       | (1,241,800)       | 3.00  | (1,881,100)       | 5.07  |
| Forfeited/cancelled           | (347,100)         | 2.09  | (42,700)          | 2.08  |
| <b>Balance at end of year</b> | <b>9,755,600</b>  | <b>1.27</b>                                 | <b>7,687,000</b>  | <b>1.95</b>                                 |

For options granted in 2015, the weighted average fair value was estimated at \$0.28 per option (2014 - \$0.75) and was based on the Black-Scholes option pricing model using the following weighted average assumptions:

| Assumptions                        | 2015       | 2014       |
|------------------------------------|------------|------------|
| Risk-free interest rate            | 0.78%      | 1.53%      |
| Expected life                      | 4.36 years | 4.56 years |
| Expected volatility <sup>(1)</sup> | 81.76%     | 67.80%     |
| Grant date share price             | \$0.47     | \$1.44     |
| Expected dividend yield            | Nil        | Nil        |

(1) Expected volatility is based on the historical and implied volatility of the Company's common share price on the TSX.

The following table summarizes information about the Group's options outstanding at December 31, 2015:

| 2015 | Options outstanding  |                               |   | Options exercisable                                 |                               |   |   |
|------|----------------------|-------------------------------|---|---|-------------------------------|---|---|
|      | Exercise prices (\$) | Number of options outstanding | Weighted average exercise price (\$/option) | Weighted average remaining contractual life (years) | Number of options exercisable | Weighted average exercise price (\$/option) | Weighted average remaining contractual life (years) |
|      | 0.50                 | 3,639,500                     | 0.50  | 4.15  | 1,217,172                     | 0.50  | 4.15  |
|      | 0.72                 | 200,000                       | 0.72  | 3.71  | 133,334                       | 0.72  | 3.71  |
|      | 0.89                 | 1,180,500                     | 0.89  | 3.20  | 745,166                       | 0.89  | 3.22  |
|      | 1.77                 | 4,233,600                     | 1.77  | 2.70  | 4,233,600                     | 1.77  | 2.70  |
|      | 3.00                 | 475,000                       | 3.00  | 1.50  | 475,000                       | 3.00  | 1.50  |
|      | 15.44                | 27,000                        | 15.44                                       | 0.21  | 27,000                        | 15.44                                       | 0.21  |
|      |                      | 9,755,600                     | 1.27  | 3.26  | 6,831,272                     | 1.57  | 2.94  |

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The following table summarizes information about the Group's options outstanding at December 31, 2014:

| 2014  | Options outstanding  |                               |   | Options exercisable                                 |  |   |
|-------|----------------------|-------------------------------|---|---|--|---|
|       | Exercise prices (\$) | Number of options outstanding | Weighted average exercise price (\$/option) | Weighted average remaining contractual life (years) | Number of share purchase options exercisable | Weighted average exercise price (\$/option) |
| 0.72  | 200,000              | 0.72                          | 4.71  | 66,667  | 0.72   | 4.71  |
| 0.89  | 1,180,500            | 0.89                          | 4.20  | 376,834   | 0.89   | 4.20  |
| 1.77  | 4,454,800            | 1.77                          | 3.62  | 2,239,900   | 1.77   | 3.61  |
| 3.00  | 1,824,700            | 3.00                          | 1.01  | 1,824,700   | 3.00   | 1.01  |
| 15.44 | 27,000               | 15.44                         | 1.21  | 27,000  | 15.44  | 1.21  |
|       | 7,687,000            | 1.95                          | 3.11  | 4,535,101   | 2.26   | 2.62  |

### (e) Foreign Currency Translation Reserve

|  | Year ended December 31 |                  |                 |
|--|------------------------|------------------|-----------------|
|  | 2015                   | 2014             | 2013            |
| Balance at beginning of year   | \$ 17,179              | \$ 7,234         | \$ 347          |
| Foreign exchange translation differences incurred in the year:                               |                        |                  |                 |
| Exchange gain on translation of the investment in the Pebble Partnership under joint venture | -                      | -                | 6,736           |
| Exchange gain on translation of foreign subsidiaries   | 23,300                 | 9,945            | 138             |
| Total foreign exchange translation differences during the year                               | 23,300                 | 9,945            | 6,874           |
| Deferred income tax on investment  | -                      | -                | (128)           |
| Reversal of deferred income tax on investment  | -                      | -                | 141             |
| <b>Balance at the end of year</b>  | <b>\$ 40,479</b>       | <b>\$ 17,179</b> | <b>\$ 7,234</b> |

The foreign currency translation reserve represents accumulated exchange differences arising on the translation, into the Group's presentation currency (the Canadian dollar), of the results of operations and net assets of the Group's subsidiaries with a US dollar functional currency. In 2012 and until December 10, 2013, the Pebble Partnership was under joint control. The Group then reacquired a 100% interest therein. Until the change in control, the investment in the Pebble Partnership was accounted for under the equity method with the related tax effect recognized in other comprehensive loss.

## 9. RELATED PARTY BALANCES AND TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation (note 2(c)). Details between the Group and other related parties are disclosed below:

### (a) Transactions and Balances with Key Management Personnel

The aggregate value of transactions with key management personnel ("KMP"), being the Group's directors and senior management including the Senior Vice President ("VP"), Corporate Development, VP, Corporate Communications, VP, Engineering, VP, Public Affairs, Chief Executive Officer of the Pebble Partnership ("CEO of

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PLP"), Chairman of Pebble Mines Corp ("Chair of PMC"), Senior VP, Corporate Affairs of the Pebble Partnership ("PLP Senior VP") and Company Secretary, was as follows:

| Transaction  | Year ended December 31 |                 |                 |
|--|------------------------|-----------------|-----------------|
|  | 2015                   | 2014            | 2013            |
| Compensation   |                        |                 |                 |
| Payments to HDSI for services of KMP employed by HDSI <sup>(1)</sup> | \$ 2,800               | \$ 2,369        | \$ 1,608        |
| Payments to KMP <sup>(2)</sup>                                       | 2,700                  | 1,814           | 137             |
|  | 5,500                  | 4,183           | 1,745           |
| Share-based compensation   | 500                    | 2,825           | 230             |
| <b>Total compensation</b>  | <b>\$ 6,000</b>        | <b>\$ 7,008</b> | <b>\$ 1,975</b> |
| <b>Transfer of resources to the Group</b> <sup>(3)(4)</sup>          | <b>\$ (364)</b>        | <b>\$ (749)</b> | <b>\$ -</b>     |

- (1) The Group's executive directors and senior management (other than disclosed in (2)) are employed by the Group through Hunter Dickinson Services Inc. (refer (b)).
- (2) The Group directly employs its independent directors, the CEO of PLP, the Chair of PMC and PLP Senior VP. Payments represent short term employee benefits incurred, including salaries and directors fees.
- (3) During the year ended December 31, 2015, 912,336 Special Warrants were issued to three directors and officers and spouses of officers who participated in the private placement of Special Warrants (note 8(c)).
- (4) During the year ended December 31, 2014, 1,737,000 Special Warrants were issued to eight directors and officers and a spouse of an officer who participated in the private placement of Special Warrants (note 8(c)) and, as consideration of these Special Warrants, received \$470 in cash and \$279 was received in shares of a Canadian public listed company (note 5).

#### (b) Transactions and Balances with other Related Parties

Hunter Dickinson Services Inc. ("HDSI") is a private company that provides geological, engineering, environmental, corporate development, financial administrative and management services to the Group and its subsidiaries at annually set rates pursuant to a management services agreement. The annually set rates also include a component of overhead costs such as office rent, information technology services and general administrative support services. HDSI also incurs third party costs on behalf of the Group which are reimbursed by the Group at cost. Several directors and other key management personnel of HDSI, who are close business associates, are also key management personnel of the Group.

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The aggregate value of transactions and outstanding balances with HDSI were as follows:

|  | Year ended December 31 |                 |                 |
|--|------------------------|-----------------|-----------------|
|  | 2015                   | 2014            | 2013            |
| <b>Transactions with HDSI</b>                  |                        |                 |                 |
| Services rendered by HDSI:                     | \$ 4,680               | \$ 4,926        | \$ 4,181        |
| Technical                                      | 1,600                  | 1,745           | 1,241           |
| Engineering                                    | 140                    | 540             | 612             |
| Environmental                                  | 580                    | 686             | 383             |
| Socioeconomic                                  | 670                    | 277             | 85              |
| Other technical services                       | 210                    | 242             | 161             |
| General and administrative                     | 3,080                  | 3,181           | 2,940           |
| Management, financial & administration         | 2,420                  | 2,542           | 2,245           |
| Shareholder communication                      | 660                    | 639             | 695             |
| Reimbursement of third party expenses          | 610                    | 779             | 829             |
| Conferences and travel                         | 160                    | 196             | 234             |
| Insurance                                      | 60                     | 71              | 57              |
| Office supplies and other                      | 390                    | 512             | 538             |
| Sale of marketable securities to HDSI (note 5) | (280)                  | -               | -               |
| <b>Total value of transactions</b>             | <b>\$ 5,010</b>        | <b>\$ 5,705</b> | <b>\$ 5,010</b> |

|  | December 31<br>2015 | December 31<br>2014 |
|--|---------------------|---------------------|
| <b>Balances payable to HDSI</b>                  |                     |                     |
| Entity with significant influence over the Group | \$ 677              | \$ 383              |

## 10. TRADE AND OTHER PAYABLES

|                                    | December 31<br>2015 | December 31<br>2014 |
|------------------------------------|---------------------|---------------------|
| <b>Falling due within the year</b> |                     |                     |
| Trade                              | \$ 1,594            | \$ 4,444            |
| Other (note 7(b))                  | 453                 | 1,206               |
| <b>Total</b>                       | <b>\$ 2,047</b>     | <b>\$ 5,650</b>     |

## 11. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following:

|   | Year ended December 31 |           |          |
|---|------------------------|-----------|----------|
|   | 2015                   | 2014      | 2013     |
| Loss attributable to common shareholders                    | \$ 33,829              | \$ 31,347 | \$ 2,523 |
| Weighted average number of common shares outstanding (000s) | 146,313                | 95,010    | 95,007   |

# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

Basic loss per share includes the effect of Special Warrants issued and outstanding during 2014 and 2015. Diluted loss per share does not include the effect of 1,151,500 share purchase options and warrants, other than Special Warrants, outstanding as they are anti-dilutive (i.e. the diluted loss per share would be reduced).

### 12. EMPLOYMENT COSTS

During the year ended December 31, 2015, the Group recorded \$9,900 (2014: \$14,084; 2013: \$5,022) in salaries and benefits, including share-based payments (note 8(d)) and amounts paid to HDSI (note 9(b)) for services provided to the Group by HDSI personnel.

### 13. INCOME TAX EXPENSE

|   | Year ended December 31 |            |        |
|---|------------------------|------------|--------|
|   | 2015                   | 2014       | 2013   |
| <b>Current tax (recovery) expense</b>         |                        |            |        |
| Current (recovery) expense                    | \$ -                   | \$ -       | \$ -   |
| Current income tax (recovery) expense         | \$ -                   | \$ -       | \$ -   |
| <b>Deferred income tax (recovery) expense</b> |                        |            |        |
| Current (recovery) expense                    | \$ (1,514)             | \$ (2,289) | \$ 184 |
| Deferred income tax (recovery) expense        | \$ (1,514)             | \$ (2,289) | \$ 184 |

|  | Year ended December 31 |             |            |
|--|------------------------|-------------|------------|
|  | 2015                   | 2014        | 2013       |
| <b>Reconciliation of effective tax rate</b>      |                        |             |            |
| Loss for the year                                | \$ (33,829)            | \$ (31,348) | \$ (2,523) |
| Total income tax (recovery) expense              | (1,514)                | (2,289)     | 184        |
| Loss excluding income tax                        | (35,343)               | (33,637)    | (2,339)    |
| Income tax using the Company's domestic tax rate | (9,189)                | (8,746)     | (602)      |
| Non-deductible expenses and other                | (1,245)                | (1,283)     | 336        |
| Increase in statutory tax rates                  | -                      | -           | (1,465)    |
| Foreign exchange                                 | -                      | -           | 13         |
| Deferred income tax assets not recognized        | 8,920                  | 7,740       | 1,902      |
|  | \$ (1,514)             | \$ (2,289)  | \$ 184     |

The Company's domestic tax rate for the year was 26% (2014 - 26%, 2013 - 25.75%).

# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

|  | December 31<br>2015 | December 31<br>2014 |
|--|---------------------|---------------------|
| <b>Deferred income tax assets (liabilities)</b>    |                     |                     |
| Resource pool                                      | \$ -                | \$ -                |
| Tax losses   | 3,117               | 2,547               |
| Net deferred income tax assets                     | 3,117               | 2,547               |
| Resource property/investment in Pebble Partnership | (3,005)             | (4,012)             |
| Equipment  | (112)               | (49)                |
| <b>Net deferred income tax liability</b>           | <b>\$ -</b>         | <b>\$ (1,514)</b>   |

The Group had the following temporary differences at December 31, 2015 in respect of which no deferred tax asset has been recognized:

| Expiry            | Tax losses       | Resource<br>pools | Other           |
|-------------------|------------------|-------------------|-----------------|
| Within one year   | \$ -             | \$ -              | \$ -            |
| One to five years | -                | -                 | 2,957           |
| After five years  | 87,646           | -                 | -               |
| No expiry date    | 78               | 101,343           | 148             |
| <b>Total</b>      | <b>\$ 87,724</b> | <b>\$ 101,343</b> | <b>\$ 3,105</b> |

The Group has taxable temporary differences in relation to investments in foreign subsidiaries or branches for which deferred tax liabilities have not been recognized of approximately \$7.3 million.

## 14. FINANCIAL RISK MANAGEMENT

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### (a) Credit Risk

Credit risk is the risk of potential loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents, restricted cash and amounts receivable. The Group limits the exposure to credit risk by only investing its cash and cash equivalents and restricted cash with high-credit quality financial institutions in business and saving accounts, guaranteed investment certificates, and in government treasury bills which are available on demand by the Group for its programs. Amounts receivable (note 6) include receivable balances with government agencies and refundable deposits.

### (b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they become due. The Group ensures, as far as reasonably possible, it will have sufficient capital in order to meet short to medium term business requirements, after taking into account cash flows from operations and the Group's holdings of cash and cash equivalents and restricted cash. The Group's cash and cash equivalents and restricted cash are currently invested in business accounts.

The Group's financial liabilities are comprised of trade and other payables (note 10) and a payable to a related party (note 9(b)), which are due for payment within 12 months from the reporting date. The carrying amounts of the Group's financial liabilities represent the Group's contractual obligations.

# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

### Foreign exchange risk

The Company is subject to both currency transaction risk and currency translation risk: the Pebble Partnership and U5 Resources Inc. both have the US dollar as functional currency, and certain of the Company's corporate expenses are incurred in US dollars. The operating results and financial position of the Group are reported in Canadian dollars in the Group's consolidated financial statements. The fluctuation of the US dollar in relation to the Canadian dollar will consequently have an impact upon the losses incurred by the Group as well as the value of the Group's assets and the amount of shareholders' equity.

The Group has not entered into any agreements or purchased any instruments to hedge possible currency risks.

The exposure of the Group's US dollar- denominated financial assets and liabilities to foreign exchange risk is as follows:

|   | <b>December 31<br/>2015</b> | December 31<br>2014 |
|---|-----------------------------|---------------------|
| Financial assets:   |                             |                     |
| Amounts receivable  | \$ 595                      | \$ 635              |
| Cash and cash equivalents and restricted cash                       | 6,408                       | 1,758               |
|   | 7,003                       | 2,393               |
| Financial liabilities: Trade and other payables                     | (1,529)                     | 5,225               |
| Net financial assets (liabilities) exposed to foreign currency risk | \$ 5,474                    | \$ (2,832)          |

Based on the above net exposures and assuming that all other variables remain constant, a 10% depreciation of the Canadian dollar relative to the US dollar would result in a gain of approximately \$502 in the year (2014 - \$283 loss). This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

### (c) Interest rate risk

The Group is subject to interest rate cash flow risk with respect to its investments in cash and cash equivalents. The Group's policy is to invest cash at fixed rates of interest and cash reserves are to be maintained in cash and cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when cash and cash equivalents mature impact interest income earned.

Assuming that all other variables remain constant, a 100 basis points change representing a 1% increase or decrease in interest rates would have resulted in a decrease or increase in loss of \$85 (2014: \$176).

### (d) Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Group consists of equity, comprising share capital, reserves and Special Warrants, net of accumulated deficit. There were no changes in the Group's approach to capital management during the year. The Group is not subject to any externally imposed capital requirements.



# Northern Dynasty Minerals Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Canadian Dollars, unless otherwise stated, except per share or option)

### (e) Fair value

The fair value of the Group's financial assets and liabilities approximates the carrying amount. The fair value of the AFS financial asset is classified into level 1 of the fair value hierarchy as quoted market prices are used in the fair value determination.

## 15. COMMITMENTS AND CONTINGENCIES

### (a) Leases

The Group has the following commitments as of December 31, 2015:

|   | 2016<br>('000s) | Total<br>('000s) |
|---|-----------------|------------------|
| Anchorage office lease <sup>(i)</sup>             | US\$ 407        | US\$ 407         |
| Pebble Project site lease <sup>(ii)</sup>         | 32              | 32               |
| <b>Total</b>                                      | US\$ 439        | US\$ 439         |
| <b>Total in Canadian dollars <sup>(iii)</sup></b> | \$ 608          | \$ 608           |

(i) The initial 5 year lease term expires on October 31, 2016.

(ii) Initial lease for hanger at site expires on May 1, 2016.

(iii) Converted at closing rate of \$1.3840 per US\$ on December 31, 2015, as per Bank of Canada.

The Group has a sub-lease agreement in respect of a portion of the Anchorage office space subject to the operating lease for an average annual rent, expressed in thousands, of approximately US\$259 (\$187). The term of the sub-lease expires on October 31, 2016.

### (b) Legal

The Group, through the Pebble Partnership, is advancing its multi-dimensional strategy to address the EPA's preemptive regulatory process under Section 404(c) of the Clean Water Act, through litigation against the EPA contesting the EPA's statutory authority to act pre-emptively under the Clean Water Act, and alleging violation of FACA and the unlawful withholding of documentation under the Freedom of Information Act. The Group has a contingent liability for additional legal fees and costs that may be due to the Group's counsel should there be a successful outcome. However, the Group is unable to estimate or determine the length of time that each of the legal initiatives mentioned above will take to advance to specific milestone events or final conclusion. As of the reporting date, if there was a favourable outcome or settlement, the Company estimates there would potentially be additional legal fees of \$8.3 million (US\$6.0 million at closing Bank of Canada rate on December 31, 2015 of C\$1.3840) payable by the Company.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2015**

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Year ended December 31, 2015**

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## 1.1 Date

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements ("Financial Statements") of Northern Dynasty Minerals Ltd. ("Northern Dynasty" or the "Company") for the year ended December 31, 2015 as publicly filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company reports in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee (together, "IFRS"). The following disclosure and associated Financial Statements are presented in accordance with IFRS. This MD&A is prepared as of March 28, 2016. All dollar amounts herein are expressed in Canadian dollars, unless otherwise specified.

This discussion includes certain statements that may be deemed "forward-looking statements" or "forward looking information" within the meaning of Canadian and United States securities law. Wherever possible, words such as "plans", "expects", or "does not expect", "budget", "scheduled", "estimates", "forecasts", "anticipate" or "does not anticipate", "believe", "intend" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, have been used to identify forward-looking information.

Forward-looking information may include, but is not limited to,

- our expectations regarding permitting of a mine at the Pebble Project;
- our expected financial performance in future periods;
- our plan of operations, including our plans to carry out exploration and development activities;
- our ability to raise capital for exploration and development activities;
- our expectations regarding the exploration and development potential of the Pebble Project; and
- factors relating to our investment decisions.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. We believe that the assumptions and expectations reflected in such forward-looking information are reasonable.

Key assumptions upon which the Company's forward-looking information are based include:

- that the Company will ultimately be able to demonstrate that a mine at the Pebble Project can be developed and operated in an environmentally sound and socially responsible manner, meeting all relevant federal, state and local regulatory requirements;
- that we will be ultimately able to obtain permitting for a mine at the Pebble Project;
- that the market prices of copper and gold will not decline significantly nor for a lengthy period of time;
- that we will be able to secure sufficient working capital necessary for the continued environmental assessment and permitting activities and engineering work which are preconditions to any potential development of the Pebble Project which would then require engineering and financing for ultimate construction;
- the cost of carrying out exploration and development activities on the Pebble Project;
- that key personnel will continue their employment with us;
- our ability to obtain the necessary expertise in order to carry out our exploration and development activities within the planned time periods; and
- our ability to obtain adequate financing on acceptable terms.

Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used.

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Some of the risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements include:

- ability to obtain permitting for a mine at the Pebble Project;
- ability to continue to fund the exploration and development activities;
- the speculative nature of the mineral resource exploration business;
- the exploration stage of the Pebble Project;
- the lack of known reserves on the Pebble Project;
- inability to establish that the Pebble Project contains commercially viable deposits of ore;
- ability to recover the financial statement carrying values of the Pebble Project if the Company ceases to continue on a going concern basis;
- loss of the services of any of the Company's executive officers;
- a history of financial losses;
- ability to continue on a going concern basis;
- the volatility of gold, copper and molybdenum prices;
- the inherent risk involved in the exploration, development and production of minerals;
- changes in, or the introduction of new, government regulations relating to mining, including laws and regulations relating to the protection of the environment;
- the presence of unknown environmental hazards on the Pebble Project;
- potential claims by third parties against the Pebble Project;
- inability to insure our operations against all risks;
- the highly competitive nature of the mining business;
- litigation risks and the inherent uncertainty of litigation;
- the historical volatility in the Company's share price;
- potential conflicts of interest relating to the Company's directors and officers;
- the potential dilution to current shareholders due to any future equity financings;
- the loss of services of independent contractors; and
- the potential dilution to current shareholders from the exercise of share purchase options to purchase the Company's shares.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements or information. Forward-looking statements or information are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements or information due to a variety of risks, uncertainties and other factors, including, without limitation, the risks and uncertainties described above.

Our forward-looking statements are based on the reasonable beliefs, expectations and opinions of management on the date of this MD&A. Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There is no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

During the period 2007 to 2013, the Pebble Limited Partnership expended several hundred million dollars on the Pebble Project, a major portion of which was spent on exploration programs, resource estimates, environmental data collection and technical studies, with a significant portion spent on engineering of various possible mine development models, as well as related infrastructure, power and transportation systems. As a consequence of several factors, including the US Environmental Protection Agency (the "EPA") opposition to the Pebble Project, the withdrawal of Anglo American plc from the project and the passage of time, technical and engineering studies

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related to mine-site and infrastructure development are considered to have very uncertain and perhaps little value at this time. Environmental baseline studies and data collection remains a significant legacy asset of the Company from this period.

For more information on the Company, investors should review the Company's annual information form and home jurisdiction filings that are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company reviews its forward looking statements on an ongoing basis and updates this information when circumstances require it.

**Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources**

The following section uses the terms "measured resources" and "indicated resources". The Company advises investors that although those terms are recognized and required by Canadian regulations, the SEC does not recognize them. **Investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.**

**Cautionary Note to Investors Concerning Estimates of Inferred Resources**

The following section uses the term "inferred resources". The Company advises investors that although this term is recognized and required by Canadian regulations, the SEC does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of a mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of economic studies, except in rare cases. **Investors are cautioned not to assume that all or any part of an inferred resource exists, or is economically or legally mineable.**

## 1.2 Overview

Northern Dynasty is a mineral exploration company which, via its subsidiaries, holds a 100% interest in mining claims on State of Alaska land in southwest Alaska, USA ("US") that are part of or in the vicinity of the Pebble Copper-Gold-Molybdenum Project (the "Pebble Project" or "Pebble").

The Pebble Project is an initiative to develop one of the world's most important mineral resources when measured by aggregate contained metals. Current mineral resources in the Pebble deposit at a 0.30% copper equivalent (CuEQ)<sup>1</sup> cut-off grade comprise:

- 6.44 billion tonnes of Measured and Indicated Mineral Resources grading 0.40% copper, 0.34 g/t gold, 240 ppm molybdenum and 1.66 g/t silver, containing 57 billion pounds of copper, 70 million ounces of gold, 3.4 billion pounds of molybdenum and 344 million ounces of silver; and
- 4.46 billion tonnes of Inferred Mineral Resources grading 0.25% copper, 0.26 g/t gold, 222 ppm molybdenum and 1.19 g/t silver, containing 24.5 billion pounds of copper, 37 million ounces of gold, 2.2 billion pounds of molybdenum and 170 million ounces of silver.

Mineralization indicating the presence of the Pebble deposit was discovered by a prior operator in 1987, and by 1997 an initial outline of the deposit had been identified. Northern Dynasty acquired the right to earn an interest in the Pebble property in 2001. Exploration since that time has led to significant expansion of the Pebble deposit, including the discovery of a substantial volume of higher grade mineralization in the eastern part of the deposit. Comprehensive deposit delineation, environmental, socioeconomic and engineering studies of the Pebble deposit began in 2004.

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<sup>1</sup> For additional details, see section 1.2.1 below.

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A number of other occurrences of copper, gold and molybdenum have been identified along the extensive northeast-trending mineralized system that underlies the property. The potential of these earlier stage prospects has not yet been fully explored.

To December 31, 2015, \$806 million has been invested to advance the project since Northern Dynasty involvement began in 2001. Of this, approximately \$595 million (US\$573 million) was provided by a wholly-owned subsidiary of Anglo American plc which participated in the Pebble Limited Partnership (the "Pebble Partnership") from 2007 to 2013<sup>2</sup>, and the remainder was financed by Northern Dynasty.

In February 2014, the US Environmental Protection Agency (the "EPA") announced the initiation of a regulatory action under the Clean Water Act to consider restriction or a prohibition on mining activities associated with the Pebble deposit. Much of the Company's efforts since that time have been focused around providing information and responses to this action through the Pebble Partnership.

In addition to completing financings (see section [1.2.2](#)) to support its efforts in 2015, the Company has:

- advanced a multi-dimensional strategy, described in section 1.2.1.2 below to address the EPA's pre-emptive regulatory action under Section 404(c) of the Clean Water Act;
- maintained an active corporate presence in Alaska in order to advance relationships with political and regulatory offices of government, Alaska Native partners and other stakeholder groups; and
- continued to work toward securing a transaction with a potential partner(s) to further advance the project.

In 2016, Northern Dynasty will seek to continue to advance these three key activities and otherwise prepare documentation to position the Pebble Project for initiation of federal and state permitting under the National Environmental Policy Act ("NEPA").

## **Corporate**

As at December 31, 2015, Northern Dynasty has \$7.5 million in cash and cash equivalents for its operating requirements. The Company has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term.

Northern Dynasty continues to seek additional financing in order to progress any material programs. Additional financing may include any of or a combination of debt, equity and/or contributions from possible new Pebble Project participants as well as the acquisition of entities whose primary asset is cash (refer to recent financings in [1.2.2](#)). In late February 2016, the Company filed a preliminary short form base shelf prospectus (the "Shelf Prospectus") with the securities commissions in the provinces of British Columbia, Alberta and Ontario, and a corresponding shelf registration statement on Form F-3 (the "Registration Statement") with the U.S. Securities and Exchange Commission for the issue of up to an aggregate \$20 million in securities.

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<sup>2</sup> During the period 2007 to 2013, the Pebble Partnership expended several hundred million dollars on the Pebble Project, a major portion of which was spent on exploration programs, resource estimates, environmental data collection and technical studies, with a significant portion spent on engineering of various possible mine development models, as well as related infrastructure, power and transportation systems. As a consequence of several factors, including the EPA opposition to the Pebble Project, the withdrawal of Anglo American plc from the project and the passage of time, technical and engineering studies related to mine-site and infrastructure development are considered to have very uncertain and perhaps little value at this time. Environmental baseline studies and data collection remains a significant legacy asset of the Company from this period.

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Once the Shelf Prospectus is cleared and the shelf Registration Statement becomes effective, these filings will, subject to securities regulatory requirements, allow the Company to make offerings of common shares, warrants, subscription receipts, units, or any combination of such securities during the 25-month period that the Shelf Prospectus is effective.

There can be no assurances that the Company will be successful in obtaining additional financing. The Company has been reducing its operating costs and will continue to do so given the current market conditions. If the Company is unable to raise the necessary capital resources to meet obligations as they come due, the Company will at some point have to further reduce or curtail its operations.

On February 25, 2016, Gordon Fretwell, Marchand Snyman, Wayne Kirk, Russell Hallbauer, Peter Mitchell and Scott Cousens resigned as directors of the Company and David De Witt was appointed to the board. On March 15, 2016, Steven Decker was appointed to the board. The Company's board of directors is now comprised of eight members: Desmond Balakrishnan, Steven Decker, David De Witt, Marcel de Groot, Robert Dickinson, Gordon Keep, Ken Pickering and Ronald Thiessen.

### **1.2.1 Pebble Project**

The Pebble property ("Pebble") is located in southwest Alaska, approximately 17 miles (27 kilometers) from the villages of Iliamna and Newhalen, and approximately 200 miles (320 kilometers) southwest of the city of Anchorage. The property consists of 2,402 mineral claims. Situated approximately 1,000 feet above sea-level and 65 miles from tidewater on Cook Inlet, the site conditions are favorable for sound mine site and infrastructure development.

#### **1.2.1.1 Technical Information**

A Technical Report, effective date December 31, 2014 (the "2014 Technical Report"), was completed to document information on the mineral resources and metallurgy for the project.

#### **Mineral Resources**

The current estimate of the mineral resources in the Pebble deposit incorporated in the 2014 Technical Report is based on drilling to the end of 2013, and includes approximately 59,000 assays obtained from 699 drill holes. The resource was estimated using ordinary kriging by David Gaunt, P.Ge., a qualified person who is not independent of Northern Dynasty.

The mineral resource tabulation, as shown below, uses copper equivalency that incorporates the contribution of copper, gold and molybdenum. Although the estimate includes silver, it was not used as part of the copper equivalency calculation in order to facilitate comparison with previous estimates which did not consider the silver content or its potential economic contribution. A base case cut-off of 0.3% CuEq is highlighted.



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**Pebble Project Mineral Resources**

| Cut-off<br>CuEq %           | CuEq%       | Tonnes               | Cu<br>(%)   | Au<br>(g/t) | Mo<br>(ppm) | Ag<br>(g/t) | Cu<br>Blbs   | Au<br>Moz    | Mo<br>Blbs  | Ag<br>Moz     |
|-----------------------------|-------------|----------------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|---------------|
| <b>Measured</b>             |             |                      |             |             |             |             |              |              |             |               |
| <b>0.3</b>                  | <b>0.65</b> | <b>527,000,000</b>   | <b>0.33</b> | <b>0.35</b> | <b>178</b>  | <b>1.66</b> | <b>3.83</b>  | <b>5.93</b>  | <b>0.21</b> | <b>28.13</b>  |
| 0.4                         | 0.66        | 508,000,000          | 0.34        | 0.36        | 180         | 1.68        | 3.80         | 5.88         | 0.20        | 27.42         |
| 0.6                         | 0.77        | 279,000,000          | 0.40        | 0.42        | 203         | 1.84        | 2.46         | 3.77         | 0.12        | 16.51         |
| 1.0                         | 1.16        | 28,000,000           | 0.62        | 0.62        | 302         | 2.27        | 0.38         | 0.56         | 0.02        | 2.04          |
| <b>Indicated</b>            |             |                      |             |             |             |             |              |              |             |               |
| <b>0.3</b>                  | <b>0.77</b> | <b>5,912,000,000</b> | <b>0.41</b> | <b>0.34</b> | <b>245</b>  | <b>1.66</b> | <b>53.42</b> | <b>64.62</b> | <b>3.20</b> | <b>315.50</b> |
| 0.4                         | 0.82        | 5,173,000,000        | 0.45        | 0.35        | 260         | 1.75        | 51.31        | 58.21        | 2.97        | 291.05        |
| 0.6                         | 0.99        | 3,450,000,000        | 0.55        | 0.41        | 299         | 1.99        | 41.82        | 45.47        | 2.27        | 220.71        |
| 1.0                         | 1.29        | 1,411,000,000        | 0.77        | 0.51        | 343         | 2.42        | 23.95        | 23.14        | 1.07        | 109.79        |
| <b>Measured + Indicated</b> |             |                      |             |             |             |             |              |              |             |               |
| <b>0.3</b>                  | <b>0.76</b> | <b>6,439,000,000</b> | <b>0.40</b> | <b>0.34</b> | <b>240</b>  | <b>1.66</b> | <b>56.76</b> | <b>70.38</b> | <b>3.40</b> | <b>343.63</b> |
| 0.4                         | 0.81        | 5,681,000,000        | 0.44        | 0.35        | 253         | 1.75        | 55.09        | 63.92        | 3.17        | 319.62        |
| 0.6                         | 0.97        | 3,729,000,000        | 0.54        | 0.41        | 291         | 1.98        | 44.38        | 49.15        | 2.39        | 237.37        |
| 1.0                         | 1.29        | 1,439,000,000        | 0.76        | 0.51        | 342         | 2.42        | 24.11        | 23.60        | 1.08        | 111.97        |
| <b>Inferred</b>             |             |                      |             |             |             |             |              |              |             |               |
| <b>0.3</b>                  | <b>0.54</b> | <b>4,460,000,000</b> | <b>0.25</b> | <b>0.26</b> | <b>222</b>  | <b>1.19</b> | <b>24.55</b> | <b>37.25</b> | <b>2.18</b> | <b>170.49</b> |
| 0.4                         | 0.68        | 2,630,000,000        | 0.33        | 0.30        | 266         | 1.39        | 19.14        | 25.38        | 1.55        | 117.58        |
| 0.6                         | 0.89        | 1,290,000,000        | 0.48        | 0.37        | 291         | 1.79        | 13.66        | 15.35        | 0.83        | 74.28         |
| 1.0                         | 1.20        | 360,000,000          | 0.69        | 0.45        | 377         | 2.27        | 5.41         | 5.14         | 0.30        | 25.94         |

Notes to the above table:

These resource estimates have been prepared in accordance with NI 43-101 and the CIM Definition Standards. Inferred Mineral Resources are considered to be too speculative to allow the application of technical and economic parameters to support mine planning and evaluation of the economic viability of the project. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for Preliminary Economic Assessments as defined under 43-101. It cannot be assumed that all or any part of the Inferred Resources will ever be upgraded to a higher category.

Copper equivalent calculations use metal prices of US\$1.85/lb for copper, US\$902/oz for gold and US\$12.50/lb for molybdenum, and recoveries of 85% for copper 69.6% for gold, and 77.8% for molybdenum in the Pebble West zone and 89.3% for copper, 76.8% for gold, 83.7% for molybdenum in the Pebble East zone.

Contained metal calculations are based on 100% recoveries.

A 0.30% CuEQ cut-off is considered to be appropriate for porphyry deposit open pit mining operations in the Americas.

All mineral resource estimates, cut-offs and metallurgical recoveries are subject to change as a consequence of more detailed economic analyses that would be required in pre-feasibility and feasibility studies.

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The resource estimate is constrained by a conceptual pit that was developed using a Lerchs-Grossman algorithm and is based on the parameters set out below:

| Parameter        |  | Units         | Cost (\$) | Value        |
|------------------|--|---------------|-----------|--------------|
| Metal Price      | Gold   | \$/oz         | -         | 1,540.00     |
|                  | Copper   | \$/lb         | -         | 3.63         |
|                  | Molybdenum                                       | \$/lb         | -         | 12.36        |
| Metal Recovery   | Copper   | %             | -         | 89           |
|                  | Gold   | %             | -         | 72           |
|                  | Molybdenum                                       | %             | -         | 82           |
| Operating Cost   | Mining (mineralized material or waste)           | \$/ton mined  | 1.01      | -            |
|                  | Added haul lift from depth                       | \$/ton/bench  | 0.03      | -            |
|                  | <b>Process</b>                                   |               |           |              |
|                  | - Process cost adjusted by total crushing energy | \$/ton milled | 4.40      | -            |
|                  | - Transportation                                 | \$/ton milled | 0.46      | -            |
|                  | - Environmental                                  | \$/ton milled | 0.70      | -            |
|                  | - G&A  | \$/ton milled | 1.18      | -            |
| Block Model      | Current block model                              | ft            | -         | 75 x 75 x 50 |
| Density          | Mineralized material and waste rock              | -             | -         | Block model  |
| Pit Slope Angles | -  | degrees       | -         | 42           |

Additional details can be found in the technical report, entitled "2014 Technical Report on the Pebble Project, Southwest Alaska, USA," authored by J. David Gaunt, PGeo., James Lang, PGeo., Eric Titley, PGeo., and Ting Lu, PEng., which is filed under the Company's profile at [www.sedar.com](http://www.sedar.com).

### Environmental and Socioeconomic

#### *Environmental Baseline Document*

Extensive environmental baseline data has been collected since 2004, with close and ongoing attention given to designing and planning a project that protects clean water, healthy fish and wildlife populations and other natural resources in the region.

In January 2012, the Pebble Partnership publicly released the 27,000-page Environmental Baseline Document ("EBD") for the Pebble Project, which characterizes a broad range of environmental and social conditions in southwest Alaska – including climate, water quality, wetlands, fish and aquatic habitat, wildlife, land and water use, socioeconomics and subsistence activities. The purpose of the EBD is to provide the public, regulatory agencies and the Pebble Partnership with a detailed compendium of pre-development environmental and socioeconomic conditions in the project area. Research for the Pebble EBD was conducted by more than 40 respected independent research firms, utilizing over 100 scientific experts and engineering groups, laboratories and support services. Researchers were selected for their specific areas of expertise and Alaskan experience, with cooperating government agencies participating in several studies. Information for the EBD was gathered through field studies, laboratory tests, review of government records and other third-party sources, and interviews with Alaska residents. The EBD study is available at <http://pebbleresearch.com/>.

The Pebble Partnership facilitated a four-day workshop with federal and state regulatory agencies in January 2012 to present the EBD findings. The workshop was broadcast publicly via the Internet. A series of public presentations was also coordinated in more than 20 communities throughout southwest Alaska and elsewhere

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around the State to present the EBD findings. Public and expert review of the EBD was facilitated under the Keystone initiative<sup>3</sup>.

Environmental baseline data reports through 2014 are being integrated with the database from the EBD so that this information can be shared with state/federal agencies and the public as part of the future permitting process under NEPA. Environmental monitoring at reduced levels continues in 2016.

### **Community Engagement**

An active program of stakeholder outreach has also been undertaken at Pebble, and has included community meetings, stakeholder visits, presentations and event appearances, as well as stakeholder tours to the Pebble Project site and to operating mines in the United States and Canada. The focus of these outreach activities is to update stakeholders on the Pebble Project, to receive feedback on stakeholder priorities and concerns and to advise participants about modern mining practices.

Stakeholder outreach and community engagement is ongoing, although at a reduced scale commensurate with other project activities. As the Pebble Project advances toward the completion of a Project Description and preparation for project permitting under NEPA, it is expected that the Pebble Partnership will initiate further stakeholder engagement programs to involve stakeholders in the planning process.

#### **1.2.1.2 Legal Matters**

##### **Environmental Protection Agency and Bristol Bay Watershed Assessment**

In February 2011, the EPA announced it would undertake a Bristol Bay Watershed Assessment study focusing on the potential effects of large-scale mine development in Bristol Bay and, specifically the Nushagak and Kvichak area drainages. This process was ostensibly initiated in response to calls from persons and groups opposing the Pebble Project for the EPA to pre-emptively use its asserted authority under Section 404(c) of the U.S. *Clean Water Act* (the "Clean Water Act") to prohibit discharges of dredged or fill material in waters of the US within these drainages; however, evidence exists that the EPA may have been considering a Section 404(c) veto of the Pebble Project at least as far back as 2008 – two years before it received a petition from several Alaska Native tribes.

The EPA's first draft Bristol Bay Watershed Assessment ("BBWA") report was released on May 18, 2012. In the Company's opinion after review with its consultants, the draft report is a fundamentally flawed document. By the EPA's own admission, it evaluated the effects of a "hypothetical project" that has neither been defined nor proposed by the Pebble Partnership, and for which key environmental mitigation strategies have not yet been developed and, hence, would not yet be known. It is believed by the Company that the assessment was rushed – because it was based on studies conducted over only one year in an area of 20,000 square miles. In comparison, the Pebble Project has studied the ecological and social environment surrounding Pebble for nearly a decade. The EPA also failed to adequately consider the comprehensive and detailed data that the Pebble Partnership provided as part of its 27,000-page Environmental Baseline Document (further described under Environmental Baseline Studies above).

The EPA called for public comment on the quality and sufficiency of scientific information presented in the draft BBWA report. In response, the Pebble Partnership and Northern Dynasty made submissions on the draft report. Northern Dynasty made a presentation highlighting these shortcomings at public hearings held in Seattle, Washington, on May 31, 2012 and in Anchorage, Alaska, on August 7, 2012. In July 2012, the Company also submitted a 635-page critique of the draft report in response to the EPA's call for public comment, and has

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<sup>3</sup> An independent stakeholder dialogue process concerning the Pebble Project initiated in late 2010 by the Keystone Center – a non-profit organization specializing in facilitating stakeholder-driven consultation processes concerning contentious, science-based issues.

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called upon the EPA to cease such unwarranted actions until such time as a definitive proposal for the development of the Pebble deposit is submitted into the rigorous NEPA permitting process.

Concerns about the reasonableness of the basis of risk assessment in the draft EPA report were stated by many of the independent experts on the peer review panel assembled to review the BBWA, as summarized, in a report entitled *External Peer Review of EPA's Draft Document: An Assessment of Potential Mining Impacts on Salmon Ecosystems of Bristol Bay, Alaska* released in November 2012. In a wide-ranging critique of the draft report's methodology and findings, many peer review panellists called the EPA's effort to evaluate the effects of a "hypothetical mining scenario" on the water, fish, wildlife and cultural resources of Southwest Alaska "inadequate", "premature", "unreasonable", "suspect" and "misleading". A list of these peer review documents can be found on the Company's website.

On April 26, 2013, the EPA released a revised draft of the BBWA report and announced another public comment and Peer Review period. The Pebble Partnership and Northern Dynasty made submissions on the revised draft. In late May 2013, Northern Dynasty filed a 205-page submission which describes the same major shortcomings as the original report published in May 2012.

In mid-January 2014, the EPA released the final version of its BBWA. The report still reflects many of the same fundamental shortcomings as previous drafts.

On February 28, 2014, the EPA announced the initiation of a regulatory action under Section 404(c) of the Clean Water Act to consider restriction or a prohibition on mining activities associated with the Pebble deposit in order to protect aquatic resources in southwest Alaska. In late April 2014, the Pebble Partnership submitted a comprehensive response to the EPA's February 28, 2014 notification letter.

In late May 2014, the Pebble Partnership filed suit in the U.S. District Court for Alaska and sought an injunction to halt the regulatory action initiated by the EPA under the Clean Water Act, asserting that, in the absence of a permit application, the action exceeds the federal agency's statutory authority and violates the Alaska Statehood Act among other federal laws. The State of Alaska and Alaska Peninsula Corporation, an Alaska Native village corporation with extensive land holdings in the Pebble Project area, later joined in the Pebble Partnership's lawsuit against the EPA as co-plaintiffs. On September 26, 2014, U.S. federal court in Alaska granted the EPA's motion to dismiss the case. This ruling did not judge the merits of the statutory authority case, it only deferred that hearing and judgment until after a final Section 404(c) determination has been made by the EPA. If or when the EPA action is deemed "final", the Pebble Partnership will pursue the underlying case. The Company also appealed the decision to grant the motion to dismiss to the 9th Circuit Court of Appeals. This appeal was denied in May 2015. The Pebble Partnership still holds the option to pursue its statutory authority case in the instance that EPA finalizes a pre-emptive regulatory action under the Clean Water Act 404(c).

On July 18, 2014, EPA Region 10 announced a "Proposed Determination" to restrict the discharge of dredged or fill material associated with mining the Pebble deposit in a 268 square mile area should that disposal result in any of the following: loss of five or more miles of streams with documented salmon occurrence; loss of 19 or more miles of streams where salmon are not documented but that are tributaries of streams with documented salmon occurrence; the loss of 1,100 or more acres of wetlands, lakes, and ponds that connect with streams with documented salmon occurrence or tributaries of those streams; and stream flow alterations greater than 20 percent of daily flow in nine or more linear miles of streams with documented salmon occurrence. Northern Dynasty management does not accept that the EPA has the statutory authority to impose conditions on development at Pebble, or any development project anywhere in Alaska or the US, prior to the formal submission of a development plan and its thorough review by federal and state agencies including development of an Environmental Impact Statement ("EIS") and review under NEPA.

On September 19, 2014, the Pebble Partnership submitted a comprehensive legal and technical response to EPA Region 10's Proposed Determination. Northern Dynasty and the Pebble Partnership believe the Proposed

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Determination is unsupported by the administrative record as established by the Bristol Bay Watershed Assessment, and is therefore arbitrary and capricious.

On September 3, 2014, the Pebble Partnership initiated a second action against EPA in federal district court in Alaska charging that EPA violated the *Federal Advisory Committee Act* ("FACA") due to its close interactions with, and the undue influence of Environmental Non-Governmental Organizations and anti-mining activists in developing the Bristol Bay Watershed Assessment, and with respect to its unprecedented pre-emptive 404c regulatory action under the Clean Water Act. On September 24, 2014, the U.S. federal court judge in Alaska released an order recognizing that the EPA agreed not to take the next step to advance its 404c regulatory action with respect to southwest Alaska's Pebble Project until at least January 2, 2015.

On November 24, 2014, a U.S. federal court judge in Alaska granted the Pebble Partnership's request for a preliminary injunction in relation to the FACA case. While the preliminary injunction does not resolve the Pebble Partnership's claims that the EPA actions with respect to the Bristol Bay Watershed Assessment and subsequent 404c regulatory action violated FACA, the decision permits the further discovery process of the underlying facts to enable the court to issue a final decision on the merits of the FACA case. On June 4, 2015, the federal court in Alaska issued an order denying the EPA's motion to dismiss this case.

Discovery has now commenced in the FACA case. The Pebble Partnership has filed numerous requests for production of documents and is now reviewing thousands of documents produced by the EPA. The Pebble Partnership has also served a number of notices of dispositions for current and former EPA employees and relevant third parties. . Should the Pebble Partnership prevail in its FACA litigation against the EPA, the federal agency may be unable to rely upon the Bristol Bay Watershed Assessment as part of the administrative record for any regulatory action at the Pebble Project.

On October 14, 2014, the Pebble Partnership filed suit in federal district court in Alaska charging that EPA has violated the Freedom of Information Act by improperly withholding documents related to the Pebble Project, the Bristol Bay Watershed Assessment and consideration of a pre-emptive 404(c) veto under the Clean Water Act. The EPA moved for summary judgment claiming that its search for and disclosure of document was adequate. The Pebble Partnership opposed the government's motion, pointing out several deficiencies in the EPA's search parameters and the agency's overly broad assertion of the deliberative process privilege to withhold documents. On August 24, 2015, the U.S. federal court judge granted in part and deferred in part the EPA's motion for summary judgement on the *Freedom of Information Act* ("FOIA") litigation. The court accepted the EPA's position that it had made an adequate search for documents but left the matter open should the EPA not meet its obligations in the FACA litigation or if additional documents surface. Additionally, the judge ordered EPA to produce a sample of 183 partially or fully withheld documents so that it could conduct an in-camera review of the sample and test the merits of EPA's withholdings under the deliberative process privilege. Before producing this sample to the Court, EPA chose to voluntarily release 115 documents (or 63% of the sample ordered by the Court), relinquishing its claim of privilege as to these documents.

In briefings before the Court, the Pebble Partnership argued that the voluntary release of 63% of the agency's same documents conclusively demonstrated that the EPA had been over broad in its assertion of the deliberative process privilege, particularly because the content of the voluntarily released documents was not in fact deliberative. The Court agreed, finding that EPA "improperly withheld documents in full," and that "many of the documents that defendant released should have been released to begin with because the portions that defendant released were not deliberative." It then ordered the EPA to review an additional 65 documents. Of these 65 documents, the EPA voluntarily released 55 documents in whole or in part (or 85% of the documents). Given the EPA's high rate of release, the Pebble Partnership submitted a brief to the Court arguing that the EPA should be forced to review the remaining documents being withheld and arguing that judgment should not be granted to the agency at this time. A decision has not yet been issued. The Court agreed, concluding that it had "no confidence that [EPA] has properly withheld documents, either in full or in part, pursuant to the deliberative process privilege." The Court reiterated its earlier finding that EPA had been withholding documents that "should never have been withheld to begin with." As a result, the Court ordered

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the Agency to re-evaluate all remaining documents EPA is withholding in response to the Pebble Partnership's January 2014 FOIA request and to submit these documents for in-camera review.

Counsel for Northern Dynasty and the Pebble Partnership submitted numerous letters to the independent Office of the EPA Inspector General ("OIG") since January 2014, raising concerns of apprehension of bias, process irregularities and undue influence by environmental organizations in the EPA's preparation of the Bristol Bay Watershed Assessment. In response to Congressional and other requests, on May 2, 2014, the OIG announced that it would investigate the EPA's conduct in preparing *An Assessment of Potential Mining Impacts on Salmon Ecosystems of Bristol Bay, Alaska*, "to determine whether the EPA adhered to laws, regulations, policies and procedures in developing its assessment of potential mining impacts in Bristol Bay, Alaska." On January 13, 2016, the OIG published its report (the "OIG Report"). While acknowledging significant "scope limitations" in its review and subsequent OIG Report, the OIG concluded that: "we found no evidence of bias in how the EPA conducted its assessment of the Bristol Bay watershed, or that the EPA pre-determined the assessment outcome," but that an EPA Region 10 employee may have been guilty of "a possible misuse of position."

Several other investigations of EPA conduct at Pebble contradict the OIG Report. The US Congress' House Committee on Oversight and Government Reform found "that EPA employees had inappropriate contact with outside groups and failed to conduct an impartial, fact-based review of the proposed Pebble mine." In addition, a report by former United States Senator and Defense Secretary William S. Cohen and his firm (further described below), said their investigation "raise(s) serious concerns as to whether EPA orchestrated the process to reach a pre-determined outcome; had inappropriately close relationships with anti-mine advocates; and was candid about its decision-making process."

The findings of the OIG Report are not expected to materially affect the Pebble Partnership strategy for addressing the EPA's CWA 404(c) regulatory action. The Company remains confident that the Pebble Project will ultimately enter federal and state permitting unencumbered by any extraordinary development restrictions.

In March 2015, William Cohen and his firm, The Cohen Group, assisted by the law firm DLA Piper, was retained by the Pebble Partnership to conduct an independent review of whether the EPA acted fairly in connection with its evaluation of potential mining in the Bristol Bay watershed. Secretary Cohen was requested to evaluate the fairness of EPA's actions and decisions in this matter based upon a thorough assessment of the facts and relying on his experience as a senior government official as well as his 24 years as a member of the U.S. Senate and House of Representatives.

A team of independent investigators employed by The Cohen Group and DLA Piper reviewed thousands of documents secured through FOIA requests and interviewed approximately 60 individuals involved with the EPA or its review of the Pebble Project. On October 6, 2015, Mr. Cohen released his report entitled *Report of an Independent Review of the United States Environmental Protection Agency's Actions in Connection with its Evaluation of Potential Mining in Alaska's Bristol Bay Watershed*. The report stated the conclusion of Mr. Cohen that he did not believe the EPA used the "fairest and most appropriate process" in its proposed pre-emptive regulatory action under the Clean Water Act 404(c).

Mr. Cohen urged policymakers to require that the permitting process under NEPA and the regulations developed by the Council on Environmental Quality (the "Permit/NEPA Process") be followed. Mr. Cohen commented that the Permit/NEPA Process is more comprehensive than the pre-emptive Section 404(c) action employed by the EPA and he could find no valid reason why that process was not used.

The Cohen report also raised a number of concerns about the EPA's Bristol Bay Watershed Assessment study and the Clean Water Act 404(c) regulatory action, including possible prejudice and pre-determination of outcomes by the EPA, inappropriately close relationships between certain EPA officials and anti-mine advocates, EPA's candor with respect to certain actions it took, lack of consistency between the BBWA and the



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proposed determination, and lack of cooperation by EPA personnel with respect to Congressional queries and FOIA requests.

Northern Dynasty does not consider the Cohen report to constitute an "expert's" report but rather considers it to constitute an informed view of the Company's treatment by the EPA expressed by a person familiar with governmental due process goals. Mr. Cohen has appeared before a Congressional committee (House Committee on Science, Space and Technology) with respect to the findings in his report and, if given the opportunity, may appear before other committees in the months ahead.

In summary, the Pebble Partnership is advancing a multi-dimensional strategy to address the EPA's preemptive regulatory action under Section 404(c) of the Clean Water Act, and is working to position the Pebble Project to initiate federal and state permitting under NEPA unencumbered by any extraordinary development restrictions imposed by the federal agency. This strategy includes three discrete pieces of litigation against the EPA, including:

- challenging the EPA's statutory authority to pre-emptively impose development restrictions at the Pebble Project under Section 404(c) of the Clean Water Act prior to the Pebble Partnership submitting a proposed development plan for the project or the development of an EIS under NEPA;
- alleging that the EPA violated FACA in the course of undertaking the Bristol Bay Watershed Assessment and subsequent Section 404(c) of the Clean Water Act regulatory action; and
- alleging that the EPA is unlawfully withholding relevant documentation and other information sought by the Pebble Partnership under FOIA.

While the litigation process is inherently uncertain, and it is difficult to predict with confidence the length of time that each of the legal initiatives described above will take to advance to specific milestone events or final conclusion, Northern Dynasty expects a final decision by a federal court judge in Alaska on the Pebble Partnership's FACA case in 2016.

Northern Dynasty cannot predict the outcome of its various challenges to what it sees as improper, preemptory attempts by the EPA to prevent or unduly restrict mineral development at Pebble. If these challenges all fail and the EPA continues to oppose the Pebble Project by all legal means, it will almost certainly have a material adverse effect on the Company.

### **Nunamta Aulukestai**

In October 2011, a lawsuit filed in July 2009 by the Trustees for Alaska (an environmental law firm) on behalf of Nunamta Aulukestai – an organization established and funded to oppose development of the Pebble Project - was rejected by the Anchorage Superior Court. The lawsuit alleged that the Alaska Department of Natural Resources had violated the state constitution by granting exploration and temporary water use permits to the Pebble Partnership, and exploration activities had caused harm to vegetation, water, fish and wildlife. The Pebble Partnership actively participated in the trial proceedings after being granted intervener status. Superior Court Judge Aarseth denied each of the allegations made by Nunamta Aulukestai, and ruled that no evidence of environmental harm was presented. The plaintiffs filed an appeal and a ruling was made on May 29, 2015. The Alaska Supreme Court agreed that there was no evidence of environmental damage but ruled that the land use permits conveyed an interest in land and, as such should have been preceded by public notice. The decision does not change the status of current permits held by the Pebble Partnership, although drilling permits applied for in future may necessitate additional public notice and comment requirements. In August 2015, the Supreme Court ruled in the appeal case that the Alaska Department of Natural Resources and the Pebble Partnership were jointly and severally liable for plaintiff's attorney fees in the amount of US\$57,082. The case was remanded back to the trial court for further litigation about the potential award of the plaintiff's attorney's fees for the trial court portion of the litigation. The Pebble Partnership then negotiated a settlement with the plaintiffs and the case has been dismissed in its entirety.

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## **1.2.2 Financing**

### **December 2014 Special Warrants - \$15.5 Million Financing**

On December 29, 2014, the Company announced the terms of an offering of its Special Warrants and subsequently, on January 13, 2015, it closed the offering, raising a total of approximately \$15.5 million from the sale of 35,962,735 Special Warrants. All special warrants have been exercised and a total of 35,962,735 of the Company's common shares ("Common Shares") have been issued. The issuance of the Common Shares was qualified by the Company's short-form prospectus dated February 24, 2015.

### **August 2015 Financing**

In August 2015, Northern Dynasty announced its intention to raise up to \$20 million through a combination of an issuance of \$10-\$15 million worth of Special Warrants, exercisable into Common Shares on a one for one basis, at a price of \$0.399 per special warrant (the "August 2015 Special Warrants"), together with the acquisition of 100% of Cannon Point Resources Ltd. ("Cannon Point"), a TSX Venture Exchange-listed entity, whose primary asset is cash of \$4.7 million.

#### *August 2015 Special Warrants - \$15 Million Financing*

On August 10, 2015, the Company announced the terms of the Offering and on August 31, 2015 and September 10, 2015 that it had closed the Offering, raising a total of approximately \$15 million from the sale of 37,600,000 Special Warrants.

Under the terms of issuance of the August 2015 Special Warrants, the Company filed a short-form prospectus in certain Canadian provinces to qualify the conversion of the August 2015 Special Warrants and a registration statement in the United States to qualify the resale of Common Shares by U.S. investors. The Company received a final receipt for the short-form prospectus from the relevant Canadian securities regulators and all the August 2015 Special Warrants were automatically exercised on November 13, 2015 into Common Shares on a one-for-one basis without payment of any additional consideration.

#### *Acquisition of inactive listed issuer (Cannon Point) with \$4.7 million in cash*

On August 31, 2015, the Company entered into an arrangement agreement (the "Arrangement") with Cannon Point whereby the Company would acquire 100% of the issued and outstanding Cannon Point shares. Cannon Point had approximately \$4.7 million in cash and had no other significant asset and/or active operations as of the date of the Arrangement.

The transaction closed on October 29, 2015. Pursuant to the Arrangement, Northern Dynasty issued an aggregate of 12,881,344 Common Shares to the former shareholders of Cannon Point (0.376 of a Northern Dynasty common share for each issued Cannon Point common share). In addition, 8,375,000 share purchase warrants of Cannon Point were exchanged for 3,149,000 share purchase warrants of Northern Dynasty exercisable at a price of \$2.13 per share on or before December 17, 2015, and 3,312,500 stock options of Cannon Point were exchanged for 1,245,500 stock options of Northern Dynasty with exercise prices ranging from \$0.29 to \$0.43 per share. Other than an aggregate of 676,800 options which retained their original expiry date, the remaining options, with the exception of those options that were exercised, expired on January 29, 2016. The weighted average expected life of the options was 2.56 years on date of issue.

As a result of this transaction, Gordon Keep joined the Northern Dynasty Board of Directors.

### **Acquisition of listed issuer (Mission Gold Ltd.) with approximately \$9 million in cash**

Subsequent to the end of the third quarter, on October 8, 2015, the Company announced its intention to acquire 100% of approximately 50.5 million issued and outstanding common shares of the TSX Venture Exchange-



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listed Mission Gold Ltd. ("Mission Gold"), a company with primary assets that included approximately \$9 million in cash and a 100% interest in the Alto Parana titanium project.

The transaction closed on December 23, 2015. Pursuant to the Arrangement, Northern Dynasty issued an aggregate of 27,593,341 common shares to the former shareholders of Mission Gold (0.5467 of a Northern Dynasty common share for each issued Mission Gold common share which exchange ratio has been determined pursuant to the working capital adjustment provision of the Arrangement). In addition, warrants and finder's warrants to purchase 13,182,076 and 619,596 common shares respectively of Mission Gold at a price of \$0.50 per share were exchanged for warrants to purchase an aggregate of 13,801,672 common shares of Northern Dynasty exercisable at a price of \$0.55 per share on or before July 9, 2020, and warrants together with broker warrants to purchase 2,735,433 and 135,703 common shares respectively of Mission Gold at a price of \$2.72 per share were exchanged for warrants to purchase an aggregate of 2,871,676 common shares of Northern Dynasty exercisable at a price of \$3.00 per share on or before September 14, 2017.

Pursuant to and immediately following closing of the Arrangement, the sale of Mission Gold's wholly-owned subsidiary, CIC Resources Inc., which owned the Alto Parana titanium project was completed. The consideration received was 438,597 common shares of a TSX listed issuer having a value of \$1,500,000 based on the closing price for such shares on November 20, 2015.

As a result of this transaction, Marcel de Groot joined the Northern Dynasty Board of Directors.

### **\$5.2 Million Private Placement**

On December 23, 2015, Northern Dynasty completed a private placement of 12,573,292 common shares at a price of \$0.412 per share for gross proceeds of approximately \$5,180,200. A referral fee of 300,000 common shares was also paid. The shares are subject to applicable resale restrictions, including a 4 month hold under Canadian legislation.

In December 2015, Desmond Balakrishnan joined the Northern Dynasty Board of Directors.

### **1.2.3 Market Trends**

Copper prices trended upward from early 2009 until late 2011. Prices were variable from 2012 to 2015 and weakened overall. Prices continue to be variable but are improving in 2016. The recent closing price is US\$2.24/lb.

The average annual gold price steadily increased from 2008 to 2012. Gold prices trended lower in 2013, and were variable, weakening overall in 2014 and 2015. Gold prices have increased in 2016, related to global economic uncertainty. The recent closing price is US\$1,221/oz.

Molybdenum prices were variable but improving in 2010 and 2011, variable but weakening in 2012 and 2013. Following an uptrend from January to August 2014, prices decreased in 2015 but appear to have stabilized in 2016. The recent closing price is US\$5.53/lb.

Silver prices trended upward in 2010 and 2011, reaching as high as \$43/oz. Prices ranged between \$26/oz and \$35/oz between October 2011 and December 2012, and trended downward in 2013. Prices were variable in 2014 and 2015, with an overall decrease in the average price. Prices have shown some improvement in 2016. The recent closing price is US\$15.28/oz.

Average annual prices since 2011 as well as the average prices of copper, gold, molybdenum and silver so far in 2016 are shown in the table below:

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| Year                            | Average metal price |                 |                       |                   |
|---------------------------------|---------------------|-----------------|-----------------------|-------------------|
|                                 | Copper<br>US\$/lb   | Gold<br>US\$/oz | Molybdenum<br>US\$/lb | Silver<br>US\$/oz |
| 2011                            | 4.00                | 1,572           | 15.41                 | 35.25             |
| 2012                            | 3.61                | 1,669           | 12.81                 | 31.16             |
| 2013                            | 3.32                | 1,410           | 10.40                 | 23.80             |
| 2014                            | 3.14                | 1,276           | 11.91                 | 19.08             |
| 2015                            | 2.49                | 1,160           | 6.73                  | 15.68             |
| 2016 (to the date of this MD&A) | 2.11                | 1,180           | 5.48                  | 14.83             |

Source: LME Official Cash Price as provided at [www.metalprices.com](http://www.metalprices.com)

### 1.3 Selected Annual Information

The following selected annual information is from the audited consolidated financial statements which have been prepared in accordance with IFRS. The 2013 figures include the Pebble Partnership on a consolidated basis with effect from December 10, 2013. Unless otherwise stated, all monetary amounts are expressed in thousands of Canadian dollars except per share amounts, which are expressed in Canadian dollars.

|  | Fiscal year<br>2015 | Fiscal year<br>2014 | Fiscal year<br>2013 |
|--|---------------------|---------------------|---------------------|
| Total assets   | \$ 157,704          | \$ 135,510          | \$ 141,784          |
| Total non-current liabilities (non-financial)                | \$ –                | \$ 1,514            | \$ 3,803            |
| Total current liabilities                                    | \$ 2,724            | \$ 6,033            | \$ 4,053            |
| Exploration and evaluation expenses                          | \$ 8,718            | \$ 12,877           | \$ 1,991            |
| General and administrative expenses                          | 8,272               | 9,059               | 5,970               |
| Legal, accounting and audit                                  | 17,001              | 8,325               | 275                 |
| Share-based compensation                                     | 903                 | 3,877               | 641                 |
| Other items <sup>(i)</sup>                                   | (1,065)             | (2,791)             | (1,292)             |
| Gain on discontinuance of equity method <sup>(ii)</sup>      | –                   | –                   | (5,062)             |
| <b>Loss for the year</b>                                     | <b>\$ 33,829</b>    | <b>\$ 31,347</b>    | <b>\$ 2,523</b>     |
| Basic and diluted loss per common share                      | \$ 0.23             | \$ 0.33             | \$ 0.03             |
| Weighted average number of common shares outstanding ('000') | 146,313             | 95,009              | 95,007              |

#### Notes

- (i) Other items include interest income and expense, exchange gain or loss, other income and deferred income tax.
- (ii) Represents a gain recorded upon discontinuance of equity method for accounting for the investment in the Pebble Limited Partnership when the Company reacquired control in Q4 of 2013.

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**1.4 Summary and Discussion of Quarterly Results**

All monetary amounts are expressed in thousands of dollars except per share amounts and where otherwise indicated. Minor differences are due to rounding.

| Excerpts from Statements of Comprehensive Loss (Income) | Dec 31<br>2015   | Sep 30<br>2015  | Jun 30<br>2015  | Mar 31<br>2015  | Dec 31<br>2014  | Sep 30<br>2014  | Jun 30<br>2014  | Mar 31<br>2014  |
|---|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Expenses</b>   |                  |                 |                 |                 |                 |                 |                 |                 |
| Exploration and evaluation                              | \$ 3,374         | \$ 1,786        | \$ 1,484        | \$ 2,074        | \$ 3,461        | \$ 2,436        | \$ 2,952        | \$ 4,028        |
| General and administrative <sup>(i)</sup>               | 1,813            | 3,076           | 1,567           | 1,816           | 2,119           | 2,120           | 2,150           | 2,670           |
| Legal, accounting and audit <sup>(i)</sup>              | 6,379            | 4,452           | 2,922           | 3,248           | 4,932           | 1,957           | 1,281           | 155             |
| Share-based compensation                                | 469              | 33              | 41              | 360             | 522             | 557             | 699             | 2,099           |
| Other items <sup>(ii)</sup>                             | 373              | 50              | (236)           | (1,252)         | (1,109)         | (982)           | (211)           | (489)           |
| <b>Loss for the quarter</b>                             | <b>\$ 12,408</b> | <b>\$ 9,397</b> | <b>\$ 5,778</b> | <b>\$ 6,246</b> | <b>\$ 9,925</b> | <b>\$ 6,088</b> | <b>\$ 6,871</b> | <b>\$ 8,463</b> |
| Basic and diluted loss per common share                 | \$ 0.07          | \$ 0.07         | \$ 0.04         | \$ 0.05         | \$ 0.10         | \$ 0.06         | \$ 0.07         | \$ 0.09         |
| Weighted average number of common shares (000s)         | 181,339          | 137,173         | 130,973         | 130,082         | 95,010          | 95,010          | 95,010          | 95,010          |

(i) From Q1-2015 onward, in presenting the statement of loss and comprehensive loss, the Company has separately reflected legal, accounting and audit expenditures, which line item is predominantly comprised of legal costs incurred by the Group in response to the EPA's activities surrounding the Pebble Project. These expenditures were previously included under general and administrative expenditures. Quarterly results for all previous quarters presented in the above table have been adjusted to conform with the classification of expenditures adopted in the current year's fiscal quarters.

(ii) Other items include interest income and expense, exchange gain or loss, other income and deferred income tax.

**Discussion of Quarterly Trends**

Exploration and evaluation expenses ("E&E") increased from Q4 of 2013 as the Company commenced funding of evaluation related work on the Pebble Project (discussed in Section [1.2.1.1 Technical Programs](#)) with the withdrawal of Anglo American plc ("Anglo") from the Pebble Partnership in late December 2013. E&E included costs for Native community engagement, select environmental monitoring programs, annual fees for claims, site leases for accommodation, land access agreements and technical studies.

General and administrative expenses ("G&A"), which exclude legal, accounting and audit expenses as per the revised presentation of the statement of loss and comprehensive loss adopted by the Company in fiscal year 2015, have fluctuated based on the level of corporate and financing activities undertaken. As a result of the added costs associated with the management and administration of the Pebble Partnership, G&A trended higher initially in 2014 then declined to a quarterly average of approximately \$1.7 million in 2015, with the exception of Q3 2015, when the G&A increased mainly due to the recognition of arrear directors fees and a bonus commitment.

Legal, accounting and audit expenses are comprised primarily of legal costs incurred by the Group in response to the EPA's activities surrounding the Pebble Project and have fluctuated in line with ongoing activities to advance the Company's multi-dimensional strategy to address the EPA's pre-emptive regulatory process as discussed in Section [1.2.1.2 Legal Matters](#).

Share-based compensation expense ("SBC") has fluctuated due to the timing of share purchase option grants and the vesting periods associated with these grants.

**1.5 Results of Operations**

The following financial data has been prepared in accordance with IFRS effective for the year ended December 31, 2015 and is expressed in thousands of Canadian dollars unless otherwise stated.

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The Company's operations and business are not driven by seasonal trends, but rather are driven towards the achievement of project milestones relating to the Pebble Project such as the achievement of various technical, environmental, socio-economic and legal objectives, including obtaining the necessary permits, the completion of pre-feasibility and final feasibility studies, preparation of engineering designs, as well as receipt of financings to fund these objectives along with mine construction.

**1.5.1 Results of Operations for the Year Ended December 31, 2015 vs. 2014**

The Company recorded an increase in loss of \$2.5 million due primarily to its ongoing activities around the EPA's pre-emptive regulatory process as discussed in Section [1.2.1.2 Legal Matters](#) which resulted in an increase in legal, accounting and audit expenses by \$8.7 million. The increase was offset by the reduction of E&E by \$4.2 million and G&A by \$0.8 million as the Company allocated its financial resources from operating activities to these matters.

E&E comprised mainly of the following for the year as compared to 2014, expressed in thousands of dollars:

|                               | 2015     | 2014      |
|-------------------------------|----------|-----------|
| Engineering                   | \$ 224   | \$ 1,440  |
| Environmental                 | 907      | 2,322     |
| Site activities               | 2,176    | 3,200     |
| Socio-economic                | 3,963    | 4,324     |
| Property fees and assessments | 1,276    | 1,097     |
| Other activities and travel   | 172      | 494       |
|                               | \$ 8,718 | \$ 12,877 |

The Company incurred E&E associated with continued Native community engagement, stakeholder outreach environmental monitoring, annual fees for claims, payments in respect to site leases and demobilization and remediation activities at site.

The following table provides a breakdown of G&A, and legal, accounting and audit expenses incurred in the year as compared to 2014, expressed in thousands of dollars:

|                               | 2015      | 2014      |
|-------------------------------|-----------|-----------|
| Conference and travel         | \$ 369    | \$ 323    |
| Consulting                    | 232       | 782       |
| Insurance                     | 398       | 384       |
| Office costs                  | 1,188     | 1,964     |
| Management and administration | 5,009     | 4,610     |
| Shareholder communication     | 759       | 772       |
| Trust and filing              | 317       | 224       |
| Total G&A                     | 8,272     | 9,059     |
| Legal, accounting and audit   | 17,001    | 8,325     |
|                               | \$ 25,273 | \$ 17,384 |

Share-based compensation expense ("SBC") has fluctuated due to the timing of share purchase option grants and the vesting periods associated with these grants.

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**1.5.2 Results of Operations for the Year Ended December 31, 2014 vs. 2013**

The Company recorded an increase in loss of \$28.8 million due primarily to the increase in E&E, G&A and SBC. In 2013, the Company recorded a \$5.1 million gain on the discontinuance of the equity method in accounting for the Pebble Partnership.

E&E increased by \$10.9 million as the Company funded all exploration and evaluation work on the Pebble Project (discussed in Section [1.2.1.1 Technical Programs](#)) for the full year. E&E comprised mainly of the following for the year as compared to 2013, expressed in thousands of dollars:

|                                    | 2014      | 2013     |
|------------------------------------|-----------|----------|
| Engineering                        | \$ 1,440  | \$ 853   |
| Environmental planning and testing | 2,322     | 270      |
| Site activities                    | 4,297     | 401      |
| Socio-economic                     | 4,324     | 26       |
| Other activities and travel        | 494       | 441      |
|                                    | \$ 12,877 | \$ 1,991 |

The Company incurred E&E associated with Native community engagement, environmental monitoring, annual fees for claims, site leases for accommodation, land access agreements and technical studies.

G&A increased to \$9.0 million from \$6.0 million in 2013 due to the inclusion of the Pebble Partnership's management, administration, and office expenses for the full year. Legal, accounting and audit costs increased by \$8.0 million as legal costs were incurred in response to the EPA's activities during the year (see Section [1.2.1.2 Legal Matters](#)).

The following table provides a breakdown of G&A incurred in the year as compared to 2013, expressed in thousands of dollars:

|                               | 2014      | 2013     |
|-------------------------------|-----------|----------|
| Conference and travel         | \$ 323    | \$ 340   |
| Consulting                    | 782       | 836      |
| Insurance                     | 384       | 342      |
| Office costs                  | 1,964     | 670      |
| Management and administration | 4,610     | 2,572    |
| Shareholder communication     | 772       | 983      |
| Trust and filing              | 224       | 227      |
| Total G&A                     | 9,059     | 5,970    |
| Legal, accounting and audit   | 8,325     | 275      |
|                               | \$ 17,384 | \$ 6,245 |

SBC increased to \$3.9 million from \$0.6 million in 2013 as the Company granted 5.9 million share purchase options in 2014 (2013 - no options were granted).

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**1.5.3 Financial position as at December 31, 2015 vs. December 31, 2014**

The total assets of the Company increased by \$22 million due in large part to the appreciation in the US dollar in relation to Canadian dollar and the resultant increase in the value of mineral assets translated to the Company's reporting currency.

**1.6 Liquidity**

The Company's major sources of funding has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions and the issue of common shares pursuant to the exercise of share purchase options. The Company has also in fiscal 2015 pursued the strategy of acquiring companies whose primary assets are cash and equivalents through the issuance of equity securities (refer [1.2.2 Financing](#)). The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

As at December 31, 2015, the Company's cash and cash equivalents were \$7.5 million, down from \$9.4 million at December 31, 2014 as the Company used \$37 million of its cash in its operating activities and raised \$35.0 million from various financing activities (see Section [1.2.2 Financing](#)). The Company has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required to pursue any material expenditures at the Pebble Project. There can be no assurances that the Company will be successful in obtaining additional financing. The Company has been reducing its operating costs and will continue to do so given the current market conditions. If the Company is unable to raise the necessary capital resources to meet obligations as they come due, the Company will at some point have to further reduce or curtail its operations.

At December 31, 2015, the Company had working capital of approximately \$7.9 million as compared to \$5.9 million at December 31, 2014. The Company has no long term debt, capital lease obligations, operating leases or any other long term obligations other than those disclosed below:

The following commitments and payables (expressed in thousands) existed at December 31, 2015:

|                            | Total           | Payments due by period |             |             |
|----------------------------|-----------------|------------------------|-------------|-------------|
|                            |                 | ≤ 1 year               | 1-5 years   | > 5 years   |
| Trade and other payables   | \$ 2,047        | \$ 2,047               | \$ -        | \$ -        |
| Payable to a related party | 677             | 677                    | -           | -           |
| Lease commitments          | 608             | 608                    | -           | -           |
| <b>Total</b>               | <b>\$ 3,332</b> | <b>\$ 3,332</b>        | <b>\$ -</b> | <b>\$ -</b> |

The Group, through the Pebble Partnership, is advancing its multi-dimensional strategy to address the EPA's preemptive regulatory process under Section 404(c) of the Clean Water Act, through litigation against the EPA contesting the EPA's statutory authority to act pre-emptively under the Clean Water Act, and alleging violation of FACA and the unlawful withholding of documentation under the Freedom of Information Act. The Group has a contingent liability for additional legal fees and costs that may be due to the Group's counsel should there be a successful outcome. However, the Group is unable to estimate or determine the length of time that each of the legal initiatives mentioned above will take to advance to specific milestone events or final conclusion. As of the date of the Financial Statements, if there was a favourable outcome or settlement, the Company estimates there would potentially be additional legal fees of \$8.3 million (US\$6.0 million at closing Bank of Canada rate on December 31, 2015 of C\$1.3214) payable by the Company.

The Company has no "Purchase Obligations", defined as any agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the

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transaction. The Company is responsible for maintenance payments on the Pebble Project claims and routine site and office leases (included in table above).

### **1.7 Capital Resources**

The Company's capital resources consist of its cash reserves. As of December 31, 2015, the Company had no long term debt or commitments for material capital expenditures.

The Company has no lines of credit or other sources of financing.

### **1.8 Off-Balance Sheet Arrangements**

There are none.

### **1.9 Transactions with Related Parties**

#### **Transactions with Hunter Dickinson Services Inc. ("HDSI")**

Hunter Dickinson Inc. ("HDI") and its wholly owned subsidiary, HDSI are private companies established by a group of mining professionals engaged in advancing and developing mineral properties for a number of private and publicly-listed exploration companies, one of which is the Company.

During the year ended December 31, 2015, five of the directors of the Company namely Scott Cousens, Robert Dickinson, Russell Hallbauer, Marchand Snyman and Ron Thiessen were active members of the HDI Board of Directors. Other key management personnel of the Company – Doug Allen, Stephen Hodgson, Bruce Jenkins, Sean Magee and Trevor Thomas – are active members of HDI's senior management team.

#### *The business purpose of the related party relationship*

HDSI provides technical, geological, corporate communications, regulatory compliance, administrative and management services to the Company, on an as-needed and as-requested basis from the Company.

HDSI also incurs third party costs on behalf of the Company. Such third party costs include, for example, directors and officers insurance, travel, conferences, and technology services.

As a result of this relationship with HDSI, the Company has ready access to a range of diverse and specialized expertise on a regular basis, without having to engage or hire full-time experts. The Company benefits from the economies of scale created by HDSI.

#### *The measurement basis used*

The Company procures services from HDSI pursuant to an agreement (the "Services Agreement") dated July 2, 2010 whereby HDSI agreed to provide technical, geological, corporate communications, administrative and management services to the Company. A copy of the Services Agreement is publicly available under the Company's profile at [www.sedar.com](http://www.sedar.com).

Services from HDSI are provided on a non-exclusive basis as required and as requested by the Company. The Company is not obligated to acquire any minimum amount of services from HDSI. The fees for services is determined based on an agreed upon charge-out rate for each employee performing the service and the time spent by the employee. The charge-out rate also includes overhead costs such as office rent, information technology services and administrative support. Such charge-out rates are agreed and set annually in advance.

Third party expenses are billed at cost, without any markup.

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*Ongoing contractual or other commitments resulting from the related party relationship*

There are no ongoing contractual or other commitments resulting from the Company's transactions with HDSI, other than the payment for services already rendered and billed. The agreement may be terminated upon 60 days' notice from either the Company or HDSI.

The following summarizes the transactions with HDSI expressed in thousands of dollars for the year:

| <b>Transactions</b>                          | <b>2015</b>     | <b>2014</b>     |
|--|-----------------|-----------------|
| <b>Services rendered by HDSI</b>             | \$ 4,680        | \$ 4,926        |
| Technical                                    | 1,600           | 1,745           |
| Engineering                                  | 140             | 540             |
| Environmental                                | 580             | 686             |
| Socioeconomic                                | 670             | 277             |
| Other technical services                     | 210             | 242             |
| General and administrative                   | 3,080           | 3,181           |
| Management, financial & administration       | 2,420           | 2,542           |
| Shareholder communication                    | 660             | 639             |
| <b>Reimbursement of third party expenses</b> | 610             | 779             |
| Conferences and travel                       | 160             | 196             |
| Insurance                                    | 60              | 71              |
| Office supplies and other                    | 390             | 512             |
| <b>Sale of marketable securities to HDSI</b> | (280)           | -               |
| <b>Total</b>                                 | <b>\$ 5,010</b> | <b>\$ 5,705</b> |

**Key Management Personnel**

The required disclosure for the remuneration of the Company's key management personnel is provided in Note 9(a) in the notes to the Financial Statements which accompany this MD&A and which are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

**1.10 Fourth Quarter 2015 vs 2014**

The Company recorded a \$2.5 million increase in loss to \$12.4 million, primarily due to the increase in legal expenses as discussed herein.

E&E comprised mainly of the following during the fourth quarter of 2015 as compared to the prior year quarter, expressed in thousands of dollars:

| <b>E&amp;E</b>                | Three months ended December 31, |                 |
|-------------------------------|---------------------------------|-----------------|
|                               | <b>2015</b>                     | <b>2014</b>     |
| Engineering                   | \$ 27                           | \$ 137          |
| Environmental                 | 256                             | 353             |
| Site activities               | 726                             | 552             |
| Socio-economic                | 1,078                           | 1,069           |
| Property fees and assessments | 1,276                           | 1,097           |
| Other activities and travel   | 11                              | 253             |
|                               | <b>\$ 3,374</b>                 | <b>\$ 3,461</b> |



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During the quarter the Company's major expenses were for continued Native community engagement, rental payments for claims, payment of site leases and the completion of demobilization and remediation activities at site.

The following G&A, and legal, accounting and audit expenses were incurred during the fourth quarter of 2015 and 2014, expressed in thousands of dollars:

|                               | Three months ended December 31, |          |
|-------------------------------|---------------------------------|----------|
|                               | 2015                            | 2014     |
| Conference and travel         | \$ 77                           | \$ 71    |
| Consulting                    | 61                              | 259      |
| Insurance                     | 105                             | 64       |
| Office costs                  | 207                             | 539      |
| Management and administration | 1,127                           | 1,022    |
| Shareholder communication     | 184                             | 156      |
| Trust and filing              | 52                              | 8        |
| Total G&A                     | 1,813                           | 2,119    |
| Legal, accounting and audit   | 6,379                           | 4,932    |
|                               | \$ 8,192                        | \$ 7,051 |

### **1.11 Proposed Transactions**

There are no proposed asset or business acquisitions or dispositions, other than those in the ordinary course, before the Board of Directors for consideration.

### **1.12 Critical Accounting Estimates**

The required disclosure is provided in Note 2 in the notes to the Financial Statements which accompany this MD&A and which are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

### **1.13 Changes in Accounting Policies including Initial Adoption**

The required disclosure is provided in Note 2 in the notes to the Financial Statements which accompany this MD&A and which are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

### **1.14 Financial Instruments and Other Instruments**

The required disclosure is provided in Note 2 and Note 14 in the notes to the Financial Statements which accompany this MD&A and which are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

### **1.15 Other MD&A Requirements**

Additional information relating to the Company, including the Company's Annual Information Form, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

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### **1.15.1 Disclosure of Outstanding Share Data**

The capital structure of the Company as of the date of this MD&A is shown in the following table:

|  | Number      |
|--|-------------|
| Common shares issued and outstanding   | 222,150,876 |
| Share options pursuant to the Company's incentive plan   | 10,283,000  |
| Other warrants and options issued pursuant to the acquisition of Cannon Point and Mission Gold | 17,857,748  |

### **1.15.2 Disclosure Controls and Procedures**

The Company's management, with the participation of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), have evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

### **1.15.3 Management's Report on Internal Control over Financial Reporting**

The Company's management, including the CEO and the CFO, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting ("ICFR") is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. The Company's ICFR includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The Company's management assessed the effectiveness of the Company's ICFR as of December 31, 2015. In making the assessment, it used the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on their assessment, management has concluded that, as of December 31, 2015, the Company's ICFR was effective based on those criteria.

### **1.15.4 Changes in Internal Control over Financial Reporting**

There has been no change in the Company's ICFR during the year ended December 31, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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#### **1.15.5 Limitations of Controls and Procedures**

The Company's management, including its CEO and CFO, believe that any system of disclosure controls and procedures or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

#### **1.15.6 Risk Factors**

The securities of Northern Dynasty are highly speculative and subject to a number of risks. A prospective investor or other person reviewing Northern Dynasty for a prospective investor should not consider an investment in Northern Dynasty unless the investor is capable of sustaining an economic loss of their entire investment. The risks associated with Northern Dynasty's business include:

##### *Inability to Achieve Mine Permitting Of the Pebble Project*

The principal risk facing the Company is that it will be ultimately be unable to secure the necessary permits under United States Federal and Alaskan State laws to build a mine at Pebble. There are prominent and well organized opponents of the Pebble Project and the Company may be unable, despite developing solid scientific and technical evidence of risk mitigation, to overcome such opposition and convince mining regulatory authorities that a mine should be permitted at Pebble. If we are unable to secure the necessary permits to build a mine at the Pebble Project, we may be unable to achieve revenues from operations and/or recover our investment in the Pebble Project.

##### *Negative Operating Cash Flow*

The Company currently has a negative operating cash flow and will continue to have that for the foreseeable future. Accordingly, the Company will require substantial additional capital in order to fund its future exploration and development activities. The Company does not have any arrangements in place for this funding and there is no assurance that such funding will be achieved when required. Any failure to obtain additional financing or failure to achieve profitability and positive operating cash flows will have a material adverse effect on its financial condition and results of operations.

##### *The Pebble Project is Subject to Political and Environmental Regulatory Opposition*

As is typical for a large scale mining project, the Pebble Project faces concerted opposition from many individuals and organizations who are motivated to preclude any possible mining in the Bristol Bay Watershed ("BBW"). The BBW is an important wildlife and salmon habitat area. The United States Environmental Protection Agency has gone so far as to suggest that it may peremptorily prevent the Pebble Project from proceeding even before a mine permitting application is filed. Accordingly one of the greatest risks to the Pebble Project is seen to be political/permitting risk which may ultimately preclude construction of a mine at Pebble.

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*Northern Dynasty Will Require Additional Funding to Meet the Development Objectives of the Pebble Project.*

Northern Dynasty will need to raise additional financing (share issuances, debt or asset level partnering) to achieve permitting and development of the Pebble Project. In addition, a positive production decision at the Pebble Project would require significant capital for project engineering and construction. Accordingly, the continuing development of the Pebble Project will depend upon Northern Dynasty's ability to obtain financing through debt financing, equity financing, the joint venturing of the project, or other means. There can be no assurance that Northern Dynasty will be successful in obtaining the required financing, or that it will be able to raise the funds on terms that do not result in high levels of dilution to shareholders.

*The Pebble Partnership's Mineral Property Interests Do Not Contain Any Ore Reserves or Any Known Body of Economic Mineralization.*

Although there are known bodies of mineralization on the Pebble Project, and the Pebble Partnership has completed core drilling programs within, and adjacent to, the deposits to determine measured and indicated resources, there are currently no known reserves or body of commercially viable ore and the Pebble Project must be considered an exploration prospect only. Extensive additional work is required before Northern Dynasty or the Pebble Partnership can ascertain if any mineralization may be economic and hence constitute "ore".

*Mineral Resources Disclosed by Northern Dynasty or the Pebble Partnership for the Pebble Project are Estimates Only.*

Northern Dynasty has included mineral resource estimates that have been made in accordance with National Instrument 43-101. These resource estimates are classified as "measured resources", "indicated resources" and "inferred resources". Northern Dynasty advises investors that while these terms are mandated by Canadian securities administrators, the U.S. Securities and Exchange Commission does not recognize these terms. Investors are cautioned not to assume that any part or all of mineral deposits classified as "measured resources" or "indicated resources" will ever be converted into ore reserves. Further, "inferred resources" have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or prefeasibility studies, except in rare cases. Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

All amounts of mineral resources are estimates only, and Northern Dynasty cannot be certain that any specified level of recovery of metals from the mineralized material will in fact be realized or that the Pebble Project or any other identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body that can be economically exploited. Mineralized material which is not mineral reserves does not have demonstrated economic viability. In addition, the quantity of mineral reserves and mineral resources may vary depending on, among other things, metal prices and actual results of mining. There can be no assurance that any future economic or technical assessments undertaken by the Company with respect to the Pebble Project will demonstrate positive economics or feasibility.

*Northern Dynasty Has No History Of Earnings and No Foreseeable Earnings, and May Never Achieve Profitability or Pay Dividends.*

Northern Dynasty has only had losses since inception and there can be no assurance that Northern Dynasty will ever be profitable. Northern Dynasty has paid no dividends on its shares since incorporation. Northern Dynasty presently has no ability to generate earnings as its mineral properties are in the pre-development stage.

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*Northern Dynasty's Consolidated Financial Statements Have Been Prepared Assuming Northern Dynasty Will Continue on a Going Concern Basis.*

Northern Dynasty's consolidated financial statements have been prepared on the basis that Northern Dynasty will continue as a going concern. At December 31, 2015, Northern Dynasty had working capital of approximately \$7.9 million. Northern Dynasty has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required to pursue any material work programs at the Pebble Project. Northern Dynasty's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interest are entirely dependent upon the existence of economically recoverable mineral reserves at the Pebble Project, the ability of the Company to finance the completion of the exploration and development of the Pebble Project, the Pebble Partnership obtaining the necessary permits to mine, and on future profitable production at the Pebble Project. Furthermore, failure to continue as a going concern would require that Northern Dynasty's assets and liabilities be restated on a liquidation basis, which would likely differ significantly from their going concern assumption carrying values. Refer also to discussion in [1.6 Liquidity](#).

*As the Pebble Project is Northern Dynasty's Principal Mineral Property Interest, Failure to Establish that the Pebble Project Possesses Commercially Viable and Legally Mineable Deposits of Ore May Cause a Significant Decline in the Trading Price of Northern Dynasty's Common Shares and Reduce Its Ability to Obtain New Financing.*

The Pebble Project is, through the Pebble Partnership, Northern Dynasty's principal mineral property interest. Northern Dynasty's principal business objective is to carry out further exploration and related activities to establish whether the Pebble Project possesses commercially viable deposits of ore. If Northern Dynasty is not successful in its plan of operations, Northern Dynasty may have to seek a new mineral property to explore or acquire an interest in a new mineral property or project. Northern Dynasty anticipates that such an outcome would possibly result in further declines in the trading price of Northern Dynasty's common shares. Furthermore, Northern Dynasty anticipates that its ability to raise additional financing to fund exploration of a new property or the acquisition of a new property or project would be impaired as a result of the failure to establish commercial viability of the Pebble Project.

*If Prices for Copper, Gold and Molybdenum Decline, Northern Dynasty May Not Be Able to Raise the Additional Financing Required to Fund Expenditures for the Pebble Project.*

The ability of Northern Dynasty to raise financing to fund the Pebble Project, will be significantly affected by changes in the market price of the metals for which it explores. The prices of copper, gold and molybdenum are volatile, and are affected by numerous factors beyond Northern Dynasty's control. The level of interest rates, the rate of inflation, the world supplies of and demands for copper, gold and molybdenum and the stability of exchange rates can all cause fluctuations in these prices. Such external economic factors are influenced by changes in international investment patterns and monetary systems and political developments. The prices of copper, gold and molybdenum have fluctuated in recent years, and future significant price declines could cause investors to be unprepared to finance exploration of copper, gold and molybdenum, with the result that Northern Dynasty may not have sufficient financing with which to fund its exploration activities.

*Northern Dynasty Competes with Larger, Better Capitalized Competitors in the Mining Industry.*

The mining industry is competitive in all of its phases, including financing, technical resources, personnel and property acquisition. It requires significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over Northern Dynasty. Northern Dynasty faces strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than Northern Dynasty possesses. As a result of this competition,

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Northern Dynasty may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms Northern Dynasty considers acceptable or at all.

*Compliance With Environmental Requirements Will Take Considerable Resources and Changes to these Requirements Could Significantly Increase the Costs of Developing the Pebble Project and Could Delay these Activities.*

The Pebble Partnership and Northern Dynasty must comply with stringent environmental legislation in carrying out work on the Pebble Project. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Changes in environmental legislation could increase the cost to the Pebble Partnership of carrying out its exploration and, if warranted, development of the Pebble Project. Further, compliance with new or additional environmental legislation may result in delays to the exploration and, if warranted, development activities.

*Changes in Government Regulations or the Application Thereof and the Presence of Unknown Environmental Hazards on Northern Dynasty's Mineral Properties May Result in Significant Unanticipated Compliance and Reclamation Costs.*

Government regulations relating to mineral rights tenure, permission to disturb areas and the right to operate can adversely affect Northern Dynasty. Northern Dynasty and the Pebble Partnership may not be able to obtain all necessary licenses and permits that may be required to carry out exploration at our projects. Obtaining the necessary governmental permits is a complex, time-consuming and costly process. The duration and success of efforts to obtain permits are contingent upon many variables not within our control. Obtaining environmental permits may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary approvals and permits will be obtained and, if obtained, that the costs involved will not exceed those that we previously estimated. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that we would not proceed with the development or operation of a mine at the Pebble Project. Refer to further discussion in [1.2.1.2 Legal Matters](#).

#### *Litigation*

The Company is currently and may in future be subject to legal proceedings in the development of its Pebble Project. Given the uncertain nature of these actions, the Company cannot reasonably predict the outcome thereof. If the Company is unable to resolve these matters favorably it may have a material adverse effect of the Company.

*Northern Dynasty is Subject to Many Risks that Are Not Insurable and, as a Result, Northern Dynasty Will Not Be Able to Recover Losses Through Insurance Should Certain Events Occur.*

Hazards such as unusual or unexpected geological formations and other conditions are involved in mineral exploration and development. Northern Dynasty may become subject to liability for pollution, cave-ins or hazards against which it cannot insure. The payment of such liabilities could result in increase in Northern Dynasty's operating expenses which could, in turn, have a material adverse effect on Northern Dynasty's financial position and its results of operations. Although Northern Dynasty and the Pebble Partnership maintain liability insurance in an amount which we consider adequate, the nature of these risks is such that the liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or Northern Dynasty and the Pebble Partnership might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event Northern Dynasty could incur significant liabilities and costs that could materially increase Northern Dynasty's operating expenses.

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*The Market Price of Northern Dynasty's Common Shares is Subject to High Volatility and Could Cause Investor Loss.*

The market price of a publicly traded stock, especially a resource issuer like Northern Dynasty, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of markets for resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public markets for the stock. The effect of these and other factors on the market price of the Company's common shares suggests Northern Dynasty's shares will continue to be volatile. Therefore, investors could suffer significant losses if Northern Dynasty's shares are depressed or illiquid when an investor seeks liquidity and needs to sell Northern Dynasty shares.

*If Northern Dynasty Loses the Services of Key Personnel that It Engages to Undertake Its Activities, then Northern Dynasty's Plan of Operations May Be Delayed or Be More Expensive to Undertake than Anticipated.*

Northern Dynasty's success depends to a significant extent on the performance and continued service of certain independent contractors, including HDSI (refer [1.9 Transactions with Related Parties](#)). The Company has access to the full resources of HDSI, an experienced exploration and development firm with in-house geologists, engineers and environmental specialists, to assist in its technical review of the Pebble Project. There can be no assurance that the services of all necessary key personnel will be available when required or if obtained, that the costs involved will not exceed those that we previously estimated. It is possible that the costs and delays associated with the loss of services of key personnel could become such that we would not proceed with the development or operation of a mine at the Pebble Project.