Northern Dynasty Minerals Ltd.

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2017 AND 2016

(Expressed in thousands of Canadian Dollars)

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Northern Dynasty Minerals Ltd. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred a consolidated net loss of $64.9 million during the year ended December 31, 2017 and, as of that date, the Company's consolidated deficit was $471.0 million. As stated in Note 1 to the financial statements, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that raise substantial doubt on the Company's ability to continue as a going concern.

Basis for Opinion

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Those standards also require that we comply with ethical requirements. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. Further, we are required to be independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and to fulfill our other ethical responsibilities in accordance with these requirements.

An audit includes performing procedures to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a reasonable basis for our audit opinion.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, Canada

March 29, 2018

We have served as the Company's auditor since 2009.

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

	Notes	**December 31 2017**	December 31 2016
ASSETS			
Non-current assets			
Restricted Cash	6(b)	757	–
Mineral property, plant and equipment	4	$ 133,711	$ 142,472
Total non-current assets		134,468	142,472
Current assets			
Amounts receivable and prepaid expenses	5	994	679
Cash and cash equivalents	6(a)	67,158	7,196
Total current assets		68,152	7,875
Total Assets		**$ 202,620**	**$ 150,347**
EQUITY			
Capital and reserves			
Share capital	7	$ 513,304	$ 452,132
Reserves		95,168	102,821
Deficit		(470,971)	(406,106)
Total equity		137,501	148,847
LIABILITIES			
Non-current liabilities			
Non-refundable early option price installment	3	47,149	–
Trade and other payables	9	6,650	–
Total non-current liabilities		53,799	–
Current liabilities			
Payables to related parties	8	1,052	240
Trade and other payables	9	10,268	1,260
Total current liabilities		11,320	1,500
Total liabilities		65,119	1,500
Total Equity and Liabilities		**$ 202,620**	**$ 150,347**

Commitments (note 14)

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 */s/ Christian Milau*

Ronald W. Thiessen
Director

Christian Milau
Director

Northern Dynasty Minerals Ltd.

Consolidated Statements of Comprehensive Loss

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

		Year ended December 31	
	Notes	**2017**	2016
Expenses			
Exploration and evaluation expenses	4, 11	$ 22,594	$ 7,935
General and administrative expenses	11	9,384	6,729
Legal, accounting and audit		26,358	9,442
Share-based compensation	7(d)-(f)	5,858	2,995
Loss from operating activities		64,194	27,101
Foreign exchange loss (gain)		1,133	(43)
Interest income		(462)	(33)
Other income		–	(11)
Amount receivable written off		–	15
Gain on sale of available-for-sale financial assets		–	(70)
Loss on sale of plant and equipment		–	23
Loss before tax		64,865	26,982
Deferred Income tax (recovery) expense		–	–
Net loss		**$ 64,865**	**$ 26,982**
Other comprehensive loss (income)			
Items that may be subsequently reclassified to net loss			
Foreign exchange translation difference	4, 7(g)	8,299	4,246
Derecognition of available-for-sale financial assets		–	(105)
Other comprehensive loss		**$ 8,299**	**$ 4,141**
Total comprehensive loss		**$ 73,164**	**$ 31,123**
Basic and diluted loss per common share	10	$ 0.22	$ 0.11

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 **2017**	2016
Operating activities			
Net loss		$ (64,865)	$ (26,982)
Non-cash or non operating items			
Amount receivable written off		–	15
Depreciation		176	205
Gain on disposal of available-for-sale financial assets		–	(70)
Gain on sale of surplus site inventory		–	(11)
Loss on sale of plant and equipment		–	23
Interest earned on cash		(462)	(33)
Non-current legal fees payable		6,865	–
Share-based compensation		5,858	2,995
Unrealized exchange loss		511	68
Changes in working capital items			
Restricted cash	6(b)	(796)	453
Amounts receivable and prepaid expenses		(317)	405
Trade and other payables		9,618	(645)
Payables to related parties		393	(437)
Net cash used in operating activities		(43,019)	(24,014)
Investing activities			
Acquisition of plant and equipment		(473)	–
Proceeds from disposal of available-for-sale financial assets		–	1,754
Proceeds from sale of surplus site inventory		–	11
Interest received on cash and cash equivalents		414	33
Net cash (used in) from investing activities		(59)	1,798
Financing activities			
Net proceeds from prospectus financing	7(b)	–	16,030
Net proceeds from private placement	7(b)	–	1,967
Net proceeds from bought deal financing	7(b)	45,887	–
Cash settlement of equity-settled restricted share units	7(f)	(1,098)	–
Withholding taxes paid on equity-settled restricted share units	7(f)	(30)	–
Non-refundable early option price installment	3	48,308	–
Proceeds from the exercise of share purchase options	7(c)-(d)	1,803	611
Proceeds from the exercise of warrants	7(c)	9,817	3,363
Net cash from financing activities		104,687	21,971
Net increase in cash and cash equivalents		61,609	(245)
Effect of exchange rate fluctuations on cash and cash equivalents		(1,647)	(68)
Cash and cash equivalents - beginning balance		7,196	7,509
Cash and cash equivalents - ending balance	6(a)	**$ 67,158**	**$ 7,196**

Supplementary cash flow information (note 6(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					
		Number of shares (note 7(a)	**Amount**	**Equity - settled share-based compensation reserve**	**Foreign currency translation reserve** (note 7(g))	**Investment revaluation reserve**	**Share Purchase Warrants** (note 7(c))	**Deficit**	**Total equity**
Balance at January 1, 2016		221,939,376	$ 435,069	$ 56,197	$ 40,479	$ (107)	$ 2,466	$ (379,124)	$ 154,980
Shares issued pursuant to private placement, net of transaction costs	7(b)	4,444,376	1,264	–	–	–	–	–	1,264
Shares issued pursuant to prospectus financing, net of transaction costs	7(b)	38,000,000	10,347	–	–	–	–	–	10,347
Shares issued on exercise of options per option plan	7(d)	548,869	503	–	–	–	–	–	503
Shares issued upon exercise of options not under option plan	7(c)	376,000	132	–	–	–	–	–	132
Shares issued upon exercise of warrants	7(c)	5,560,940	3,363	–	–	–	–	–	3,363
Warrants issued pursuant to private placement, net of transaction costs	7(b)	–	–	–	–	–	703	–	703
Warrants issued pursuant to prospectus financing, net of transaction costs	7(b)	–	–	–	–	–	5,683	–	5,683
Fair value allocated to shares issued on options exercised per plan	7(d)	–	266	(266)	–	–	–	–	–
Fair value allocated to shares issued on options exercised not under option plan	7(c)	–	98	–	–	–	(98)	–	–
Fair value and costs allocated to share capital on exercise of warrants		–	1,090	–	–	–	(1,090)	–	–
Share-based compensation	7(d)-(f)	–	–	2,995	–	–	–	–	2,995
Net loss		–	–	–	–	–	–	(26,982)	(26,982)
Other comprehensive (loss) income net of tax		–	–	–	(4,246)	105	–	–	(4,141)
Total comprehensive loss									(31,123)
Balance at December 31, 2016		**270,869,561**	**$ 452,132**	**$ 58,926**	**$ 36,233**	**$ (2)**	**$ 7,664**	**$ (406,106)**	**$ 148,847**
Balance at January 1, 2017		270,869,561	$ 452,132	$ 58,926	$ 36,233	$ (2)	$ 7,664	$ (406,106)	$ 148,847
Shares issued pursuant to bought deal financing, net of transaction costs	7(b)	20,240,000	45,887	–	–	–	–	–	45,887
Shares issued on exercise of options per option plan	7(d)	1,277,200	1,756	–	–	–	–	–	1,756
Shares issued on exercise of options not under option plan	7(c)	118,800	47	–	–	–	–	–	47
Shares issued upon exercise of warrants	7(c)	15,710,201	9,817	–	–	–	–	–	9,817
Shares issued pursuant to restricted share unit plan	7(f)	22,094	49	(49)	–	–	–	–	–
Cash settlement of tax on issue of equity-settled restricted share units	7(f)	–	–	(30)	–	–	–	–	(30)
Cash settlement of equity-settled restricted share units	7(f)	–	–	(1,098)	–	–	–	–	(1,098)
Fair value allocated to shares issued on options exercised per plan	7(d)	–	822	(822)	–	–	–	–	–
Fair value allocated to shares issued on options exercised not under option plan	7(c)	–	44	–	–	–	(44)	–	–
Fair value and costs transferred to share capital on exercise of warrants	7(c)	–	2,750	–	–	–	(2,750)	–	–
Fair value transferred to reserve on expiry of warrants	7(c)	–	–	38	–	–	(38)	–	–
Share-based compensation	7(d)-(f)	–	–	5,439	–	–	–	–	5,439
Net loss		–	–	–	–	–	–	(64,865)	(64,865)
Other comprehensive loss net of tax		–	–	–	(8,299)	–	–	–	(8,299)
Total comprehensive loss									(73,164)
Balance at December 31, 2017		**308,237,856**	**$ 513,304**	**$ 62,404**	**$ 27,934**	**$ (2)**	**$ 4,832**	**$ (470,971)**	**$ 137,501**

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

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, 15th floor, Vancouver, British Columbia.

The consolidated financial statements ("Financial Statements") of the Company as at and for the year ended December 31, 2017, 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"). All US Dollar amounts when presented are expressed in thousands, unless otherwise stated.

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, 2017, the company raised gross proceeds of US$37,440 ($49,067) through a bought deal financing (note 7(b)), $11,620 from the exercise of share purchase options and warrants (notes 7(c)-(d)) and received an early option price installment of US37,500 ($48,308) (note 3).

As at December 31, 2017, the Group has $67,158 in cash and cash equivalents for its operating requirements. The Group incurred a net loss of $64,865 and $26,982 during the years ended December 31, 2017 and 2016, respectively and had a deficit $470,971 as at December 31, 2017. The Group is required to utilize the non-refundable early price installment funds (note 3) solely for permitting related expenditures at the Pebble Project. The Group has prioritized the allocation of the remaining available financial resources to meet key corporate expenditure requirements in the near term. Additional financing will be required for working capital for the Company as well as to progress any material expenditures at the Pebble Project in 2018 should there be no formal agreement entered into (note 3). 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 raises substantial doubt about the Group's ability to continue as a going concern.

From 2014-to May 2017, the Group was focused on a multi-dimensional strategy which included legal and other initiatives designed to ward off a pre-emptive regulatory action by the *United States Environmental Protection Agency* (the "EPA") under the *Clean Water Act* ("CWA"). On May 12, 2017, the Group announced that the Pebble Limited Partnership (the "Pebble Partnership") and the EPA had reached a joint settlement agreement over the federal agency's pre-emptive regulatory action. As a result of the joint settlement, the Group through the Pebble Partnership, filed documentation for a CWA 404 permit with the US Army Corps of Engineers ("USACE") on December 22, 2017, thereby initiating federal and state permitting for the Pebble Project under the *National Environmental Protection Act* ("NEPA") which documentation was accepted as complete by the USACE in January 2018.

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

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 for the year ended December 31, 2017. These Financial Statements were authorized for issue by the Board of Directors on March 28, 2018.

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

(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
3537137 Canada Inc. [1]	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% interest in the Pebble Limited Partnership and 100% of Pebble Mines Corp.	100% (indirect)
Pebble Limited Partnership	Alaska, USA	Holding Company and Exploration of the Pebble Project.	100% (indirect)
Pebble Mines Corp.	Delaware, USA	General Partner. Holds 0.1% interest in the Pebble Limited Partnership.	100% (indirect)
Pebble West Claims Corporation [2]	Alaska, USA	Holding Company. Subsidiary of the Pebble Limited Partnership.	100% (indirect)
Pebble East Claims Corporation [2]	Alaska, USA	Holding Company. Subsidiary of the Pebble Limited Partnership.	100% (indirect)
U5 Resources Inc. [3]	Nevada, USA	Holding Company. Wholly-owned subsidiary of the Company.	100%
Cannon Point Resources Ltd.	British Columbia, Canada	Not active. Wholly-owned subsidiary of the Company.	100%
MGL Subco Ltd.	British Columbia, Canada	Not active. Wholly-owned subsidiary of the Company.	100%
Delta Minerals Inc.	British Columbia, Canada	Not active. Wholly-owned subsidiary of MGL Subco Ltd.	100% (indirect)
Imperial Gold Corporation	British Columbia, Canada	Not active. Wholly-owned subsidiary of Delta Minerals Inc.	100% (indirect)

Name of Subsidiary	Place of Incorporation	Principal Activity	Ownership
Yuma Gold Inc.	Nevada, USA	Not active. Wholly-owned subsidiary of Imperial Gold Corporation.	100% (indirect)

Notes:

1. Holds 20% interest in the Northern Dynasty Partnership. The Company holds the remaining 80% interest.
2. Both entities together hold 2,182 claims of the Pebble Project.
3. Holds 220 claims of the Pebble Project. Subsequent to the reporting date, these claims were sold to Pebble West Claims Corporation.

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) 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 U5 Resources Inc., Pebble Services Inc., Pebble Mines Corp., the Pebble Partnership and its subsidiaries, and Yuma Gold Inc. 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 the 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 value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

(e) Financial Instruments

Non-derivative financial assets:

The Group has the following non-derivative financial assets: available-for-sale financial assets (of nominal value) 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 and restricted cash (note 6), and amounts receivable (note 5).

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, guaranteed investment certificates and government treasury bills at major financial institutions and are available on demand by the Group when required 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 of trade and other payables (note 9) and payables to related parties (note 8).

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.

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 reporting period.

Derivative financial assets and liabilities:

The Group has no derivative financial assets or liabilities.

(f) 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.

(g) 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.

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.

(h) 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.

(i) Share Capital, Special Warrants and Warrants

Common shares, special warrants and warrants (notes 7(b)-(c)) are classified as equity. Transaction costs directly attributable to the issue of common shares, share purchase options, special warrants and warrants are recognized as a deduction from equity, net of any tax effects. Where units comprising of common shares and warrants are issued (note 7(b)), the proceeds and any transaction costs are apportioned between the common shares and warrants according to their relative fair values.

Upon conversion of special warrants and warrants into common shares, the carrying amount, net of a pro rata share of the transaction costs, is transferred to common share capital.

(j) Share-based Payment Transactions

Equity-settled share-based Option Plan

The Group operates an equity-settled share-based option plan for its employees and service providers (note 7(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 (the "Equity Reserve"). 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 Reserve. The fair value of 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.

Deferred Share Unit ("DSU") Plan

The Group has a DSU plan for its non-executive directors. The Group determines whether to account for DSUs as equity-settled or cash-settled based on the terms of the contractual arrangement. The fair value of DSUs granted is recognized as an employee expense with a corresponding increase in the Equity Reserve if deemed equity-settled or a liability is raised if cash-settled at grant date.

The fair value is estimated using the TSX quoted market price of the Company's common shares at grant date and expensed over the vesting period as share-based compensation in the statement of loss and comprehensive loss until they are fully vested. If the DSUs are cash-settled, the expense and liability are adjusted each reporting period for changes in the TSX quoted market price of the Company's common shares.

Restricted Share Unit ("RSU") Plan

The Group has a RSU plan for its employees, executive directors and eligible consultants of the Group. The Group determines whether to account for the RSUs as equity-settled or cash-settled based on the terms of the contractual arrangement. The fair value of RSUs is recognized as an employee expense with a corresponding increase in the Equity Reserve if deemed equity –settled or a liability is raised if cash settled at grant date.

The fair value is estimated using the number of RSUs and the quoted market price of the Company's common shares at the grant date. It is then expensed over the vesting period with the credit recognized in equity in the Equity Reserve. If cash-settled, the expense and liability are adjusted each reporting period for changes in the quoted market value of the Company's common shares.

(k) 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.

(l) 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 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. As a condition for the issue of the Miscellaneous Land Use Permit at the Pebble Project, the Pebble Partnership has posted a bond with the Alaskan regulatory authorities as performance guarantee for any potential reclamation liability (note 6(b)).

(m) Loss per Share

The Group presents basic and diluted loss per share information 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 any fully prepaid special warrants 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.

(n) Segment Reporting

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

(o) 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 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. The weighted average assumptions applied are disclosed in note 7(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 any deferred income tax liabilities included in the Statement of Financial Position.

Critical accounting judgments

These include:

1. In terms of IFRS 6, *Exploration for and Evaluation of Mineral Resources,* management determined that there were no circumstance and facts that indicated that testing the Group's mineral property interest ("MPI") for impairment was necessary.
2. Pursuant to IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") in determining the functional currency of the parent and its subsidiaries, the Group used judgment in identifying 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 each entity operates.
3. The Group has employed judgement that going concern was an appropriate basis for the preparation of the Financial Statements, as the Group considered existing and future available financial resources in determining that such financial resources are able to meet key corporate and Pebble Project expenditure requirements for at least the next twelve months (note 1).
4. The Group employed judgment in the accounting for the non-refundable early option price installment received by the Group pursuant to the framework agreement with First Quantum Minerals Ltd. (note 3) as a non-current liability at the reporting date as no interest in the Pebble Partnership had been acquired or an option agreement to acquire an interest had been entered into.

(p) Amendments, Interpretations, Revised and New Standards Adopted by the Group

The Group adopted the following amendments and annual improvements that became effective January 1, 2017:

- Amendments to IAS 7, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to IAS 12, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*
- Annual improvements to IFRS *2014 – 2016 Cycle – Amendments to IFRS 12, Disclosure of Interests in Other Entities*

The amendments and annual improvements had no material effect on the Financial Statements.

Early adoption

- Amendments to IFRS 2, *Share-based Payment* ("IFRS 2") – *Classification and Measurement of Share-based Payment Transactions*

The amendments to IFRS 2 clarify: a) the accounting for cash-settled share-based payment transactions that include a performance condition and include accounting requirements; b) the classification of share based payment transactions with net settlement features. This amendment provides for an exception for a share-based payment arrangement that is settled on a net basis to be classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature; and c) the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods on or after January 1, 2018 with early application permitted.

The Group has early adopted these amendments and accordingly has classified share-based compensation with a net settlement feature as equity-settled and measured it accordingly (note 7(f)).

(q) Accounting Standards, Amendments and Revised Standards Not Yet Effective

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

- IFRS 9, *Financial Instruments* ("IFRS 9")

  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). The standard permits early adoption.

  The Group will adopt IFRS 9 at the effective date and anticipates that the adoption will have no material impact on its financial statements given the extent of its current use of financial instruments.

- IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

  IFRS 15 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. The standard permits early adoption.

  The Group will adopt IFRS 15 at the effective date and anticipates that the adoption will have no material impact on its financial statements as the Group does not generate significant revenue given the Group's current stage of development of the Pebble Project. The Group will reassess the impact once significant revenue is generated.

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

- IFRS 16, Leases ("IFRS 16").

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

IFRS 16 specifies how to recognize, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the term of the lease is twelve months or less or the underlying asset has a low value. Lessor accounting however remains unchanged from IAS 17 and the distinction between operating and finance leases is retained. IFRS 16 now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors.

The Group will adopt IFRS 16 at the effective date and anticipates that the adoption will not have a significant impact other than the accounting for office, accommodation and storage leases the Group may have entered into where the minimum lease term is more than 12 months.

3. FRAMEWORK AGREEMENT WITH FIRST QUANTUM MINERALS LTD.

In December 2017, the Group announced the signing of a framework agreement with First Quantum Minerals Ltd. ("First Quantum"). The framework agreement contemplates that an affiliate of First Quantum may subsequently execute an option agreement with the Group. The option agreement contemplates an option payment of US$150 million staged over four years which will entitle First Quantum to acquire the right to earn a 50% interest in the Pebble Partnership for US$1.35 billion. The option period may be extended for up to 2 years by First Quantum making payments to be agreed upon which amounts will be offset against the US$1.35 billion additional investment amount. The Group received a non-refundable early option payment of US$37,500 ($48,308) ("Non-refundable Early Option Price Installment"). The Non-refundable Early Option Price Installment is to be applied solely for the purpose of progressing the permitting of the Pebble Project.

As the entry by First Quantum into the option agreement is contingent upon the completion of due diligence, obtaining necessary regulatory approvals and the successful negotiation of the final form of the option agreement and associated commercial agreements, the Group has recorded the Non-refundable Early Option Price Installment as a non-current payable.

4. MINERAL PROPERTY, PLANT AND EQUIPMENT

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

Year ended December 31, 2017	Mineral Property interest [1]	Plant and equipment	Total
Cost			
Beginning balance	$ 112,541	$ 881	$ 113,422
Additions	–	473	473
Ending balance	112,541	1,354	113,895
Accumulated depreciation			
Beginning balance	–	(558)	(558)
Depreciation [2]	–	(176)	(176)
Ending balance	–	(734)	(734)
Foreign currency translation difference	20,361	189	20,550
Net carrying value – Ending balance	**$ 132,902**	**$ 809**	**$ 133,711**

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

Year ended December 31, 2016	Mineral Property interest [1]	Plant and equipment	Total
Cost			
Beginning balance	$ 112,541	$ 1,032	$ 113,573
Dispositions	–	(151)	(151)
Ending balance	112,541	881	113,422
Accumulated depreciation			
Beginning balance	–	(481)	(481)
Depreciation [2]	–	(205)	(205)
Eliminated on disposal	–	128	128
Ending balance	–	(558)	(558)
Foreign currency translation difference	29,381	227	29,608
Net carrying value – Ending balance	$ 141,922	$ 550	$ 142,472

Notes to tables:

1. Comprises the Pebble Project, a contiguous block of 2,402 mineral claims covering approximately 417 square miles located in southwest Alaska, 17 miles (30 kilometers) from the villages of Iliamna and Newhalen, and approximately 200 miles (320 kilometers) southwest of the city of Anchorage.

2. Depreciation is included in exploration and evaluation expenses.

5. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31 2017	December 31 2016
Sales tax receivable	$ 96	$ 50
Amounts receivable	487	138
Prepaid expenses	411	491
Total	$ 994	$ 679

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

6. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) *Cash and Cash Equivalents*

	December 31 2017	December 31 2016
Business and savings accounts [1]	$ 62,830	$ 7,196
Guaranteed Investment Certificates	4,328	–
Total	$ 67,158	$ 7,196

Note:

1. $47,149 of this amount relates to the Non-refundable Early Option Price Installment of US$37,500 received which is to be used solely for progressing permitting at the Pebble Project (note 3).

Supplementary cash flow information

Non-cash investing and financing activities:

In the year ended December 31, 2017:

- 61,500 warrants were exercised into common shares for which payment was received subsequent to the reporting date (note 7(a)); and
- 22,094 common shares were issued to settle the payout of vested RSUs (note 7(f)).

(b) *Restricted Cash*

The Group has a cash deposit of US$600 ($757) with a United States financial institution which has been pledged as collateral to the surety provider for the surety bond accepted by the Alaskan regulatory authorities (see below). The cash deposit will be released once any reclamation work required has been performed and assessed by the Alaskan regulatory authorities.

The Group posted a bond of US$2,000 with the Alaskan regulatory authorities for a performance guarantee related to any potential reclamation liability as a condition of the Miscellaneous Land Use Permit granted to the Pebble Partnership for its ongoing activities on the Pebble Project.

7. CAPITAL AND RESERVES

(a) *Authorized Share Capital*

At December 31, 2017, the authorized share capital comprised an unlimited (2016 – unlimited) number of common shares with no par value. As of the reporting date, 308,176,356 common shares were issued and fully paid. A further 61,500 common shares were issued but were delivered and paid for subsequent to December 31, 2017 (note 6(a)).

(b) *Financings and Other*

January 2017

The Group completed a bought deal offering (the "Offering") of 20,240,000 common shares at US$1.85 per common share for gross proceeds of US$37,440 ($49,067). The Offering was completed by way of a prospectus filed in all of the provinces of Canada, other than Québec, and was offered in the United States pursuant to a prospectus filed as part of an effective registration statement on Form F-10 filed with the United States Securities and Exchange Commission under the Canada/U.S. multi-jurisdictional disclosure system. After transaction costs of $3,180, including a 5% commission paid to the underwriters, the Group raised net proceeds of $45,887.

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

July 2016

In July 2016, the Group completed a private placement of 4,444,376 units in the capital of the Company, each unit comprising of one common share and one share purchase warrant, at a price of $0.45 per unit for gross proceeds of $2,000. Each share purchase warrant is exercisable into one common share at an exercise price of $0.65 per common share until June 10, 2021. The Group incurred $33 in issuance costs related to regulatory and legal fees. The Group apportioned the gross proceeds and issuance costs between share capital and warrants based on their relative fair values on date of issue. Accordingly, net proceeds of $1,264 was allocated to share capital and $703 to warrants.

June 2016

The Group completed a prospectus offering of 38,000,000 units in the capital of the Company at a price of $0.45 per unit for gross proceeds of approximately $17,100. Each Unit consisted of one common share and one common share purchase warrant, which entitles the holder to purchase an additional common share at an exercise price of $0.65 per common share until June 10, 2021. The Group incurred a total of $1,072 in issuance costs related to agents, advisory, regulatory and legal fees. The Group apportioned the gross proceeds and issuance costs between share capital and warrants based on the relative fair values of the common shares and warrants on date of issue. Accordingly, net proceeds of $10,347 was allocated to share capital and $5,683 to warrants.

(c) Share Purchase Warrants and Options not Issued under the Group's Incentive Plan

The following tables reconciles warrants and non-employee options (options which are not issued under the Group's incentive plan (note 7(d)), each exercisable to acquire one common share, for the year ended December 31, 2017 and 2016 respectively:

		Year ended December 31, 2017				
Exercise price ($)	Expiry date	Beginning Balance	Issued	Exercised	Expired	Ending Balance
Options issued pursuant to acquisition of Cannon Point [1]						
0.37	July 23, 2017	18,800	–	(18,800)	–	–
0.37	June 30, 2019	56,400	–	–	–	56,400
0.40	June 30, 2019	148,050	–	(100,000)	–	48,050
0.37	March 10, 2021	9,400	–	–	–	9,400
0.40	March 10, 2021	82,250	–	–	–	82,250
0.37	December 15, 2021	37,600	–	–	–	37,600
0.40	December 12, 2022	56,400	–	–	–	56,400
0.29	December 8, 2024	37,600	–	–	–	37,600
Total		446,500	–	(118,800)	–	327,700

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

Exercise price ($)	Expiry date	Year ended December 31, 2017 Beginning Balance	Issued	Exercised	Expired	Ending Balance
Warrants issued pursuant to acquisition of Mission Gold [1]						
0.55	July 9, 2020	11,288,698	–	(4,163,052)	–	7,125,646
3.00	September 14, 2017	2,871,676	–	(8,952)	(2,862,724)	–
Total		14,160,374	–	(4,172,004)	(2,862,724)	7,125,646
Warrants issued pursuant to financings [3]						
0.65	June 10, 2021	39,396,410	–	(11,538,197)	–	27,858,213
Total		39,396,410	–	(11,538,197)	–	27,858,213
Grand Total		54,003,284	–	(15,829,001)	(2,862,724)	35,311,559

Exercise price ($)	Expiry date	Year ended December 31, 2016 Beginning balance	Issued	Exercised	Expired	Ending balance
Options issued pursuant to acquisition of Cannon Point [1]						
0.29	January 29, 2016	150,400	–	(150,400)	–	–
0.37	January 29, 2016	220,900	–	(61,100)	(159,800)	–
0.40	January 29, 2016	150,400	–	–	(150,400)	–
0.43	January 29, 2016	37,600	–	–	(37,600)	–
0.37	July 23, 2017	18,800	–	–	–	18,800
0.37	June 30, 2019	56,400	–	–	–	56,400
0.40	June 30, 2019	225,600	–	(77,550)[2]	–	148,050
0.37	March 10, 2021	9,400	–	–	–	9,400
0.40	March 10, 2021	150,400	–	(68,150)[2]	–	82,250
0.37	December 15, 2021	37,600	–	–	–	37,600
0.40	December 12, 2022	75,200	–	(18,800)	–	56,400
0.29	December 8, 2024	37,600	–	–	–	37,600
Total		1,170,300	–	(376,000)	(347,800)	446,500

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

Exercise price ($)	Expiry date	Year ended December 31, 2016 Beginning balance	Issued	Exercised	Expired	Ending balance
Warrants issued pursuant to acquisition of Mission Gold [1]						
0.55	July 9, 2020	13,801,672	–	(2,512,974)	–	11,288,698
3.00	September 14, 2017	2,871,676	–	–	–	2,871,676
Total		16,673,348	–	(2,512,974)	–	14,160,374
Warrants issued pursuant to financings [3]						
0.65	June 10, 2021	–	42,444,376	(3,047,966)	–	39,396,410
Total		–	42,444,376	(3,047,966)	–	39,396,410
Grand Total		17,843,648	42,444,376	(5,936,940)	(347,800)	54,003,284

Notes to tables:

1. Pursuant to the acquisition of Cannon Point Resources Ltd. ("Cannon Point") and Mission Gold Ltd. ("Mission Gold") in October 2015 and December 2015 respectively, the Group exchanged options and warrants outstanding in these companies for options and warrants to purchase shares in the Company.

2. The numbers have been revised to correct a disclosure error in 2016 as 56,400 options exercised were incorrectly allocated to options with an expiry of June 30, 2019 instead of options with an expiry of March 10, 2021. There was no impact on loss and loss per share.

3. Refer to the 2016 prospectus and private placement financings in Note 7(b).

At December 31, 2017, warrants and non-employee options had a weighted average exercise price of $0.63 (December 31, 2016 – $0.75) and a weighted average remaining life of 3.26 years (December 31, 2016 – 4.05 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 "2017 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 RSU and DSU plans, calculated from time to time. Pursuant to the 2017 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.

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

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

	2017		2016	
Continuity of options	Number of options	Weighted average exercise price ($/option)	Number of options	Weighted average exercise price ($/option)
Beginning balance	15,861,131	0.92	9,755,600	1.27
Granted	5,808,000	1.75	6,806,000	0.49
Expired	(508,100)	2.88	(27,000)	15.44
Exercised	(1,277,200)	1.38	(548,869)	0.92
Forfeited	(36,400)	0.89	(38,000)	0.50
Cancelled	–	–	(86,600)	1.40
Ending balance	19,847,431	1.08	15,861,131	0.92

During the year ended December 31, 2017, the Group granted 133,200 (2016 – 150,000) options to consultants for advisory and administrative consulting services. The Group determined that given the nature of the services being provided and that are continued to be provided, it could not determine the fair value of these services reliably. As a consequence, the Group estimated that the value of these services approximated the fair value of the options granted measured using the Black-Scholes option pricing model which at December 31, 2017 amounted to $90 (2016 – $107).

For options granted in the year ended December 31, 2017, the weighted average fair value was estimated at $1.19 (2016 – $0.46) per option and was based on the Black-Scholes option pricing model using the following weighted average assumptions:

Assumptions	**2017**	2016
Risk-free interest rate	1.54%	0.54%
Expected life	4.51 years	4.73 years
Expected volatility [1]	93.82%	82.89%
Grant date share price	$1.74	$0.67
Expected dividend yield	Nil	Nil

Note:

1. Expected volatility is based on historical volatility of the Company's closing share price on the TSX.

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

Details of options exercised during each year were as follows:

Year ended December 31, 2017

Month	Number of options	Weighted average exercise price ($/option)	Weighted average market share price on exercise ($/option)
January 2017	502,200	1.60	3.70
February 2017	484,000	1.65	3.15
April 2017	15,000	0.89	2.03
May 2017	223,000	0.51	2.40
July 2017	10,000	0.50	1.78
September 2017	3,000	0.50	2.28
November 2017	40,000	0.50	2.56
	1,277,200	1.38	3.19

Year ended December 31, 2016

Month	Number of options	Weighted average exercise price ($/option)	Weighted average market share price on exercise ($/option)
August 2016	10,000	0.49	0.96
September 2016	46,667	0.50	1.00
October 2016	60,000	0.50	0.97
November 2016	271,668	1.20	1.56
December 2016	160,534	0.74	2.44
	548,869	0.92	1.70

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

The following tables summarize information about the Group's options as at December 31, 2017 and 2016:

Options outstanding	**2017**		2016	
Exercise prices ($)	Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
0.48	450,000	3.21	600,000	4.21
0.49	6,058,000	3.26	6,147,000	4.25
0.50	3,107,831	2.30	3,266,831	3.23
0.72	200,000	1.71	200,000	2.71
0.89	1,125,000	1.29	1,180,500	2.20
1.75	5,796,600	4.09	–	–
1.77	3,110,000	1.16	3,991,800	1.71
3.00	–	–	475,000	0.49
	19,847,431	2.89	15,861,131	3.11

Options exercisable	**2017**		2016	
Exercise prices ($)	Number of options exercisable	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average remaining contractual life (years)
0.48	450,000	3.21	200,000	4.21
0.49	4,001,340	3.26	2,009,670	4.28
0.50	3,107,831	2.30	2,074,676	3.27
0.72	200,000	1.71	200,000	2.71
0.89	1,099,998	1.29	1,113,498	2.22
1.75	1,936,000	4.08	–	–
1.77	3,110,000	1.16	3,991,800	1.71
3.00	–	–	475,000	0.49
	13,905,169	2.51	10,064,644	2.61

(e) Deferred Share Units ("DSUs")

The Group has a DSU plan approved by the Group's shareholders in 2015 which allows the Board, at its discretion, to award DSUs to non-executive directors for services rendered to the Group and also provides that non-executive directors may elect to receive up to 100% of their annual compensation in DSUs. The aggregate number of DSUs outstanding pursuant to the DSU plan may not exceed 2% of the issued and outstanding common shares ("Shares") from time to time provided the total does not result in the total Shares issuable under all the Group's share-based compensation plans (i.e. including Share purchase option and RSU plans) exceeding 10% of the total number of issued outstanding Shares. DSUs are payable when the non-executive director ceases to be a director including in the event of death. DSUs may be settled in Shares issued from treasury, by the delivery to the former director of

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

Shares purchased by the Group in the open market, payment in cash, or any combination thereof, at the discretion of the Group.

In the year ended December 31, 2017, there were no new grants of DSUs. At December 31, 2017, a total of 458,129 DSUs were outstanding (2016 – 458,129).

(f) Restricted Share Units ("RSUs")

The Group's RSU plan which was approved by the Group's shareholders, allows the Board to grant employees, executive directors and consultants RSUs from time to time. The RSUs are granted conditionally and entitle the recipient to receive one share (or the cash equivalent) upon attainment of a time-based vesting period. The RSU plan limits the aggregate number of RSUs outstanding to 3% of the issued and outstanding Shares from time to time provided the total does not result in the total Shares issuable under all the Group's share-based compensation plans (i.e. including Share purchase option and RSU plans) exceeding 10% of the total number of issued outstanding Shares. RSUs can be settled by the Group at its discretion in Shares issued from treasury, by the delivery of Shares purchased by the Group in the open market, payment in cash or in any combination thereof.

The following summarizes the Group's RSUs outstanding at the beginning and end of the year:

	2017		2016	
Continuity of RSUs	Number of RSUs	Weighted average fair value ($/RSU)	Number of RSUs	Weighted average fair value ($/RSU)
Beginning Balance	639,031	0.69	–	–
Granted [2, 3]	542,371	2.24	639,031	0.69
Cash-settled [1]	(639,031)	0.69	–	–
Withheld [3]	(13,782)	2.23	–	–
Shares issued [3]	(22,094)	2.23	–	–
Ending Balance	506,495	2.24	639,031	0.69

Notes

1. On July 11, 2017, 639,031 RSUs granted to the Group's Board Chair, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") vested. The Group settled the equity obligation by making a cash payment of $1,098 based on the 5 day average of TSX closing prices for the Company's common shares up to July 11, 2017 of $1.72 per RSU pursuant to the terms of the RSU Plan. This payment has been recognized as a decrease in the equity-settled share-based compensation reserve in equity ("SBC Reserve"). In the year ended December 31, 2017, the Group recognized $232 (2016 – $209) as share-based compensation with a corresponding increase in the SBC Reserve.

2. On July 27, 2017, the Group's Compensation Committee approved a 2016 executive short term incentive bonus/compensation of $951 to the Group's Board Chair, CEO and CFO payable through a combination of cash and RSUs. Of the total compensation, $190 was paid in cash with the balance paid by the grant of 434,742 RSUs. The RSUs have a one year term and vest on July 28, 2018. The Group has determined that this grant should be accounted for as cash-settled given the cash settlement of the previous grant to the same individuals (see 1 above). Accordingly, during the year ended December 31, 2017, the Group recognized $419 as share-based compensation with a corresponding increase in a RSU liability for this grant based on the TSX closing price of the Company's common shares as of the reporting date. At the end of each reporting period, until the RSU liability is settled, the RSU liability's fair value is remeasured based on the TSX closing price for common

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

shares multiplied by the number of RSUs that will vest and be converted into common shares, and amortized over the vesting period of the RSUs, with any change in fair value charged to share-based compensation.

3. On September 15, 2017, the Group granted 107,629 RSUs to the CEO of the Pebble Limited Partnership ("PLP CEO") with the following vesting terms: 1/3 vested on grant date; 1/3 vest 1 year from grant date; and 1/3 vest 2 years from grant date. The RSU terms also stipulate that settlement is to be paid out in common shares and the RSUs have a net settlement feature for withholding tax obligations. The Group has treated these RSUs in their entirety as equity-settled as a result of early adopting the amendments to IFRS 2 (note 2(p)). The fair value of the RSUs granted was $240 based on the TSX closing price for the Company's shares at date of grant. With the first tranche of 35,876 RSUs that vested on date of grant, 13,782 RSUs were withheld to settle and pay the PLP CEO's tax obligations of $30 and the balance of 22,094 RSUs were issued to the PLP CEO as common shares. The Group has recognized $115 as share-based compensation with a corresponding increase in the SBC Reserve during the year ended December 31, 2017.

(g) Foreign Currency Translation Reserve

	December 31 2017	December 31 2016
Beginning balance	$ 36,233	$ 40,479
Foreign exchange translation differences incurred:		
Loss on translation of foreign subsidiaries	(8,299)	(4,246)
Ending balance	$ 27,934	$ 36,233

The foreign currency translation reserve represents accumulated exchange differences arising on the translation of the results of operations and net assets of the Group's subsidiaries with a US dollar functional currency into the Group's presentation currency (the Canadian dollar).

8. RELATED PARTY BALANCES AND TRANSACTIONS

The components of transactions to related parties is as follows:

	December 31 2017	December 31 2016
Payables to related parties		
Hunter Dickinson Services Inc. (b)	$ 540	$ 240
Key management personnel (a)	93	–
RSU liability (a)	419	–
	$ 1,052	$ 240

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 ("KMP")

The aggregate value of transactions with KMP, being the Group's directors and officers including the Chief Financial Officer ("CFO"), Company Secretary, Senior Vice President ("SVP") Corporate Development, Vice President ("VP"), Corporate Communications, VP, Engineering and VP, Public Affairs, and Pebble Partnership

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

("PLP") senior management, the CEO, Executive VP, Public Affairs, SVP, Corporate Affairs, VP, Permitting and Chair of Pebble Mines Corp ("PMC Chair"), was as follows for the year ended December 31, 2017 and 2016:

Transactions		**2017**		2016 [5]
Compensation				
Amounts paid and payable to HDSI for services of KMP employed by HDSI [1]	$	3,306	$	2,274
Amounts paid and payable to KMP [2]		2,438		2,262
Bonuses paid to KMP [3]		1,660		–
		7,404		4,536
Share-based compensation [4]		4,650		2,428
Total compensation	$	12,054	$	6,964

Notes to previous table:

1. The Group's CEO, CFO, Board Chair and senior management, other than disclosed in 2 below, are employed by the Group through Hunter Dickinson Services Inc. ("HDSI") (refer (b)).

2. Represents short term employee benefits, including salaries and director's fees paid and payable to the Group's independent directors, PLP CEO, PMC Chair and PLP EVP, SVP and VP.

3. Performance bonuses were paid to the PLP CEO for the 2015 and 2016 fiscal years, incentive bonuses were paid or payable to the SVP, Corporate Development, VP, Engineering (payable to HDSI) and the PLP VP Permitting. In addition, the Group's CEO and CFO were paid an incentive bonus/compensation for 2016.

4. Includes cost of DSUs, RSUs and share purchase options issued during the period.

5. In the year ended December 31, 2016, the amounts paid and payable to KMP have been revised to correct for a non-material disclosure omission. This omission had no effect on the Statement of Loss and Comprehensive Loss and loss and diluted loss per share.

During the year ended December 31, 2017, the Group settled vested KMP RSUs by making an aggregate cash payment of $1,098 (note 7(f)) (2016 – $nil) and 218,800 (2016 – Nil) options were exercised by KMP with a weighted average exercise price of $0.47 and a weighted average market price on exercise of $2.36 for proceeds to the Group of $103.

(b) Transactions and Balances with other Related Parties

Hunter Dickinson Services Inc. 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.

For the year ended December 31, 2017, and 2016, the aggregate value of transactions were as follows:

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

Transactions	**2017**	2016
Services rendered by HDSI:	$ 5,219	$ 3,584
Technical	2,329	1,157
Engineering	741	83
Environmental	736	375
Socioeconomic	699	660
Other technical services	153	39
General and administrative	2,890	2,427
Management, corporate communications, secretarial, financial and administration	2,225	1,908
Shareholder communication	665	519
Reimbursement of third party expenses	658	499
Conferences and travel	309	175
Insurance	62	54
Office supplies and information technology	287	270
Total value of transactions	$ 5,877	$ 4,083

9. TRADE AND OTHER PAYABLES

Falling due within the year	**December 31 2017**	December 31 2016
Trade [1]	$ 10,268	$ 1,260
Total	**$ 10,268**	$ 1,260
Non-current liabilities		
Trade [1]	$ 6,650	$ –
Total	**$ 6,650**	$ –

Notes:

1. Legal fees

As a result of the joint settlement with the EPA announced in May 2017, the Company's legal counsel are due US$16,602 in additional legal fees of which US$15,867 is payable in three annual instalments of US5,289 and the balance of US$735 is payable within the year. The first annual instalment was paid in December 2017. The next two annual instalments of $6,650 (US$5,289) are payable in December 2018 and 2019 and have been included in current and non-current payables respectively. Of the balance of US$735, US$100 was paid in December 2017. The remaining balance of US$635 ($798) has been included in current payables.

10. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following for the year ended December 31, 2017 and 2016:

		2017		2016
Loss attributable to common shareholders	$	64,865	$	26,982
Weighted average number of common shares outstanding (000s)		300,511		246,161

Diluted loss per share does not include the effect of 19,847,431 (2016 – 15,861,131) employee share purchase options outstanding, 35,311,559 (2016 – 54,003,284) non-employee share purchase options and warrants, 458,129 DSUs and 506,495 RSUs as they are anti-dilutive.

11. EMPLOYMENT COSTS

During the year ended December 31, 2017, the Group recorded $16,342 (2016 – $10,626) in salaries and benefits, including share-based payments of $5,858 (2016 – $2,995) and amounts paid to HDSI for services provided to the Group by HDSI personnel (note 8(b)).

12. INCOME TAX EXPENSE

	Year ended December 31			
		2017		2016
Current tax (recovery) expense				
Current year (recovery) expense	$	–	$	–
Current income tax (recovery) expense	$	–	$	–
Deferred income tax (recovery) expense				
Current year (recovery) expense	$	–	$	–
Deferred income tax (recovery) expense	$	–	$	–

	Year ended December 31			
Reconciliation of effective tax rate		**2017**		2016
Net loss	$	(64,865)	$	(26,982)
Total income tax (recovery) expense		–		–
Loss excluding income tax		(64,865)		(26,982)
Income tax using the Company's domestic tax rate		(16,865)		(7,015)
Non-deductible expenses and other		(1,914)		512
Change in tax rates		(2,950)		–
Deferred income tax assets not recognized		21,729		6,503
	$	–	$	–

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

The Company's domestic tax rate for the year was 26% (2016 – 26%).

Deferred income tax assets (liabilities)	**December 31 2017**	December 31 2016
Tax losses	$ 2,617	$ 3,214
Net deferred income tax assets	2,617	3,214
Resource property/investment in Pebble Partnership	(2,472)	(3,191)
Equipment	(145)	(23)
Net deferred income tax liability	$ –	$ –

The Group had the following temporary differences at December 31, 2017 in respect of which no deferred tax asset has been recognized:

Expiry	Tax losses	Resource pools	Other
Within one year	$ –	$ –	$ –
One to five years	–	–	4,795
After five years	129,239	–	–
No expiry date	78	101,303	196
Total	$ 129,317	$ 101,303	$ 4,991

The Group has taxable temporary differences in relation to investments in foreign subsidiaries or branches of $8.7 million (2016 – $7.8 million) which was not recognized because the Group controls the reversal of liabilities and it is expected it will not reverse in the foreseeable future.

13. 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 when required. Amounts receivable (note 5) include receivable balances with government agencies and refundable deposits. The following is the Group's maximum exposure:

Exposure	**December 31 2017**	December 31 2016
Amounts receivable	$ 487	$ 138
Restricted cash	757	–
Cash and cash equivalents	67,158	7,196
Total exposure	$ 68,402	$ 7,334

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

(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, where applicable. The Group's cash and cash equivalents at the reporting date were invested in business and savings accounts and guaranteed investment certificates (note 6(a)).

The Group's financial liabilities are comprised of trade and other payables (note 9) and payables to related parties (note 8), which are due for payment within 12 months from the reporting date, and non-current trade payables, which are due for payment more than 12 months from the reporting date. The carrying amounts of the Group's financial liabilities represent the Group's contractual obligations.

(c) Foreign Exchange Risk

The Company is subject to both currency transaction risk and currency translation risk: the Pebble Partnership, Pebble Services Inc. and U5 Resources Inc. 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. As a result the fluctuation of the US dollar in relation to the Canadian dollar will 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:

	December 31 2017	December 31 2016
Financial assets:		
Amounts receivable	$ 552	$ 326
Cash and cash equivalents and restricted cash	60,083	2,232
	60,635	2,558
Financial liabilities: Trade and other payables	(16,845)	(652)
Net financial assets exposed to foreign currency risk	$ 43,790	$ 1,906

Based on the above net exposures and assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar relative to the US dollar would result in a gain or loss of $4,379 (2016 – $191) in the year. This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

(d) 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 $136 (2016 – $73).

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

(e) 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 and reserves, 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.

(f) Fair Value

The fair value of the Group's financial assets and liabilities approximates the carrying amount.

14. COMMITMENTS AND CONTINGENCIES

(a) Leases

The Group has the following commitments as of December 31, 2017:

	Less than 1 Year	Between 1 and 5 years	Later than 5 years	Total
Anchorage office lease [1]	US$ 179	US$ 765	US$ –	US$ 944
Pebble Project site leases [2]	115	–	–	115
Total	US$ 294	US$ 765	US$ –	US$ 1,059
Total in Canadian dollars [3]	$ 370	$ 961	$ –	$ 1,331

Notes:

1. Lease which expires November 30, 2022.
2. The Group has leases for a hangar at site and core storage. The hanger lease expires May 1, 2018 and the core yard lease expires June 1, 2018.
3. Converted at the Wall Street Journal closing rate of $1.2573 per US$1 on December 31, 2017.

(b) Legal Proceedings

On February 14, 2017, short seller investment firm Kerrisdale Capital Management LLC published a negative piece (the "Kerrisdale Report") regarding the Pebble Project. Three putative shareholder class actions were filed against the Company and certain of its current officers and directors in US federal courts, specifically the Central District of California (Los Angeles) and the Southern District of New York (New York City). The cases are captioned: *Diaz v. Northern Dynasty Minerals Ltd. et al, Case No. 17-cv-01241 (C.D. Cal.), Kirwin v. Northern Dynasty Minerals Ltd. et al, Case No. 17-cv-01238 (S.D.N.Y.)* and *Schubert v. Northern Dynasty Minerals, Ltd., et al., Case No. 1:17-CV-02437 (S.D.N.Y.)*. The complaints appear to rely on the claims made in the Kerrisdale Report and allege damages to a class of investors who purchased shares of the Company prior to the publication of the Kerrisdale Report and allege liability for losses pursuant to Section 10(b) of the Exchange Act of 1934 and SEC Rule 10b-5 thereunder, as well as control person liability against the individual defendants pursuant to Section 20(a) of the Exchange Act. The plaintiffs in both the *Kirwin* and *Schubert* actions voluntarily dismissed their claims without prejudice. The plaintiffs in the *Diaz* action continue to litigate and filed an amended complaint. The Company filed a motion to dismiss the complaint and the plaintiffs have filed a motion opposing the dismissal to which the Company replied in March 2018. The Company believes that the allegations in the existing complaint are without merit, and it intends to defend itself vigorously in the *Diaz* action.

Northern Dynasty Minerals Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2017

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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, 2017 as publicly filed under the Company's profile on SEDAR at 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, 2018.

All dollar amounts herein are expressed in thousands of Canadian dollars, unless otherwise specified.

This MD&A contains certain forward-looking information and forward-looking statements within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements describe our future plans, strategies, expectations and objectives, and are generally, but not always, identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology.

Forward-looking statements contained or incorporated by reference into this MD&A include, without limitation, statements regarding:

- our expectations regarding the potential for securing the necessary permitting of a mine at the Pebble Project;
- the outcome of due diligence and negotiations to complete a partnering transaction;
- the outcome of any legal proceedings in which we are engaged;
- our ability to raise capital for the exploration and development activities;
- our expected financial performance in future periods;
- our plan of operations; 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 we will be able to secure sufficient capital necessary for continued environmental assessment and permitting activities and engineering work which must be completed prior to any potential development of the Pebble Project which would then require engineering and financing in order to advance to ultimate construction;
- that we will successfully complete a partnering transaction, including finalization of definitive agreements and fulfilment of conditions precedent therein, including receipt of all approvals;
- that we will ultimately be able to demonstrate that a mine at the Pebble Project can be economically developed and operated in an environmentally sound and socially responsible manner, meeting all relevant federal, state and local regulatory requirements so that we will be ultimately able to obtain permits authorizing construction of a mine at the Pebble Project;

- that the market prices of copper, gold, molybdenum and silver will not significantly decline or stay depressed for a lengthy period of time;
- that our key personnel will continue their employment with us; and
- that we will continue to be able to secure minimal adequate financing on acceptable terms.

Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions that may have been used. Forward-looking statements are also subject to risks and uncertainties facing our business, any of which could have a material impact on our outlook.

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

- an inability to ultimately obtain permitting for a mine at the Pebble Project;
- an inability to establish that the Pebble Project may be economically developed and mined or contain commercially viable deposits of ore based on a mine plan for which government authorities are prepared to grant permits;
- an inability to complete a partnering transaction on terms satisfactory to the Company;
- an inability to continue to fund exploration and development activities and other operating costs;
- the highly cyclical and speculative nature of the mineral resource exploration business;
- the pre-development stage economic viability and technical uncertainties of the Pebble Project and the lack of known reserves on the Pebble Project;
- an inability to recover even the financial statement carrying values of the Pebble Project if we cease to continue on a going concern basis;
- the potential for loss of the services of key executive officers;
- a history of, and expectation of further, financial losses from operations impacting our ability to continue on a going concern basis;
- the volatility of copper, gold, molybdenum and silver prices and mining share prices;
- the inherent risk involved in the exploration, development and production of minerals, and the presence of unknown geological and other physical and environmental hazards at the Pebble Project;
- the potential for changes in, or the introduction of new, government regulations relating to mining, including laws and regulations relating to the protection of the environment and project legal titles;
- potential claims by third parties to titles or rights involving the Pebble Project;
- the possible inability to insure our operations against all risks;
- uncertainty related to litigation;
- the highly competitive nature of the mining business;
- the potential equity dilution to current shareholders from future equity financings; and
- that we have never paid dividends and will not do so in the foreseeable future.

While the effort was made to list the primary risk factors, this list should not be considered exhaustive of the factors that may affect any of our 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 and otherwise contained herein.

Our forward-looking statements and risk factors 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 appreciate the inherent uncertainty of, and not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except as, and to the extent required by, applicable securities laws.

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.

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, through subsidiaries, holds a 100% interest in mining claims that are part of or in the vicinity of the Pebble Copper-Gold-Molybdenum-Silver Project (the "Pebble Project" or "Pebble") in southwest Alaska, USA ("US"). The Company's business in Alaska is operated through the Pebble Limited Partnership (the "Pebble Partnership"), a wholly-owned Alaskan registered limited partnership.

The Pebble Project is an initiative to develop one of the world's most important mineral resources. The current mineral resources, as estimated at a 0.30% copper equivalent (CuEQ)[1] cut-off grade comprise:

- 6.456 billion tonnes in the combined **Measured and Indicated** categories at a grade of 0.40% copper, 0.34 g/t gold, 240 ppm molybdenum and 1.7 g/t silver, containing 57 billion pounds of copper, 71 million ounces of gold, 3.4 billion pounds of molybdenum and 345 million ounces of silver; and
- 4.454 billion tonnes in the **Inferred** category at a grade of 0.25% copper, 0.25 g/t gold, 226 ppm molybdenum and 1.2 g/t silver, containing 25 billion pounds of copper, 36 million ounces of gold, 2.2 billion pounds of molybdenum and 170 million ounces of silver.

In 2017, Northern Dynasty advanced its near-term goals, enabling the Company to progress the Pebble Project toward development. On May 12, 2017, the Company announced that the Pebble Partnership and the US Environmental Protection Agency ("EPA") had reached a settlement agreement (the "joint settlement agreement") with respect to the longstanding legal dispute over a pre-emptive regulatory action for the Pebble Project under the *Clean Water Act* ("CWA", also described below as the "Proposed Determination" under Section 1.2.1.3 *Legal Matters*). Under the terms of the joint settlement agreement:

- the EPA agreed the Pebble Project can proceed into normal course permitting under the CWA and National Environmental Policy Act, and that it cannot seek to utilize its authority under CWA 404(c) until such time as a final Environmental Impact Statement has been completed by the US Army Corps of Engineers, so long as that occurs within a period of four years following the settlement agreement, and that Pebble Partnership files permit applications within 30 months of the date of the joint settlement agreement. EPA further agreed to initiate a process to consider withdrawing the Proposed Determination it issued under CWA 404(c) in July 2014. In January 2018, EPA announced that it had suspended the process to withdraw the preemptive regulatory action but will continue to support Pebble's due process rights and right to proceed with permitting as agreed to in the 2017 joint settlement agreement; and
- the Pebble Partnership agreed to terminate each of the legal actions it brought against EPA since 2014, including the action under the *Federal Advisory Committee Act*; an action challenging EPA's statutory authority under the *Clean Water Act*; and an action under the *Freedom of Information Act*.

A copy of the joint settlement agreement is posted under the Company's profile on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

Once the joint settlement agreement was in place, Northern Dynasty refocused its efforts toward securing a project partner(s) with the financial resources to substantially contribute to permitting, building and

[1] Mineral resources at December 2017 as estimated by David Gaunt, PGeo, a qualified person who is not independent of Northern Dynasty. For additional details, see section 1.2.1.2 below or the Company's **2017 Annual Information Form** and **2018 Technical Report**, both of which are filed at www.sedar.com.

operating a mine at Pebble. The Company also advanced a comprehensive program of engineering and environmental studies, field investigations and related technical studies to develop the documentation necessary to initiate federal and state permitting. Important progress has been made.

On December 18, 2017, the Company announced that it has entered into a framework agreement with First Quantum Minerals Ltd. ("First Quantum"), which contemplates that an affiliate of First Quantum may subsequently execute an option agreement with Northern Dynasty. The option agreement contemplates an option payment of US$150 million staged over four years, which will entitle First Quantum to acquire the right to earn a 50% interest in the Pebble Partnership for US$1.35 billion. The option period may be extended for up to 2 years by First Quantum making payments to be agreed upon, and which amounts will be offset against the US$1.35 billion additional investment amount. First Quantum's entry into the option agreement is contingent on the completion of due diligence, necessary regulatory approvals and the successful negotiation of the final form of the option agreement and associated commercial agreements. First Quantum has made a non-refundable early option payment of US$37.5 million to be applied solely for the purpose of progressing the permitting of the Pebble Project. Finalization and execution of the Option Agreement and associated commercial agreements is expected early in the second quarter of 2018[2].

On December 22, 2017, the Pebble Partnership filed for a US Clean Water Act 404 permit with the US Army Corps of Engineers ("USACE" or the "Corps"), initiating federal permitting for the Pebble Project under the *National Environmental Policy Act* ("NEPA"). On January 5, 2018, the Pebble Partnership received notice from USACE that the Clean Water Act 404 permitting documentation was accepted and that an Environmental Impact Statement ("EIS") would be required to comply with its NEPA review of the Pebble Project. In February, USACE advised the Pebble Partnership that it had selected AECOM, an experienced and global, integrated engineering, environmental, construction and infrastructure development firm as third-party contractor to support them in completing an EIS for the Pebble Project.

Northern Dynasty's main focus in 2018 will be to finalize the option agreement and support, through the Pebble Partnership, development of an EIS and advance the permitting process. The Pebble Partnership team in Anchorage Alaska office has been supplemented with experienced engineering and permitting staff to liaise with the USACE and oversee the necessary field programs and technical studies for the EIS.

Corporate

As at December 31, 2017, the Company has $67.2 million in cash and cash equivalents for its operating requirements. Of this amount, $47.1 million relates to the early option payment received by the Company from First Quantum which is to be used solely on permitting by the Pebble Partnership. As such, the Company has prioritized the allocation of the remaining available financial resources in order to meet key corporate expenditure requirements in the near term. Although the Company will seek financing as necessary to advance its programs, there can be no assurances that it will be successful in obtaining

[2] The likelihood of a partnering transaction is subject to risks related to the satisfactory completion of due diligence and negotiations, including finalization of definitive agreements and fulfilment of conditions precedent therein, including receipt of all necessary approvals. Such process may not be successfully completed or completed on terms satisfactory to Northern Dynasty.

additional financing. 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 reduce or curtail its operations.

1.2.1 Pebble Project

The Pebble property ("Pebble") is located in southwest Alaska, approximately 17 miles from the villages of Iliamna and Newhalen, and approximately 200 miles southwest of the city of Anchorage. Situated in an area of rolling hills approximately 1,000 feet above sea-level and 60 miles from tidewater on Cook Inlet, the site conditions are favorable for successful mine site and infrastructure development.

1.2.1.1 Project History

The Pebble deposit was discovered in 1987 by a prior operator, which by 1997 had developed an initial outline of the deposit.

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 mineral resources in the Pebble deposit, including a substantial volume of higher grade mineralization in its eastern part. The deposit also remains open to further expansion at depth and to the east. A number of other occurrences of copper, gold and molybdenum have also 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.

Comprehensive deposit delineation, environmental, socioeconomic and engineering studies of the Pebble deposit began in 2004. More recently, a Preliminary Assessment of the Pebble Project was completed in 2011, which provided insights into the size and scale of project that the Pebble resource might support. The Pebble Partnership continued to undertake detailed engineering, environmental and socioeconomic studies over the next two years. In February 2014, the US EPA announced a pre-emptive regulatory action under the CWA to consider restriction or a prohibition of mining activities associated with the Pebble deposit.

From 2014-2017, Northern Dynasty and the Pebble Partnership focused on a multi-dimensional strategy, including legal and other initiatives (see section 1.2.1.3) to ward off this action. These efforts were successful, resulting in the joint settlement agreement announced on May 12, 2017 (see section 1.2.1.3, *Joint Settlement Agreement*). In the latter part of 2017, a project design was developed to take the Pebble Project into permitting. An application for a US Clean Water Act 404 ("CWA 404") permit was submitted on December 22, 2017, and accepted by USACE in early January 2018, initiating federal permitting for the Pebble Project under NEPA.

From 2001, when Northern Dynasty's involvement at the Pebble Project began, to December 31, 2017, a total of $837 million (US$775 million) has been invested to advance the project.[3]

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[3] Of this, approximately $595 million (US$573 million) was provided by a wholly-owned subsidiary of Anglo American plc which participated in the Pebble Partnership from 2007 to 2013, and the remainder was financed by Northern Dynasty. A major part of the 2007-2013 expenditures were on exploration, resource estimation, environmental data collection and technical studies, with a significant portion spent on engineering of possible mine development models, as well as related infrastructure, power and transportation systems. The mine-site and infrastructure studies completed are not necessarily representative of management's current understanding of the most likely development scenario for the Project, and accordingly, Northern Dynasty is uncertain whether it can realize significant value from this prior work. Environmental baseline studies and

1.2.1.2 Technical Programs

Work in 2017 was directed toward finalizing a development design concept and the necessary documentation to initiate state and federal permitting.

Engineering

Office and field studies were conducted to investigate and advance/update the project design, including:

- smaller mine concepts, including site layouts and waste management facilities;
- alternate ore treatment options;
- alternate tailings storage facility designs, including water management schemes and lined PAG[4] storage;
- water treatment plants and development of surplus water release strategies;
- transportation corridor to the south of Lake Iliamna, including road and ferry options;
- facilities associated with the transportation corridor, including ferry landing sites;
- a port facility on Cook Inlet, southeast of Lake Iliamna, at the terminus of the transportation corridor; and
- a natural gas-fired power plant and associated gas pipeline.

2017 Field Program

Additional data was collected in the field to support the project design, with specific focus on the proposed transportation corridor, including:

- a geophysical survey to ascertain the subsurface conditions at the proposed port site on Cook Inlet;
- bathymetric surveys at the proposed port site on Cook Inlet and the proposed ferry landings on the north and south side of Lake Iliamna;
- aerial photography to extend the digital mapping to the complete transportation corridor; and
- reconnaissance of the proposed transportation corridor to identify alternatives that minimize environmental and social impacts; and instrumentation was fabricated and installed to collect additional ocean data at the port site.

Environmental and Socioeconomic

Environmental Baseline Document and Supplemental Environmental Baseline Document

The 27,000-page Environmental Baseline Document ("EBD") for the Pebble Project was released to the public in January 2012. The purpose of the EBD and Supplemental EDB (see further details below) 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. The EBD is based on extensive environmental baseline data that has been collected since 2004 with the goal to design and plan a project that protects clean water, healthy fish and wildlife populations, and other natural resources in the region. The work 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

data, as well as geological and exploration information, remain important information available to the Company to advance the Project.

[4] Potentially Acid Generating material

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 2012 EBD 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 during the period 2004-2008 and from some disciplines in 2009. The EBD study is available at http://pebbleresearch.com/.

The full range of data from 2009-2013 period was compiled as part of the 2017 program, and will be presented in the Supplemental EBD (2009 to 2013), which is currently in progress.

2017 Field Program

The 2017 environmental field program was designed to collect additional multidisciplinary environmental baseline data for proposed infrastructure, such as access routes, port and ferry landing sites to characterize the existing conditions for engineering design and permitting purposes. Wetland polygon mapping was also conducted of the proposed mine site and off-site infrastructure areas.

Other

The Pebble environmental team also provided multi-disciplinary scientific input to the engineering design team to optimize transportation corridor alignments while avoiding/minimizing routes in critical habitat areas, and finalize the site water balance and strategic water release plan to protect downstream fish habitat; to prepare the CWA 404 permit application submission to the USACE; and to assist the Public Affairs team with their stakeholder outreach program.

All the 2017 technical work was directed toward preparation and submission of the NEPA permitting application package, which was submitted to USACE in December 2017. The permitting package includes a Project Description, Alternatives Assessment, Mitigation Plan and Reclamation and Closure Plan.

Other Technical Studies

The following information is mainly summarized from the "2018 Technical Report on the Pebble Project, Southwest Alaska, USA", effective date December 22, 2017 by David Gaunt, PGeo, James Lang, PGeo, Eric Titley, PGeo, Ting Lu, PEng, and Stephen Hodgson, PEng, ("2018 Technical Report") which is available under Northern Dynasty's profile at www.sedar.com.

Project Description

The Project Description in the permit application envisages the Pebble deposit being developed as an open pit mine, with associated on and off-site infrastructure, including:

- a 230 megawatt power plant located at the mine site;
- an 83-mile transportation corridor from the mine site to a port site on the west side of Cook Inlet;
- a permanent, year-round port facility near the mouth of Amakdedori Creek on Cook Inlet; and,
- a 188-mile natural gas pipeline from the Kenai Peninsula to the Pebble Project site.

Following four years of construction activity, the proposed Pebble mine will operate for a period of 20 years. This includes 14 years of mining using conventional drillblast-shovel operations, followed by six years of milling material from a low-grade ore stockpile. The mining rate will average 90 million tons per year, with 58 million tons of mineralized material going through the mill each year (160,000 tons per day), for a life-of-mine waste to mineralized material ratio of 0.1:1.

The development proposed in Pebble's Project Description is substantially smaller than previous iterations, and presents significant new environmental safeguards, including:

- a development footprint less than half the size previously envisaged;
- the consolidation of most major site infrastructure in a single drainage (the North Fork Koktuli), and the absence of any primary mine operations in the Upper Talarik drainage;
- a more conservative Tailings Storage Facility ("TSF") design, including enhanced buttresses, flatter slope angles and an improved factor of safety;
- separation of potentially acid generating ("PAG") tailings from non-PAG bulk tailings for storage in a fully-lined TSF;
- no permanent waste rock piles; and
- no secondary gold recovery plant (no cyanide usage).

The NEPA EIS process requires a comprehensive 'alternatives assessment' be undertaken to consider a broad range of development alternatives and, as such, the final project design and operating parameters for the Pebble Project and associated infrastructure may vary significantly from the proposed project described in the Project Description.

The EIS process will consider alternative scenarios with respect to a number of aspects of the proposed project. The Company will need to assess and study all of the proposed alternatives that the USACE will be considering as part of the scoping process conducted during the initial phase of the EIS so that an economic analysis can be completed after examination of all the alternatives.

The project proposed as envisaged in the Project Description uses a portion of the currently estimated Pebble mineral resources. This does not preclude development of additional resources in other phases of the project in the future. Any future phases of development are expected to require comprehensive review by federal, state and local regulatory agencies, including a discrete EIS permitting process under NEPA.

Mineral Processing and Metallurgical Testing[5]

Metallurgical testwork for the Pebble Project was initiated by Northern Dynasty in 2003 and continued to 2013. Metallurgical testwork and associated analytical procedures were performed by recognized testing facilities with extensive experience with these analyses, with this type of deposit, and with the Pebble Project. The samples selected for testing were representative of the various types and styles of mineralization present at the Pebble deposit. The test results on variability samples derived from 103 lock cycle flotation tests ("LCT") indicate that marketable copper (Cu Con) and molybdenum (Mo Con) concentrates can be produced with gold and silver contents that meet or exceed payable levels in representative smelter contracts.

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[5] Terminology used in this section:
Hypogene: Processes which occur below the earth's surface and, in mineral deposits, result in precipitation of primary minerals like sulphides.
Locked Cycle Test: A repetitive batch flotation test used in mineral processing laboratories while developing a metallurgical flowsheet.
Supergene: Processes which occur relatively near the surface of the earth and modify or destroy original (hypogene) minerals by oxidation and chemical weathering.

Metal recoveries used for the previous resource estimate (December 2014) were based on the LCT results of the variability samples, and associated gold leach testwork. This has been updated since secondary recovery using cyanide is not part of the project plan currently advancing through permitting. The flotation tests on composite samples indicate a general increase of metal recoveries when the primary grind size is reduced. Thus, a finer primary grind size (P80 125μm) was incorporated into the metal recovery projection model. The following table provides projected metals recoveries via flotation concentration for metals and a gravity circuit for gold. These recoveries were used for the December 2017 resource estimate.

Projected Metallurgical Recoveries

Domain	Flotation Recovery %			
	Cu Con, 26% Cu			Mo Con
	Cu	Au	Ag	Mo
Supergene:				
Sodic Potassic	78.7	63.6	67.5	53.9
Illite Pyrite	72.1	46.5	67.8	66.3
Hypogene:				
Illite Pyrite	89.8	45.6	66.6	76.1
Sodic Potassic	90.1	63.2	67.0	80.1
K Silicate	93.7	63.6	66.5	85.4
QP	94.7	65.2	64.4	80.4
Sericite	89.6	40.6	66.5	75.9
QSP	89.8	32.9	66.9	86.1

Domains are name based on silicate mineralogy within alteration zones.
Illite Pyrite zone has significant amounts of illite (clay mineral) and pyrite (iron sulphide mineral).
K Silicate zone has significant potassium (K) bearing silicate minerals.
Potassic zone with potassium-bearing minerals such as biotite, muscovite or sericite, and/or orthoclase.
QSP is zone with significant Quartz Sericite Pyrite.
Sericite zone has significant sericite, a fine-grained version of muscovite.
Sodic Potassic zone has significant sodium (Na) and potassium (K) bearing minerals.
Sodic zone contains sodium-bearing minerals, most commonly albite feldspar.

Mineral Resource

The current mineral resource, as tabulated below, was estimated using ordinary kriging by David Gaunt, PGeo, a qualified person who is not independent of Northern Dynasty. The effective date of the estimate is December 22, 2017.

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources
This section uses the terms, "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the US Securities and Exchange Commission (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.

Mineral Resources – Measured and Indicated Categories

Threshold CuEq %	CuEq%	Tonnes	Cu (%)	Au (g/t)	Mo (ppm)	Ag (g/t)	Cu Blb	Au Moz	Mo Blb	Ag Moz
Measured										
0.3	**0.65**	**527,000,000**	**0.33**	**0.35**	**178**	**1.7**	**3.83**	**5.93**	**0.21**	**28.1**
0.4	0.66	508,000,000	0.34	0.36	180	1.7	3.81	5.88	0.20	27.4
0.6	0.77	279,000,000	0.40	0.42	203	1.8	2.46	3.77	0.12	16.5
1.0	1.16	28,000,000	0.62	0.62	302	2.3	0.38	0.56	0.02	2.0
Indicated										
0.3	**0.77**	**5,929,000,000**	**0.41**	**0.34**	**246**	**1.7**	**53.58**	**64.81**	**3.21**	**316.4**
0.4	0.82	5,185,000,000	0.45	0.35	261	1.8	51.42	58.35	2.98	291.7
0.6	0.99	3,455,000,000	0.55	0.41	299	2.0	41.88	45.54	2.27	221.1
1.0	1.29	1,412,000,000	0.77	0.51	343	2.4	23.96	23.15	1.07	109.9
Measured + Indicated										
0.3	**0.76**	**6,456,000,000**	**0.40**	**0.34**	**240**	**1.7**	**56.92**	**70.57**	**3.42**	**344.6**
0.4	0.81	5,693,000,000	0.44	0.35	253	1.8	55.21	64.06	3.18	320.3
0.6	0.97	3,734,000,000	0.54	0.41	291	2.0	44.44	49.22	2.40	237.7
1.0	1.29	1,440,000,000	0.76	0.51	342	2.4	24.12	23.61	1.08	112.0

Cautionary Note to Investors Concerning Estimates of Inferred Resources

This section also uses the term "inferred mineral resources". The Company advises investors that while this term is recognized and required by Canadian regulations, the SEC does not recognize it. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty 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.

Mineral Resources – Inferred Category

Threshold CuEq %	CuEq%	Tonnes	Cu (%)	Au (g/t)	Mo (ppm)	Ag (g/t)	Cu Blb	Au Moz	Mo Blb	Ag Moz
Inferred										
0.3	**0.55**	**4,454,000,000**	**0.25**	**0.25**	**226**	**1.2**	**24.54**	**35.80**	**2.22**	**170.4**
0.4	0.68	2,646,000,000	0.33	0.30	269	1.4	19.24	25.52	1.57	119.1
0.6	0.89	1,314,000,000	0.48	0.37	292	1.8	13.90	15.63	0.85	75.6
1.0	1.20	361,000,000	0.68	0.45	377	2.3	5.41	5.22	0.30	26.3

Notes: 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.

Copper equivalent ("CuEq") calculations use metal prices of $1.85/lb for copper, $902/oz for gold and $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. The tabulation is based on a CuEq that incorporates the contribution of copper, gold and molybdenum. Although the estimate includes silver, it was not used as part of the CuEq calculation in order to facilitate comparison with previous estimates which did not consider the silver content or its potential economic contribution.

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 analyses that would be required in pre-feasibility and feasibility studies.

Community Engagement

Pebble Project technical programs are supported by stakeholder engagement activities in Alaska. The objective of stakeholder outreach programs undertaken by the Pebble Partnership are to:

- advise residents of nearby communities and other regional interests about Pebble work programs and other activities being undertaken in the field;
- provide information about the proposed development plan for the Pebble Project, including potential environmental, social and operational effects, proposed mitigation and environmental safeguards;
- allow the Pebble Partnership to better understand and address stakeholder priorities and concerns with respect to development of the Pebble Project;
- encourage stakeholder and public participation in the USACE-led EIS permitting process for Pebble; and
- facilitate economic and other opportunities associated with advancement and development of the Pebble Project for local residents, communities and companies.

In addition to meeting with stakeholder groups and individuals, and providing project briefings in communities throughout Bristol Bay and the State of Alaska, the Pebblre Partnership's outreach and engagement program includes:

- workforce and business development initiatives intended to enhance economic opportunities for regional residents and Alaska Native corporations;
- initiatives to develop partnerships with Alaska Native corporations, commercial fishing interests and other in-region groups and individuals;
- outreach to elected officials and political staff at the national, state and local levels;
- outreach to third-party organizations and special interest groups with an interest in the Pebble Project, including business organizations, community groups, outdoor recreation interests, Alaska Native entities, commercial and sport fishery interests, conservation organizations, among others; and
- ongoing meetings of the Pebble Project Advisory Committee, a group comprised of prominent Alaskan and national figures assembled in 2017 to provide independent, external advice on the Pebble Project as it advances into federal and state permitting.

Through these vaious stakeholder initiatives, the Company seeks to advance a science-based project design that is responsive to stakeholder priorities and concerns, provides meaningful benefits and opportunities to local residents, businesses and Alaska Native village corporations, and energizes the economy of Southwest Alaska.

Plans for 2018

As mentioned in the Overview, Northern Dynasty's main focus in 2018 will be to finalize the option agreement with First Quantum and support, through the Pebble Partnership, development of an EIS in order to advance the permitting process.

1.2.1.3 Legal Matters

Joint Settlement Agreement

From 2014-2017, Northern Dynasty and the Pebble Partnership were focused on a multi-dimensional strategy that included legal and other initiatives designed to ward off a pre-emptive regulatory action by the EPA under the *Clean Water Act*. The strategy had a successful outcome.

On May 12, 2017, Northern Dynasty announced that the Pebble Partnership and the EPA had reached a joint settlement agreement over the federal agency's pre-emptive regulatory action. Key aspects of the agreement include:

- The EPA agreed the Pebble Project can proceed into normal course permitting under the CWA and NEPA, and that it cannot seek to utilize its authority under CWA 404(c) until such time as a final EIS has been completed by the USACE, so long as that occurs within a period of four years following the settlement agreement, and that the Pebble Partnership files permit applications within 30 months of the date of the settlement agreement.
- EPA further agreed to initiate a process to consider withdrawing the Proposed Determination it issued under CWA 404(c) in July 2014. The beginning of this process was announced on July 11, 2017, and a public comment period concluded on October 17, 2017. EPA suspended this process in January 2018 (see discussions below under *"Proposed Determination"*).
- The Pebble Partnership agreed to terminate permanently and with prejudice three lawsuits it brought against EPA: an action under the *Federal Advisory Committee Act*, an action challenging EPA's authority under the CWA; and an action under the *Freedom of Information Act*.

A copy of the joint settlement agreement is posted under the Company's SEDAR and EDGAR profiles at www.sedar.com and www.sec.gov, respectively.

The following is a chronology of the events and the actions and initiatives by Northern Dynasty and the Pebble Partnership that ultimately led to the joint settlement agreement.

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 CWA 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 over 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.

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 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 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".

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 pre-emptive regulatory action under Section 404(c) of the CWA 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.

Statutory Authority action

In late May 2014, the Pebble Partnership filed suit in the US District Court for Alaska and sought an injunction to halt the pre-emptive regulatory action initiated by the EPA under the CWA, 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, a US 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. 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 retained the option to pursue its statutory authority case in the instance that EPA finalized a pre-emptive regulatory action under the CWA, but this right was waived under the terms of the joint settlement agreement.

Proposed Determination

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 did 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 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 maintained that the Proposed Determination is flawed and unsupported by the administrative record as established by the Bristol Bay Watershed Assessment, and was therefore arbitrary and capricious.

As part of the settlement agreement announced on May 12, 2017, EPA agreed to initiate a process to withdraw the Proposed Determination that would have restricted the development of the Pebble Project. The beginning of this process was announced on July 11, 2017, and a public comment period concluded on October 17, 2017. On January 29, 2018, the Company announced that it acknowledged a statement issued by the EPA on January 26, 2018, indicating that the federal agency will continue to support Pebble's due process rights agreed to in the settlement agreement to allow for normal course permitting although it has suspended the process to consider the withdrawal of the pre-emptive regulatory action initiated under CWA 404(c) in July 2014.

Federal Advisory Committee Act ("FACA") action

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

Preliminary Injunction

On November 24, 2014, a US 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 did not resolve the Pebble Partnership's claims that the EPA actions with respect to the BBWA and subsequent 404(c) regulatory action violated FACA, the decision permitted the further discovery process of the underlying facts to enable the court to issue a final decision on the merits of the FACA case. Granting of a preliminary injunction also reflected the court's view that PLP had a likelihood of prevailing on the merits of its case. On June 4, 2015, the federal court in Alaska issued an order denying the EPA's motion to dismiss this case.

The Pebble Partnership filed numerous requests for production of documents and received tens of thousands of documents produced by the EPA. The Pebble Partnership also served a number of notices of depositions for current and former EPA employees, EPA contractors and relevant third parties. More than a dozen depositions of EPA witnesses were completed. Additionally, the Pebble Partnership had asked the Court to compel the Agency and certain third parties to produce documents relevant to its FACA claims that are being improperly withheld. Had the Pebble Partnership prevailed in its FACA litigation against the EPA, the federal agency may have been unable to rely upon the BBWA as part of the administrative record for any regulatory action at the Pebble Project.

On October 27, 2016, the Pebble Partnership and the EPA filed a joint Notice in federal court stating their intent to enter into mediation in an effort to resolve ongoing litigation under FACA.

The Pebble Partnership and the EPA filed several joint Notices in federal court to stay the ongoing FACA litigation between December 30, 2016 and May 11, 2017, although the Court's November 2014 Preliminary Injunction remained in effect. During this period, the Pebble Partnership and the EPA engaged in direct discussions, which led to the joint settlement agreement announced on May 12, 2017.

Freedom of Information Act ("FOIA") action

On October 14, 2014, the Pebble Partnership filed suit in federal district court in Alaska charging that EPA has violated the FOIA 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 CWA. The EPA moved for summary judgment claiming that its search for and disclosure of documents 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 US federal court judge granted in part and deferred in part the EPA's motion for summary judgement on the 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. 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. After this review, the Court issued an order resolving Pebble's challenges to the remaining withholdings and forcing EPA, yet again, to produce additional documents that the agency had been improperly withholding for over two years.

Office of the EPA Inspector General ("OIG") review

Counsel for Northern Dynasty and the Pebble Partnership submitted numerous letters to the independent 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 did not materially affect the Pebble Partnership's strategy for addressing the EPA's CWA Section 404(c) regulatory action. The Company remained confident that the Pebble Project would ultimately enter federal and state permitting unencumbered by any extraordinary development restrictions, a belief borne out by the joint settlement agreement reached with EPA in May 2017.

Cohen report

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 US 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 CWA.

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 CWA Section 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 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 also appeared before a Congressional committee (House Committee on Science, Space and Technology) with respect to the findings in his report.

US House Committee on Science, Space and Technology

On February 22, 2017, the US House Committee on Science, Space and Technology Chairman, Lamar Smith, sent a letter to the EPA Administrator Scott Pruit recommending that "the incoming Administration rescind the EPA's proposed determination to use Section 404(c) in a pre-emptive fashion for the Pebble Mine in Bristol Bay, Alaska. This simple action would allow a return to the long-established CWA permitting process and stop attempts by the EPA to improperly expand its authority. Moreover, it would create regulatory certainty for future development projects that will create jobs and contribute to the American economy."

On March 7, 2018, Chairman of the US House Committee on Science, Space and Technology, Lamar Smith, Chairman of the US House Natural Resources Committee, Rob Bishop, and Chairman of the US Congressional Western Caucus, Paul Grossman, sent a joint letter to the EPA Administrator Scott Pruitt expressing "serious concerns" about the federal agency's January 26, 2018 announcement that it had suspended the process to withdraw the CWA 404(c) proposed determination initiated at the Pebble Project in July 2014. The joint letter recommended that "EPA clearly states that in the event that the scoping process undertaken by the Corps addresses all of the major issues identified in the 2014 proposed determination, that the EPA will withdraw the determination." The letter further states that "Using the Corps EIS process to inform the decision on the proposed determination will allow a return to the long-established Clean Water Act permitting process, enforcing the principles of due process and rule of law."

Other Matters

On February 14, 2017, short seller investment firm Kerrisdale Capital Management LLC published a negative piece (the "Kerrisdale Report") regarding the Pebble Project. Three putative shareholder class actions were filed against the Company and certain of its current officers and directors in US federal courts, specifically the Central District of California (Los Angeles) and the Southern District of New York (New York City). The cases are captioned: *Diaz v. Northern Dynasty Minerals Ltd. et al, Case No. 17-cv-01241 (C.D. Cal.); Kirwin v. Northern Dynasty Minerals Ltd. et al, Case No. 17-cv-01238 (S.D.N.Y.); and Schubert v. Northern Dynasty Minerals, Ltd., et al., Case No. 1:17-CV-02437 (S.D.N.Y.)*. The complaints appear to rely on the claims made in the Kerrisdale Report and allege damages to a class of investors who purchased shares of the Company prior to the publication of the Kerrisdale Report and allege liability for losses pursuant to Section 10(b) of the Exchange Act of 1934 and SEC Rule 10b-5 thereunder, as well as control person liability against the individual defendants pursuant to Section 20(a) of the Exchange Act.

The plaintiffs in both the *Kirwin* and *Schubert* actions voluntarily dismissed their claims without prejudice. The plaintiffs in the *Diaz* action continue to litigate and filed an amended complaint. The Company filed a motion to dismiss the complaint and the plaintiffs have filed a motion opposing the dismissal to which the Company replied in March 2018. The Company believes that the allegations in the remaining complaint are without merit, and it intends to defend itself vigorously in the *Diaz* action.

For further information, refer to the Company's **2017 Annual Information Form** which is filed under the Company's profile on www.sedar.com.

1.2.2 Financing

US$37,444 Bought Deal

In January 2017, the Company completed a bought deal offering of 20,240,000 common shares at a price of US$1.85 per unit for gross proceeds of approximately US$37,440. The offering was made through a syndicate of underwriters co-led by Cantor Fitzgerald Canada Corporation, TD Securities Inc. and BMO Capital Markets.

Part of the net proceeds were used to advance the Company's Multi-dimensional Strategy to address the pre-emptive regulatory action of the EPA under Section 404 (c) of the CWA and the balance will be used for (i) preparations to initiate federal and state permitting under NEPA; (ii) environmental monitoring, engineering and environmental studies, field investigations and related technical studies to finalize a proposed development plan for the Pebble Project; (iii) enhanced outreach and engagement with political and regulatory offices in the Alaska state and U.S. federal government and among Alaska Native partners and broader regional and state-wide stakeholder groups; (iv) Alaskan corporate, tenure and site maintenance; (v) general corporate purposes; and (vi) working capital requirements.

1.2.3 Market Trends

Copper prices were variable in 2013, 2014 and 2015, and the average annual price decreased each year. Prices were variable to improving for most of 2016, 2017 and so far in 2018. A recent closing price is US$2.99/lb.

In 2013, an uptrend in gold prices that had extended over several years came to an end. Prices were variable from 2013 to 2015, and the average annual prices decreased. Gold prices trended upward for most of 2016, with a drop late in the year. Prices have shown some variability, but trended upward in 2017. Gold prices dropped in late 2017, then rebounded in January 2018, and have been variable since that time. A recent closing price is US$1,332/oz.

Molybdenum prices weakened in 2012 and 2013. Prices increased from January to August 2014, then began a downtrend that continued to the end of 2015. Prices improved in the first half of 2016, then dropped slightly and were, largely, flat from that time through 2017. Prices have increased in 2018, with a recent price of US$11.79/lb.

Silver prices were buoyant, ranging between $26/oz and $35/oz between October 2011 and the end of 2012, then trended downward in 2013. Prices were variable in 2014 and 2015, with the average annual prices decreasing in both years. Prices were variable to increasing during most of 2016, but dropped late in the year. In 2017, silver prices were variable, tracking gold for the first four months before taking a dip and rebound similar to gold in December 2017/January 2018. Prices have been variable to decreasing since that time. A recent price is US$16.46/oz.

Average annual prices of copper, gold, molybdenum and silver for the past four years as well as the average prices so far in 2018 are shown in the table below:

Year	Average metal price [1]			
	Copper US$/lb	Gold US$/oz	Molybdenum US$/lb	Silver US$/oz
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	2.21	1,251	6.56	17.14
2017	3.22	1,272	7.26	16.49
2017 (to the date of this MD&A)	3.01	1,340	11.34	16.55

1. Source: LME Official Cash Price as provided at 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. 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 2017	Fiscal year 2016	Fiscal year 2015
Total assets	$ 202,620	$ 150,347	$ 157,704
Total non-current liabilities	$ 53,799	$ –	$ –
Total current liabilities	$ 11,320	$ 1,500	$ 2,724
Exploration and evaluation expenses	$ 22,594	$ 7,935	$ 8,718
General and administrative expenses	9,384	6,729	8,272
Legal, accounting and audit	26,358	9,442	17,001
Share-based compensation	5,858	2,995	903
Other items [1]	671	(119)	(1,065)
Loss for the year	**$ 64,865**	**$ 26,982**	**$ 33,829**
Basic and diluted loss per common share	$ 0.22	$ 0.11	$ 0.23
Weighted average number of common shares outstanding ('000')	300,511	246,161	146,313

Notes
1. Other items include interest income and expense, exchange gain or loss, other income, amounts written off and deferred income tax.

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 2017**	Sep 30 2017	Jun 30 2017	Mar 31 2017	**Dec 31 2016**	Sep 30 2016	Jun 30 2016	Mar 31 2016
Expenses								
Exploration and evaluation	$ 7,078	$ 9,807	$ 3,929	$ 1,780	$ 2,610	$ 2,006	$ 1,294	$ 2,025
General and administrative	2,099	1,980	2,757	2,548	1,311	1,444	1,844	2,130
Legal, accounting and audit [1]	1,351	1,475	22,227	1,305	984	1,286	3,318	3,854
Share-based compensation	1,319	3,474	558	507	714	1,939	186	156
Other items [2]	(464)	1,152	712	(729)	(95)	(68)	(54)	98
Loss for the quarter	$ 11,383	$ 17,888	$ 30,183	$ 5,411	$ 5,524	$ 6,607	$ 6,588	$ 8,263
Basic and diluted loss per common share	$ 0.04	$ 0.06	$ 0.10	$ 0.02	$ 0.02	$ 0.02	$ 0.03	$ 0.04
Weighted average number of common shares (000s)	306,004	303,962	301,220	290,650	266,767	264,622	230,920	222,106

1. Legal costs in 2016 to Q2 2017 incurred primarily to respond to EPA's potential veto on the Pebble Project. In Q2, 2017, following the settlement with the EPA, additional legal fees became payable (see discussion below).

As well from Q1 2017, the Company incurred legal costs in response to the Kerrisdale Report and securities class actions (discussed in "Other Matters" under 1.2.1.3 *Legal Matters*).

2. Other items include interest income and expense, exchange gain or loss, gain or loss on disposal of financial assets and plant and equipment.

Discussion of Quarterly Trends

Exploration and evaluation expenses ("E&E") increased each quarter from Q2 2017 to Q3 2017 as the Company initiated a program of engineering and environmental studies, field investigations and related technical studies with the objective of finalizing a proposed development plan and preparing documentation for federal and state permitting. The CWA 404 permit application was submitted in Q4 2017. In Q3 2017, the Company also recorded the annual claim rental fees payable as compared to the prior years where those fees were recorded in the last quarter of the year. In the prior year, E&E trended down each quarter other than in the last quarter when the Company paid its annual claim rental fees. Other than annual fees for claims, E&E includes costs for Native community engagement, select environmental monitoring programs, site leases, land access agreements and technical studies undertaken.

General and administrative expenses ("G&A") have fluctuated based on the level of corporate and financing activities undertaken and trended down from Q1 2016 but increased in 2017. In Q1 and Q2 2017, G&A included the costs of discretionary bonuses paid relating to the 2015 and 2016 fiscal periods respectively as well as a performance bonus relating to the completion of the bought deal financing. In Q3 2017, the Group paid a short-term incentive bonus/compensation to its Board's Chair, CEO and CFO, which was settled 20% in cash and 80% in restricted share units.

Legal, accounting and audit expenses increased significantly in Q2 2017 as the Company recorded additional legal fees payable of approximately US$15,800 following the settlement agreement with the EPA (refer Section 1.2.1.3, *Joint Settlement Agreement*). In 2017, the Company also incurred approximately US$1,761 in legal costs relating to the Company's response to the Kerrisdale Report including securities class actions.

Share-based compensation expense ("SBC") has fluctuated due to the timing and quantum of share purchase option ("option") grants and the vesting periods associated with these grants. Grants of options occurred in Q3 2017 (5,808,000 options), Q3 2016 (6,206,000 options), Q1 2016 (600,000 options). Grants of deferred share units ("DSUs") and restricted share units ("RSUs") also impacted SBC. There were grants in Q3 2017 of 542,371 RSUs and in Q3 2016 of 639,031 RSUs and 458,129 DSUs.

1.5 Results of Operations

The following financial data has been prepared from the Financial Statements for the three months and the year ended December 31, 2017, and is expressed in **thousands** of Canadian dollars unless otherwise stated.

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 – Three months and Year ended December 31, 2017 versus 2016

For the three months, the Company recorded an increase in loss of $5,859 due primarily to the increases in E&E of $4,468, G&A of $788, and the increase in SBC of $605.

For the year, the Company recorded an increase in loss of $40,538 due primarily to the increases in legal, accounting and audit expenses ($16,916), E&E ($14,659), SBC ($2,863) and G&A ($2,655).

Exploration and evaluation expenses

The breakdown of E&E for the three months and year as compared to 2016 is as follows:

E&E	Three months		Year	
	2017	2016	**2017**	2016
Engineering	$ 1,262	$ 16	$ 3,602	$ 282
Environmental	2,890	194	5,260	732
Property fees	2	1,351	1,340	1,351
Site activities	661	228	3,886	1,298
Socio-economic	1,847	798	6,581	4,186
Transportation	240	–	1,480	–
Other activities and travel	176	23	445	86
Total	**$ 7,078**	$ 2,610	**$ 22,594**	$ 7,935

In the current quarter, E&E increased by $4,468 as the Company continued and completed a site field program including engineering and environmental programs (see 1.2.1.2 *Technical Programs*) which culminated in the submission of a CWA 404 permit application. Transportation costs increased as the Company employed helicopter charters for the field program. Property fees decreased due to timing as the Company recorded the annual claims rentals in the third quarter of 2017. Additional costs were incurred relating to the ongoing Alaska Native community engagement and stakeholder outreach programs (see 1.2.1.2, *Community Engagement*).

In the year 2017, E&E increased as a result of the site field program, engineering and environmental programs (1.2.1.2 *Technical Programs*), cost of helicopter charters for the field program and the ongoing Alaska Native community engagement and stakeholder outreach.

General and administrative expenses

The following table provides a breakdown of G&A, and legal, accounting and audit expenses incurred in the three months and year as compared to 2016:

	Three months		Year	
	2017	2016	**2017**	2016
Conference and travel	$ 200	$ 75	$ 507	$ 366
Consulting	210	18	742	388
Insurance	112	101	427	417
Office costs, including information technology	290	223	960	875
Management and administration	1,035	716	5,395	3,842
Shareholder communication	205	137	1,050	634
Trust and filing	47	41	303	207
Total G&A	**2,099**	1,311	**9,384**	6,729
Legal, accounting and audit	1,351	984	26,358	9,442
	$ 3,450	$ 2,295	**$ 35,742**	$ 16,171

G&A increased by $788 in the current quarter due primarily to an increase in consulting fees incurred and an increase in management and administration costs, due to the Company paying director fees and an increase in corporate activities. Legal, accounting and audit cost increased by $367 due in part to the Company's response to the Kerrisdale Report and securities class actions.

For the year, G&A increased by $2,655 due primarily to the increase in management and administration costs, shareholder communication costs and consulting costs. Management and administration included payments for discretionary bonuses in respect to the 2015 and 2016 fiscal years paid to the Pebble Partnership CEO and a 2017 bonus/compensation to the Company's board Chair, CEO and CFO. Shareholder communication increased due to higher costs incurred to hold the annual general meeting in June 2017 and additional costs for updating the Company's website. Legal, accounting and audit costs increased by $16,916 as the Company recognized additional legal fees payable to legal counsel as a result of the joint settlement agreement reached by the Pebble Partnership and the EPA (see 1.6 *Liquidity* and 1.2.1.3 *Joint Settlement Agreement*) and incurred fees as the Company responded to the Kerrisdale Report and securities class actions.

Other

SBC has fluctuated due to the timing and quantum of option grants, RSUs and DSUs and the vesting periods associated with these grants. In both 2017 and 2016, the Company issued grants of options and DSUs/RSUs in the third quarter (2017 – 5,808,000 options and 542,371 RSUs; 2016 – 6,206,000 options, 458,129 DSUs and 639,031 RSUs). In Q1 2016, the Company also issued 600,000 options.

1.5.2 Financial position as at December 31, 2017 versus December 31, 2016

The total assets of the Company increased by $52,273 due largely to the increase in cash and cash equivalents as a result of the completion of the bought deal financing, the receipt of the early option payment from First Quantum, and proceeds from the exercise of options and warrants during the year.

1.6 Liquidity

The Company's major sources of funding has been the issuance of equity securities for cash, primarily through private placements and prospectus offerings to sophisticated investors and institutions, and the issue of common shares pursuant to the exercise of options and warrants. 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, 2017, the Company had cash and cash equivalents of $67,158 which represents an increase of $59,962 from December 31, 2016 as the Company completed a bought deal financing (refer *1.2.2 Financing*), received the early option payment of US$37,500 ($47,149) from First Quantum late in December 2017, and received $11,620 from the exercise of options and warrants during the year. The Company employed $43,019 in its operating activities in year ended December 31, 2017. The Company is requied to utilize the non-refundable early option funds solely for permitting related expenditures at the Pebble Project. The Company has prioritized the allocation of its remaining available financial resources to meet key corporate expenditure requirements in the near term. Additional financing may be required to progress any material expenditures at the Pebble Project in 2018 if no formal agreement is entered into by the Pebble Partnership and First Quantum and for working capital. There can be no assurances that the Company will be successful in obtaining additional financing at that point. If the Company is unable to raise the necessary capital resources to meet obligations as they come due, the Company will have to reduce or curtail its operations at some point.

At December 31, 2017, the Company had working capital of $56,832 as compared to $6,375 at December 31, 2016. The Company has no capital lease obligations, operating leases or any other long-term obligations other than those disclosed below:

The following commitments and payables existed at December 31, 2017:

	Payments due by period as of the reporting date			
	Total	≤ 1 year	1-5 years	> 5 years
Trade and other payables [1,]	**$ 10,268**	$ 10,268	$ –	$ –
Payables to related parties	**633**	633	–	–
Lease commitments	**1,331**	370	961	–
Long-term payables [1,]	**6,650**	–	6,650	–
Total	**$ 18,882**	$ 11,271	$ 7,611	$ –

Notes to table

1. As a result of the joint settlement agreement between the Company and the EPA in May 2017, the Company's legal counsel are due US$16,602 in additional legal fees ("success fees") of which US$15,867 is payable in three annual instalments of US$5,289 and the balance of US$735 is payable within the year. The first annual instalment was paid in December 2017. The next two instalments are payable in December 2018 and 2019 respectively. Of the balance of US$735, US$100 was paid in December 2017.
2. US dollar amounts have been converted at the year end rate of $1.2573 / US dollar.

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 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, which include its cash and equivalents. As at December 31, 2017, other than noted in 1.6 *Liquidity*, the Company has no other long-term debt and no commitments for material capital expenditures.

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

1.8 Off-Balance Sheet Arrangements

As at December 31, 2017, the Company had no off-balance sheet arrangements.

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.

Current directors of the Company namely Robert Dickinson and Ron Thiessen are active members of the HDI Board of Directors. Marchand Snyman, the Company's CFO, is also an active member 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.

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.

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 party.

Transactions during the Reporting Period and Balances with HDSI at the end of the Reporting Period

Disclosure as to transactions with HDSI and any amounts due to or from HDSI is provided in Note 8(b) in the notes to the Consolidated Financial Statements which accompany this MD&A and which are available under the Company's profile at www.sedar.com.

Key Management Personnel

The required disclosure for the remuneration of the Company's key management personnel is provided in Note 8(a) in the notes to the Interim Financial Statements which accompany this MD&A and which are available under the Company's profile at www.sedar.com.

1.10 Fourth Quarter

Discussed in Section 1.5.1 *Results of Operations – Three months and Year ended December 31, 2017 versus 2016*

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.

The Company has signed a framework agreement with First Quantum which contemplates that an affiliate of First Quantum may subsequently execute an option agreement with the Group. The option agreement contemplates an option payment of US$150 million staged over four years which will entitle First Quantum to acquire the right to earn a 50% interest in the Pebble Partnership for US$1.35 billion. First Quantum's entry into the option agreement is contingent upon the completion of due diligence, obtaining necessary regulatory approvals and the successful negotiation of the final form of the option agreement and associated commercial agreements.

1.12 Critical Accounting Estimates

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

1.14 Financial Instruments and Other Instruments

The Company 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:

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents and restricted cash, some of which is held in business accounts, guaranteed investment certificates, government treasury bills, and amounts receivable. The Company limits the exposure to credit risk by only investing 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 as and when required or mature in timeframes appropriate to the needs of the Company. There has been no change in the Company's objectives and policies for managing this risk except for changes in the carrying amounts of financial assets exposed to credit risk, and there was no significant change to the Company's exposure to credit risk during the year ended December 31, 2017. Amounts receivable include receivable balances with government agencies, prepaid expenses and refundable deposits. Management has also concluded that there is no objective evidence of impairment to the Company's amounts receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. There has been no change in the Company's objectives and policies for managing this risk. The Company's liquidity position is discussed further in Section 1.6 *Liquidity*.

Foreign Exchange Risk

The Company is subject to both currency transaction risk and currency translation risk: the Pebble Partnership, Pebble Services Inc. and U5 Resources Inc. have the US dollar as functional currency; and certain of the Company's corporate expenses are incurred in US dollars. The fluctuation of the US dollar in relation to the Canadian dollar has an impact upon the losses incurred by the Company as well as the value of the Company's assets and total shareholders' equity as the Company's functional and presentation currency is the Canadian dollar. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

There has been no change in the Company's objectives and policies for managing this risk, except for the changes in the carrying amounts of the financial assets exposed to foreign exchange risk. During the year ended December 31, 2017, the Company completed a bought deal financing in US dollars (refer 1.2.2 *Financing*), has recognized additional legal fees payable in US dollars and received an early option payment in US dollars. As a result, the Company's exposure to foreign exchange risk has increased as follows:

US dollar denominated financial assets and liabilities		**December 31 2017**		December 31 2016
Financial assets:				
Amounts receivable	$	552	$	326
Restricted Cash		757		–
Cash and cash equivalents		59,326		2,232
		60,635		2,558
Financial liabilities:				
Long term payables		(6,650)		–
Payables to related parties		(93)		–
Trade and other payables		(10,102)		(652)
		(16,845)		(652)
Net financial (liabilities) assets exposed to foreign currency risk	$	43,790	$	1,906

Based on the above net exposures and assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar relative to the US dollar would result in a gain or loss, expressed in thousands, of $4,379 (December 31, 2016 – $191) in the period reported. This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

Interest rate risk

The Company is subject to interest rate risk with respect to its investments in cash and cash equivalents. There has been no change in the Company's objectives and policies for managing this risk and no significant change to the Company's exposure to interest rate risk during the year ended December 31, 2017.

Commodity price risk

While the value of the Company's Pebble Project is related to the price of copper, gold, molybdenum and silver and the outlook for these minerals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect of its operational activities.

Copper, gold, molybdenum and silver prices have fluctuated widely historically and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold.

Capital Management

The Company's policy is to maintain a strong capital base to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company currently consists of equity, comprising share capital and reserves, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to any externally imposed capital requirements.

1.15 Other MD&A Requirements

Additional information relating to the Company, including the Company's **2017 Annual Information Form**, is available under the Company's profile on SEDAR at www.sedar.com.

1.15.1 Disclosure of Outstanding Share Data

The capital structure of the Company as of March 28, 2018, is shown in the following table:

	Number
Common shares issued and outstanding	311,816,308
Share options pursuant to the Company's incentive plan	19,814,431
Deferred share units	458,129
Restricted share units	506,495
Warrants and non-incentive plan options[1]	31,766,107

Note to table:

1. Non-incentive plan options make up 327,700 of the total. These were issued on the acquisition of Cannon Point in October 2015. Warrants make up the balance and were issued pursuant to the acquisition of Mission Gold in December 2015 and the prospectus and private placement financings in June 2016 and July 2016 respectively.

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, 2017. 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, 2017, 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 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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 Ultimately Achieve Mine Permitting and Build a Mine at the Pebble Project.

The Company may ultimately be unable to secure the necessary permits under United States Federal and Alaskan State laws to build and operate a mine at the Pebble Project. There is no assurance that the EPA will not seek to undertake future regulatory action to impede or restrict the Pebble Project. In addition, there are prominent and well organized opponents of the Pebble Project and the Company may be unable, even if we present solid scientific and technical evidence of risk mitigation, to overcome such opposition and convince governmental authorities that a mine should be permitted at the Pebble Project. The Company faces not only the permitting and regulatory issues typical of companies seeking to build a mine, but additional public and regulatory scrutiny due to its location and likely size. Accordingly, there is no assurance that the Company will obtain the required permits. The Company has filed a CWA 404 permit application with the US Army Corps of Engineers, which triggered an EIS process under NEPA. The EIS process under NEPA, and the requirement for the Company to secure a broad range of other permits and authorizations from multiple federal and state regulatory agencies will take several years. After all permits necessary to begin construction are in hand, a number of years would be required to finance and build a mine and commence operations. During these periods, the Company would likely have no income and so would require additional financing to continue its operations. Unless and until we build a mine at the Pebble Project, we will be unable to achieve revenues from operations and may not be able to sell or otherwise recover our investment in the Pebble Project, which would have a material adverse effect on the Company and an investment in the Company's common shares.

Risk of Secure Title or Property Interest

There can be no certainty that title to any property interest acquired by the Company or any of its subsidiaries is without defects. Although the Company has taken reasonable precautions to ensure that legal title to its properties is properly documented, there can be no assurance that its property interests may not be challenged or impugned. Such property interests may be subject to prior unregistered agreements or transfers or other land claims, and title may be affected by undetected defects and adverse laws and regulations.

The Pebble Partnership's mineral concessions at Pebble are located on State of Alaska lands specifically designated for mineral exploration and development. Alaska is a stable jurisdiction with a well-developed regulatory and legal framework for resource development and public lands management, a strong commitment to the rule of law and lengthy track record for encouraging investment in the development if its land and natural resources.

The Pebble Project is Subject to Political and Environmental Regulatory Opposition

As is typical for a large scale mining project, the Pebble Project faces organized opposition from certain individuals and organizations who are motivated to preclude any possible mining in the Bristol Bay Watershed (the "BBW"). The BBW is an important wildlife and salmon habitat area. 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 the Pebble Project. Opposition may include legal challenges to exploration and development permits, which may delay or halt development. Other tactics may also be employed by opposition groups to delay or frustrate development at Pebble, included political and public advocacy, electoral strategies, media and public outreach campaigns and protest activity.

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 and feasibility evaluation project 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 NI 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 SEC 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.

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.

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.

Northern Dynasty's Consolidated Financial Statements have been Prepared Assuming Northern Dynasty will Continue on a Going Concern Basis

Northern Dynasty's Interim Financial Statements have been prepared on the basis that Northern Dynasty will continue as a going concern. At December 31, 2017, Northern Dynasty had working capital of $56,832. With the receipt of the early option payment from First Quantum, Northern Dynasty is required to utilize these funds solely for permitting related expenditures at the Pebble Project. Northern Dynasty has prioritized the allocation of the remaining available financial resources to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required for continued corporate expenditures and material expenditures 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 its operating costs, 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 only Mineral Property Interest, the 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 only mineral project. 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 adversely impact the 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, molybdenum and silver 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, molybdenum and silver 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, molybdenum and silver 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, molybdenum and silver have fluctuated in recent years, and future significant price declines could cause investors to be unprepared to finance exploration of copper, gold, molybdenum and silver, with the result that Northern Dynasty may not have sufficient financing with which to fund its exploration activities.

Mining is Inherently Dangerous and Subject to Conditions or Events Beyond the Company's Control, which Could have a Material Adverse Effect on the Company's Business

Hazards such as fire, explosion, floods, structural collapses, industrial accidents, unusual or unexpected geological conditions, ground control problems, power outages, inclement weather, seismic activity, cave-ins and mechanical equipment failure are inherent risks in the Company's exploration, development and mining operations. These and other hazards may cause injuries or death to employees, contractors or other persons at the Company's mineral properties, severe damage to and destruction of the Company's property, plant and equipment and mineral properties, and contamination of, or damage to, the environment, and may result in the suspension of the Company's exploration and development activities and any future production activities. Safety measures implemented by the Company may not be successful in preventing or mitigating future accidents.

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, 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

Northern Dynasty and the Pebble Partnership 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.

Litigation

The Company was until recently, and may in future be subject to legal proceedings, including with regard to actions discussed in *Other Matters* in 1.2.1.3 *Legal Matters* in the pursuit 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 will likely 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 Such 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.

If Northern Dynasty Loses the Services of the 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.

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 needs to sell Northern Dynasty shares.

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

Northern Dynasty will need to raise additional financing (through 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.

Inability to Complete the First Quantum Transaction

The successful completion of a partnering transaction is subject to risks related to the satisfactory completion of due diligence and negotiations, including finalization of definitive agreements and fulfilment of conditions precedent therein, including receipt of all necessary approvals. The transaction may not be successfully completed or completed on terms satisfactory to the Company. Accordingly, the continuation of current and proposed permitting activities and the development of the Pebble Project may depend upon Northern Dynasty's ability to complete the transaction. There can be no assurance that Northern Dynasty will be successful in that regard, failing which the continuation of these activities will require that the Company secure additional financing from alternative sources (see above).