Northern Dynasty Minerals Ltd.

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

(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 Financial Statements

We have audited the accompanying consolidated statements of financial position of Northern Dynasty Minerals Ltd. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of comprehensive loss, changes in equity, and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (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 of December 31, 2019 and 2018, and its financial performance and its cash flows for each of the two years in the period ended December 31, 2019, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company incurred a consolidated net loss of $69 million during the year ended December 31, 2019 and, as of that date, the Company had a working capital deficit of $0.2 million and the consolidated deficit was $556 million. These conditions, along with other matters as set forth in Note 1, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/Deloitte LLP

Chartered Professional Accountants
Vancouver, Canada
March 30, 2020

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 2019	December 31 2018
ASSETS			
Non-current assets			
Restricted Cash	5(b)	$ 805	$ 830
Mineral property, plant and equipment	3	138,867	144,835
Total non-current assets		139,672	145,665
Current assets			
Amounts receivable and prepaid expenses	4	914	1,387
Cash and cash equivalents	5(a)	14,038	14,872
Total current assets		14,952	16,259
Total Assets		**$ 154,624**	**$ 161,924**
EQUITY			
Capital and reserves			
Share capital	6	$ 587,448	$ 517,327
Reserves		107,163	117,796
Deficit		(556,106)	(486,913)
Total equity		138,505	148,210
LIABILITIES			
Non-current liabilities			
Trade and other payables	10	934	7,194
Total non-current liabilities		934	7,194
Current liabilities			
Warrant liabilities	7	43	–
Loans payable	8	1,360	–
Payables to related parties	9	1,095	585
Trade and other payables	10	12,687	5,935
Total current liabilities		15,185	6,520
Total liabilities		16,119	13,714
Total Equity and Liabilities		**$ 154,624**	**$ 161,924**

Nature and continuance of operations (note 1)
Commitments (note 16)
Events after the reporting period (note 17)

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

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

/s/ Ronald W. Thiessen — *Ronald W. Thiessen*

Ronald W. Thiessen
Director

/s/ Christian Milau

Christian Milau
Director

Northern Dynasty Minerals Ltd.

Consolidated Statements of Comprehensive Loss

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

	Notes	Year ended December 31 2019	2018
Expenses			
Exploration and evaluation expenses	12	$ 53,014	$ 50,409
General and administrative expenses	12	9,365	8,652
Legal, accounting and audit		2,416	2,419
Share-based compensation	6(d)-(f)	3,970	4,734
Loss from operating activities		68,765	66,214
Foreign exchange loss (gain)		544	(807)
Interest income		(237)	(684)
Finance expense	8, 10	134	–
Other income or gains	7, 13(b)	(13)	(669)
Recognition of non-refundable early option price installment	13(a)	–	(48,097)
Loss before tax		69,193	15,957
Deferred income tax expense (recovery)		–	–
Net loss		**69,193**	**15,957**
Other comprehensive loss (income)			
Items that may be subsequently reclassified to net loss			
Foreign exchange translation difference	6(g)	6,321	(10,752)
Other comprehensive loss (income)		**6,321**	**(10,752)**
Total comprehensive loss		**$ 75,514**	**$ 5,205**
Basic and diluted loss per common share	11	$ 0.19	$ 0.05

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 2019	2018
Operating activities			
Net loss		$ (69,193)	$ (15,957)
Non-cash or non operating items			
Depreciation	3	647	234
Sale of royalty		(6)	(31)
Interest accrued on loans payable	8	14	–
Interest income		(237)	(684)
Loss on revaluation of warrant liabilities		(7)	–
Non-refundable early option price installment	13(a)	–	(48,097)
Share-based compensation		3,970	4,734
Unrealized exchange loss (gain)		125	(561)
Changes in working capital items			
Amounts receivable and prepaid expenses		481	(123)
Trade and other payables		(158)	(3,496)
Payables to related parties		(380)	(121)
Net cash used in operating activities		(64,744)	(64,102)
Investing activities			
Acquisition of plant and equipment		–	(20)
Proceeds from sale of royalty	13(b)	6	31
Interest received on cash and cash equivalents		214	641
Net cash from investing activities		220	652
Financing activities			
Proceeds from issuance of shares	6(b)	57,811	–
Transaction costs in the issuance of shares	6(b)	(5,326)	–
Proceeds from private placement of shares	6(b)	8,061	–
Transaction costs for the private placement of shares	6(b)	(150)	–
Proceeds from private placement of special warrants	6(b)	–	8,175
Transaction costs for the private placement of special warrants	6(b)	(2)	(232)
Proceeds from the exercise of share purchase options and warrants	6(c)-(d)	791	2,656
Receipt of loans	8	2,317	–
Payments of principal portion of lease liabilities		(354)	–
Subscriptions received for private placement	6(b)	699	–
Costs for private placement not completed at year end	6(b)	(6)	–
Withholding taxes paid on equity-settled restricted share units	6(f)	(9)	(7)
Net cash from financing activities		63,832	10,592
Net decrease in cash and cash equivalents		(692)	(52,858)
Effect of exchange rate fluctuations on cash and cash equivalents		(142)	572
Cash and cash equivalents - beginning balance		14,872	67,158
Cash and cash equivalents - ending balance	5(a)	**$ 14,038**	**$ 14,872**

Supplementary cash flow information (note 5(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 6(a)	Amount	Equity - settled share-based compensation reserve	Foreign currency translation reserve (note 6(g))	Investment revaluation reserve	Share purchase warrants (note 6(c))	Subscriptions received for shares (note 6(b))	Deficit	Total equity
Balance at January 1, 2018		308,237,856	$ 513,304	$ 62,404	$ 27,934	$ (2)	$ 4,832	$ –	$ (470,971)	$ 137,501
Effect of change in accounting policy for IFRS 9		–	–	–	–	(15)	–	–	15	–
Balance at January 1, 2018 - as restated		308,237,856	$ 513,304	$ 62,404	$ 27,934	$ (17)	$ 4,832	$ –	$ (470,956)	$ 137,501
Shares issued on exercise of options per option plan	6(d)	800,499	408	–	–	–	–	–	–	408
Shares issued upon exercise of warrants	6(c)	3,944,759	2,248	–	–	–	–	–	–	2,248
Shares issued pursuant to restricted share unit plan	6(f)	434,742	322	–	–	–	–	–	–	322
Fair value allocated to shares issued on options exercised per plan	6(d)	–	210	(210)	–	–	–	–	–	–
Fair value and costs allocated to share capital on exercise of warrants	6(c)	–	835	–	–	–	(835)	–	–	–
Cash settlement of tax on issue of equity-settled restricted share units	6(f)	–	–	(7)	–	–	–	–	–	(7)
Special warrants issued net of transaction costs	6(b)	–	–	–	–	–	8,192	–	–	8,192
Share-based compensation	6(d)-(f)	–	–	4,751	–	–	–	–	–	4,751
Net loss		–	–	–	–	–	–	–	(15,957)	(15,957)
Other comprehensive income net of tax		–	–	–	10,752	–	–	–	–	10,752
Total comprehensive income										(5,205)
Balance at December 31, 2018		**313,417,856**	**$ 517,327**	**$ 66,938**	**$ 38,686**	**$ (17)**	**$ 12,189**	**$ –**	**$ (486,913)**	**$ 148,210**
Balance at January 1, 2019		313,417,856	$ 517,327	$ 66,938	$ 38,686	$ (17)	$ 12,189	$ –	$ (486,913)	$ 148,210
Shares issued on exercise of options per option plan	6(d)	1,185,666	641	–	–	–	–	–	–	641
Shares issued on exercise of options not issued per option plan	6(c)	104,450	40	–	–	–	–	–	–	40
Shares issued upon exercise of warrants	6(c)	200,075	110	–	–	–	–	–	–	110
Shares issued pursuant to restricted share unit plan	6(f)	111,086	174	(122)	–	–	–	–	–	52
Fair value allocated to shares issued on exercise of options and warrants	6(c)-(d)	–	618	(593)	–	–	(25)	–	–	–
Shares issued, net of transactions costs	6(b)	87,477,084	52,435	–	–	–	–	–	–	52,435
Shares issued on conversion of special warrants, net of transaction costs	6(b)	10,150,322	8,192	–	–	–	(8,192)	–	–	–
Shares issued pursuant to private placements, net of transaction costs	6(b)	10,296,141	7,911	–	–	–	–	–	–	7,911
Share-based compensation	6(d)-(f)	–	–	3,927	–	–	–	–	–	3,927
Subscriptions received for private placement, net of transaction costs	6(b)	–	–	–	–	–	–	693	–	693
Net loss		–	–	–	–	–	–	–	(69,193)	(69,193)
Other comprehensive loss net of tax		–	–	–	(6,321)	–	–	–	–	(6,321)
Total comprehensive loss										(75,514)
Balance at December 31, 2019		**422,942,680**	**$ 587,448**	**$ 70,150**	**$ 32,365**	**$ (17)**	**$ 3,972**	**$ 693**	**$ (556,106)**	**$ 138,505**

The accompanying notes are an integral part of these condensed consolidated interim financial statements. (556,106) 138,505

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 NYSE American Exchange ("NYSE American") 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, 2019, include financial information for the Company and its subsidiaries (note 2(d)) (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, 2019, the Company raised cash net cash proceeds of $52,485 and $7,911 from the issuance and private placements of common shares respectively (note 6(b)), and $791 from the exercise of share purchase options and warrants (notes 6(c)-(d)). The Group also received loans of $2,317 pursuant to a non-revolving credit facility (note 8) which were repaid subsequent to the reporting period (note 17).

As at December 31, 2019, the Group has $14,038 (December 31, 2018 – $14,872) in cash and cash equivalents for its operating requirements and a working capital deficiency of $233 (refer note 17). These financial statements have been prepared on the basis of a going concern, which assumes that the Group will be able to raise sufficient funds to continue its exploration and development activities and satisfy its obligations as they come due. For the years ended December 31, 2019 and 2018, the Group incurred a net loss of $69,193 and $15,957, respectively, and has a deficit of $556,106 as at December 31, 2019. The Group has prioritized the allocation of its financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required in order to progress any material expenditures at the Pebble Project and for working capital requirements. Additional financing may include any of or a combination of debt and equity and/or contributions from possible new Pebble Project participants. There can be no assurances that the Group will be successful in obtaining additional financing. If the Group is unable to raise the necessary capital resources and generate sufficient cash flows to meet obligations as they come due, the Group may, at some point, consider reducing or curtailing its operations. As such, there is material uncertainty that raises substantial doubt about the Group's ability to continue as a going concern.

The Group through the Pebble Partnership initiated federal and state permitting for the Pebble Project under the National Environmental Protection Act ("NEPA"), by filing documentation for a Clean Water Act ("CWA") 404 permit with the US Army Corps of Engineers ("USACE") in December 2017. The USACE published a draft Environmental Impact Statement ("Draft EIS") in February 2019 and completed a 120-day public comment period on the Draft EIS on July 2, 2019. On July 30, 2019, the US Environmental Protection Agency announced that it has taken action to withdraw a Proposed Determination initiated under Section 404(c) of the CWA in 2014, which attempted to pre-emptively veto the Pebble Project before it received an objective, scientific regulatory review under NEPA.

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, 2019. These Financial Statements were authorized for issue by the Board of Directors on March 26, 2020.

(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 fair value through other comprehensive income, which are stated at their fair value (notes 2(f)). The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements with exception to the changes to accounting policies noted in below.

(c) *Changes in Accounting Standards*

New and amended IFRS standards that are effective for the current year

The Group adopted IFRS 16 effective January 1, 2019, using the modified retrospective approach and therefore comparative information for the 2018 reporting period has not been restated and continues to be reported under IAS 17, *Leases*, and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, as permitted under the specific transitional provisions in the standard.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets ("ROU Assets"), representing its rights to use the underlying assets, and lease liabilities, representing its obligation to make lease payments.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Group recognizes the lease payments as an expense in loss on a straight-line basis over the term of the lease.

The Group recognizes a lease liability and a right-of-use asset at the lease commencement date.

The lease liability is initially measured as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The incremental borrowing rate is the rate which the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the Group expects to exercise an option to terminate the lease.

The lease liability is subsequently measured by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The ROU Asset is initially measured at cost, which comprises the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The ROU Asset is subsequently measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. It is depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term using either the straight-line or units-of-production method depending on which method more accurately reflects the expected pattern of consumption of the future economic benefits.

Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

On the balance sheet, the ROU Assets are presented in "*Mineral property, plant and equipment*" (note 3) and the lease liabilities are presented in "*Trade and other payables*" (note 10).

Transition to IFRS 16

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. ROU Assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, of which there were none.

The Group used the following practical expedients when applying IFRS 16:
- Applied the exemption not to recognize ROU Assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term;
- Excluded initial direct costs from measuring the ROU Asset on initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend.

The Group had no leases classified as finance leases under IAS 17.

Incremental ROU Assets and lease liabilities of $1,154 were recognized as of January 1, 2019, with no impact on accumulated deficit. The weighted average incremental borrowing rate applied to the lease liabilities was 10%.

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

The following table reconciles the Group's operating lease commitments at December 31, 2018, as previously disclosed in the 2018 annual financial statements, to the lease liabilities recognized on initial application of IFRS 16 as at January 1, 2019:

		Adoption of IFRS 16
Operating lease commitments as at December 31, 2018	$	1,284
Adjustments on adoption of IFRS 16		235
Operating lease commitments – December 31, 2018		1,519
IFRS 16 recognition exemption for short-term leases (note 14(b))		(158)
Effect from discounting using the incremental borrowing rate – January 1, 2019		(207)
Lease liabilities recognized at January 1, 2019		1,154
Current lease liability (note 10)		389
Non-current lease liability (note 10)		765
Lease liabilities recognized at January 1, 2019	$	1,154

(d) 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	Percent owned
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 Partnership and 100% of Pebble Mines.	100% (indirect)
Pebble Limited Partnership ("Pebble Partnership")	Alaska, USA	Limited Partnership. Ownership and Exploration of the Pebble Project.	100% (indirect)
Pebble Mines Corp. ("Pebble Mines")	Delaware, USA	General Partner. Holds 0.1% interest in the Pebble Partnership.	100% (indirect)
Pebble West Claims Corporation [2]	Alaska, USA	Holding Company. Subsidiary of the Pebble Partnership.	100% (indirect)
Pebble East Claims Corporation [2]	Alaska, USA	Holding Company. Subsidiary of the Pebble Partnership.	100% (indirect)
Pebble Pipeline Corporation	Alaska, USA	Holding Company. Subsidiary of the Pebble Partnership.	100% (indirect)
U5 Resources Inc.	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. ("MGL")	British Columbia, Canada	Not active. Wholly-owned subsidiary of the Company.	100%
Delta Minerals Inc. ("Delta")	British Columbia, Canada	Not active. Wholly-owned subsidiary of MGL.	100% (indirect)

Name of Subsidiary	Place of Incorporation	Principal Activity	Percent owned
Imperial Gold Corporation ("Imperial Gold")	British Columbia, Canada	Not active. Wholly-owned subsidiary of Delta.	100% (indirect)
Yuma Gold Inc.	Nevada, USA	Not active. Wholly-owned subsidiary of Imperial Gold.	100% (indirect)

Notes:
1. Holds a 20% interest in the Northern Dynasty Partnership. The Company holds the remaining 80% interest.
2. Both entities together hold 2,402 claims comprising the Pebble Project.

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.

(e) Foreign Currencies

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Group. The functional currency of 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.

(f) Financial Instruments

On initial recognition, a financial asset is classified as measured at amortized cost; fair value through other comprehensive income ("FVTOCI") (debt / equity investment); or fair value through profit or loss ("FVTPL"). A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Classification of financial assets

Amortized cost

For a financial asset to be measured at amortized cost, it needs to meet both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets at amortized cost comprise of restricted cash, amounts receivable, and cash and cash equivalents.

Fair value through other comprehensive income ("FVTOCI")

For a debt investment to be measured at FVTOCI, it needs to meet both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments at FVTOCI

On initial recognition, the Group may irrevocably elect to present subsequent changes in the instrument's fair value in other comprehensive income ("OCI") provided it is not held for trading. This election is made on an investment-by-investment basis.

Fair Value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortised cost or FVTOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortized cost is reduced by impairment losses (see below). Interest income, foreign exchange gains and losses

	and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVTOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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 FVTOCI, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

Financial liabilities

Non-derivative financial liabilities:

The Group's non-derivative financial liabilities comprise of trade and other payables, loans payable and payables to related parties.

All financial liabilities that are not held for trading or designated as at FVTPL 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.

Derivative financial assets and liabilities:

The Group's warrant liabilities are derivative financial liabilities and have been designated as at FVTPL (note 7).

On date of issue, the warrant liabilities were recognized at fair value as a financing cost with the subsequent change in fair value recognized in loss.

(g) Exploration and Evaluation Expenditure

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

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

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

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

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

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

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

(h) Mineral property, plant and equipment

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

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

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

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

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

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

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

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

(i) Impairment of Non-Financial Assets

At the end of each reporting period the carrying amounts of the Group's non-financial assets are reviewed to determine whether there is any indication that these assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal 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 loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

(j) Share Capital, Special Warrants, Warrants and Subscriptions for Shares

Common shares ("shares"), special warrants, warrants and subscriptions received for shares are classified as equity. Transaction costs directly attributable to the issue of these instruments are recognized as a deduction from equity, net of any tax effects. Where units comprising of shares and warrants are issued the proceeds and any transaction costs are apportioned between the shares and warrants according to their relative fair values.

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

(k) 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 6(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 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.

(l) Income Taxes

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

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

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

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

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

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

(m) Restoration, Rehabilitation, and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for 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 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 not significant. 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 a performance guarantee for any potential reclamation liability (note 5(b)).

(n) 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 Company 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.

(o) Segment Reporting

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

(p) 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 an estimate of the fair value of share purchase options and certain warrants granted during the year. In the case of share purchase options, the fair value calculated is used to determine share-based compensation that is included in loss for the year. With the warrants, the fair value calculated is used to value the warrant liabilities on the statement of financial position, with gains or losses being recognized in loss for the year. Inputs used in this model require subjective assumptions, including the expected price volatility from less than one year to five years. Changes in the subjective input assumptions can affect the fair value estimate. The weighted average assumptions applied are disclosed in Notes 6(d) and 7 respectively.
2. Significant assumptions about the future and other sources of estimation uncertainty are made in determining the provision for any deferred income tax expense that is 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 used judgement in terms of accounting for leases in accordance with IFRS 16. IFRS 16 applies a control model to the identification of leases and the determination of whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a fixed period of time. In determining the appropriate lease term for a lease, the Group considered the right of either the lessee and lessor to terminate the lease without permission from the other party with no more than an insignificant penalty as well as whether the Group is reasonably certain to exercise the extension options on the contract.

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

3. MINERAL PROPERTY, PLANT AND EQUIPMENT

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

Year ended December 31, 2019	Mineral Property interest [1]	Plant and equipment [2]	Total
Cost			
Beginning balance	$ 112,541	$ 1,374	$ 113,915
Impact of IFRS 16 adoption (note 2(c))	–	1,154	1,154
Beginning balance as restated	112,541	2,528	115,069
Additions	–	490	490
Ending balance	112,541	3,018	115,559
Accumulated depreciation			
Beginning balance	–	(968)	(968)
Depreciation [3]	–	(647)	(647)
Ending balance	–	(1,615)	(1,615)
Foreign currency translation difference	24,766	157	24,923
Net carrying value – December 31, 2019	$ 137,307	$ 1,560	$ 138,867

Year ended December 31, 2018	Mineral Property interest [1]	Plant and equipment	Total
Cost			
Beginning balance	$ 112,541	$ 1,354	$ 113,895
Additions	–	20	20
Ending balance	112,541	1,374	113,915
Accumulated depreciation			
Beginning balance	–	(734)	(734)
Depreciation [4]	–	(234)	(234)
Ending balance	–	(968)	(968)
Foreign currency translation difference	31,641	247	31,888
Net carrying value – December 31, 2018	$ 144,182	$ 653	$ 144,835

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. Includes ROU Assets, which relate to the use of office space, hangers, yard storage, an office copier and one vehicle. The following reconciles ROU Assets for the year ended December 31, 2019:

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

	Land and Buildings	Equipment	Total
Beginning balance at January 1, 2019	$ 1,132	$ 22	$ 1,154
Additions	459	31	490
Ending balance	1,591	53	1,644
Depreciation	(411)	(9)	(420)
Foreign currency translation difference	(63)	(1)	(64)
Net carrying value – December 31, 2019	$ 1,117	$ 43	$ 1,160

3. ROU Asset depreciation of $224 is included in general and administrative expenses. The remainder is included in exploration and evaluation expenses.

4. Depreciation is included in exploration and evaluation expenses.

4. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31 2019	December 31 2018
Sales tax receivable	$ 177	$ 69
Amounts receivable	239	769
Prepaid expenses	498	549
Total	$ 914	$ 1,387

5. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents

The Group's cash and cash equivalents at December 31, 2019 and 2018, consisted of cash on hand and was invested in business and savings accounts.

Supplementary cash flow information

Non-cash investing and financing activities:

In the year ended December 31, 2019:

- 111,086 common shares were issued to settle the payout of restricted share units (note 6(f)).
- Share purchase warrants were issued as part of the financing fee paid to the underwriters in the June bought deal financing (note 6(b)).
- No additional consideration was received by the Group on the conversion of special warrants into shares (note6(b)).

In the year ended December 31, 2018:

- 434,742 common shares were issued to settle the payout of vested RSUs (note 6(f)).

- In the special warrant financing in December 2018, a cheque received for $249 for the purchase of 300,000 special warrants was only deposited after the reporting period on January 7, 2019.

(b) Restricted cash

The Group has cash deposited with a United States financial institution that has been pledged as collateral to the surety provider for the surety bond accepted by the Alaskan regulatory authorities in 2018 (see below). The cash deposit will be released once any reclamation work required has been performed and assessed by the Alaskan regulatory authorities. The cash is invested in a money market fund. For the year ended December 31, 2019, income of $15 (2018 – $8) respectively, has been recognized which has been re-invested.

During the year ended December 31, 2018, 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.

6. CAPITAL AND RESERVES

(a) Authorized Share Capital

At December 31, 2019, the authorized share capital comprised an unlimited (2018 – unlimited) number of common shares ("shares") with no par value.

(b) Financings

December 2019

Bought Deal

The Group completed a bought deal offering of 41,975,000 Shares at US$0.37 per share for gross proceeds of US$15,531 ($20,561). The Group incurred transaction costs of $1,909, which includes a 7.5% commission paid to the underwriters, and raised net proceeds of $18,652.

Subscriptions Received for Private Placement

With the offering discussed above, a concurrent private placement of up to US$5,000 was also announced. The Group received subscriptions for 1,426,500 shares in the private placement totalling $699. The private placement was only closed after the reporting period (note 17(a)). To December 31, 2019, transaction costs of $6 were incurred.

August 2019

Bought Deal

The Group completed a bought deal offering of 15,333,334 Shares at US$0.75 per share for gross proceeds of US$11,500 ($15,318). The Group incurred transaction costs of $1,215, which includes a 6% commission paid to the underwriters, and raised net proceeds of $14,103.

Private Placement

The Group completed a non-brokered private placement to investors of 2,866,665 shares for gross proceeds of approximately US$2,150 ($2,844). No commission or finder's fee were payable to the underwriters in connection to this private placement. After transaction costs of $7, the Group raised net proceeds of $2,837.

June 2019

Bought Deal

The Group completed a bought deal offering of 12,200,000 shares at US$0.41 per share for gross proceeds of US$5,002 ($6,594). The Group paid the underwriters a 6% commission and issued 244,000 non-transferable share purchase warrants ("Broker Warrants") to purchase shares at US$0.41 per share until June 24, 2020. After transaction costs of $818, which excludes the estimate for the cost of the Broker Warrants (see below), the Group raised net proceeds of $5,776.

As the Broker Warrants are denominated in US dollars, they have been treated as cash-settled warrant liabilities (note 7) and were valued at $50 upon initial recognition using the Black Scholes option pricing model based on the following assumptions: risk free rate of 1.45%, expected volatility of 72.9%, expected life of 1 year, share price of Cdn$0.61 and dividend yield of nil. The equivalent amount has been recognized as a financing cost.

Private Placement

The Group completed a non-brokered private placement to investors of 3,660,000 shares for a gross proceeds of approximately US$1,500 ($1,975). No commission or finder's fee were payable to the underwriters in connection to this private placement. After transaction costs of $4, the Group raised net proceeds of $1,971.

March 2019

Bought Deal

The Group completed a bought deal offering of 17,968,750 shares at US$0.64 per share for gross proceeds of US$11,500 ($15,337). The Group incurred transaction costs of $1,383, which includes a 6% commission paid to the underwriters, and raised net proceeds of $13,954.

Private Placement

The Group completed a private placement of 3,769,476 shares at $0.86 (US$0.64) per share for gross proceeds of approximately $3,242 (US$2,412). After transaction costs of $139, the Group raised net proceeds of $3,103.

February 2019

Conversion of Special Warrants

In February 2019, 10,150,322 special warrants issued in a private placement in December 2018 at a price of $0.83 (US$0.62) per special warrant for gross proceeds of $8,424; and net proceeds of $8,192 after transaction costs of $232 (refer also to note 5(a)), were converted into shares on a one-for-one basis for no additional consideration to the Group. Additional transaction costs of $2 were paid during the year.

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

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

The following reconciles outstanding warrants and non-employee options (options that were not issued under the Group's incentive plan (see below)), each exercisable to acquire one share, for the year ended December 31, 2019 and 2018 respectively:

Continuity	**Cannon Point options** (note 1)	**Mission Gold warrants** (note 1)	**Other warrants** (note 2)	**Special warrants** (note 3)	**Broker warrants** (note 4)	**Total**
Beg. Balance	327,700	7,125,646	27,858,213	–	–	35,311,559
Issued	–	–	–	10,150,322	–	10,150,322
Exercised	–	(3,160,945)	(783,814)	–	–	(3,944,759)
Bal. Dec 31, 2018	327,700	3,964,701	27,074,399	10,150,322	–	41,517,122
Issued	–	–	466,666	–	244,000	710,666
Exercised	(104,450)	(200,075)	–	(10,150,322)	–	(10,454,847)
Bal. Dec 31, 2019	223,250	3,764,626	27,541,065	–	244,000	31,772,941

Weighted Averages per option/warrant as at December 31						
2019						
Exercise price	$ 0.38	$ 0.55	$ 0.65	–	–	$ 0.64
Exercise price US dollars	–	–	–	–	US$ 0.41	US$ 0.41
Remaining life in years	2.40	0.52	1.45	–	0.48	1.33
2018						
Exercise price	$ 0.38	$ 0.55	$ 0.65	$ nil	–	$ 0.63
Remaining life in years	2.47	1.52	2.44	0.33	–	2.33

Notes to table:

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. Warrants were issued pursuant to the June 2016 prospectus financing, July 2016 private placement and the 2019 non-revolving term loan credit facility agreement (note 8).

3. The special warrants were issued in a private placement at an exercise price of $0.83 (US$0.62) per special warrant in December 2018 (note 6(b)).

4. The Broker warrants, which have a US dollar exercise price, were issued to the underwriters pursuant to the June 2019 prospectus financing (note 6(b)).

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

(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 (including any issuances from the Group's RSU and DSU plans) equaling a rolling percentage of up to 10% of the Company's outstanding Shares, 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 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.

The following is reconciles the Group's options outstanding for the years ended December 31, 2019 and 2018 respectively:

Continuity of options	**Number of options**	**Weighted average exercise price ($/option)**
Beginning Balance	19,847,431	1.08
Granted	5,635,000	0.76
Expired	(18,500)	0.50
Exercised	(800,499)	0.51
Forfeited	(32,500)	1.44
Cancelled	(24,200)	1.51
Balance December 31, 2018	24,606,732	1.03
Granted	6,610,500	0.99
Expired	(4,235,000)	1.54
Exercised	(1,185,666)	0.54
Forfeited	(10,700)	0.82
Cancelled	(33,600)	1.10
Balance December 31, 2019	25,752,266	0.96

In the years ended December 31, 2019 and 2018 respectively, options were granted with a weighted average fair value estimated at $0.56 (2018 – $0.54) per option using the Black-Scholes option pricing model with the following assumptions:

Weighted Average Assumptions	**2019**	2018
Risk-free interest rate	1.39%	2.21%
Expected life	5.00 years	4.25 years
Expected volatility [1]	94.73%	95.60%
Grant date share price	$0.81	$0.78
Expected dividend yield	Nil	Nil

Note:
1. Expected volatility is based on the historical and implied volatility of the Company's share price on the TSX.

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

For the year ended December 31, 2019, the Group recognized share-based compensation ("SBC") on options of $3,898 (2018 – $4,656).

Details of options exercised during the current and prior year were as follows:

Year ended December 31, 2019	Number of options	Weighted average exercise price ($/option)	Weighted average market share price on exercise ($/option)
January 2019	125,000	0.49	0.87
February 2019	30,000	0.49	1.23
June 2019	39,000	0.49	0.59
July 2019	81,000	0.49	0.68
August 2019	856,666	0.55	0.90
September 2019	54,000	0.72	0.85
	1,185,666	0.54	0.88

Year ended December 31, 2018	Number of options	Weighted average exercise price ($/option)	Weighted average market share price on exercise ($/option)
January 2018	33,000	0.69	2.00
June 2018	11,000	0.50	0.75
July 2018	39,500	0.50	0.68
August 2018	33,500	0.50	0.75
September 2018	25,333	0.50	0.71
October 2018	650,666	0.50	0.70
November 2018	7,500	0.76	1.00
	800,499	0.51	0.76

The following tables summarizes information about the Group's options as at December 31, 2019 and 2018 respectively:

	Options outstanding		**Options exercisable**	
Exercise prices ($)	Number of options	Remaining contractual life (years)	Number of options	Remaining contractual life (years)
0.48	450,000	1.21	450,000	1.21
0.49	5,105,000	1.53	5,105,000	1.53
0.50	2,316,666	0.81	2,316,666	0.81
0.76	5,538,000	2.87	5,538,000	2.87
0.99	6,610,500	4.75	3,305,250	4.75
1.75	5,732,100	2.10	5,732,100	2.10
Total and weighted average contractual life per option	25,752,266	2.70	22,447,016	2.40

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

	Options outstanding		Options exercisable	
Exercise prices ($)	Number of options	Remaining contractual life (years)	Number of options	Remaining contractual life (years)
0.48	450,000	2.21	450,000	2.21
0.49	6,034,000	2.26	6,034,000	2.26
0.50	2,323,332	1.81	2,323,332	1.81
0.72	200,000	0.71	200,000	0.71
0.76	5,620,000	3.85	2,810,000	3.85
0.89	1,125,000	0.29	1,124,998	0.29
1.75	5,744,400	3.10	3,829,600	3.10
1.77	3,110,000	0.16	3,110,000	0.16
Total and weighted average contractual life per option	24,606,732	2.41	19,881,930	2.14

The weighted average exercise price for exercisable options as at December 31, 2019 was $0.95 (December 31, 2018 – $1.00) per option.

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

In the years ended December 31, 2019 and 2018, there were no new grants of DSUs. At December 31, 2019, a total of 458,129 DSU were outstanding (2018 – 458,129).

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

(f) Restricted Share Units ("RSUs")

The following reconciles RSUs outstanding for the year ended December 31, 2019 and 2018 respectively:

Continuity of RSUs	Number of RSUs	Weighted average fair value ($/RSU)
Beginning Balance	506,495	2.24
Granted [1]	125,000	0.78
Shares issued	(434,742)	0.68
Balance December 31, 2018	196,753	1.27
Shares issued [1,2]	(111,086)	1.57
Withheld [1,2]	(85,667)	1.27
Balance December 31, 2019	–	–

Notes

1. The RSUs were granted on August 9, 2018, to an officer of the Group with an expiry date of December 2021 and an initial one-year vesting period from date of grant. The Group treated these RSUs as cash-settled given the cash settlement of a previous grant. In January 2019, the Group's Compensation Committee agreed with management that it was in the best interest of the Group to accelerate the vesting period to January 28, 2019. The Group settled the vested RSUs, by issuing 58,886 shares and withheld 66,114 RSUs to pay tax obligations.

2. During the year ended December 31, 2019, 71,752 RSUs, being the second and third tranches of 107,629 equity-settled RSUs that were granted in September 2017, were settled by issuing 52,200 shares, with the balance of 19,553 RSUs being withheld to pay tax obligations.

During the year ended December 31, 2019, the Group recognized $29 (2018 – $96) as SBC with a corresponding increase in the SBC Reserve for RSUs classified as equity-settled. Over the same period, for RSUs classified as cash-settled, the Group recognized $43 (2018 – decrease of $17) in SBC with a corresponding increase in the RSU liability (2018 – decrease). On the settlement of the cash-settled RSUs, the RSU liability was reduced to $nil with $58 transferred to share capital for shares issued with the remainder remitted to the tax authorities.

(g) Foreign Currency Translation Reserve

	December 31 2019	December 31 2018
Beginning balance	$ 38,686	$ 27,934
Foreign exchange translation differences incurred:		
(Loss) gain on translation of foreign subsidiaries	(6,321)	10,752
Ending balance	$ 32,365	$ 38,686

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.

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

7. WARRANT LIABILITIES

The Broker Warrants (note 6(c)) which were issued pursuant to the June 2019 public offering (note 6(b)), have a US dollar exercise price, which is not the functional currency of the Group, and as a result have been treated as cash-settled warrant liabilities. The warrant liabilities were recognized at fair value on date of issue as a financing cost with subsequent changes in fair value recognized in loss. The following table reconciles the change in fair value of the warrant liabilities:

	December 31 2019	December 31 2018
Beginning balance	$ –	$ –
Fair value on issue – financing cost	50	–
Fair value gain on revaluation	(7)	–
Ending balance	$ 43	$ –

The fair value at December 31, 2019 was estimated using the Black-Scholes option-pricing model with the following assumptions:

Assumptions	**2019**
Risk-free interest rate	1.57%
Expected volatility [1]	105.90%
Expected life	0.50 years
Share price on valuation date	$0.56
Expected dividend yield	Nil

Note

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

8. LOANS PAYABLE

	December 31 2019	December 31 2018
Loans provided - principal	$ 2,317	$ –
Accrued interest	14	–
Transferred to payables to related parties (note 9)	(971)	–
Total	$ 1,360	$ –

In November 2019, the Group entered into an unsecured non-revolving term loan credit facility agreement (the "Credit Facility") with a syndicate of lenders (the "Lenders"), two of whom are related parties, of up to $3,500. Funds advanced by the Lenders bear interest at 10% per annum, payable on repayment thereof. The funds including interest are to be repaid on a date that is the earlier of i) May 25, 2020 and ii) the date the Group has completed one or more equity or debt financings raising an aggregate of US$20,000. Pursuant to the terms of the Credit Facility, the Group may submit a drawdown request to the Lenders for a minimum of $500 per drawdown at any time until the repayment date.

As consideration for entering into the Credit Facility, the Group issued to the Lenders, on a pro rata basis, 466,666 share purchase warrants, each warrant exercisable into one share at the exercise price of $0.75 per share until December 2, 2021, of which 153,333 warrants were issued to the two related parties.

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

As of December 31, 2019, the Group had drawn $2,317 from the Credit Facility, of which $967 was received from the two related parties. Accrued interest, which includes $4 owed to the two related parties, has been included in the finance expense in the loss for the year.

Subsequent to December 31, 2019, the Company repaid the loans and accrued interest (note 17).

9. RELATED PARTY BALANCES AND TRANSACTIONS

The components of transactions to related parties are as follows:

Payables to related parties		**December 31 2019**		December 31 2018
Key management personnel (a)	$	971	$	104
Hunter Dickinson Services Inc. (b)		124		401
RSU liability		–		80
Total payables	$	1,095	$	585

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation (note 2(d)). 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, Chief Financial Officer ("CFO"), Company Secretary, Executive Vice President ("EVP"), Environment and Sustainability, Vice President ("VP"), Corporate Communications, VP, Engineering and VP, Public Affairs, and Pebble Partnership ("PLP") senior management including the Chief Executive Officer ("PLP CEO"), Executive VP ("EVP"), Public Affairs, Senior VP ("SVP"), Corporate Affairs, SVP Engineering, VP, Permitting, Chief of Staff and Chair of Pebble Mines Corp ("PMC Chair"), was as follows for each of the years ended December 31:

Transactions		**2019**		2018
Compensation				
Amounts paid and payable to HDSI for services of KMP employed by HDSI [1]	$	2,430	$	2,595
Amounts paid and payable to KMP [2]		4,443		3,991
Bonuses paid to KMP [3]		1,053		1,430
Interest payable on loans received from KMP [5]		4		–
		7,930		8,016
Share-based compensation [4]		2,736		3,681
Total compensation	$	10,666	$	11,697

Notes to table:

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

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

The SVP Engineering is employed by the Group through a wholly-owned US subsidiary of HDSI ("HDUS"). The Group reimburses HDUS for costs incurred.

3. In 2019, incentive bonuses were paid to the CFO, EVP, Environment and Sustainability, VP, Corporate Communications, SVP, Engineering, VP, Permitting, PLP CEO, the Company Secretary, and a performance bonus was paid to the PLP CEO for the 2018 fiscal year. In 2018, incentive bonuses were paid to the SVP, Environment and Sustainability, VP, Corporate Communications and VP, Permitting, and a performance bonus was paid to the PLP CEO for the 2017 fiscal year.

4. Represents cost of RSUs and share purchase options issued and/or vesting during the respective periods.

5. The Group's Board Chair and CEO advanced $967 to the Group pursuant to the Credit Facility (note 8) and have accrued interest of $4 to December 31, 2019. Subsequent to the reporting period, these loans including interest earned to date were repaid (note 17).

RSUs

During the year ended December 31, 2019, the Group settled vested KMP RSUs by issuing 111,086 (2018 – 434,742) common shares (note 6(f)).

Options

During the year ended December 31, 2019, 125,000 KMP incentive options with an exercise price of $0.49 per option and an expiry date of July 11, 2021 and 200,000 KMP incentive options with an exercise price of $0.72 per option and an expiry date of September 15, 2019, were exercised at a weighted average market share price on exercise of $0.91 for proceeds to the Group of $205. No KMP options were exercised in 2018.

(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, 2019, and 2018, the aggregate value of transactions were as follows:

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

Transactions	**2019**	2018
Services rendered by HDSI:		
Technical		
Engineering	$ 1,018	$ 1,199
Environmental	459	706
Socioeconomic	429	462
Other technical services	154	316
	2,060	2,683
General and administrative		
Management, corporate communications, secretarial, financial and administration	2,292	2,326
Shareholder communication	594	627
	2,886	2,953
Total for services rendered	4,946	5,636
Reimbursement of third party expenses		
Conferences and travel	393	502
Insurance	50	70
Office supplies and information technology	431	319
Total reimbursed	874	891
Total value of transactions	$ 5,820	$ 6,527

10. TRADE AND OTHER PAYABLES

	December 31 2019	December 31 2018
Falling due within the year		
Trade [1]	$ 12,401	$ 5,935
Lease liabilities [2]	286	–
Total	$ 12,687	$ 5,935
Non-current liabilities		
Trade [1]	$ –	$ 7,194
Lease liabilities [2]	934	–
Total	$ 934	$ 7,194

Notes:

1. At December 31, 2019, trade payables in current liabilities includes legal fees due to legal counsel of US$5,274, which was previously due January 31, 2020 but has been extended to December 24, 2020

(note 17(c)), and US$635 payable on completion of a partnering transaction. The former legal fees were included in non-current liabilities at December 31, 2018.

2. Lease liabilities relate to lease of offices, site hangers, yard storage, an office copier and one vehicle, which have remaining lease terms of 4 to 125 months and interest rates of 7.5% – 10.5% over the term of the leases. During the year ended December 31, 2019, the Group recognized $120 in interest expense on lease liabilities, which is included in finance expense in the loss for the year.

   The following table provides the schedule of undiscounted lease liabilities as at December 31, 2019:

		Total
Less than one year	$	391
One to five years		884
Later than 5 years		343
Total undiscounted lease liabilities	$	1,618

   The Group had $158 in short-term lease commitments of less than a year relating to property leases as at January 1, 2019. During the year ended December 31, 2019, the Group incurred further short-term lease commitments of $206 and expensed $264.

11. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2019 and 2018 was based on the following:

		2019		2018
Loss attributable to common shareholders	$	69,193	$	15,957
Weighted average number of shares outstanding (000s)		358,343		312,265

Basic and diluted loss per share excludes the effect of 25,752,266 (2018 – 24,606,732) employee share purchase options outstanding, 31,306,275 (2018 – 31,366,800) non-employee share purchase options and warrants, 458,129 DSUs and nil (2018 – 196,753) RSUs, as they are anti-dilutive. In 2018, the weighted average number of shares outstanding included the special warrants issued in December 2018 (note 6(b)).

12. EMPLOYMENT COSTS

During the year ended December 31, 2019, the Group recorded $15,648 (2018 – $17,168) in salaries and benefits, including share-based payments of $3,970 (2018 – $4,734) and amounts paid to HDSI for services provided to the Group by HDSI personnel (note 9(b)).

13. OTHER INCOME ITEMS

(a) Non-Refundable Early Option Price Installment ("Early Option Price Installment")

In December 2017, on entering a framework agreement with First Quantum Minerals Ltd. ("First Quantum"), the Group received a non-refundable early option payment of US$37,500 ($48,751) ("non-refundable early option price installment"), which was to be applied solely for the purpose of progressing with permitting of the Pebble Project. The framework agreement, which contemplated that an affiliate of First Quantum would execute an option agreement to earn a 50% interest in the Pebble Partnership, was terminated in May 2018, as the Group and First Quantum were unable to reach an agreement on the option and partnership transaction as contemplated therein. Accordingly, the Group recorded the non-refundable early option price installment as income in the statement of comprehensive loss for the year ended December 31, 2018.

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

(b) *Sale of Royalty*

During the year ended December 31, 2018, the Group completed the sale of a net proceeds interest royalty held by the Group on a non-core property, and which was carried at a nominal value, to a third party for proceeds net of withholding taxes of US$24 ($31). Pursuant to the transaction, the Group received accrued and outstanding royalty income of US$477 ($617).

During the year ended December 31, 2019, the Group received $6 for an over deduction in withholding taxes.

14. INCOME TAX EXPENSE

	Year ended December 31	
	2019	2018
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	**2019**	2018
Net loss	$ (69,193)	$ (15,957)
Total income tax (recovery) expense	–	–
Loss excluding income tax	(69,193)	(15,957)
Income tax recovery using the Company's domestic tax rate	(18,682)	(4,308)
Non-deductible expenses and other	1,375	(2,175)
Change in tax rates	–	–
Deferred income tax assets not recognized	17,307	6,483
	$ –	$ –

The Company's domestic tax rate for the year was 27% (2018 – 27%).

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

Deferred income tax assets (liabilities)	December 31 2019	December 31 2018
Tax losses	$ 2,342	$ 2,140
Net deferred income tax assets	2,342	2,140
Resource property/investment in Pebble Partnership	(2,342)	(2,140)
Equipment	–	–
Net deferred income tax liability	$ –	$ –

The Group had the following temporary differences at December 31, 2019 in respect of which no deferred tax asset has been recognized:

Expiry	Tax losses	Resource pools	Other
Within one year	$ –	$ –	$ –
One to five years	–	–	6,159
After five years	238,056	–	–
No expiry date	–	93,512	65
Total	$ 238,056	$ 93,512	$ 6,224

The Group has taxable temporary differences in relation to investments in foreign subsidiaries or branches of $8.2 million (2018 – $7.5 million) which has not been recognized because the Group controls the reversal of liabilities and it is expected it will not reverse in the foreseeable future.

15. 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:

(c) 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, in government treasury bills, low risk corporate bonds and money market funds which are available on demand by the Group when required. Amounts receivable (note 4) include receivable balances with government agencies and refundable deposits. The following is the Group's maximum exposure:

Exposure	December 31 2019	December 31 2018
Amounts receivable	$ 239	$ 769
Restricted cash	851	830
Cash and cash equivalents	14,038	14,872
Total exposure	$ 15,128	$ 16,471

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

(d) 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 however, has noted material uncertainty that raises substantial doubt about the Group's ability to continue as a going concern (note 1). The Group's cash and cash equivalents at the reporting date were invested in business and savings accounts (note 5(a)).

The Group's financial liabilities are comprised of current trade and other payables (note 10) and payables to related parties (note 9), 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.

(e) 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 2019	December 31 2018
Financial assets:		
Amounts receivable	$ 263	$ 627
Cash and cash equivalents and restricted cash	14,090	10,523
	14,353	11,150
Financial liabilities:		
Non-current trade payables	(932)	(7,194)
Warrant liabilities	(43)	–
Current trade and other payables	(12,426)	(5,834)
Payables to related parties	(24)	(146)
	(13,425)	(13,174)
Net financial liabilities exposed to foreign currency risk	$ (928)	$ (2,024)

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 $93 (2018 – $202) in the year. This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

(f) 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 or short-term low risk investments 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 $145 (2018 – $174).

(g) Capital Management

The Group'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 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.

(h) Fair Value

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

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. Fair value measurements which are determined by using valuation techniques are classified in their entirety as either Level 2 or Level 3 based on the lowest level input that is significant to the measurement.

The fair value measurement of the warrant liabilities (note 7) until their expiry are categorized within Level 2 of the hierarchy as it is exposed to market risk as they employ the quoted market price of shares and foreign exchange rates.

16. COMMITMENTS AND CONTINGENCIES

(a) 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 relied on the claims made in the Kerrisdale Report and alleged 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 continued to litigate and filed an amended complaint. The Company filed a motion to dismiss the amended complaint in the *Diaz* action, which the plaintiffs opposed. In April 2018, the United States

District Court for the Central District of California (the "California District Court") granted the Company's motion and dismissed the plaintiffs' amended complaint in full, noting that its reliance on the sources in the Kerrisdale Report was an insufficient basis to allege securities fraud. The Court allowed the plaintiffs an opportunity to amend their complaint, which they did in June 2018. The Company again moved to dismiss the new complaint, and briefing on the motion concluded in November 2018.

On February 22, 2019, the California District Court again dismissed all of the securities class action claims brought against the Company and certain of its officers and directors in the *Diaz* action, this time without leave to amend. The Court ruled in favor of the Company and its officers and directors on all claims and ordered the case closed.

In March 2019, the *Diaz* plaintiffs filed notice of an appeal of the district court's dismissal order, and their appeal was filed with the Ninth Circuit Court of Appeals, in California, in June 2019. The Company filed its response in August 2019 and the plaintiffs submitted their reply in October 2019, closing the briefing before the appellate court. The appeal will be reviewed *de novo*, meaning that no deference will be given to the earlier lower court rulings. A hearing on the appeal is scheduled for May 2020. Given the nature of the claims on appeal, it is not currently possible for the Company to predict the outcome nor practical to determine their possible financial effect until their ultimate resolution. The Company intends to continue defending itself vigorously in this action.

(b) Short-term lease commitments

As of December 31, 2019, the Group has $93 in short-term lease commitments. These leases have fixed monthly payments for the remaining term.

(c) Right-of-Way Annual Payment Commitments

With the signing of Right-of-Way Agreements ("ROW Agreements") in November 2018 and May 2019, with the Alaska Peninsula Corporation ("APC") and Iliamna Natives Limited ("INL") respectively, the Group secured the right to use defined portions of APC and INL lands for the construction and operation of transportation infrastructure to access the Pebble Project site. Pursuant to the ROW Agreements, the Group issued the required notice to APC and INL in November 2019, as to which defined portions of APC and INL lands that it requires the rights for access in 2020 and as such has a commitment for the annual toll payments due in 2020.

(d) Pipeline Right-of-Way Bond Commitment

The Group posted a bond of US$300 with the Alaskan regulatory authorities for a performance guarantee related to any potential reclamation liability as a condition for a pipeline right-of-way to a subsidiary of the Pebble Partnership, the Pebble Pipeline Corporation. The Group is liable to the surety provider for any funds drawn by the Alaskan regulatory authorities.

17. EVENTS AFTER THE REPORTING DATE

(a) Private Placement

On January 17, 2020, the Group closed a private placement, which was announced in December 2019 as a concurrent financing with the bought deal offering (note 6(b)), of 11,346,783 shares at a price of $0.49 (US$0.37) per share for gross proceeds of approximately $5.6 million (US$4.2 million). Pursuant to this private placement, the Group received subscriptions for 1,426,500 shares (note 6(b)) in December 2019. Further to this private placement, the Group placed an additional 1,640,000 shares for gross proceeds to the Group of $804.

(b) Repayment of Loans Payable

In January and February 2020, the Group repaid the Credit Facility (note 8) including interest accrued to the date of payment.

(c) Extension of Repayment Term for Legal Fees Payable

Effective January, 31, 2020, pursuant to an amendment agreement, the Group's US legal counsel have agreed to extend the payment due date for legal fees payable (note 10) to December 24, 2020. In consideration for the extension, until the payment of the fees, interest will accrue at 3.5% per annum from the date of this amendment until payment of the outstanding amount.

(d) Impact of the Novel Coronavirus ("COVID-19")

The current outbreak of COVID-19, and any future emergence and spread of similar pathogens, could have a material adverse effect on global and local economic and business conditions which may adversely impact our business and results of operations and the operations of contractors and service providers. The outbreak has now spread to the United States and Canada where we conduct our principal business operations. Our plans to advance the development of the Pebble Project are dependent upon the continued progress of our approval and permitting process with the USACE, the EPA and Alaskan state agencies, as well as our ability to continue the work required in connection with this process through our employees and our contractors. While we have not been notified of any delay, it is possible that government efforts to curtail the COVID-19 outbreak will result in delays in our permitting process, including a possible delay in the release by the USACE of their Final EIS and the progress through to a Record of Decision. In addition, our personnel may be delayed in completing the required work that we are pursuing in connection with this process due to quarantine, self-isolation, social distancing, restrictions on travel, restrictions on meetings and work from home requirements. The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others. Moreover, the spread of the coronavirus globally is expected to have a material adverse effect on global and regional economies and to continue to negatively impact stock markets, including the trading price of our shares. These adverse effects on the economy, the stock market and our share price could adversely impact our ability to raise capital, with the result that our ability to pursue development of the Pebble Project could be adversely impacted, both through delays and through increased costs. Any of these developments, and others, could have a material adverse effect on our business and results of operations and could delay our plans for development of the Pebble Project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2019

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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 (the "**Financial Statements**") of Northern Dynasty Minerals Ltd. ("**Northern Dynasty**" or the "**Company**") for the year ended December 31, 2019 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 26, 2020.

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:

- the uncertainties with respect to the effects of COVID-19;
- our expectations regarding the potential for securing the necessary permitting of a mine at the Pebble Project and our ability to establish that such a permitted mine can be economically developed;
- the timing of the completion of the United States Army Corps of Engineers ("**USACE**") Environmental Statement ("**EIS**") and the issuance of the Record of Decision by the USACE;
- our ability to successfully apply for and obtain the federal permits and state permits that we will be required to obtain for the Pebble Project, including under the Clean Water Act ("**CWA**") and the National Environmental Policy Act ("**NEPA**"), and relevant legislation;
- our plan of operations, including our plans to carry out and finance exploration and development activities and for working capital purposes and our expectations regarding our cash and working capital requirements;
- our ability to raise capital for the exploration, permitting and development activities and for working capital purposes;
- our expected financial performance in future periods;
- our expectations regarding the exploration and development potential of the Pebble Project;
- the outcome of the legal proceedings in which we are engaged; 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 ultimately be able to demonstrate that a mine at the Pebble Project can be developed and operated in an environmentally sound and socially responsible manner, meeting all relevant federal, state and local regulatory requirements 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 for working capital and other purposes 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;
- the USACE may be delayed in completing the EIS and issuing its Record of Decision;
- 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 share prices of mining companies;
- 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 uncertainty of the outcome of current or future litigation;

- the possible inability to insure our operations against all risks;
- the highly competitive nature of the mining business;
- our ability to obtain funding for working capital and other purposes;
- 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, Indicated and Inferred Resources

The following section uses the terms "Measured Resources", "Indicated Resources" and "Inferred Resources". The Company advises investors that these terms are recognized and required by Canadian regulations under National Instrument 43-101, *Standards of Disclosure for Mineral Properties* ("**43-101**"). The United States Securities and Exchange Commission (the "**SEC**") has adopted amendments to its disclosure rules to modernize the mineral property disclosure required for issuers whose securities are registered with the SEC under the US *Securities Exchange Act of 1934*, effective February 25, 2019 ("**The SEC Modernization Rules**"). The SEC Modernization Rules have replaced historical property disclosure requirements for mining registrants that were included in SEC Industry Guide 7, which will be rescinded. The SEC Modernization Rules include the adoption of definitions of the terms and categories of resources which are "substantially similar" to the corresponding terms under Canadian Regulations in 43-101. Accordingly, there is no assurance any mineral resources that we may report as Measured Resources, Indicated Resources and Inferred Resources under 43-101 would be the same had we prepared the resource estimates under the standards adopted under the SEC Modernization Rules. **Investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.**

In addition, 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 Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for a Preliminary Economic Assessment as defined under 43-101. **Investors are cautioned not to assume that all or part of an Inferred Resource exists, or is economically or legally mineable**.

1.2 Overview

Northern Dynasty is a mineral exploration company which, through its wholly-owned Alaskan registered limited partnership, the Pebble Limited Partnership (the "**Pebble Partnership**"), 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 Partnership.

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

- 6.5 billion tonnes in the combined **Measured and Indicated**[2] 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
- 4.5 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.

The Company and the Pebble Partnership submitted a 404 wetlands permit application under the Clean Water Act ("**CWA**") for the Pebble Project to the United States Army Corps of Engineers ("**USACE**") on December 22, 2017, initiating federal permitting under the National Environmental Policy Act ("**NEPA**"). The process involves the development of an environmental impact statement ("**EIS**").

Much of the work by the Company and, in particular, the Pebble Partnership in 2019 continued to focus on providing support to the federal EIS permitting process. Summer field programs involved collection of engineering and environmental data, in particular, for infrastructure to and on the Pebble Project site.

Other key activities included engagement and consultation with project stakeholders to share information and gather feedback on the Pebble Project, its potential effects and proposed mitigation. Corporate activities were also directed toward raising capital to support the EIS process, stakeholder and other work, and discussions directed toward securing a partner with which to advance the overall development of the project.

Environmental Assessment Process is Advancing

In 2019, the USACE and its consultants continued to advance the environmental assessment process for the Pebble Project. The USACE is currently forecasting publication of the Final Environmental Impact Statement ("**Final EIS**") and completion of the Record of Decision ("**ROD**") in mid-2020.

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[1] Mineral resources at December 2017 as estimated by David Gaunt, PGeo., a qualified person who is not independent of Northern Dynasty. The resource estimate is constrained by a conceptual pit that was developed using a Lerchs-Grossman algorithm using metal prices (USD) of $1,540/oz for gold, $3.63/lb for copper, $12.36/lb for molybdenum and $20/oz for silver. A 0.30% copper equivalent ("CuEQ") cut-off is considered to be comparable to those used for porphyry deposit open pit mining operations in the Americas. CuEQ calculations use metal prices (USD) 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, and 83.7% for molybdenum in the Pebble East zone. Contained metal values are based on 100% recoveries. 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. For additional details, see the Company's **2018 Annual Information Form** and **2018 Technical Report**, both of which are filed under Northern Dynasty's profile at www.sedar.com.

[2] Measured and Indicated Resources include 0.527 billion tonnes in the Measured category at a grade of 0.33% copper, 0.35 g/t gold, 178 ppm molybdenum and 1.7 g/t silver, and 5.929 billion tonnes in the Indicated category at a grade of 0.41% copper, 0.34 g/t gold, 246 ppm molybdenum and 1.7 g/t silver.

The USACE accepted the 404 wetlands permit application for the Pebble Project as complete in January 2018, and selected AECOM, a leading global engineering firm, as third-party contractor for the EIS process in February 2018. The EIS process for Pebble has progressed as forecast in the USACE timeline, with USACE advancing through the scoping phase in 2018 and delivering the Draft EIS in the first quarter of 2019.

The Draft EIS shows:

- the Pebble application to be complete, with no substantive data gaps;
- there were no new environmental issues identified; and
- there were no impacts identified that cannot be mitigated.

The USACE initiated a public comment period on the Draft EIS in March, which closed on July 2, 2019. Public hearings were undertaken in nine Alaska communities, including seven in the Bristol Bay region as well as Homer and Anchorage. As part of the EIS preparation process, USACE is undertaking a comprehensive alternatives assessment to consider a broad range of development alternatives. No preferred alternative was identified in the Draft EIS, which allows USACE to incorporate public input on various alternatives presented in the Draft EIS during the public review process. Northern Dynasty, through the Pebble Partnership, also continues to advance engineering studies. Northern Dynasty cautions that the current Project Description may not be the ultimate development plan for the Pebble Project and that a final project design has not been selected.

The USACE has forecast completion of the Final EIS for the Pebble Project in mid-2020. In February 2020, the USACE circulated the preliminary Final EIS to co-operating agencies for review.

From 2001, when Northern Dynasty's involvement at the Pebble Project began, to December 31, 2019, a total of $940 million (US$854 million) has been invested to advance the project.[3]

Plans for 2020

In 2020, the Company plans to continue its efforts in support of the EIS process and toward federal permitting of the Pebble Project. Activities in this regard are expected to include completing a comprehensive review of the Final EIS and providing responses to Request for Information from the USACE thereafter; planning and implementing engineering and environmental field studies and data collection programs. In addition, the Company will continue to engage and consult with project stakeholders to share information and gather feedback on the Pebble Project. Discussions to secure a major funding partner with which to advance the overall development of the Pebble Project will continue, as well as financing activities as necessary to support ongoing work.

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

Discussions to secure a partner with which to advance the overall development of the project will also continue as well as fund raising as necessary to support its ongoing work.

Corporate

As at December 31, 2019, the Company had $14.0 million in cash and cash equivalents available for its operating requirements. The Company had completed a gross US$15.5 million financing in December 2019 and had drawn, and utilized $2.3 million from a $3.5 million unsecured non-revolving term loan credit facility agreement (the "**Credit Facility**") that it had entered into with certain parties including two related parties, in November 2019. The Company ended the year with a working capital deficiency of $0.2 million. Although the Company was able to close a private placement of shares for gross proceeds of US$4.2 million in January 2020, of which US$0.5 million was received in December 2019, and the Company has prioritized the allocation of the available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term, additional financing will be required in order to advance its programs and for working capital requirements. The Company will seek the necessary financing through any of or a combination of debt and equity and/or contributions from possible new Pebble Project participants however, there can be no assurances that it will be successful in obtaining 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 Project 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 Background and Status

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 Pebble 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 were also 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. 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 Environmental Protection Agency ("**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 to ward off this action. These efforts were successful, resulting in the joint settlement agreement announced on May 12, 2017, which enabled the project to move forward with state and federal permitting. Also as part of the joint settlement agreement, the EPA agreed to initiate a process to propose to withdraw the Proposed Determination. That process was initiated in July 2017, suspended by former EPA Administrator, Scott Pruitt, in January 2018, and then re-initiated by the EPA in late June 2019. The Proposed Determination was ultimately withdrawn in July 2019.

Permitting

In the latter part of 2017, a project design based on a smaller mine concept was developed for the Pebble Project, as described in the Project Description which is part of the application for a CWA 404 permit. The CWA 404 permit application was submitted to the USACE on December 22, 2017, initiating federal permitting for the Pebble Project under NEPA. Significant milestones in this permitting process are summarized below:

- On February 5, 2018, USACE announced the appointment of AECOM, a leading global engineering firm, as third-party contractor for the USACE EIS process;
- On March 19, 2018, USACE published guidelines and timelines for completing NEPA permitting, and the associated USACE EIS process;
- Between April and August 2018, the Pebble Project was advanced through the Scoping Phase of the EIS process administered by the USACE:
  - Scoping was initiated on April 1, 2018 with a 90-day public comment period concluded on June 29, 2018; and
  - The USACE released the Scoping Document on August 31, 2018.
- On February 20, 2019, the USACE posted the draft EIS (the "**Draft EIS**") on its website, then initiated a public comment process on the Draft EIS, which was completed on July 2, 2019.

The Project Description and other relevant documents are available on the USACE website at https://pebbleprojecteis.com.

As mentioned in the *Overview*, Northern Dynasty, through Pebble Partnership, has continued to advance engineering studies to refine the mine design and to support the EIS process. The results of this work have been reported in updates to the Project Description, which are reflected in the Draft EIS.

The Draft EIS envisages the project developed as an open pit mine and processing facility with supporting infrastructure, a significantly smaller development footprint than previously envisaged, and other additional environmental safeguards as described in the Project Description. It assesses the access route described in the Project Description as well as other alternatives.

The current Project Description proposes that the Pebble deposit would be developed as a 180,000-ton per day open pit mine with associated on and off-site infrastructure. The infrastructure includes a 270-megawatt power plant located at the mine site; an 94-mile transportation corridor from the mine site to a port site on the west side of Cook Inlet that includes an 18-mile crossing of Iliamna Lake made by an ice-breaking ferry; a permanent, year-round port facility near the mouth of Amakdedori Creek on Cook Inlet; and a 192-mile natural gas pipeline from the Kenai Peninsula to the Project site.

Following four years of construction activity, the proposed Pebble mine will operate for a period of 20 years as a conventional drill-blast-shovel operation. The mining rate will average 70 million tons per year, with 66 million tons of mineralized material going through the mill each year (180,000 tons per day, a total of 1.3 billion tons), with a low life-of-mine waste to ore ratio of 0.12:1. Forecast average annual production would be approximately 613,000 tons of copper-gold concentrate containing approximately 318 million lb copper, 362,000 oz gold and 1.8 million oz of silver; and approximately 15,000 tons of molybdenum concentrate containing approximately 14 million lb of molybdenum.

In response to stakeholder concerns, the current mine plan proposal has a smaller footprint, consolidating major site infrastructure in a single drainage. Other new environmental safeguards include:

- 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;
- co-storage of PAG waste rock within the PAG TSF and transfer of the PAG tailings and waste rock to the open pit at closure;
- no permanent waste rock piles; and
- no cyanide usage.

The USACE is advancing the NEPA review of the proposed project, which includes the development of an EIS. A preliminary version of the Final EIS (known as the "**PFEIS**") was completed in February 2020 and distributed for comment and review to cooperating agencies and to tribes participating in the process. The PFEIS includes evaluation of various alternatives to the proposed project so that the environmental impacts of the alternatives can be compared.

A copy of the PFEIS Executive Summary was made public by certain media outlets in February 2020. The draft document and the project proposed in it, is subject to input from cooperating agencies, which will be considered prior to finalizing the EIS. In addition, once published, the USACE will receive public comments on the Final EIS. As a result, the Company cautions that the plan described above may not be the final development plan for Pebble. A final development design has not been selected.

During the fourth quarter, the Company advanced its Compensatory Mitigation Plan for the Pebble Project to address impacts to wetlands as required by the Clean Water Act. This plan was submitted to the USACE subsequent to quarter end. Five projects were delineated – sewer system improvements in three communities near the project, removal of marine debris, which poses hazards to wildlife along the beach near the site of the proposed port at Amakdedori, and culvert upgrades to remove Pacific salmon fish passage barriers.

The proposed project 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, although any subsequent phases of development would require extensive regulatory and permitting review by federal, state and local regulatory agencies, including a comprehensive EIS review process under NEPA.

Right-of-Way Agreements

The Pebble Partnership carries out an active program of engagement and consultation with stakeholders in the area of the Pebble Project in parallel with its technical work, and includes discussions to secure stakeholder agreements to support the project's development. Right-of-way agreements established to date are described below. These agreements cover land access routes for infrastructure alternatives proposed in the EIS documents.

Agreement with Alaska Peninsula Corporation

In November 2018, the Pebble Partnership finalized a Right-of-Way Agreement with Alaska Peninsula Corporation ("**APC**"), securing the right to use defined portions of APC lands for the construction and operation of transportation infrastructure associated with the Pebble Project. APC is an Alaska Native village corporation with extensive land holdings proximal to the Pebble site.

The Right-of-Way Agreement secures access to the Pebble Project site for construction and operation of the proposed mine and represents a significant milestone in the developing relationship between Pebble and the Alaska Native people of the region. The APC lands addressed in the Right-of-Way Agreement mirror the transportation corridor alternatives identified in the Project Description as submitted to the USACE to initiate the federal EIS permitting process and was also identified by the USACE as a potential transportation corridor in the Draft EIS that was released in February 2019. It includes land south of Lake Iliamna to link a port site on Cook Inlet to a ferry landing site west of the APC village of Kohkanok, as well as land north of Lake Iliamna to link a ferry landing site west of the APC village of Newhalen to the site of the proposed Pebble mine.

The agreement includes the following provisions:

- The Pebble Partnership will make annual toll payments to APC, and pay other fees prior to and during project construction and operation;
- APC will be granted 'Preferred Contractor' status at Pebble, which provides a preferential opportunity to bid on Pebble-related contracts located on APC lands; and
- The two parties have agreed to negotiate a profit sharing agreement that will ensure APC and its shareholders benefit directly from the profits generated by mining activity in the region.

Additionally, transportation and other infrastructure for a mine at Pebble is expected to benefit APC, its shareholders and villages through access to lower cost power, equipment and supplies, as well as enhanced economic activity in the region. Spur roads connecting to the villages of Newhalen and Kokhanok will allow local residents to access jobs at the Pebble mine site, port site and ferry landing sites.

Agreement with Iliamna Natives Limited

In May 2019, the Pebble Partnership finalized a Right-of-Way Agreement with Iliamna Natives Limited ("**INL**"), securing the right to use defined portions of INL lands for the construction and operation of transportation infrastructure associated with the Pebble Project.

The INL lands addressed in the Right-of-Way Agreement reflect one of the transportation corridor alternatives identified in the Draft EIS. Specifically, it includes a ferry landing site east of the village of Iliamna at Eagle Bay, as well as road and pipeline corridors and associated material borrow sites to link the Pebble mine site to the Iliamna airport, and to the Eagle Bay ferry landing site.

To secure its right to use defined portions of INL land for the construction and operation of transportation infrastructure, the Pebble Partnership will make annual toll payments to INL, and pay other fees prior to and during project construction and operations. In addition, INL will be granted 'Preferred Contractor' status at Pebble, which provides a preferential opportunity to bid on Pebble-related contracts located on INL lands.

The transportation infrastructure associated with the proposed Pebble mine is expected to benefit INL, its shareholders and local residents of Iliamna through access to lower costs for power, equipment and supplies, as well as enhanced economic activity in the region. Roads connecting to the villages of Iliamna and Newhalen will allow local residents to access jobs at the Pebble mine site and associated infrastructure sites.

The two parties have also agreed to negotiate a profit sharing agreement that will ensure INL and its shareholders benefit directly from the profits generated by mining activity in the region.

1.2.1.2 Current Technical Programs

Technical programs at Pebble in 2019 were mainly focused on planning and deploying site investigations related to supporting the EIS process and the natural gas pipeline right-of-way application.

The technical team completed a review of the Draft EIS during the third quarter and submitted comments on the draft document to USACE. The team also responded to requests for information related to the Draft EIS for USACE's process to develop the Final EIS.

Engineering

Geophysical and geotechnical studies for a right-of way survey of the marine portion of the pipeline route were completed early in the third quarter; the information will provide the data required by federal regulators to support the application for the natural gas pipeline right-of-way and port construction. A geophysical survey, following up on 2018 work, for the pipeline and ferry landings on Lake Iliamna, was also completed during the quarter. Additional work is underway to support minor modifications to the road route in response to information collected from environmental and cultural surveys.

A major review of the groundwater model was advanced early in 2019. Follow-up geotechnical drilling began in September; six holes were drilled at the Pebble site, east of the proposed pit. Preparations were completed in the fourth quarter for future pump tests to confirm groundwater characteristics.

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 EBD (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 involved more than 40 respected independent research firms, utilizing numerous scientific experts and engineering groups, laboratories and support services. Researchers were selected for their specific areas of expertise and Alaskan experience, with cooperating government agencies participating in several studies. Information for the EBD was gathered through field studies, laboratory tests, review of government records and other third-party sources, and interviews with Alaska residents.

The 2012 EBD, available at http://pebbleresearch.com/, 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. Data from the 2009-2013 period was compiled into the Supplemental EBD (2009 to 2013), and transmitted to USACE. The full EBD, as well as all Supplemental EBD chapters that were substantively updated since the original EBD was published in 2012, are available on the USACE Pebble EIS website. Meteorology, wetlands, aquatic resources, marine studies, wildlife and stream flow monitoring data collected in 2018 has also been provided to USACE.

Environmental site work for 2019 continued during the fourth quarter, including ongoing environmental monitoring and collection of additional data to support the EIS process. Work planned for 2020 includes maintenance of existing stream gauges and weather stations and collection of additional cultural data.

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 Pebble 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.

Through these various 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 corporations, and energizes the economy of Southwest Alaska.

1.2.2 Legal 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 later 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 were 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 relied on claims made in the Kerrisdale Report and alleged damages to a class of investors who purchased shares of the Company prior to the publication of the Kerrisdale Report and alleged 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 continued to litigate and filed an amended complaint. The Company filed a motion to dismiss the amended complaint in the *Diaz* action, which the plaintiffs opposed. In April 2018, the United States District Court for the Central District of California (the "California District Court") granted the Company's motion and dismissed the plaintiffs' amended complaint in full, noting that its reliance on the sources in the Kerrisdale Report was an insufficient basis to allege securities fraud. The Court allowed the plaintiffs an opportunity to amend their complaint, which they did in June 2018. The Company again moved to dismiss the new complaint, and briefing on the motion concluded in November 2018.

On February 22, 2019, the California District Court again dismissed all of the securities class action claims brought against the Company and certain of its officers and directors in the *Diaz* action, this time without leave to amend. The Court ruled in favor of the Company and its officers and directors on all claims and ordered the case closed.

In March 2019, the *Diaz* plaintiffs filed notice of an appeal of the district court's dismissal order, and their appeal was filed with the Ninth Circuit Court of Appeals, in California, in June 2019. The Company filed its response in August 2019 and the plaintiffs submitted their reply in October 2019, closing the briefing before the appellate court. The appeal will be reviewed *de novo*, meaning that no deference will be given to the earlier lower court rulings. A hearing on the appeal is scheduled for early May 2020 and the Company intends to continue defending itself vigorously in this action, and the outcome is not determinable at this time.

1.2.3 Financings

Bought Deal and Underwritten Offerings

The following bought deal and underwritten offerings were each made by way of a prospectus supplement to the Company's existing Canadian base shelf prospectus (the "Base Shelf Prospectus") and related US registration statement on Form F-10 (SEC File No. 333-229262) (the "Registration Statement"). The US form of the Base Shelf Prospectus is included in the Registration Statement.

US$15.5 Million Underwritten Offering

On December 18, 2019, the Company completed an underwritten public offering of 41,975,000 common shares at a price of US$0.37 per common share for gross proceeds of approximately US$15.5 million ($20.6 million). The public offering was completed pursuant to an underwriting agreement dated December 13, 2019, among the Company and Cantor Fitzgerald Canada Corporation, as lead underwriter and sole bookrunner, and a syndicate of underwriters including BMO Nesbitt Burns Inc., H.C. Wainwright & Co., LLC. and TD Securities Inc. (collectively, the "**Underwriters**"). The Underwriters were paid a 7.5% cash commission.

US$11.5 Million Bought Deal

In August 2019, the Company completed a bought deal offering of 15,333,334 common shares of the Company at the price of US$0.75 per common share for aggregate gross proceeds of approximately US$11.5 million ($15.3 million). The bought deal offering was made through the Underwriters described above, who were paid a cash commission equal to 6.0% of the gross proceeds of the offering.

US$5.0 Million Bought Deal

In June 2019, the Company completed a bought deal offering of 12,200,000 common shares at US$0.41 per common share for gross proceeds of approximately US$5.0 million ($6.6 million). The bought deal offering was made through the Underwriters described above, who were paid a 6% cash commission equal to 6.0% of the gross proceeds of the offering, and also received 244,000 non-transferable common share purchase warrants, each warrant exercisable into one common share of the Company at an exercise price of US$0.41 per common share until June 24, 2020.

US$11.5 Million Bought Deal

In March 2019, the Company completed a bought deal offering of 17,968,750 common shares at US$0.64 per common share for gross proceeds of US$11.5 million ($15.3 million). The Underwriters as described above were paid a cash commission equal to 6% of the gross proceeds of the offering.

Private Placements

US$4.2 Million Private Placement

On January 17, 2020, the Company completed a non-brokered private placement of 11,346,783 common shares of the Company for gross proceeds of approximately US$4.2 million ($5.6 million). The shares were issued at the same price as the shares issued in the US$15.5 Million Underwritten Offering (described below). Common shares issued pursuant to the private placement are subject to applicable resale restrictions, including a four-month hold under Canadian securities legislation.

US$2.15 Million Private Placement

In August 2019, the Company completed a non-brokered private placement to investors outside of the United States of 2,866,665 common shares of the Company at the price of US$0.75 per common share for gross proceeds of approximately US$2.15 million ($2.8 million). Common shares issued pursuant to the private placement are subject to applicable resale restrictions, and were subject to a four-month hold period under Canadian securities legislation.

US$1.5 Million Private Placement

In June 2019, the Company completed a non-brokered private placement of 3,660,000 common shares of the Company at US$0.41 per common share for gross proceeds of approximately US$1.5 million ($2.0 million). The shares are subject to applicable resale restrictions, and were subject to a four-month hold period under Canadian securities legislation.

$3.2 Million Private Placement

In March 2019, the Company completed a non-brokered private placement of 3,769,476 common shares at a price of $0.86 (US$0.64) per common share for gross proceeds of approximately $3.2 million (US$2.4 million). The shares are subject to applicable resale restrictions, and were subject to a four month and one day hold under Canadian securities legislation.

US$11.5 Million Bought Deal

In March 2019, the Company completed a bought deal offering of 17,968,750 common shares at US$0.64 per common share for gross proceeds of US$11.5 million ($15.3 million). The Underwriters (as described above) were paid a cash commission equal to 6% of the gross proceeds of the offering.

Use of proceeds

The proceeds from the above 2019 financings are anticipated to be used for (i) operational expenditures, including engineering, environmental, permitting and evaluation expenses associated with the Pebble Project and the advancement of completion of USACE's EIS, (ii) ongoing outreach and engagement with political and regulatory offices in the Alaska state and US federal government, Alaska Native partners and broader regional and state-wide stakeholder groups, and (iii) general corporate purposes.

It remains one of the Company's goals to partner the Pebble Project.

1.2.4 Market Trends

In 2020, metal prices are being impacted significantly by the downturn in economic conditions related to the global COVID-19 epidemic.

Copper prices were variable in 2015 and 2016, and the average annual price decreased. Prices were variable to improving in 2017 resulting in an increase in the average annual price increase. Prices were variable in early 2018, trended downward from June to August, then improved through to the end of the year and into 2019. Prices decreased in April/May and were slightly variable through September when they increased, and remained stable until late January 2020 when they dropped sharply, losing the gain made in late 2019. Prices dropped again in March 2020 but have rebounded slightly since mid-month. A recent closing price is US$2.17/lb.

Gold prices were variable in 2015, with a decrease in the average annual price from the prior year. Prices trended upward for most of 2016. In 2017, prices were variable to increasing, but then dropped late in the year. After rebounding in January 2018, prices were relatively stable for several months, until dropping in the third quarter of 2018. Prices trended upward in the latter part of 2018 and early 2019, started a strong uptrend in May before stabilizing from September to December 2019. Gold prices trended upward from January to March 2020, when they dropped sharply to US$1,474/oz, but have rebounded since mid-month. A recent closing price is US$1,635/oz.

Molybdenum prices trended downward through the end of 2015. After being relatively flat in 2016, prices increased in 2017 and through most of 2018, and were steady from September to December 2018. Prices had varied only slightly in 2019, before dropping from October through to mid-January 2020. Molybdenum prices rebounded somewhat but have been on a downtrend for the most part in 2020, with a recent closing price of US$7.80/lb.

Silver prices varied, and the average annual price decreased in 2015. Prices were variable to improving during most of 2016 and 2017. Prices declined in late 2017 but recovered in January 2018, and then were variable for the rest of the year, with a decrease in the average annual price in 2018. Prices were variable in 2019, but increased since late May and again in September, then trended downward, then stabilized in November and December. Silver prices increased in early January 2020, stabilized, then spiked again in late February 2020. Silver prices decreased significantly in March 2020 to US$12.00/oz, but have rebounded since mid-month. A recent closing price is US$14.42/oz.

Average annual prices of copper, gold, molybdenum and silver for the past four years as well as the average prices so far in 2020 are shown in the table below:

Year	Average metal price [1,2]			
	Copper US$/lb	**Gold US$/oz**	**Molybdenum US$/lb**	**Silver US$/oz**
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
2018	2.96	1,269	11.94	15.71
2019	2.72	1,393	11.36	16.21
2020 (to March 26)	2.58	1,581	9.68	17.04

1. *Source for copper, gold and silver and molybdenum (2013-2017) is Argus Media at www.metalprices.com*
   LME Official Cash Price for copper and molybdenum (2013-2017)
   LBMA PM Price for gold
   London PM fix for silver
2. *Source for 2018, 2019, 2020 prices for molybdenum is Platts*

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 2019	Fiscal year 2018	Fiscal year 2017
Total assets	$ 154,624	$ 161,924	$ 202,620
Total non-current liabilities	934	7,194	53,799
Total current liabilities	15,185	6,520	11,320
Exploration and evaluation expenses	53,014	50,409	22,594
General and administrative expenses	9,365	8,652	9,384
Legal, accounting and audit	2,416	2,419	26,358
Share-based compensation	3,970	4,734	5,858
Non-refundable early option price installment	–	(48,097)	–
Sale of royalty and royalty income	–	(648)	–
Other items [1]	428	(1,512)	671
Loss for the year	**$ 69,193**	**$ 15,957**	**$ 64,865**
Basic and diluted loss per common share	$ 0.19	$ 0.05	$ 0.22
Weighted average number of common shares outstanding ('000')	358,343	312,265	300,511

Notes

1. Other items include interest income, finance expense, exchange gains or losses and other income.

Discussion on period-to-period variances:

- The decrease in assets in 2019 vs 2018 is due primarily to the decrease in carrying value of the Company's mineral property, plant and equipment as the appreciation of the Canadian dollar in relation to US dollar resulted in an decrease in the carrying value in the Company's reporting currency, and to the decrease in cash and cash equivalents ("**Cash**") as the Company employed cash for its technical programs, which focused on the permitting process through the USACE, general corporate purposes and working capital. The decrease in assets in 2018 vs 2017 was due mainly to the decrease in Cash as the Company employed cash in its operations, primarily on its technical programs described previously.
- Non-current liabilities decreased in 2019 vs 2018 as the final $7,194 installment in legal success fees was transferred to current liabilities. However, the Company also recognized $934 as the non-current portion of lease liabilities. In 2018, the decrease from 2017 was due primarily to the Company recognizing the Non-refundable early option installment of $47,149 as income. Current liabilities increased in 2019 as the final installment in legal success fees (discussed above) is included, and $2,331 in loans (including interest) received pursuant to the Credit Facility.
- Exploration and evaluation expenses ("**E&E**") increased year on year as the Company continued to advance engineering studies, ongoing environmental monitoring and collection of additional data to support the EIS process.
- General and administrative expenses ("**G&A**") have fluctuated over the period due to the level of corporate and financing activities undertaken.
- Legal, accounting and audit expenses in 2019 were in line with 2018 but in 2018 had declined significantly vs 2017 as a result of the cessation of legal cases against the EPA. In 2017, with the EPA settlement, the Company recognized a success fee that became due to the Company's US legal counsel

which was payable in three annual installments, two of which have been paid with the final installment due in 2020.

- In 2019, the Company recognized depreciation for right-of-use assets for the first time.

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 2019**	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018
Expenses								
Exploration and evaluation	$11,998	$14,265	$14,701	$12,050	$ 9,114	$16,847	$ 16,727	$ 7,721
General and administrative	2,122	2,723	2,171	2,349	2,470	1,909	1,992	2,281
Legal, accounting and audit	780	(45)	790	891	1,074	697	1	647
Share-based compensation	455	2,149	662	704	741	2,284	873	836
Non-refundable option installment [1]	–	–	–	–	–	–	(48,097)	–
Other items [2]	235	26	(50)	217	(902)	210	(1,075)	(393)
Loss (income) for the quarter	$15,590	$19,118	$18,274	$16,211	$12,497	$21,947	$(29,579)	$11,092
Basic and diluted loss (income) per common share	$ 0.04	$ 0.05	$ 0.05	$ 0.05	$ 0.04	$ 0.07	$ (0.09)	$ 0.04
Weighted average number of common shares (000s)	387,352	371,605	346,717	326,902	314,449	312,491	312,062	310,006

1. The Company recognized the Non-refundable Option Installment received in Q4 2017 as income on termination of the framework agreement in Q2 2018.
2. Other items include interest income, finance expense, exchange gains or losses, gain or loss on disposal of financial assets and plant and equipment, gains and loss on revaluation of warrants and non-core asset royalty income.

Discussion of Quarterly Trends

E&E has fluctuated depending on activities undertaken. In 2018, the Company focused on environmental monitoring, engineering studies to support permitting and responding to USACE requests for information in the EIS scoping process. In 2019, the Company focused on planning and deploying site investigations related to supporting the EIS process and the natural gas pipeline right-of-way application and continued to respond to USACE requests for information relating to the Draft EIS for USACE's process to develop a final EIS. With the latter Draft EIS, the Company completed its review and submitted its comments to USACE. Further details are discussed in *Engineering* under Section 1.2.1.2. E&E also includes costs for Native community engagement, site leases, land access agreements and annual claim fees.

G&A have increased in 2019 as compared to 2018 as a result of the multiple financing activities undertaken. In addition, the payments of a discretionary performance bonus to the Pebble Partnership CEO ("**PLP CEO**") in Q4 2018 and Q3 2019, and the payment of incentive bonuses to certain staff in Q1 2019 and Q4 2019, impacted G&A.

In Q2 2018, Q3 and Q4 2019, legal, accounting and audit expenses decreased as the Company received insurance proceeds for cumulative securities class action legal costs incurred, which offset expenses in each of these quarters. In Q4 2018, legal fees included a bonus payment of approximately US$0.3 million relating to securities law advice provided during the year by the Company's US legal counsel.

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. The Company granted 6,610,500 options and 5,635,000 options in Q3 2019 and 2018, respectively. Grants of RSUs also affect SBC. The most recent grants were in Q3 2018 (125,000 RSUs) and 2017 (542,371 RSUs).

1.5 Results of Operations

The following financial data has been prepared from the Financial Statements, 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, 2019 versus 2018

For the three months ended December 31, 2019, the Company recorded a $3.1 million increase in net loss. Loss from operating activities increased by $1.9 million to $15.3 million due mainly to an increase in E&E of $2.9 million.

For the year ended December 31, 2019, the Company recorded a net loss of $69.2 million compared to a net loss of $16.0 million in 2018, which was due to the recognition as income in 2018 of the non-refundable early option price installment ("**Non-refundable Option Installment**") of $48.1 million on termination of the framework agreement with First Quantum Minerals Ltd. Loss from operating activities increased by $2.6 million to $68.8 million due primarily to an increase in E&E of $2.6 million.

Exploration and evaluation expenses

The breakdown of E&E for the three months and year as compared to 2018 is as follows:

E&E	Three months		Year	
	2019	2018	**2019**	2018
Engineering	$ 1,865	$ 1,521	$ 19,129	$ 11,377
Environmental	3,512	4,728	14,699	17,425
Property fees	1,825	8	1,839	1,405
Site activities	1,072	473	4,347	5,658
Socio-economic	2,481	2,108	9,637	10,306
Transportation	1,073	140	2,786	3,163
Other activities and travel	170	136	577	1,075
Total	**$ 11,998**	$ 9,114	**$ 53,014**	$ 50,409

E&E increased by $2.9 million in the current quarter due to the increase in property fees, due to the timing of when annual claim fees were recognized, and an increase in site activities and transportation due to timing of geotechnical drilling. For the year, E&E increased by $2.6 million as the increase in engineering costs of $7.8 million was offset by decreases in the remaining E&E line items. Engineering was focused on advancing engineering studies and responding to information requests from the USACE (refer *Engineering* under Section 1.2.1.2).

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 2018:

	Three months		Year	
	2019	2018	**2019**	2018
G&A				
Conference and travel	$ 88	$ 212	$ 448	$ 553
Consulting	362	71	1,002	269
Depreciation of right-of-use assets	56	–	223	–
Insurance	176	171	689	555
Office costs, including information technology	201	240	867	1,054
Management and administration	988	1,559	4,950	4,946
Shareholder communication	238	175	917	951
Trust and filing	13	42	269	324
Total G&A	**2,122**	2,470	**9,365**	8,652
Legal, accounting and audit	780	1,074	2,416	2,419
	$ 2,902	$ 3,544	**$ 11,781**	$ 11,071

G&A in the current quarter decreased by $0.3 million mainly due to the decrease in management and administration costs, which was due the timing of the payment of a discretionary performance bonus to the PLP CEO for the 2018 fiscal year, and conference and travel costs. This was offset by the increase in consulting expenses due to the financing activity undertaken in the quarter. Legal, accounting and audit expenses decreased by $0.3 million due primarily to legal costs being offset by the receipt of insurance proceeds for cumulative securities class action costs incurred.

For the year, G&A increased by $0.7 million due primarily to the increase in management and administration and consulting costs, as the Company completed multiple financings. Additionally, in 2019, the Company incurred higher insurance costs and recognized depreciation for right-of-use assets for the first time.

SBC has fluctuated due to the timing and quantum of option grants, RSUs and DSUs and the vesting periods associated with these grants. There were 6,610,500 options granted in the third quarter of 2019 as compared to 5,635,000 options granted in third quarter of 2018.

1.5.2 Financial position as at December 31, 2019 versus December 31, 2018

The total assets of the Company decreased by $7.3 million due largely to the decrease in carrying value of the Company's mineral property, plant and equipment as the appreciation of the Canadian dollar in relation to US dollar resulted in an decrease in the carrying value in the Company's reporting currency.

1.6 Liquidity

The Company's major sources of funding have 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 equity funding.

As at December 31, 2019, the Company had cash and cash equivalents of $14.0 million, which is a decrease of $0.8 million from December 31, 2018. In 2019, the Company completed three bought deals and an underwritten offering for gross proceeds of US$43.5 million ($57.8 million) and three private placement financings for gross proceeds of approximately US$6.0 million ($8.0 million) (see *1.2.3 Financings*). The Company employed $64.7 million in its operating activities in the year ended December 31, 2019. In December 2019, the Company drew $2.3 million pursuant to Credit Facility for working capital. The Credit Facility was repaid in January and February 2020. Although the Company was able to close a private placement for gross proceeds of approximately US$4.2 million in January 2020, of which US$0.5 million was received in December 2019, and the Company has prioritized the allocation of its available financial resources to meet key corporate and Pebble Project expenditure requirements in the near term, additional financing will be required to progress any material expenditures at the Pebble Project including the finalizing of permitting 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, 2019, the Company had a negative working capital of $0.2 million as compared to a positive working capital of $9.7 million at December 31, 2018. The Company has no lease obligations or any other long-term obligations other than those disclosed below:

The following commitments and payables (expressed in *thousands)* existed at December 31, 2019:

	Payments due by period as of the reporting date			
	Total	≤ 1 year	1-5 years	> 5 years
Trade and other payables [1]	**$ 12,401**	$ 12,401	$ –	$ –
Payables to related parties [2]	**1,095**	1,095	–	–
Lease commitments [3]	**1,618**	391	884	343
Loans payable [4]	**1,360**	1,360		
Total	**$ 16,474**	$ 15,247	$ 884	$ 343

Notes to table

1. Includes legal fees due to legal counsel of US$5,274, due December 24, 2020, and US$635 payable on completion of a partnering transaction.
2. Includes $971 for loans provided pursuant to the Credit Facility.
3. Relates to the undiscounted lease payments to be made by the Company over the remaining lease terms.
4. Relates to the loans provided pursuant to the Credit Facility.
5. US dollar amounts have been converted at the closing rate of $1.2990/ 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 payment of annual toll payments and fees pursuant to the right of way agreements (see *Right-of-Way Agreements* under Section 1.2.1.1 Project Background and Status), and has payments relating to routine site and office leases (which is included in the 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, 2019, 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, 2019, 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, who is also Chief Executive Officer of the Company, are active members of the HDI Board of Directors. Mark Peters, the Company's Chief Financial Officer ("**CFO**")[4], is the CFO of HDSI. Other key management personnel of the Company – Doug Allen, Stephen Hodgson[5], Bruce Jenkins 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

Other than noted below, 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.

[4] Mark Peters joined the Company as CFO, replacing Marchand Snyman who resigned from his role with effect from April 2, 2019.

[5] Stephen Hodgson is employed though a subsidiary of HDSI, Hunter Dickinson Servicepay (US) Inc., and provides services to the Pebble Partnership on a full time basis as Senior Vice President, *Engineering & Project Director*.

The Company has an office use agreement with HDSI whereby the Company rents a specified office from HDSI for its sole use.

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 9 in the notes to the Financial Statements which accompany this MD&A and which are available under the Company's profile at www.sedar.com.

Key Management Personnel

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

1.10 Fourth Quarter

Discussed in Section *1.5.1 Results of Operations – Three months and Year ended December 31, 2019 versus 2018*

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

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

1.13 Changes in Accounting Policies including Initial Adoption

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

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 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, government treasury bills, low risk corporate bonds and money market funds, 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,

2019. Amounts receivable include receivable balances with government agencies, prepaid expenses and refundable deposits. Management has 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: Group entities, 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 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. As a result, the Company's exposure to foreign exchange risk has decreased as follows:

US dollar denominated financial assets and liabilities (in Canadian Dollars)	**December 31 2019**	December 31 2018
Financial assets:		
Amounts receivable	$ 263	$ 627
Restricted Cash	805	830
Cash and cash equivalents	13,285	9,693
	14,353	11,150
Financial liabilities:		
Long term payables	(932)	(7,194)
Warrant liabilities	(43)	–
Payables to related parties	(24)	(146)
Trade and other payables	(12,426	(5,834)
	(13,425)	(13,174)
Net financial liabilities exposed to foreign currency risk	$ (928)	$ (2,024)

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 $93 (2018 – $202) in the period. 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, 2019.

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 *2019 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 as of the date of this MD&A, is as follows:

	Number
Common shares issued and outstanding	436,631,503
Share options pursuant to the Company's incentive plan	25,746,266
Deferred share units	458,129
Restricted share units	–
Warrants and non-incentive plan options[1]	31,772,941

Note to table:
1. Non-incentive plan options make up 223,250 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, prospectus financings in June 2016 and 2019, a private placement financing in July 2016 and the Credit Facility.

1.15.2 Disclosure Controls and Procedures

The Company's management, with the participation of its CEO and 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 ("ICFR")

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, 2019. 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, 2019, 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 during the three months and for the full year 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:

Impact of the Novel Coronavirus ("COVID-19")

The current outbreak of COVID-19, and any future emergence and spread of similar pathogens, could have a material adverse effect on global and local economic and business conditions which may adversely impact our business and results of operations and the operations of contractors and service providers. The outbreak has now spread to the United States and Canada where we conduct our principal business operations. Our plans to advance the development of the Pebble Project are dependent upon the continued progress of our approval and permitting process with the USACE, the EPA and Alaskan state agencies, as well as our ability to continue the work required in connection with this process through our employees and our contractors. While we have not been notified of any delay, it is possible that government efforts to curtail the COVID-19 outbreak will result in delays in our permitting process, including a possible delay in the release by the USACE of their Final EIS and the progress through to a Record of Decision. In addition, our personnel may be delayed in completing the required work that we are pursuing in connection with this process due to quarantine, self-isolation, social distancing, restrictions on travel, restrictions on meetings and work from home requirements. The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others. Moreover, the spread of the coronavirus globally is expected to have a material adverse effect on global and regional economies and to continue to negatively impact stock markets, including the trading price of our shares. These adverse effects on the economy, the stock market and our share price could adversely impact our ability to raise capital, with the result that our ability to pursue development of the Pebble Project could be adversely impacted, both through delays and through increased costs. Any of these developments, and others, could have a material adverse effect on our business and results of operations and could delay our plans for development of the Pebble Project.

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 USACE, 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 43-101. These resource estimates are classified as "measured resources", "indicated resources" and "inferred resources". Northern Dynasty advises United States investors that although with the adoption of the SEC Modernization Rules, the SEC now recognizes estimates of "measured mineral resources", "indicated mineral resources" and "inferred mineral resources", there is no assurance any mineral resources that Northern Dynasty may report as "measured mineral resources", "indicated mineral resources" and "inferred mineral resources" under 43-101 would be the same had Northern Dynasty prepared the resource estimates under the standards adopted under the SEC Modernization Rules. 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 securities law, estimates of "inferred mineral resources" cannot 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 operate this way 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 from its mineral properties 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 has prepared its Financial Statements on the basis that Northern Dynasty will continue as a going concern. At December 31, 2019, Northern Dynasty had a negative working capital of $0.2 million. Although Northern Dynasty in the year ended December 31, 2019, completed a number of financings for gross proceeds of approximately US$49.5 million ($65.8 million) and closed a private placement of US$4.2 million ($5.6 million) in January 2020 (of which $0.7 million was received in December 2019), additional financing will be required in 2020 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 activities related to the advancement of the Pebble Project.

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 the Pebble Project. 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 is, and may in future be subject to legal proceedings, including with regard to actions discussed in 1.2.2. *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 permitting and 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.