



**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

THREE AND SIX MONTHS ENDED
JUNE 30, 2009

(Expressed in thousands of Canadian Dollars)

(Unaudited)

These financial statements have not been reviewed by the Company's auditors

Northern Dynasty Minerals Ltd.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in thousands of Canadian Dollars)

| | | June 30 2009 | December 31 2008 (Note 8) |
|--|---|-------------------|---------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | \$ 1 | \$ 11 |
| Investment in the Pebble Limited Partnership | 5 | 116,120 | 121,611 |
| | | <u>116,121</u> | <u>121,622</u> |
| Current assets | | | |
| Balances receivable from related parties | 6 | 136 | 149 |
| Amounts receivable and prepayments | | 91 | 165 |
| Marketable securities | | 3 | 2 |
| Cash and cash equivalents | | 45,411 | 45,966 |
| | | <u>45,641</u> | <u>46,282</u> |
| Total Assets | | | |
| | | \$ 161,762 | \$ 167,904 |
| EQUITY | | | |
| Share capital | | \$ 368,571 | \$ 365,202 |
| Reserves | | 45,246 | 47,710 |
| Deficit | | (252,124) | (245,156) |
| | | <u>161,693</u> | <u>167,756</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 69 | 148 |
| | | <u>69</u> | <u>148</u> |
| Total Equity and Liabilities | | | |
| | | \$ 161,762 | \$ 167,904 |

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

These condensed consolidated interim financial statements are authorized for issue on August 4, 2009.

They are signed on the Company's behalf by:

/s/ Ronald W. Thiessen

Ronald W. Thiessen
Director

/s/ Robert A. Dickinson

Robert A. Dickinson
Director

Northern Dynasty Minerals Ltd.

Condensed Consolidated Interim Statements of Comprehensive Loss

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

| | Three months ended June 30 | | Six months ended June 30 | | |
|--|----------------------------|-----------------|--------------------------|-------------------|---------|
| | 2009 | 2008 | 2009 | 2008 | |
| Note | | (Note 8) | | (Note 8) | |
| Expenses | | | | | |
| Depreciation | \$ 1 | \$ – | \$ 10 | \$ – | |
| Conference and travel | 79 | 41 | 189 | 103 | |
| Exploration | 17 | 2 | 69 | 68 | |
| Foreign exchange loss (gain) | 86 | 255 | 44 | (1,036) | |
| Legal, accounting and audit | 55 | 136 | 96 | 76 | |
| Office and administration | 626 | 328 | 1,665 | 664 | |
| Shareholder communication | 213 | 86 | 407 | 138 | |
| Share-based compensation | 1,352 | 3,777 | 5,820 | 4,447 | |
| Trust and filing | 28 | 16 | 174 | 187 | |
| Loss from operating activities | 2,457 | 4,641 | 8,474 | 4,647 | |
| Interest income | (47) | (235) | (135) | (627) | |
| Loss before taxes | 2,410 | 4,406 | 8,339 | 4,020 | |
| Income taxes | – | – | – | – | |
| Loss for the period | \$ 2,410 | \$ 4,406 | \$ 8,339 | \$ 4,020 | |
| Other comprehensive loss (income) | | | | | |
| Unrealized loss (gain) on available-for-sale marketable securities | (1) | (1) | (1) | 1 | |
| Exchange difference arising on translation of investment in the Pebble Limited Partnership | 9,815 | 818 | 5,491 | (2,836) | |
| Other comprehensive loss (income) | \$ 9,814 | \$ 817 | \$ 5,490 | \$ (2,835) | |
| Total comprehensive loss | \$ 12,224 | \$ 5,223 | \$ 13,829 | \$ 1,185 | |
| Basic and diluted loss per common share | 4 | \$ 0.03 | \$ 0.05 | \$ 0.09 | \$ 0.04 |

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

Northern Dynasty Minerals Ltd.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - Expressed in thousands of Canadian Dollars)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|----------------------------|------------------|--------------------------|------------------|
| | 2009 | 2008 (Note 8) | 2009 | 2008 (Note 8) |
| Operating activities | | | | |
| Loss for the period | \$ (2,410) | \$ (4,406) | \$ (8,339) | \$ (4,020) |
| Items not involving cash: | | | | |
| Depreciation | 1 | – | 10 | – |
| Donation of shares | – | – | 437 | – |
| Interest income | (47) | (235) | (135) | (627) |
| Share-based compensation | 1,352 | 3,777 | 5,820 | 4,447 |
| | (1,104) | (864) | (2,207) | (200) |
| Changes in non-cash working capital items | | | | |
| Amounts receivable and prepaid expenses | 47 | 55 | 74 | 119 |
| Accounts payable and accrued liabilities | (97) | 25 | (79) | (1,517) |
| Balances receivable from related parties | (122) | (561) | 13 | 415 |
| | (172) | (481) | 8 | (983) |
| Net cash used in operating activities | (1,276) | (1,345) | (2,199) | (1,183) |
| Investing activities | | | | |
| Interest income | 47 | 235 | 135 | 627 |
| Net cash provided from investing activities | 47 | 235 | 135 | 627 |
| Financing activities | | | | |
| Common shares issued for cash, net of issue costs | 1,478 | – | 1,509 | – |
| Net cash provided from financing activities | 1,478 | – | 1,509 | – |
| Increase (decrease) in cash and cash equivalents | 249 | (1,110) | (555) | (556) |
| Cash and cash equivalents at beginning of the period | 45,162 | 39,682 | 45,966 | 39,128 |
| Cash and cash equivalents at end of the period | \$ 45,411 | \$ 38,572 | \$ 45,411 | \$ 38,572 |

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

Northern Dynasty Minerals Ltd.

Condensed Consolidated Interim Statements of Changes in Equity

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

| | Share capital | | Reserves | | | | Deficit | Total |
|--|-------------------|-------------------|----------------------|------------------------------|-------------------------------------|---------------------|-------------------|-------|
| | Number of shares | Amount | Share based payments | Foreign currency translation | Available-for-sale financial assets | | | |
| Balance at January 1, 2008 (Note 8) | 92,543,639 | \$ 365,202 | \$ 17,381 | \$ – | \$ (3) | \$ (244,005) | \$ 138,575 | |
| Share-based compensation | – | – | 4,447 | – | – | – | 4,447 | |
| Total comprehensive income (loss) for the period (Note 8) | – | – | – | 2,836 | (1) | (4,020) | (1,185) | |
| Balance at June 30, 2008 | 92,543,639 | \$ 365,202 | \$ 21,828 | \$ 2,836 | \$ (4) | \$ (248,025) | \$ 141,837 | |
| Balance at January 1, 2009 | 92,543,639 | \$ 365,202 | \$ 23,718 | \$ 22,635 | \$ (14) | \$ (243,785) | \$ 167,756 | |
| Shares issued | 391,786 | 1,946 | – | – | – | – | 1,946 | |
| Share-based compensation | – | – | 5,820 | – | – | – | 5,820 | |
| Fair value of share options allocated to shares issued on exercise | – | 1,423 | (1,423) | – | – | – | – | |
| Total comprehensive income (loss) for the period | – | – | – | (5,491) | 1 | (8,339) | (13,829) | |
| Balance at June 30, 2009 | 92,935,425 | \$ 368,571 | \$ 28,115 | \$ 17,144 | \$ (13) | \$ (252,124) | \$ 161,693 | |

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2009 and 2008

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS 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 address of the Company's registered office is #1020 – 800 West Pender Street, Vancouver, BC, Canada V6C 2V6. The condensed consolidated interim financial statements ("Interim Financial Statements") of the Company as at and for the period ended June 30, 2009 comprise the Company and its subsidiaries (note 7) and the Company's interest in jointly controlled entities. The Company is the ultimate parent. The Company's principal mineral property interest is its 50% share in the Pebble Project located in Alaska, United States of America ("USA").

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of Compliance and Conversion to International Financial Reporting Standards*

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian Securities regulatory authorities, which the Company received in early February 2009.

These Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These IFRS Interim Financial Statements are for part of the period covered by the Company's first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2009. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP.

(b) *Basis of Preparation*

These Interim Financial Statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale which are stated at their fair value. In addition these Interim Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

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The preparation of these Interim Financial Statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These Interim Financial Statements do not include all of the information required for full annual financial statements.

These Interim Financial Statements have been prepared on the basis of IFRS standards that are expected to be effective or available for early adoption on December 31, 2009, the Company's first annual reporting date.

These standards are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these Interim Financial Statements will be determined only when the first full IFRS financial statements are prepared for the year ending December 31, 2009.

The preparation of these Interim Financial Statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these Interim Financial Statements. They also have been applied in preparing an opening IFRS statement of financial position as at January 1, 2008 for the purposes of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 8.

(c) *Basis of Consolidation*

These Interim Financial Statements include the accounts of the Company and all its subsidiaries (note 7).

The Company has determined that its investment in the Pebble Limited Partnership (the "Pebble Partnership"), a 50:50 limited partnership between the Company and Anglo-American plc ("Anglo"), each through wholly-owned affiliates, qualifies as an interest in a jointly controlled entity under IAS 31, *Interests in Joint Ventures*. The Company has elected to apply the equity method to account for its interest in the Pebble Partnership (note 8). The investment is carried in the statement of financial position at cost and adjusted by post-acquisition changes in the Company's share of the net assets of the joint venture, less any impairments.

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

(d) *Business Combinations*

Business combinations that occurred prior to January 1, 2008 were not accounted for in accordance with IFRS 3, *Business Combinations* ("IFRS 3") or IAS 27, *Consolidated and Separate Financial Statements*, in accordance with the IFRS 1 exemption discussed in Note 8.

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control

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(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

of the acquired entity or acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss in the consolidated statements of comprehensive income or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

(e) *Foreign Currencies*

The functional and presentation currency of the Company is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the 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 Company has determined that the functional currency of the Pebble Partnership is the US dollar. Exchange differences arising from the translation of the net investment in the Pebble Partnership are taken directly to the foreign currency translation reserve in other comprehensive income.

(f) *Financial Instruments*

Financial assets and liabilities:

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets held are balances receivable from related parties, amounts receivable and prepayments, marketable securities and cash and cash equivalents. These are classified into the following specified categories: loans and receivables and other liabilities and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Marketable securities held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in other comprehensive income in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss in the consolidated statements of comprehensive income or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or

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loss previously recognized in the investments revaluation reserve is included in the profit or loss in the consolidated statements of comprehensive income or loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the financial position reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in other comprehensive income.

Amounts receivable, accounts payable and accrued liabilities that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

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

The Company does not have any derivative financial instruments.

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(g) Exploration and Evaluation

Exploration and evaluation expenditure include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditure is 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 Company has obtained the legal rights to explore an area are recognized in profit or loss in the consolidated statements of comprehensive income or loss.

Capitalized costs, including general and administrative costs, are only allocated 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 assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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 the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(h) Property, Plant and Equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE 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 property, plant and equipment, less their estimated residual value, using the declining balance method at various rates ranging from 20% - 30% per annum.

An item of PPE 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 in the consolidated statements of comprehensive income or loss.

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

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(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

(i) *Cash and Cash Equivalents*

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts, bankers' acceptances and in government treasury bills which are available on demand by the Company for its programs, and are not invested in any asset backed deposits/investments.

(j) *Impairment*

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those 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, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss in the consolidated statements of comprehensive profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. 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, but so that the increased carrying amount does not exceed 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 in the consolidated statements of comprehensive profit or loss.

(k) *Share Capital*

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(l) *Share-based payment transactions*

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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(m) Income taxes

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

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

Deferred tax is provided using the balance sheet liability method, providing for 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 or taxable profit; and differences relating to investments in subsidiaries 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 financial position reporting date.

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 utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

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 Company intends to settle its current tax assets and liabilities on a net basis.

(n) Asset Retirement Obligation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production 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, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect 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 related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

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(o) *Loss per Share*

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(p) *Segment Reporting*

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

(q) *Significant Accounting Judgments and Estimates*

The preparation of these Interim Financial Statements requires management to make estimates 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 Interim Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Interim 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 the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, 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:

- i. the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statements of financial position;
- ii. the carrying value of the investment in the Pebble Partnership and the recoverability of the carrying value which are included in the condensed consolidated interim statements of financial position;
- iii. the estimated useful lives of property, plant and equipment which are included in the condensed consolidated interim statement of financial position and the related depreciation included in the consolidated statements of comprehensive loss for the period ended June 30, 2009;
- iv. the inputs used in accounting for share-based compensation expense in the condensed consolidated interim statements of comprehensive loss; and
- v. the nil provision for income taxes which is included in the condensed consolidated interim statements of comprehensive loss and the composition of deferred income tax assets and liabilities included in the condensed consolidated interim statements of financial position at June 30, 2009.

(r) *New Standards Not Yet Adopted*

Standards and interpretations issued but not yet effective:

- Amendments to IFRS 3, *Business Combinations*
- Amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to IAS 16, *Property, Plant and Equipment*
- Amendments to IAS 27, *Consolidated and Separate Financial Statements*

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- Amendments to IAS 28, *Investments in Associates*
- Amendments to IAS 31, *Interests in Joint Ventures*
- Amendments to IAS 40, *Investment Property*

The Company anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Company except for additional disclosures.

3. CAPITAL AND RESERVES

(a) *Authorized Share Capital*

At June 30, 2009, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) *Issued share capital*

At June 30, 2009 the issued share capital amounted to \$368,571. The movement in issued share capital for the period was as follows:

| | Number of shares | Amount |
|--|------------------|---------|
| Balance at the beginning of the year | 92,543,639 | 365,202 |
| Donation of shares | 75,000 | 437 |
| Share purchase options exercised (3(c)) | 316,786 | 1,509 |
| Fair value allocated to share purchase options exercised | – | 1,423 |
| Balance at end of the period | 92,935,425 | 368,571 |

There were no movements in the issued share capital of the Company in the comparable interim period in 2008.

(c) *Share purchase option compensation plan*

The Company has a share option plan approved by the shareholders that allows it to grant share purchase options, subject to regulatory terms and approval, to its officers, directors, employees, and service providers. The share option plan (the "2008 Rolling Option Plan") is based on the maximum number of eligible shares equalling a rolling percentage of 10% of the Company's outstanding common shares, calculated from time to time. Pursuant to the 2008 Rolling Option Plan, if outstanding share purchase options are exercised or expire, and/or the number of issued and outstanding common shares of the Company increases, then the share purchase options available to grant under the plan increase proportionately. The exercise price of each share purchase option is set by the Board of Directors at the time of grant but cannot be less than the market price (less permissible discounts). Share purchase options can have a maximum term of ten years and typically terminate 90 days following the termination of the optionee's employment or engagement, except in the case of retirement or death. Vesting of share purchase options is at the discretion of the Board of Directors at the time the options are granted.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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The continuity of share purchase options for the period ended June 30, 2009 is as follows:

| Expiry date | Exercise price | Dec 31 2008 | Granted | Exercised | Expired / cancelled | Jun 30 2009 |
|---------------------------------|----------------|------------------|------------------|------------------|---------------------|------------------|
| April 30, 2009 | \$ 7.25 | 359,400 | – | (15,000) | (344,400) | – |
| April 30, 2009 | \$ 9.81 | 50,000 | – | – | (50,000) | – |
| April 30, 2009 | \$10.32 | 593,000 | – | – | (593,000) | – |
| April 14, 2011 | \$ 9.74 | 1,461,668 | – | – | (1,434,168) | 27,500 |
| April 30, 2011 | \$ 7.25 | 945,000 | – | – | (765,000) | 180,000 |
| October 27, 2011 | \$ 3.00 | 221,877 | – | (43,730) | (4,262) | 173,885 |
| February 2, 2012 | \$ 5.00 | – | 529,000 | (36,166) | – | 492,834 |
| February 4, 2012 | \$ 5.00 | – | 2,168,200 | (166,890) | (38,667) | 1,962,643 |
| February 20, 2012 | \$10.95 | 828,000 | – | – | (678,000) | 150,000 |
| March 26, 2012 | \$ 8.25 | – | 25,000 | – | – | 25,000 |
| April 11, 2013 | \$ 9.74 | 753,000 | – | – | (678,000) | 75,000 |
| August 22, 2013 | \$ 5.35 | 40,000 | – | – | – | 40,000 |
| October 27, 2013 | \$ 3.00 | 140,000 | – | (10,000) | – | 130,000 |
| February 2, 2014 | \$ 5.00 | – | 2,063,000 | (45,000) | – | 2,018,000 |
| February 4, 2014 | \$ 5.00 | – | 220,000 | – | – | 220,000 |
| | | 5,391,945 | 5,005,200 | (316,786) | (4,585,497) | 5,494,862 |
| Weighted average exercise price | | \$ 8.90 | \$ 5.02 | \$ 4.77 | \$ 9.35 | \$ 5.23 |

During the period, the Company issued 4,980,200 options with an exercise price of \$5.00 per common share, with expiry dates ranging from February 2, 2012 to February 4, 2014. The Company cancelled 4,585,497 options with exercise prices between \$3.00 and \$10.95 and with various expiry dates between April 30, 2009 and April 11, 2013. The Company determined that the new options are replacement options and as such, a modification of the cancelled options has occurred for accounting purposes. For modified options, the compensation expense is based on the fair value of the options on the alteration date less the fair value of the original options based on the shorter of the remaining expanded life of the old option or the expected life of the modified option.

The weighted average assumptions used to estimate the fair value of options for the period ended June 30, 2009 and 2008 were:

| | Three months ended | | Six months ended | |
|-------------------------|--------------------|------------|------------------|------------|
| | June 30 | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Risk-free interest rate | 1.78% | 3.05% | 1.78% | 3.32% |
| Expected life | 3.86 years | 3.68 years | 3.86 years | 3.72 years |
| Expected volatility | 64% | 53% | 64% | 57% |
| Expected dividend yield | Nil | Nil | Nil | Nil |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

Northern Dynasty Minerals Ltd.

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4. LOSS (INCOME) PER SHARE

Basic and diluted loss (income) per share

The calculation of basic and diluted loss per share for the three and six months ended June 30, 2009 was based on the loss (income) attributable to common shareholders of \$2,410 (2008 – \$4,406) and \$8,339 (2008 – \$4,020) and the weighted average number of common shares outstanding of 92,727,854 (2008 – 92,543,639) and 92,643,311 (2008 – 92,543,639) respectively.

Diluted loss per share did not include the effect of 5,494,862 share purchase options as they are anti-dilutive.

5. INVESTMENT IN THE PEBBLE LIMITED PARTNERSHIP

On July 26, 2007, the Company converted a wholly-owned general partnership formed in 2006 to hold its Pebble Property interest into a limited partnership, the Pebble Partnership, so that an indirect wholly-owned subsidiary of Anglo could subscribe for 50% of the Pebble Partnership's equity effective July 31, 2007. Each of the Company and Anglo American plc ("Anglo") has equal rights in the Pebble Partnership through wholly-owned affiliates. The purpose of the Pebble Partnership is to engineer, permit, construct and operate a modern, long-life mine at the Pebble Project. The Pebble Partnership's assets include the shares of two Alaskan subsidiaries which hold registered title to the claims. To maintain its 50% interest in the Pebble Partnership, Anglo is required to make staged cash investments into the Pebble Partnership aggregating to US\$1.425 billion as discussed below.

Anglo's staged investment requirements includes an initial minimum expenditure of US\$125 million to be expended towards a prefeasibility study (funding completed in 2008) plus a requirement to fund additional expenditures approved by the board of the general partner (Pebble Mines Corp.) unless Anglo elects to terminate its rights and relinquish all its interests in the Pebble Partnership. After the completion and approval by the partners of the prefeasibility study, Anglo is required, in order to retain its 50% interest in the Pebble Partnership, to commit to further expenditures which bring its total investment to at least US\$450 million which amount is to be expended in producing a final feasibility study and in related activities, the completion of which is expected to take the Pebble Partnership to a production decision. Upon an affirmative decision by the partnership to develop a mine, Anglo is required to commit to the remainder of the total investment of US\$1.425 billion in order to retain its interest in the Pebble Partnership. Following completion of the US\$1.425 billion expenditure, any further expenditure will be funded by Anglo and Northern Dynasty on a 50:50 basis. If the feasibility study is completed after 2011, Anglo's overall funding requirement increases from US\$1.425 billion to US\$1.5 billion. The Pebble Partnership agreement provides for equal project control rights for both partners with no operator's fees payable to either party.

The Company has determined that its investment in the Pebble Partnership qualifies as an interest in a jointly controlled entity under IAS 31, *Interests in Joint Ventures*, and has elected to apply the equity method in accounting for its interest in the Pebble Partnership. The Company's share of the loss in the Pebble Partnership for the period was \$Nil (2008 - \$Nil) as the agreement with Anglo states that the distribution of losses funded by Anglo are allocated 100% to Anglo until the total investment of US\$1.425 billion is met. The Company has not recognized losses relating to the Pebble Partnership totaling \$32,625 in the period (2008 - \$57,004), since the Company has no obligation in respect of these losses.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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| Investment in Pebble Partnership | As at June 30 | As at December 31 |
|---|---------------|-------------------|
| | 2009 | 2008 |
| Carrying value at the beginning of the year | \$ 121,611 | \$ 98,976 |
| Foreign currency translation | (5,491) | 22,635 |
| Carrying value at the end of the period | \$ 116,120 | \$ 121,611 |

Summary financial information for the equity accounted investee, not adjusted for the percentage ownership held by the Company, is as follows:

| | As at and for the six months ended June 30 | |
|--------------------------|---|---------------|
| | 2009 | 2008 |
| Ownership | 50% | 50% |
| Non-current assets | \$ 566 | \$ 762 |
| Current assets | 11,867 | 12,253 |
| Total assets | 12,433 | 13,015 |
| Current liabilities | 6,625 | 12,073 |
| Total liabilities | 6,625 | 12,073 |
| Expenses | 32,625 | 57,004 |
| Net loss | \$ 32,625 | \$ 57,004 |

The results of the Pebble Partnership have not been included in the financial statements of the Company.

6. RELATED PARTY BALANCES AND TRANSACTIONS

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of the entities outlined below.

The following entity transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| Transactions | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------------|----------------------------|--------|--------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Services rendered: | | | | |
| Hunter Dickinson Services Inc. | \$ 604 | \$ 312 | \$ 1,325 | \$ 836 |

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

| | As at June 30 | As at December 31 |
|--|---------------|-------------------|
| Related party balances receivable | 2009 | 2008 |
| Hunter Dickinson Services Inc. | \$ 136 | \$ 149 |

Hunter Dickinson Services Inc. ("HDSI") is a private Company owned equally by several public companies, one of which is the Company. HDSI has certain directors in common with the Company and provides geological, corporate development, administrative and management services to, and incurs third party costs on behalf of, the Company and its subsidiaries on a full cost recovery basis pursuant to an agreement dated June 1, 2008. No interest is accrued on these related party balances.

7. SUBSIDIARIES

| Name of Subsidiary | Place of Incorporation | Proportion of Ownership Interest | Principal Activity |
|------------------------------|--------------------------|-------------------------------------|--------------------|
| 3537137 Canada Inc. | British Columbia, Canada | 100% | Holding company |
| 0796412 BC Ltd. | British Columbia, Canada | 100% | Not active |
| Northern Dynasty Partnership | Alaska, USA | 100% | Holding company |

8. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's second Interim Financial Statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied in preparing the Interim Financial Statements for the six months ended June 30, 2009, the comparative information for the six months ended June 30, 2008, the financial statements for the year ended December 31, 2008 and the preparation of an opening IFRS statement of financial position on January 1, 2008, the "Transition Date".

In preparing its opening IFRS statement of financial position, comparative information for the six months ended June 30, 2008 and financial statements for the year ended December 31, 2008, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP.

An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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- to apply the requirements of IFRS 3, *Business Combinations*, prospectively from the Transition Date;
- to apply the requirements of IFRS 2, *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arise on adoption of IFRS.

Reconciliation of Assets, Liabilities & Equity

| | As at January 1, 2008 | | | |
|--|-----------------------|------------------------------|-----------|------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | Note | |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | \$ 674 | \$ (659) | \$ – | \$ 15 |
| Mineral property interest | 168,222 | (105,983) | – | – |
| | | (62,239) | – | – |
| Investment in the Pebble Limited Partnership | – | 98,976 | – | 98,976 |
| Total non-current assets | 168,896 | (69,905) | – | 98,991 |
| Current assets | | | | |
| Balances receivable from related parties | 27 | 1,193 | – | 1,220 |
| Amounts receivable and prepayments | 1,000 | (125) | – | 875 |
| Marketable securities | 13 | – | – | 13 |
| Cash and cash equivalents | 40,341 | (1,213) | – | 39,128 |
| Total current assets | 41,381 | (145) | – | 41,236 |
| | \$ 210,277 | \$ (70,050) | \$ – | \$ 140,227 |
| EQUITY | | | | |
| Share capital | \$ 365,202 | \$ – | \$ – | \$ 365,202 |
| Reserves | 18,015 | – | (637) (c) | 17,378 |
| Deficit | (273,906) | 29,264 | 637 (c) | (244,005) |
| Total equity | 109,311 | 29,264 | – | 138,575 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Balance payable to related parties | 21 | – | – | 21 |
| Accounts payable and accrued liabilities | 7,607 | (5,976) | – | 1,631 |
| Total current liabilities | 7,628 | (5,976) | – | 1,652 |
| Future income tax liability | 57,786 | (57,786) | – | – |
| Non-controlling interest | 35,552 | (35,552) | – | – |
| Total liabilities | 100,966 | (99,314) | – | 1,652 |
| | \$ 210,277 | \$ (70,050) | \$ – | \$ 140,227 |

Northern Dynasty Minerals Ltd.

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For the three and six months ended June 30, 2009 and 2008

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

Reconciliation of Assets, Liabilities & Equity (continued)

| | As at June 30, 2008 | | | |
|--|---------------------|------------------------------|-----------|------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | Note | |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | \$ 773 | \$ (758) | \$ – | \$ 15 |
| Mineral property interest | 168,222 | (105,983) | – | – |
| | | (62,239) | – | – |
| Investment in the Pebble Limited Partnership | – | 101,812 | – | 101,812 |
| Total non-current assets | 168,995 | (67,168) | – | 101,827 |
| Current assets | | | | |
| Balances receivable from related parties | – | 784 | – | 784 |
| Amounts receivable and prepayments | 2,534 | (1,778) | – | 756 |
| Marketable securities | 12 | – | – | 12 |
| Cash and cash equivalents | 49,005 | (10,433) | – | 38,572 |
| Total current assets | 51,551 | (11,427) | – | 40,124 |
| | \$ 220,546 | \$ (78,595) | \$ – | \$ 141,951 |
| EQUITY | | | | |
| Share capital | \$ 365,202 | \$ – | \$ – | \$ 365,202 |
| Reserves | 22,019 | 2,836 | (195) (c) | 24,660 |
| Deficit | (334,523) | 86,303 | 195 (c) | (248,025) |
| Total equity | 52,698 | 89,139 | – | 141,837 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Balance payable to related parties | 237 | (237) | – | – |
| Accounts payable and accrued liabilities | 11,166 | (11,052) | – | 114 |
| Total current liabilities | 11,403 | (11,289) | – | 114 |
| Future income tax liability | 57,786 | (57,786) | – | – |
| Non-controlling interest | 98,659 | (98,659) | – | – |
| Total liabilities | 167,848 | (167,734) | – | 114 |
| | \$ 220,546 | \$ (78,595) | \$ – | \$ 141,951 |

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2009 and 2008

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

Reconciliation of Assets, Liabilities & Equity (continued)

| | As at December 31, 2008 | | | |
|--|-------------------------|------------------------------|-------------|-------------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | Note | |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | \$ 619 | \$ (608) | \$ - | \$ 11 |
| Mineral property interest | 168,222 | (105,983) | - | - |
| | | (62,239) | - | - |
| Investment in the Pebble Limited Partnership | - | 121,611 | - | 121,611 |
| Total non-current assets | 168,841 | (47,219) | - | 121,622 |
| Current assets | | | | |
| Balances receivable from related parties | - | 149 | - | 149 |
| Amounts receivable and prepayments | 1,109 | (944) | - | 165 |
| Marketable securities | 2 | - | - | 2 |
| Cash and cash equivalents | 59,201 | (13,235) | - | 45,966 |
| Total current assets | 60,312 | (14,030) | - | 46,282 |
| | \$ 229,153 | \$ (61,249) | \$ - | \$ 167,904 |
| EQUITY | | | | |
| Share capital | \$ 365,202 | \$ - | \$ - | \$ 365,202 |
| Reserves | 22,485 | 23,571 | 1,654 (c) | 47,710 |
| Deficit | (423,812) | 180,310 | (1,654) (c) | (245,156) |
| Total equity | (36,125) | 203,881 | - | 167,756 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Balance payable to related parties | 1,328 | (1,328) | - | - |
| Accounts payable and accrued liabilities | 12,015 | (11,867) | - | 148 |
| Total current liabilities | 13,343 | (13,195) | - | 148 |
| Future income tax liability | 57,753 | (57,753) | - | - |
| Non-controlling interest | 194,182 | (194,182) | - | - |
| Total liabilities | 265,278 | (265,130) | - | 148 |
| | \$ 229,153 | \$ (61,249) | \$ - | \$ 167,904 |

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2009 and 2008

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

Reconciliation of Loss (Income) and Comprehensive Loss (Income)

| | Six months ended June 30, 2008 | | | |
|--|--------------------------------|------------------------------|-------------------|-------------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | Notes | |
| Expenses (income) | | | | |
| Depreciation | \$ 70 | \$ (70) | \$ – | \$ – |
| Conference and travel | 736 | (633) | – | 103 |
| Exploration | 52,881 | (52,813) | – | 68 |
| Foreign exchange loss (gain) | (771) | (265) | – | (1,036) |
| Interest income | (693) | 66 | – | (627) |
| Legal, accounting and audit | 364 | (288) | – | 76 |
| Office and administration | 3,645 | (2,981) | – | 664 |
| Shareholder communication | 138 | – | – | 138 |
| Share-based compensation - exploration | 1,662 | – | – | 1,662 |
| Share-based compensation - administration | 2,343 | – | 442 (c) | 2,785 |
| Trust and filing | 187 | – | – | 187 |
| Loss before taxes | 60,562 | (56,984) | 442 | 4,020 |
| Income taxes | 55 | (55) | – | – |
| Loss for the period | \$ 60,617 | \$ (57,039) | 442 | \$ 4,020 |
| Other comprehensive loss (income) | | | | |
| Unrealized loss on available-for-sale marketable securities | 1 | – | – | 1 |
| Exchange difference on translation of investment in the Pebble Limited Partnership | – | – | (2,836) (b) | (2,836) |
| Other comprehensive loss (income) | \$ 1 | \$ – | \$ (2,836) | \$ (2,835) |
| Total comprehensive loss | \$ 60,618 | \$ (57,039) | \$ (2,394) | \$ 1,185 |

Northern Dynasty Minerals Ltd.

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Reconciliation of Loss (Income) and Comprehensive Loss (Income) (continued)

| | Year ended December 31, 2008 | | | |
|--|------------------------------|------------------------------|-----------------|--------------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | Notes | |
| Expenses (income) | | | | |
| Depreciation | \$ 182 | \$ (178) | \$ – | \$ 4 |
| Conference and travel | 1,756 | (1,483) | – | 273 |
| Exploration | 140,603 | (140,195) | – | 408 |
| Foreign exchange loss (gain) | (9,168) | 38 | – | (9,130) |
| Interest income | (1,268) | 153 | – | (1,115) |
| Legal, accounting and audit | 1,141 | (771) | – | 370 |
| Office and administration | 10,657 | (8,644) | – | 2,013 |
| Shareholder communication | 384 | – | – | 384 |
| Share-based compensation - exploration | 1,641 | – | – | 1,641 |
| Share-based compensation - administration | 3,776 | – | 2,291 (c) | 6,067 |
| Trust and filing | 235 | – | – | 235 |
| Loss before taxes | 149,939 | (151,080) | 2,291 | 1,150 |
| Income taxes | – | – | – | – |
| Future income tax recovery | (33) | 33 | – | – |
| Loss for the period | \$ 149,906 | \$ (151,047) | \$ 2,291 | \$ 1,150 |
| Other comprehensive loss (income) | | | | |
| Unrealized loss on available-for-sale marketable securities | 11 | – | – | 11 |
| Exchange difference on translation of investment in the Pebble Limited Partnership | 936 | (23,571) | – | (22,635) |
| Other comprehensive loss (income) | \$ 947 | \$ (23,571) | \$ – | \$ (22,624) |
| Total comprehensive loss (income) | \$ 150,853 | \$ (174,618) | \$ 2,291 | \$ (21,474) |

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Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

Reconciliation of Cash Flows

| | Six months ended June 30, 2008 | | | |
|--|--------------------------------|------------------------------|--------------|------------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | | |
| Operating activities | | | | |
| Loss for the period | \$ (60,617) | \$ 57,039 | \$ (442) (c) | \$ (4,020) |
| Contributions from non-controlling interest | 63,107 | (63,107) | - | - |
| Depreciation | 70 | (70) | - | - |
| Share-based compensation | 4,005 | - | 442 (c) | 4,447 |
| Changes in non-cash working capital | 2,268 | (3,251) | - | (983) |
| Cash and equivalents provided by (used in) operating activities | 8,833 | (9,389) | - | (556) |
| Cash and equivalents used for investing activities | (169) | 169 | - | - |
| Cash provided from financing activities | - | - | - | - |
| Increase (decrease) in cash and cash equivalents | 8,664 | (9,220) | - | (556) |
| Cash and cash equivalents, beginning of period | 40,341 | (1,213) | - | 39,128 |
| Cash and cash equivalents, end of period | \$ 49,005 | \$ (10,433) | \$ - | \$ 38,572 |

| | Year ended December 31, 2008 | | | |
|--|------------------------------|------------------------------|--------------------|------------------|
| | GAAP | Effect of transition to IFRS | | IFRS |
| | | Notes (a) (d) | | |
| Operating activities | | | | |
| Loss for the period | \$ (149,906) | \$ 151,080 | \$ (2,324) (c) (b) | \$ (1,150) |
| Contributions from non-controlling interest | 157,843 | (157,872) | 33 (b) | 4 |
| Share-based compensation | 5,417 | - | 2,291 (c) | 7,708 |
| Changes in non-cash working capital | 5,633 | (5,357) | - | 276 |
| Cash and equivalents provided by operating activities | 18,987 | (12,149) | - | 6,838 |
| Cash and equivalents used for investing activities | (127) | 127 | - | - |
| Cash provided from financing activities | - | - | - | - |
| Increase in cash and cash equivalents | 18,860 | (12,022) | - | 6,838 |
| Cash and cash equivalents, beginning of year | 40,341 | (1,213) | - | 39,128 |
| Cash and cash equivalents, end of year | \$ 59,201 | \$ (13,235) | \$ - | \$ 45,966 |

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2009 and 2008

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

Notes to Reconciliations

(a) Basis of Consolidation

Under GAAP, the Company accounted for its interest in the Pebble Partnership as a variable interest entity with the Company as the primary beneficiary. Accordingly, the Company consolidated 100% of the Pebble Partnership, and recognized a non-controlling interest.

IFRS does not include the concept of a variable interest entity. IFRS requires the Company to consolidate entities including Special Purpose Entities only where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On application of IFRS, the Company has determined that it has joint control of the Pebble Partnership and can elect to use either the equity method or proportionate consolidation method to account for its interest in the Pebble Partnership.

The Company has elected to apply the equity method to account for its interest in the Pebble Partnership, and the carrying value of the investment is the Company's cost of investment to date in US dollars.

(b) Cumulative translation differences

IFRS requires that the functional currency of each entity of the Company be determined separately. The Company has determined that as at the Transition Date the Canadian dollar was the functional currency of all entities in the Company except the Pebble Partnership which has a US dollar functional currency. In accordance with IFRS 1 optional exemptions, the Company elected to transfer the cumulative translation differences, recognized as a separate component of equity, to deficit at the Transition Date. Under GAAP, the Pebble Partnership was defined as an integrated foreign operation from the date the Pebble Partnership was formed ("formation date") to the Transition Date and therefore no foreign exchange translation in equity was noted. Under IFRS, the Pebble Partnership has a US dollar functional currency since the formation date and therefore as at the Transition Date a foreign exchange translation reserve of \$7,554 had accumulated. In electing to take this IFRS 1 exemption, the Company has transferred this foreign exchange translation reserve at the Transition Date to deficit. For the period ended June 30, 2008 and for the year ended December 31, 2008, shareholders' equity increased due to an increase in the foreign currency translation reserve of \$2,836 and \$22,635 respectively with a corresponding increase in the equity investment in the Pebble Partnership.

(c) Share-based Payment

Under GAAP, the Company measured share-based compensation related to share purchase options at the fair value of the options granted using the Black-Scholes option pricing formula and recognized this expense over the vesting period of the options. For the purpose of accounting for share based payment transactions an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the share purchase options granted to employees is measured on the date of grant. The fair value of share purchase options granted to contractors and consultants are measured on the date the services are completed. Forfeitures are recognized as they occur.

IFRS 2, similar to GAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, for share purchase options granted to non-employees, IFRS requires that share-based compensation be measured at the fair value of the services received unless the fair value cannot be reliably measured. For the purpose of accounting for share based

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2009 and 2008

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

payment transactions 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. This definition of an employee is broader than that previously applied by the Company and resulted in certain contractors and consultants being classified as employees under IFRS.

For the share purchase options granted to individuals reclassified, changes in fair value after the grant date previously recognized for GAAP purposes have been adjusted. The adjustments were calculated only for unvested options issued and outstanding as of and after the Transition Date.

(d) **Deferred Tax on Mineral Properties**

Under GAAP, the Company, in determination of the net loss from its interest in the Pebble Partnership, recognized a future income tax liability on temporary differences arising on the initial recognition of the Pebble Partnership mineral property interest (where the fair value of the asset acquired exceeded its tax basis) in a transaction which was not a business combination and affected neither accounting profit or loss nor taxable profit or loss. IAS 12, *Income Taxes* does not permit the recognition of deferred taxes on such transactions.

As of the Transition Date and December 31, 2008, the Company has derecognized the impacts of all future income tax liabilities which had previously been recognized on the initial acquisition of the investment in the Pebble Partnership through transactions deemed not to be business combinations and affecting neither accounting profit or loss nor taxable profit or loss.

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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 of Northern Dynasty Minerals Ltd. ("Northern Dynasty" or the "Company") for the year ended December 31, 2008 and the unaudited condensed consolidated interim financial statements ("Interim Financial Statements") for the three and six months ended June 30, 2009, as publicly filed on SEDAR at www.sedar.com.

As of January 1, 2009, the Company adopted International Financial Reporting Standards ("IFRS") and the following disclosure, and associated Interim Financial Statements, are presented in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The comparative periods for fiscal 2008 have been restated in accordance with IFRS.

This MD&A is prepared as of August 10, 2009. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified.

This discussion includes certain statements that may be deemed "forward-looking statements". These forward-looking statements constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

All statements, other than statements of historical facts, especially those that address estimated resource quantities, grades and contained metals, are forward-looking statements because they are generally made on the basis of estimation and extrapolation from a limited number of drill holes and metallurgical studies. Although diamond drill hole core provides valuable information about the size, shape and geology of an exploration project, there will always remain a significant degree of uncertainty in connection with these valuation factors until a deposit has been extensively drilled on closely spaced centers, which has occurred only in specific areas on the Pebble Project. Although the Company believes the expectations expressed in its forward-looking statements are based on reasonable assumptions, such statements should not be in any way be construed as guarantees of the ultimate size, quality or commercial feasibility of the Pebble Project or of the Company's future performance. The likelihood of future mining at the Pebble Project is subject to a large number of risks and will require achievement of a number of technical, economic and legal objectives, including obtaining necessary mining and construction permits, completion of pre-feasibility and final feasibility studies, preparation of all necessary engineering for underground workings and processing facilities as well as receipt of significant additional financing to fund these objectives as well as funding mine construction. Such funding may not be available to the Company on acceptable terms or on any terms at all. There is no known ore at the Pebble Project and there is no assurance that the mineralization at the Pebble Project will ever be classified as ore. The need for compliance with extensive environmental and socio-economic rules and practices and the requirement for the Company to obtain government permitting can cause a delay or even abandonment of a mineral project. The Company is also subject to the specific risks inherent in the mining business as well as general economic and business conditions.

Unless otherwise noted, Northern Dynasty is solely responsible for the content of the disclosure set out herein.

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources

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

Cautionary Note to Investors Concerning Estimates of Inferred Resources

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

1.2 Overview

1.2.1 Summary

Northern Dynasty is a mineral exploration company which owns 50% of the Pebble Limited Partnership (the "Pebble Partnership"). The Pebble Partnership owns the Pebble Copper-Gold-Molybdenum Project (the "Project"), which consist of the Pebble deposit, 153 square miles of associated resource lands and a stream of financing being provided towards the further exploration and, if warranted, development of the Project.

The Pebble property is located in Alaska, 19 miles (30 kilometers) from the villages of Iliamna and Newhalen, and approximately 200 miles (320 kilometers) southwest of the city of Anchorage.

An extensive, northeast-trending mineralized system underlies the Pebble property. Mineralization was discovered and an initial mineral resource outlined in the Pebble porphyry copper deposit through drilling by a previous operator during the period 1987-1997.

Northern Dynasty acquired the right to earn an interest in the Pebble property in late 2001, and in 2002 carried out an initial exploration program outside of the Pebble deposit area that resulted in the discovery of two other porphyry copper-gold-molybdenum deposits, a porphyry copper zone and a gold-copper skarn occurrence along the mineralized trend. Several high-grade gold veins are also known to occur.

Since 2002, work has focused on the main Pebble deposit¹, resulting in discovery of higher grade mineralization to the east and an overall expansion of the deposit. Comprehensive technical programs, including engineering, environmental and socioeconomic studies, have been underway since 2004.

In mid-2007, Northern Dynasty and Anglo American plc ("Anglo") established the Pebble Partnership (see section 1.2.2) to engineer, permit, construct and operate a modern, long-life mine at Pebble. To retain its 50%

¹ Previously thought to be two deposits, the Pebble West and Pebble East are now considered to be a single deposit comprising near-surface mineralization in the west and extending to a higher grade and deeper zone to the east.

interest in the Pebble Partnership, Anglo is required to continue staged investment up to US\$1.425 billion to advance the Pebble Project toward permitting and operations.

The most recent estimate of the mineral resources² in the Pebble deposit was announced in December 2008. The results at a 0.30% copper equivalent (CuEQ)³ cut-off are:

- 5.1 billion tonnes of Measured and Indicated Mineral Resources grading 0.43% copper, 0.35 g/t gold and 256 ppm molybdenum (0.77% CuEQ), containing 48 billion pounds of copper, 57 million ounces of gold, and 2.9 billion pounds of molybdenum; and
- 4.0 billion tonnes of Inferred Mineral Resources grading 0.27% copper, 0.29 g/t gold and 220 ppm molybdenum (0.55% CuEQ), containing 24 billion pounds of copper, 37 million ounces of gold and 1.9 billion pounds of molybdenum.

The board of the general partner (Pebble Mines Corp.) has approved a US\$59 million budget and work plan for 2009, with the potential for supplemental spending up to a total of US\$70 million, to work toward the timely completion of a prefeasibility study and preparing to initiate project permitting in 2010.

Deterioration of global economic conditions in late 2008 resulted in high volatility and significant weakening of exchange traded commodity prices. Deterioration in credit market conditions also increased the cost of obtaining capital and limited the availability of funds. Market conditions for commodities have improved in the second quarter of 2009 but economic uncertainty persists. Funding for the Pebble Project is currently being provided by Anglo (as described below). Northern Dynasty has cash and cash equivalents on hand in excess of \$45 million for its operating requirements. With the project funding committed by Anglo for 2009, and given its holdings of cash and cash equivalents, management believes that the Company has sufficient sources to cover its short and long term cash requirements.

² Independent qualified person for the November 2008 resource estimate is David W. Rennie, P.Eng., Scott Wilson Roscoe Postle Associates Inc.

³ Copper equivalent calculations used metal prices of US\$1.80/lb for copper, US\$800/oz for gold and US\$10/lb for molybdenum and metallurgical recoveries of 91% for copper, 75% for gold and 90% for molybdenum in the Pebble West area and 93% for copper, 80% for gold and 94% for molybdenum in the Pebble East area. Revenue is calculated for each metal based on grades, recoveries and selected metal prices; accumulated revenues are then divided by the revenue at 1% copper. Recoveries for gold and molybdenum are normalized to the copper recovery, as shown below:

$$\text{CuEQ (Pebble West)} = \text{Cu \%} + (\text{Au g/t} \times 75\%/91\% \times 25.72/39.68) + (\text{Mo \%} \times 90\%/91\% \times 220.46/39.68)$$

$$\text{CuEQ (Pebble East)} = \text{Cu \%} + (\text{Au g/t} \times 80\%/93\% \times 25.72/39.68) + (\text{Mo \%} \times 94\%/93\% \times 220.46/39.68).$$

The mineral resources fall within a volume or shell defined by long-term metal price estimates of US\$2.50/lb for copper, US\$900/oz for gold and US\$25/lb for molybdenum.

Pebble West has been considered for an open pit mining scenario and Pebble East for underground bulk mining. For bulk underground mining, cut-offs such as 0.60% CuEQ, are typically used at copper porphyry deposits located around the world. A 0.30% CuEQ cut-off is considered to be comparable to that used for porphyry deposit open pit mining operations in the Americas. All mineral resource estimates, cut-offs and potential mining scenarios are subject to a feasibility study.

1.2.2 Limited Partnership Established to Advance the Pebble Project

On July 26, 2007, the Company converted a wholly-owned general partnership that held its Pebble Property interests into a limited partnership, the Pebble Partnership. An indirect wholly-owned subsidiary of Anglo subscribed for 50% of the Pebble Partnership's equity effective July 31, 2007. Each of the Company and Anglo effectively has equal rights in the Pebble Partnership through wholly-owned affiliates. To maintain its 50% interest in the Pebble Partnership, Anglo is required to make staged cash investments into the Pebble Partnership aggregating to US\$1.425 billion as described below.

Anglo's staged investment requirements include an initial minimum expenditure of US\$125 million to be expended towards a prefeasibility study (funding completed as of 2008), plus a requirement to fund additional expenditures approved by the board of the general partner (Pebble Mines Corp.) unless Anglo elects to terminate its rights and relinquish all its interests in the Pebble Partnership. After the completion and approval of the prefeasibility study, Anglo is required, in order to retain its 50% interest in the Pebble Partnership, to elect to commit to further expenditures which bring its total investment to at least US\$450 million which is to be expended in producing a final feasibility study and in related activities, the completion of which is expected to take the Pebble Partnership to a production decision. Upon an affirmative decision by the Pebble Partnership to develop a mine, Anglo is required to elect to commit to the remainder of the total investment of US\$1.425 billion in order to retain its interest in the Pebble Partnership. Following completion of the US\$1.425 billion expenditure, any further expenditure will be funded by Anglo and the Company on a 50:50 basis (subject to dilution for non-contribution). If the feasibility study is completed after 2011, Anglo's overall funding requirement increases from US\$1.425 billion to US\$1.5 billion. The Pebble Partnership agreement provides for equal project control rights with no operator's fees payable to either party.

On adoption of IFRS, the Company determined that the investment in the Pebble Partnership qualifies as an interest in a jointly controlled entity in accordance with International Accounting Standard 31, *Interests in Joint Ventures*. The Company has elected to apply the equity method to account for its interest in the Pebble Partnership. Previously under Canadian generally accepted accounting principles ("Canadian GAAP"), the Company considered the Pebble Partnership a variable interest entity with the Company the primary beneficiary and consequently had consolidated the activities of the Pebble Partnership and recognised a non-controlling interest.

Anglo's cash contribution since the formation of the Pebble Partnership on July 31, 2007 to June 30, 2009 amounts to \$229.8 million (US\$213.9 million) (six months ended June 30, 2009 – \$35.7 million (US\$30.0 million)).

Senior management of the Pebble Partnership is largely in place in Anchorage, Alaska. The Alaska-based operations are guided by the board of the general partner with equal representation from Anglo and Northern Dynasty.

1.2.3 Technical Programs

The work plan approved and implemented so far for 2009 includes site investigations (resource and environmental drilling); engineering studies (evaluation of project options to optimize the project scale and completion of trade-off studies to determine the preferred project components); continuation of baseline data collection in key areas (e.g. hydrology, water quality, fish resources) and analysis of data collected in previous years for the Environmental Baseline Document; and a public affairs program to engage communities and project stakeholders, and to advance initiatives in the areas of workforce development, business development and public education.

The 2009 US\$59 million in approved expenditures are expected to be supplemented by additional engineering and site investigation activities in the latter half of 2009. Additional program details will not be known until a supplemental budget is authorized.

The Pebble Partnership has assembled a world-class engineering and permitting team to prepare a Prefeasibility Study for the Pebble Project, including 20 senior engineers and technical specialists (of whom many are providing consulting service from Anglo American), as well as engineering firms and specialized consultancies from around the world.

Exploration and Resource Drilling

The 2009 drilling program includes resource drilling to identify additional areas of high-grade mineralization, as well as condemnation drilling to facilitate completion of prefeasibility mine planning.

Drilling began on May 1, 2009. A total of 6,846 feet in seven holes were completed to the end of June.

Engineering

The objectives of the 2009 engineering program are to:

- assess a range of options to optimize the project scale, building on the work completed in 2008;
- complete trade-off studies of major project components to assess the preferred alternatives;
- continue metallurgical testwork on mineralization from both Pebble West and Pebble East areas to optimize conventional processing systems and designs; and
- evaluate the major infrastructure elements to determine the optimum alternatives and designs for these project components.

The goal is to establish the optimum project scale and finalize trade-off studies, which will provide the basis for finalizing the prefeasibility study in 2010.

Metallurgy

There are two main metallurgical work programs planned for 2009: assessing the Pebble West supergene zone and advancing variability testwork for the entire deposit. Detailed copper speciation analyses were conducted by the geological team in 2007 and early 2008. In 2008, the relative metallurgical responses of the various types of mineralization throughout the deposit were tested and additional analysis to clarify the supergene metallurgy commenced during the second quarter of 2009. This testwork is being conducted in conjunction

with ongoing copper speciation work and more detailed mineralogical work on material from both Pebble East and Pebble West areas. The work will be important for refining the metallurgical flowsheet for the completion of the prefeasibility study.

Infrastructure

A base case for project infrastructure has been developed in conjunction with the ongoing prefeasibility study program. Infrastructure for the project includes port, road, and power options that will be necessary to support future mine operations. Assessments of alternatives to the base case were completed in 2008 and are being reviewed in 2009 to assist in developing the preferred project development plan for use in cultural studies and to complete the prefeasibility study. The current effort has two goals:

- to ensure the concepts are fit-for-purpose; and
- to evaluate opportunities for cost savings and for improving the time to complete the development of the infrastructure.

Environmental and Socioeconomic Studies

Comprehensive environmental and socioeconomic base-line study programs are ongoing, with the objectives of collecting data in the Pebble East area and comparing annual variability. This data provides a foundation for the sound environmental design of the project and preparation of state and federal permit applications in future years. The primary areas of focus for 2009 field programs are hydrology, water quality and fish resources.

The Environmental Baseline Document (EBD) remains on schedule to be finalized in 2010. This document will be submitted with permit applications, targeted for 2010, once mine engineering and a proposed development plan is completed. The permitting process for the Pebble Project under the National Environmental Policy Act (NEPA) is expected to take three years to complete.

The EBD is one of several documents the Pebble Partnership will publish in order to achieve the many permits required for the Pebble Project. The EBD will present information and analysis on baseline physical, biological and social conditions based upon data collected by the Pebble Partnership's environmental study team from 2004 to 2009. Its purpose 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.

Cultural Studies

Archaeological studies have been carried out on all areas that might be disturbed by the project, with the exception of possible road and port locations. Examination of the road and port sites are not expected until 2010, once a decision is made regarding the exact location of these project features.

Community Engagement

An active program of stakeholder outreach continues, with hundreds of community meetings, stakeholder visits, presentations and event appearances planned for 2009. The Pebble Partnership will also coordinate numerous stakeholder tours to the Pebble Project site and to operating mines in Alaska and other jurisdictions this year. The focus of these outreach activities is to update stakeholders on the Pebble Project, to receive feedback on stakeholder priorities and concerns, and to educate participants about modern mining practices.

The Keystone Center – a non-profit organization that specializes in developing stakeholder dialogue processes – has initiated an independent, stakeholder-driven dialogue process around the Pebble Project. It is envisaged that the program will include recruitment of independent technical and scientific experts to review the Pebble Partnership's work and serve as a credible and objective arbiter for project stakeholders.

The Pebble Partnership has a number of other initiatives underway to enhance stakeholder relationships, including:

1. The *Pebble Fund for Sustainable Bristol Bay Fisheries & Communities* – a five-year, US\$5 million endowment, established in February 2008, to enhance the health and sustainability of regional fisheries and the communities they support. An advisory board of citizens representing communities from throughout Bristol Bay was established in fall 2008 to develop grant criteria and award *Pebble Fund* grants.

The Pebble Fund dispensed its first \$1 million in grants to 33 successful applicants during the quarter. Projects receiving small grant awards include a community greenhouse development in Ugashik, alternative energy and wind development projects in the City of Chignik and Chignik Lagoon, and a vocational training program for clean diesel technology in the Bristol Bay School District. Large grant awards will fund fisheries enhancement and education projects in Pilot Point and Ivanoff Bay, a renewable energy development project in Iguigig and a broad-based work internship program for students in the Lake and Peninsula School District, among others.

The Pebble Fund Advisory Board will issue another call for grant applications and award the second round of *Pebble Fund* grants in late 2009.

2. The Pebble Project Pre-Permitting Environmental & Socio-Economic Data Release Series – a voluntary initiative to share the preliminary findings of the Pebble Partnership's comprehensive environmental study program with project stakeholders prior to the beginning of project permitting.

Workforce development initiatives planned for 2009 include additional training in the areas of equipment operations, health, safety and environment. Working with the U.S. and Alaska Departments of Labor, the Pebble Partnership has established the first-ever registered apprenticeship training program to help local drill helpers become certified drillers. The Company is also investing in programs to train local workers to become environmental technicians, emergency medical technicians and bear guards. College scholarship programs for Bristol Bay high school students are also being continued this year.

A lawsuit filed on July 29, 2009, in Anchorage Superior Court by Trustees for Alaska (An environmental law firm) on behalf of certain activists, asserts that the Alaska Department of Natural Resources ("DNR") violated Alaska's Constitution in granting exploration and temporary water use permits to the Pebble Limited Partnership. Plaintiffs have requested a preliminary injunction that would halt exploration until the case is resolved. Neither the Company nor the Pebble Limited Partnership are named as parties however it is possible the Pebble Partnership will seek intervener status. Counsel advises that the lawsuit is unprecedented and is unlikely to succeed as it seeks to impugn the State's resources regulatory regime.

1.2.4 Market Trends

Copper prices had been on an overall upward trend between late 2003 and October 2008, but have decreased significantly since then as a result of uncertainty in global financial markets. In mid-2008, the copper market deficit, caused by strong demand growth and struggling production and a lack of new development projects, reached its peak.

The average price in 2008 was US\$3.15/lb, compared to an average price of US\$3.22/lb in 2007. There was an unprecedented 70% drop in prices over the six months from July to December 2008.

Prices stabilized in January 2009 and then began to increase. Copper has been trading at or above US\$2.00/lb since mid April. The average copper price in 2009 to the date of this report is US\$1.95/lb.

Gold prices were volatile in late 2008, dropping below US\$800/oz for a two-week period in September, and again from mid October through November. The average gold price for 2008 was US\$871/oz. Prices in 2009 to the date of this report have averaged approximately US\$920/oz. As global economic and other market conditions are uncertain, market experts have forecast strong gold prices through 2009.

Molybdenum prices increased from US\$7.60/lb in 2003 to peak at US\$34/lb in 2005. Prices averaged US\$25.53/lb in 2006 and US\$30.47/lb in 2007. Molybdenum prices dropped significantly in late 2008, but averaged US\$28.98/lb based on strength earlier in the year. Prices continued to drop to about US\$8.00/lb in early May 2009, but have been increasing since that time. The average price in 2009 to the date of this report is US\$10.05/lb.

1.3 Selected Annual Information

For the year ended December 31, 2008, the consolidated financial statements have been restated in accordance with IFRS. The consolidated financial statements for the two prior years have been prepared in accordance with Canadian GAAP (refer section 1.2.2). All figures are expressed in thousands of Canadian dollars, except per share amounts.

| | Restated to | In accordance with Canadian | |
|--|-----------------|-----------------------------|------------------|
| | IFRS | GAAP | |
| | As at | As at | As at |
| | December 31 | December 31 | December 31 |
| | 2008 | 2007 | 2006 |
| Other assets | \$ 11 | \$ 674 | \$ 633 |
| Mineral property interests | – | 168,222 | 168,222 |
| Investment in the Pebble Partnership | 121,611 | – | – |
| Current assets | 46,282 | 41,381 | 98,112 |
| Total assets | 167,904 | 210,277 | 266,967 |
| Shareholders' equity | 167,756 | 109,311 | 197,527 |
| Other liabilities | – | 93,338 | 61,601 |
| Current liabilities | 148 | 7,628 | 7,839 |
| Total shareholders' equity and liabilities | 167,904 | 210,277 | 266,967 |
| Working capital | 46,134 | 33,753 | 90,273 |
| Expenses (income) | | | |
| Amortization | 4 | 146 | 124 |
| Conference and travel | 273 | 1,161 | 936 |
| Exploration | 408 | 86,424 | 50,613 |
| Legal, accounting and audit | 370 | 1,649 | 931 |
| Office and administration | 2,013 | 5,062 | 3,041 |
| Shareholder communication | 384 | 623 | 386 |
| Trust and filing | 235 | 485 | 149 |
| Foreign exchange loss (gain) | (9,130) | 3,878 | (773) |
| Future income tax recovery | – | (3,815) | (637) |
| Loss on disposal of fixed assets | – | 11 | – |
| Gain on disposal of marketable securities | – | (1) | (194) |
| Interest income | (1,115) | (2,749) | (2,238) |
| Share-based compensation | 7,708 | 11,133 | 6,045 |
| Loss for the year | \$ 1,150 | \$ 104,007 | \$ 58,383 |
| Basic and diluted loss per common share | \$ 0.01 | \$ 1.13 | \$ 0.75 |
| Weighted average number of common shares outstanding | 92,543,639 | 91,978,571 | 77,708,870 |

**SIX MONTHS ENDED JUNE 30, 2009
MANAGEMENT'S DISCUSSION AND ANALYSIS**
1.4 Summary of Quarterly Results

Expressed in thousands of Canadian dollars, except per-share amounts. Small differences are due to rounding.

| | In accordance with IFRS | | | | | | Canadian GAAP | |
|--|-------------------------|-----------------|--------------------|-------------------|-----------------|-------------------|------------------|------------------|
| | Jun 30 2009 | Mar 31 2009 | Dec 31 2008 | Sep 30 2008 | Jun 30 2008 | Mar 31 2008 | Dec 31 2007 | Sep 30 2007 |
| Other assets | \$ 1 | \$ 2 | \$ 11 | \$ 15 | \$ 15 | \$ 15 | \$ 674 | \$ 594 |
| Mineral property interests | – | – | – | – | – | – | 168,222 | 168,222 |
| Equity Investment | 116,120 | 125,935 | 121,611 | 106,255 | 101,812 | 102,631 | – | – |
| Current assets | 45,641 | 45,316 | 46,282 | 40,665 | 40,124 | 40,726 | 41,381 | 46,068 |
| Total assets | 161,762 | 171,253 | 167,904 | 146,935 | 146,951 | 143,372 | 210,277 | 214,884 |
| Equity | 161,693 | 171,087 | 167,756 | 146,021 | 141,837 | 143,282 | 109,311 | 133,244 |
| Other liabilities | – | – | – | – | – | – | 93,338 | 74,441 |
| Current liabilities | 69 | 166 | 148 | 914 | 114 | 90 | 7,628 | 7,199 |
| Total shareholders' equity and liabilities | 161,762 | 171,253 | 167,904 | 146,935 | 141,951 | 143,372 | 210,277 | 214,884 |
| Working capital | 45,572 | 45,150 | 46,134 | 39,751 | 40,010 | 40,636 | 33,753 | 38,869 |
| Expenses | | | | | | | | |
| Amortization | 1 | 9 | 4 | – | – | – | 34 | 36 |
| Conference and travel | 79 | 110 | 61 | 109 | 41 | 62 | 434 | 278 |
| Exploration | 17 | 52 | (212) | 552 | 2 | 66 | 23,529 | 27,396 |
| Foreign exchange loss (gain) | 86 | (42) | (6,513) | (1,581) | 255 | (1,291) | 767 | 1,266 |
| Legal, accounting and audit | 55 | 41 | 246 | 48 | 136 | (60) | 692 | 495 |
| Office and administration | 626 | 1,039 | 198 | 1,151 | 328 | 336 | 1,241 | 1,710 |
| Shareholder communication | 213 | 194 | 167 | 79 | 86 | 52 | 125 | 115 |
| Share-based compensation | 1,352 | 4,468 | 2,369 | 892 | 3,777 | 670 | 1,644 | 2,384 |
| Trust and filing | 28 | 146 | 8 | 40 | 16 | 171 | 216 | 39 |
| Total before undernoted | 2,457 | 6,017 | (3,672) | 1,290 | 4,641 | 6 | 28,682 | 33,719 |
| Interest income | (47) | (88) | (338) | (150) | (235) | (392) | (401) | (560) |
| Loss on disposal of fixed assets | – | – | – | – | – | – | – | 11 |
| Loss (gain) on disposal of marketable securities | – | – | – | – | – | – | (1) | – |
| Total before undernoted | 2,410 | 5,929 | (4,010) | 1,140 | 4,406 | (386) | 28,280 | 33,170 |
| Future income tax recovery | – | – | – | – | – | – | (43) | (832) |
| (Income) loss for the period | 2,410 | 5,929 | (4,010) | 1,140 | 4,406 | (386) | 28,237 | 32,338 |
| Loss (gain) on marketable securities | (1) | – | 1 | 9 | (1) | 2 | – | – |
| Exchange arising on translation of the Pebble Partnership | 9,815 | (4,324) | (15,356) | (4,443) | 818 | (3,654) | – | – |
| Comprehensive (income) loss | \$ 12,224 | \$ 1,605 | \$ (19,365) | \$ (3,294) | \$ 5,223 | \$ (4,038) | \$ 28,237 | \$ 32,338 |
| Basic and diluted (income) loss per common share | \$ 0.03 | \$ 0.06 | \$ (0.04) | \$ 0.01 | \$ 0.05 | \$ 0.00 | \$ 0.31 | \$ 0.35 |
| Weighted average number of common shares outstanding YTD (thousands) | 92,728 | 92,557 | 92,544 | 92,544 | 92,544 | 92,544 | 92,544 | 91,968 |

1.5 Results of Operations

Three months ended June 30, 2009

Loss for the three months ended June 30, 2009 was \$2.4 million, compared to a loss of \$4.4 million in the second quarter of the previous year. Included in the loss for the current quarter was a non-cash share-based compensation expense for \$1.4 million as compared to \$3.8 million in the prior year. In the prior year second quarter the share-based compensation expense was higher due to the grant of options as well as the recognition of options vesting that were previously granted. Shareholder communication costs increased to \$0.21 million from \$0.09 million in 2008 as the Company continued to pursue the promotion of the Company.

The Company recorded a foreign exchange loss of \$0.08 million for the three months ended June 30, 2009 compared to a \$0.25 million loss in same period of fiscal 2008. In 2008, the Company's cash and cash equivalents were held mainly in US dollars which resulted in exchange losses on translation as the Canadian dollar appreciated against the US dollar during that quarter. However, cash and cash equivalents are now predominately held in Canadian dollars.

Six months ended June 30, 2009

Loss for the six months ended June 30, 2009 was \$8.3 million, compared to a loss of \$4.0 million in the second quarter of the previous year. Included in the loss for the current period was a non-cash share-based compensation expense for \$5.8 million (2008 – \$4.4 million) due to the grant of options as well as the recognition of options vesting that were previously granted. Office and administration costs increased to \$1.7 million from \$0.7 million for the same period in the previous year mainly due to a donation of shares by the Company to the Britannia Society at a cost of \$0.4 million (being the quoted market value of the shares). As well, the Company had a new data site set up in the current period (\$0.1 million). Trust and filing costs decreased to \$0.17 million from \$0.19 million for the same period in the previous year due mainly to the lower fees payable to the TSX. Shareholder communication costs increased to \$0.4 million from \$0.1 million in 2008 as the Company continued to pursue the promotion of the Company including embarking on a European investor road show.

The Company recorded a foreign exchange loss of \$0.04 million for the period ended June 30, 2009 compared to a \$1.0 million gain in same period of fiscal 2008. In 2008, the Company's cash and cash equivalents were held mainly in US dollars which resulted in gains on translation as the Canadian dollar depreciated against the US dollar from \$0.9913 at the end of December 2007 to \$1.0197 at the end of June 2008. However, cash and cash equivalents are now predominately held in Canadian dollars.

Investment in the Pebble Partnership

As indicated in section 1.2.2, the Company has adopted IFRS from January 1, 2009, has determined that in accordance with IFRS it has joint control of the Pebble Partnership, and has elected to account for its investment in the Pebble Partnership under the equity method. The transition to IFRS is explained further in section 1.13.

Expenditures incurred on the Pebble Project through the Pebble Partnership are being funded 100% by Anglo. Anglo's total contributions from inception to June 30, 2009 are \$229.8 million (US\$213.9 million).

For the period ended June 30, 2009, exploration costs decreased to \$26.7 million from \$52.8 million in the previous year. The main exploration expenditures during the period were:

- engineering (2009 – \$6.5 million; 2008 – \$7.9 million);
- environmental planning and testing (2009 – \$9.1 million; 2008 – \$10.3 million);
- drilling (2009 – \$0.6 million; 2008 – \$11.2 million);
- site activities (2009 – \$3.6 million; 2008 – \$8.2 million);
- logistics and transportation (2009 – \$1.9 million; 2008 – \$6.0 million);
- public affairs (2009 – \$1.8 million; 2008 – \$4.1 million); and
- socioeconomic initiatives (2009 – \$1.6 million; 2008 – \$1.3 million)

For further discussion on exploration activities being undertaken including the program for 2009, please refer to section 1.2.3.

1.6 Liquidity

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. Except for 2008, the Company has issued common shares in each of the past few years pursuant to private placement financings and the exercise of warrants or share purchase options. The Company's access to financing when the financing is not transaction specific is always uncertain. There can be no assurance of continued access to significant equity funding.

The funding of expenditures on the Pebble Project is through the Pebble Partnership which is currently being provided by Anglo (described below). Excluding cash and cash equivalents in the Pebble Partnership, Northern Dynasty has approximately \$45.4 million in cash and cash equivalents for its own operating requirements.

As discussed in section 1.2.2., the Company is in a 50:50 limited partnership with Anglo. Each of the Company and Anglo effectively has equal rights in the Pebble Partnership through wholly-owned affiliates. To maintain its 50% interest in the Pebble Partnership, Anglo is required to make staged cash investments into the Pebble Partnership aggregating to US\$1.425 billion over a period of several years. This includes an initial minimum expenditure of US\$125 million to be expended towards a prefeasibility study (funding completed as of 2008), plus a requirement to fund any additional expenditures approved. Thereafter in order to retain its 50% interest, Anglo is required to commit to further expenditures which bring its total investment to at least US\$450 million which amount is to be expended producing a final feasibility study and in related activities, the completion of which is expected to take the Pebble Partnership to a production decision. Upon an affirmative decision to develop a mine, Anglo is required to commit to the remainder of the total investment of US\$1.425 billion in order to retain its 50% interest in the Pebble Partnership.

At June 30, 2009, the Company had working capital of approximately \$45.6 million as compared to \$46.1 million at December 31, 2008.

Other than disclosed in the financial statements, the Company has no long term debt, capital lease obligations, operating leases or any other long term obligations.

The Pebble Partnership has purchase orders for goods and services relating to engineering, environmental, stakeholder affairs and site operations activities on the Pebble Project. It also is responsible for all maintenance payments on the property and routine office leases. All costs are funded through existing cash resources in the Pebble Partnership which are being funded by Anglo and are in the normal course of operations.

1.7 Capital Resources

The Company has no long-term debt and had 92,935,425 common shares issued and outstanding at June 30, 2009.

The Company had no commitments for material capital expenditures as of June 30, 2009.

The Pebble Partnership, which is being funded by Anglo, has a US\$4 million commitment to the Pebble Fund for Sustainable Bristol Bay Fisheries & Communities over the next four years.

The Company has no lines of credit or other sources of financing which have been arranged but as yet unused.

1.8 Off-Balance Sheet Arrangements

None.

1.9 Transactions with Related Parties

Hunter Dickinson Services Inc. ("HDSI") is a private company owned equally by several public companies, one of which is Northern Dynasty. HDSI has certain directors in common with the Company and carries out geological, corporate development, administrative, financial management services including raising of funds, investor relations, and other management activities for, and incurs third party costs on behalf of, the Company. The Company reimburses HDSI on a full cost-recovery basis.

Costs for services rendered by HDSI to the Company for three and six months ended June 30, 2009 were \$0.6 million and \$1.3 million respectively as compared to \$0.3 million and \$0.8 million respectively for the comparable period in 2008. The increase over 2008 is due to the Company using resources provided by HDSI to assist with ongoing administrative and management of the Company including continuous disclosure obligations, shareholder communications and investor relations as well as assisting with the Company's role as partner in the Pebble Partnership.

1.10 Fourth Quarter

Not applicable.

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 Company's significant accounting policies are presented in Note 2 of the Interim Financial Statements for the six months ended June 30, 2009. The preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), using accounting policies consistent with IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates include:

- i. the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statements of financial position;
- ii. the carrying value of the investment in the Pebble Partnership and the recoverability of the carrying value which are included in the condensed consolidated interim statements of financial position;
- iii. the estimated useful lives of property, plant and equipment which are included in the condensed consolidated interim statements of financial position and the related depreciation included in the consolidated statements of comprehensive loss for the period ended June 30, 2009;
- iv. the inputs used in accounting for share-based compensation expense in the condensed consolidated interim statements of comprehensive loss; and
- v. the nil provision for income taxes which is included in the condensed consolidated interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed consolidated interim statements of financial position at June 30, 2009. The Company controls the timing of the reversal of temporary differences arising on the equity investment in the Pebble Partnership and has made the judgment that such reversal is not expected to occur in the foreseeable future.

Actual amounts could differ from the estimates used.

Mineral resources and reserves, and the carrying values of its investment in the Pebble Partnership

Mineral resources and reserves are estimated by professional geologists and engineers in accordance with recognized industry, professional and regulatory standards. These estimates require inputs such as future metals prices, future operating costs, and various technical geological, engineering, and construction parameters. Changes in any of these inputs could cause a significant change in the resources and reserves estimates which in turn could have a material effect on the carrying value of its investment in the Pebble Partnership.

Impairment analysis of assets

At each financial reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those 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, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. 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 the profit or loss for the period. For the purposes

of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. 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.

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

Changes in any of the assumptions used to determine impairment testing could materially affect the results of the analysis.

Share-based compensation expense

From time to time, the Company grants share purchase options to directors, employees and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based compensation expense charged in a period.

Income Taxes

A deferred tax difference would arise on the carrying value of the investment in the Pebble Partnership as a result of historical transactions. However, the Company does not recognize these deferred taxes as they control the timing of the reversal of these temporary differences, as the Company controls when the taxable benefit of the investment is realized, and management has made the judgment that the reversal is not expected to occur in the foreseeable future.

1.13 Changes in Accounting Policies including Initial Adoption

(a) Transition to and Initial Adoption of IFRS

Effective January 1, 2009 the Company early adopted IFRS following the exemption received from the applicable Canadian Securities Administrators under National Instrument 52-107, Acceptable Accounting Principles, Auditing Standards and Reporting Currency ("NI 52-107") on March 2, 2009.

The condensed consolidated interim financial statements for the six months ended June 30, 2009 have been prepared in accordance with IAS 34, using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRIC.

These are the Company's second IFRS Interim Financial Statements for part of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2009. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP.

The preparation of these Interim Financial Statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP.

The accounting policies as set out in Note 2 of the Interim Financial Statements have been applied consistently to all periods presented in the condensed consolidated interim financial statements. Comparative information for the six months ended June 30, 2008 and for the year ended December 31, 2008, have also been adjusted from amounts previously reported under Canadian GAAP.

Impact of IFRS on Our Organization

The conversion to IFRS impacts the way the Company presents its financial results. The Company has prepared and trained its employees and directors to ensure an appropriate understanding of IFRS during the transition process. The impact of the conversion to IFRS on the Company's accounting systems has been minimal as the Company is still in the exploration phase. The Company's internal and disclosure control processes, as currently designed, have not required significant modifications as a result of its conversion to IFRS. The Company has assessed the impacts of adopting IFRS on our contractual arrangements, and has not identified any material compliance issues. The Company has considered the impacts that the transition will have on our internal planning process and compensation arrangements and has not identified any significant impacts.

First Time Adoption of IFRS

The guidance for the first time adoption of IFRS is set out in IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of IFRS 3, *Business Combinations*, prospectively from January 1, 2008, the "Transition Date";
- to apply the requirements of IFRS 2, *Share-based payments*, to equity instruments granted which had not vested as of the Transition Date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arise on adoption of IFRS.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in Note 8 of the Interim Financial Statements and also discussed below:

(i) Basis of Consolidation

Under Canadian GAAP, the Company accounted for its interest in the Pebble Partnership as a variable interest entity with the Company being the primary beneficiary. Accordingly, the Company consolidated 100% of the expenditures incurred by the Pebble Partnership and recognized a non-controlling interest.

IFRS does not recognize the concept of a variable interest entity. IFRS requires the Company to consolidate entities including Special Purpose Entities only where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Upon the adoption of IFRS, the Company has determined that it has joint control of the Pebble Partnership. IAS 31, *Interests in Joint Ventures*, currently permits the proportionate consolidation or the equity method to account for interests in joint ventures. The Company has elected to account for its interest in the Pebble Partnership using the equity method since management believes that the equity method better reflects the substance of the Pebble Partnership Agreement. Also an IFRS exposure draft is recommending that only the equity method be permitted for accounting for joint ventures and that the use of proportionate consolidation be prohibited. This supports the Company's position to account for its investment using the equity method.

(ii) Deferred Tax on Mineral Properties

Under Canadian GAAP, the Company recognized a future income tax liability on temporary differences arising on the acquisition of the Pebble mineral property interest from a related party (where the fair value of the asset acquired exceeded its tax basis) in a transaction which was not a business combination. IAS 12, *Income Taxes*, does not permit the recognition of deferred taxes on such transactions.

Upon the adoption of IFRS, the Company derecognized the impacts of all future income tax liabilities which had previously been recognized on the initial acquisition of the Pebble mineral property interest.

(iii) Share-based Payment

Under Canadian GAAP, the Company measured share-based compensation related to share purchase options at the fair value of the options granted using the Black-Scholes option pricing formula and recognized this expense over the vesting period of the options. For the purpose of accounting for share-based payment transactions an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured on the date of grant. The fair value of options granted to contractors and consultants is measured on the date the services are completed. Forfeitures are recognized as they occur.

IFRS 2, *Share Based Payments*, is similar to Canadian GAAP and requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, for options granted to non-employees, IFRS requires that share-based compensation be measured at the fair value of the services received unless the fair value cannot be reliably measured. Forfeitures are estimated at the time of grant. For the purpose of accounting for share-based payment transactions 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. This definition of an employee is broader than that previously applied under Canadian GAAP and resulted in certain contractors and consultants being classified as employees under IFRS.

For the share purchase options granted to the individuals reclassified, changes in fair value after the grant date previously recognized for Canadian GAAP purposes has been adjusted. The adjustments were calculated only for unvested options issued and outstanding as of and after the Transition Date.

(iv) Cumulative Translation Differences

IFRS requires that the functional currency of each entity of the Company be determined separately. The Company has determined that as at the Transition Date the Canadian dollar was the functional currency of all entities in the Company except the Pebble Partnership which has a US dollar functional currency. In accordance with IFRS 1 optional exemptions, the Company elected to transfer the cumulative foreign currency translation differences, recognized as a separate component of equity, to deficit at the Transition Date.

(b) New Standards Not Yet Adopted

Standards and interpretations issued but not yet effective:

- Amendments to IFRS 3, *Business Combinations*
- Amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to IAS 16, *Property, Plant and Equipment*
- Amendments to IAS 27, *Consolidated and Separate Financial Statements*
- Amendments to IAS 28, *Investments in Associates*
- Amendments to IAS 31, *Interests in Joint Ventures*
- Amendments to IAS 40, *Investment Property*

The Company anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Company except for additional disclosures.

1.14 Financial Instruments and Other Instruments

Refer to the Note 2(f) in the Interim Financial Statements.

1.15 Other MD&A Requirements

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

1.15.1 Additional Disclosure for Venture Issuers without Significant Revenue

Not applicable. The Company is a non-venture issuer.



Northern Dynasty Minerals Ltd.
SIX MONTHS ENDED JUNE 30, 2009
MANAGEMENT'S DISCUSSION AND ANALYSIS

1.15.2 Disclosure of Outstanding Share Data

The following details the share capital structure as of the date of this MD&A.

| | Expiry date | Exercise price | Number | Number |
|------------------------|-------------------|----------------|----------------|------------|
| Common shares | | | | 92,953,260 |
| Share purchase options | April 14, 2011 | \$9.74 | 27,500 | |
| | April 30, 2011 | \$7.25 | 180,000 | |
| | October 27, 2011 | \$3.00 | 172,350 | |
| | February 2, 2012 | \$5.00 | 492,834 | |
| | February 4, 2012 | \$5.00 | 1,946,343 | |
| | February 20, 2012 | \$10.95 | 150,000 | |
| | March 26, 2012 | \$8.25 | 25,000 | |
| | April 11, 2013 | \$9.74 | 75,000 | |
| | August 22, 2013 | \$5.35 | 40,000 | |
| | October 27, 2013 | \$3.00 | 130,000 | |
| | February 2, 2014 | \$5.00 | 2,018,000 | |
| | February 4, 2014 | \$5.00 | <u>220,000</u> | 5,477,027 |

1.15.3 Internal Controls over Financial Reporting Procedures

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no significant changes in internal controls over financial reporting that occurred during the period ended June 30, 2009 that could have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

1.15.4 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

Cautionary (forward looking)

The following are the principal risk factors and uncertainties which, in management's opinion, are likely to most directly affect the ultimate feasibility of the Pebble project. The mineralized material at the Pebble project is currently classified as a mineral resource and it is not a reserve. Considerable additional work, including in-fill drilling, additional process tests, and other engineering and geologic work will be required to determine if the mineralized material is an economically exploitable reserve. There can be no assurance that this mineralized material can become a reserve or that the amount may be converted to a reserve or the grade thereof. Final feasibility work has not been done to confirm the pit design, mining methods, and processing methods. Final feasibility could determine that the currently assumed pit design, mining methods, and processing methods are not correct. Construction and operation of the mine and processing facilities depends on securing environmental and other permits on a timely basis. No permits have been applied for and there can be no assurance that required permits can be secured or secured on a timely basis. Data is incomplete and cost estimates have been developed in part based on costs at projects believed to be comparable, and not based on firm price quotes. Costs, including design, procurement, construction, and on-going operating costs and metal recoveries could be materially different from those currently assumed. There can be no assurance that mining can be conducted at assumed rates and grades. The project requires the development of port facilities, roads and electrical generating and transmission facilities. Although Northern Dynasty believes that the State of Alaska favors the development of these facilities, there can be no assurance that these infrastructure facilities can be developed on a timely and cost-effective basis. Energy risks include the potential for significant increases in the cost of fuel and electricity. The project has been evaluated using projected long-term price levels for copper, gold, silver and molybdenum. Prices for these commodities are historically volatile, and Northern Dynasty has no control of or influence on those prices, all of which are determined in international markets. There can be no assurance that the prices of these commodities will continue at current levels or that they will not decline below the projected prices. Prices for copper, gold, silver, and molybdenum have been below the projected prices at times during the past ten years, and for extended periods of time. Changes in, or the introduction of new, government regulations relating to mining, including laws and regulations relating to the protection of the environment could impact the projects ability to secure appropriate permits to operate. The project will require major financing, probably a combination of debt and equity financing. There can be no assurance that debt and/or equity financing will be available on acceptable terms. A significant increase in costs of capital could materially and adversely affect the value and feasibility of constructing the project. Other general risks include those ordinary to large construction projects including the general uncertainties inherent in engineering and construction cost, compliance with generally increasing environmental obligations, and accommodation of local and community concerns.