Dear fellow shareholder,

Based on recent inquiries and feedback received, we are taking this opportunity to provide information that we hope assists in providing transparency on the mechanics of short selling.

Public companies cannot prevent short selling because it is legal. However, to legally short sell a stock the short seller must first borrow the shares.

Who does the short seller in effect borrow the shares from? ….. A company's existing shareholders' accounts.

The only people who can do something about short sellers are a company's shareholders. If you don't want your shares to be loaned out to short sellers, then you need to talk to your broker to understand how to stop that.

We provide the enclosed publicly available materials for background information. Advice about this issue and any investment related matter should be sought directly from your investment advisor.

Separately, if you are not already "subscribed" to our email distribution list, we encourage you to do so by clicking on the website homepage at http://www.northerndynastyminerals.com/ndm/Home.asp and following the instructions to subscribe.

With thanks for your interest and support of Northern Dynasty,

Ron Thiessen
President & CEO and Director

The Globe and Mail

Can my broker lend out my shares to short sellers without asking? - The Globe and Mail

I am constantly hearing about selling short, sometimes as large as 25 to 30 per cent of the outstanding shares of a stock. My question is: why would anyone who owns a stock lend the shares to another person who has the intent of driving down the value of the owner's investment? I would think the small amount that they get would not offset the reduction in the value. Further to this, can my shares be lent by my broker without my approval? Shorting a stock is not quite as simple as it sounds. If you want to short sell a stock, your broker needs to call his or her firm's loan desk to see if the shares are available for lending. Shorting is more typical with higher priced and more liquid securities, and less frequently done for speculative penny stocks. If the firm does not own it in their own portfolio they have to attempt to borrow the stock from other firms. There is a lending fee charged by the lending firm and the cost varies based on a number of factors. Only if the shares can be borrowed can you, the client, short sell the stock. If you short sell a stock you do not have the influence to "drive" the stock price down, other than putting selling pressure on that security. It is typically that you are of the view that a stock is overvalued and will decline in price creating the opportunity for you to buy the shares back at a lower price than what you sold it at. This in turn is how you make a gain. If the stock you short sell pays a dividend, you are responsible for paying the dividend rather than if you owned the stock and received it. As a client of a firm, your shares cannot be lent out to someone who is looking to short sell. Shares are held in trust for each client and are kept on separate books. The most significant risk to a short-seller is that a stock, theoretically, can go up to an infinite price. Your risk then is infinite; whereas if you buy, or go long, a stock, your maximum loss is only what you paid for it. If you are interested in capitalizing on a stock that you believe will go down in value, I suggest you further educate yourself with trading options. Options are derivatives that may be a suitable alternative to short selling. Options are complex and I only usually suggest them for the most experienced investor. Nancy Woods is an associate portfolio manager and investment adviser with RBC Dominion Securities Inc. Visit her website www.nancywoods.com or send an email request to asknancy@rbc.com. You can also send your questions to asknancy@rbc.com.

Does the party loaning shares in a short sale transaction benefit in any way other than from the interest earned on the loan?

To answer this question, we first need to clarify who is doing the lending in a short sale transaction. Many individual investors think that because their shares are the ones being lent to the borrower, they will receive some benefit, but this is not the case.

When a trader wishes to take a short position, he or she borrows the shares from a broker without knowing where the shares come from or to whom they belong. The borrowed shares may be coming out of another trader's margin account, out of the shares being held in the broker's inventory, or even from another brokerage firm. It is important to note that, once the transaction has been placed, the broker is the party doing the lending. So, any benefit received (along with any risk) belongs to the broker.

As your question suggests, the broker does receive an amount of interest for lending out the shares, and it is also paid a commission for providing this service. In the event that the short seller is unable (due to a bankruptcy, for example) to return the shares he or she borrowed, the broker is responsible for returning the borrowed shares. While this is not a huge risk to the broker due to margin requirements, the risk of loss is still there, and this is why the broker receives the interest on the loan.

The main reason why the brokerage, and not the individual holding the shares, receives the benefits of loaning shares in a short sale transaction can be found in the terms of the margin account agreement. When a client opens a margin account, there is usually a clause in the contract that states that the broker is authorized to lend - either to itself or to others - any securities held by the client. By signing this agreement, the client forgoes any future benefit of having his or her shares lent out to other parties.

Source: http://www.investopedia.com/ask/answers/05/shortsalebenefit.asp