



**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

**THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2016**

(Expressed in thousands of Canadian Dollars)

(Unaudited)

Northern Dynasty Minerals Ltd.

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

Northern Dynasty Minerals Ltd.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in thousands of Canadian Dollars)

	Notes	September 30 2016	December 31 2015
ASSETS			
Non-current assets			
Mineral property, plant and equipment	3	\$ 139,234	\$ 147,088
Total non-current assets		139,234	147,088
Current assets			
Available-for-sale financial assets	4	-	1,579
Amounts receivable and prepaid expenses	5	690	1,075
Restricted cash	6(b)	-	453
Cash and cash equivalents	6(a)	7,911	7,509
Total current assets		8,601	10,616
Total Assets		\$ 147,835	\$ 157,704
EQUITY			
Capital and reserves			
Share capital	7(a)	\$ 446,860	\$ 435,069
Reserves		100,188	99,035
Deficit		(400,582)	(379,124)
Total Equity		146,466	154,980
LIABILITIES			
Current liabilities			
Payables to related parties	8	215	677
Trade and other payables	9	1,154	2,047
Total current liabilities		1,369	2,724
Total Liabilities		1,369	2,724
Total Equity and Liabilities		\$ 147,835	\$ 157,704

Commitments (note 12)

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

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

/s/ Ronald W. Thiessen

Ronald W. Thiessen
Director

/s/ Christian Milau

Christian Milau
Director

Northern Dynasty Minerals Ltd.

Condensed Consolidated Interim Statements of Comprehensive Loss (Income)

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

	Notes	Three months ended		Nine months ended	
		September 30		September 30	
		2016	2015	2016	2015
Expenses					
Exploration and evaluation expenses	3, 11	\$ 2,006	\$ 1,786	\$ 5,325	\$ 5,344
General and administrative expenses	11	1,444	3,076	5,418	6,459
Legal, accounting and audit		1,286	4,452	8,458	10,622
Share-based compensation	7(d)-(f)	1,939	33	2,281	434
Loss from operating activities		6,675	9,347	21,482	22,859
Foreign exchange (gain) loss		(52)	(1)	30	106
Interest income		(16)	(2)	(22)	(83)
Interest payable on loan		-	53	-	53
Amount receivable written off		-	-	15	-
Gain on sale of available-for-sale financial assets		-	-	(70)	-
Loss on sale of plant and equipment		-	-	23	-
Loss before tax		6,607	9,397	21,458	22,935
Deferred income tax recovery		-	-	-	(1,514)
Loss for the period		\$ 6,607	\$ 9,397	\$ 21,458	\$ 21,421
Other comprehensive loss (income)					
Items that may be subsequently reclassified to loss					
Foreign exchange translation difference	3, 7(g)	(2,111)	(8,668)	7,555	(17,986)
Change in fair value of available-for-sale financial assets	4	-	(112)	-	8
Derecognition of available-for-sale financial assets	4	-	-	(105)	-
Other comprehensive (income) loss for the period		\$ (2,111)	(8,780)	\$ 7,450	(17,978)
Total comprehensive loss for the period		\$ 4,496	\$ 617	\$ 28,908	\$ 3,443
Basic and diluted loss per common share	10	\$ 0.02	\$ 0.07	\$ 0.09	\$ 0.16

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)

	Notes	Nine months ended September 30	
		2016	2015
Operating activities			
Loss for the period		\$ (21,458)	\$ (21,421)
<u>Non-cash or non operating items</u>			
Amount receivable written off		15	-
Deferred income tax recovery		-	(1,514)
Depreciation		154	210
Interest received on cash held		(22)	(83)
Interest payable on loan		-	53
Gain on disposal of available-for-sale financial assets		(70)	-
Loss on sale of plant and equipment		23	5
Share-based compensation		2,281	434
Unrealized exchange loss		350	388
<u>Changes in working capital items</u>			
Restricted cash		453	148
Amounts receivable and prepaid expenses		369	59
Trade and other payables		(770)	1,636
Payables to related parties		(462)	1,251
Net cash used in operating activities		(19,137)	(18,834)
Investing activities			
Acquisition of plant and equipment	3	-	(28)
Proceeds from disposal of equipment	3	-	70
Proceeds from disposal of available-for-sale financial assets	4	1,754	280
Interest received on cash and cash equivalents		22	83
Net cash from investing activities		1,776	405
Financing activities			
Loan proceeds		-	4,250
Net proceeds from prospectus financing allocated to shares	7(b)	10,345	-
Net proceeds from prospectus financing allocated to warrants	7(b)	5,683	-
Net proceeds from private placement allocated to shares	7(b)	1,267	-
Net proceeds from private placement allocated to warrants	7(b)	703	-
Net proceeds from the private placement of special warrants	7(c)	-	17,726
Proceeds from the exercise of share purchase options	7(c)-(d)	94	-
Proceeds from the exercise of warrants	7(c)	21	-
Net cash from financing activities		18,113	21,976
Net increase in cash and cash equivalents		752	3,547
Effect of exchange rate fluctuations on cash and cash equivalents		(350)	(388)
Cash and cash equivalents at beginning of the period		7,509	9,447
Cash and cash equivalents at end of the period	6(a)	\$ 7,911	\$ 12,606
Supplementary cash flow information	6(a)		

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)

	Notes	Share capital		Reserves					Deficit	Total equity
		Number of common shares (note 7(a))	Amount	Equity settled share-based compensation reserve	Foreign currency translation reserve (note 7(g))	Investment revaluation reserve	Share Purchase Warrants (note 7(c))			
Balance at January 1, 2015		95,009,864	\$ 389,227	\$ 55,294	\$ 17,179	\$ 6	\$ 11,552	\$ (345,295)	\$ 127,963	
Special warrants issued net of transaction costs	7(c)	-	-	-	-	-	17,726	-	17,726	
Conversion of special warrants into shares		35,962,735	14,927	-	-	-	(14,927)	-	-	
Share-based compensation	7(d)	-	-	434	-	-	-	-	434	
Loss for the period		-	-	-	-	-	-	(21,421)	(21,421)	
Other comprehensive income (loss) for the period net of tax		-	-	-	17,986	(8)	-	-	17,978	
Total comprehensive loss for the period									(3,443)	
Balance at September 30, 2015		130,972,599	\$ 404,154	\$ 55,728	\$ 35,165	\$ (2)	\$ 14,351	\$ (366,716)	\$ 142,680	
Balance at January 1, 2016		221,939,376	\$ 435,069	\$ 56,197	\$ 40,479	\$ (107)	\$ 2,466	\$ (379,124)	\$ 154,980	
Shares issued on exercise of share purchase options per option plan	7(d)	56,667	28	-	-	-	-	-	28	
Shares issued upon exercise of share purchase options not issued per option plan	7(c)	211,500	66	-	-	-	-	-	66	
Shares issued upon exercise of warrants	7(c)	38,328	21	-	-	-	-	-	21	
Fair value allocated to shares issued on options exercised per plan	7(d)	-	18	(18)	-	-	-	-	-	
Fair value allocated to shares issued on options exercised not under option plan	7(c)	-	37	-	-	-	(37)	-	-	
Fair value allocated to shares issued on warrants exercised	7(c)	-	9	-	-	-	(9)	-	-	
Shares issued pursuant to prospectus financing	7(b)	38,000,000	10,345	-	-	-	-	-	10,345	
Warrants issued pursuant to prospectus financing	7(b)	-	-	-	-	-	5,683	-	5,683	
Shares issued pursuant to private placement	7(b)	4,444,376	1,267	-	-	-	-	-	1,267	
Warrants issued pursuant to private placement	7(b)	-	-	-	-	-	703	-	703	
Share-based compensation	7(d)-(f)	-	-	2,281	-	-	-	-	2,281	
Loss for the period		-	-	-	-	-	-	(21,458)	(21,458)	
Other comprehensive (loss) income for the period net of tax		-	-	-	(7,555)	105	-	-	(7,450)	
Total comprehensive loss for the period									(28,908)	
Balance at September 30, 2016		264,690,247	\$ 446,860	\$ 58,460	\$ 32,924	\$ (2)	\$ 8,806	\$ (400,582)	\$ 146,466	

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

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

The condensed consolidated interim financial statements ("Financial Statements") of the Company as at and for the three and nine months ended September 30, 2016, include financial information for the Company and its subsidiaries (note 2(c)) (together referred to as the "Group" and individually as "Group entities"). The Company is the ultimate parent. The Group's core mineral property interest is the Pebble Copper-Gold-Molybdenum Project (the "Pebble Project") located in Alaska, United States of America ("USA" or "US").

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

As at September 30, 2016, the Group has \$7.9 million in cash and cash equivalents for its operating requirements. The Group has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required in order to progress any material expenditures at the Pebble Project. Additional financing may include any of or a combination of debt equity and/or contributions from possible new Pebble Project participants. There can be no assurances that the Group will be successful in obtaining additional financing. If the Group is unable to raise the necessary capital resources and generate sufficient cash flows to meet obligations as they come due, the Group may, at some point, consider further reducing or curtailing its operations. As such there is material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern.

In July 2014, the United States Environmental Protection Agency (the "EPA") announced a proposal under Section 404(c) of the Clean Water Act to restrict and impose limitations on all discharges of dredged or fill material ("EPA Action") associated with mining the Pebble deposit. The Company believes that the EPA does not have the statutory authority to impose conditions on the development at Pebble prior to the submission of a detailed development plan and its thorough review by federal and state agencies, including review under the National Environmental Protection Act ("NEPA"). The Pebble Limited Partnership (the "Pebble Partnership"), a wholly-owned subsidiary of the Company, along with the State of Alaska and the Alaska Peninsula Corporation, an Alaska Native village corporation with extensive land holdings in the Pebble Project area, filed for an injunction to stop the EPA Action with the US Federal Court in Alaska (the "Court"). However, the Court has deferred judgment thereon until the EPA has issued a final determination. The Company appealed the Court's decision to the 9th Circuit Court of Appeals. The appeal was denied in May 2015. The Pebble Partnership still holds the option to pursue its statutory authority case in the instance that EPA finalizes a pre-emptive regulatory action under the Clean Water Act 404(c). In September 2014, the Pebble Partnership initiated a second action against the EPA in federal district court in Alaska charging that the EPA violated the Federal Advisory Committee Act ("FACA"). In November 2014, the U.S. federal court judge in Alaska granted, in relation to the FACA case, the Pebble Partnership's request for a preliminary injunction, which, although considered by the Company as a significant procedural milestone in the litigation, does not resolve the Pebble Partnership's claims that the EPA Actions with respect to the Bristol Bay Assessment and subsequent 404(c) regulatory process, violated FACA. In June 2015, the EPA's motion to dismiss the FACA case was rejected and as a result the FACA case is moving forward. The Company expects its legal rights will be upheld by the Court and that the Company will ultimately be able to apply

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

for the necessary permits under NEPA. On October 14, 2014, the Pebble Partnership filed suit in the federal district court in Alaska charging that the EPA has violated the *Freedom of Information Act* ("FOIA") by improperly withholding documents related to the Pebble Project, the Bristol Bay Watershed Assessment and consideration of a pre-emptive 404(c) veto under the Clean Water Act.

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

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

Subsequent to September 30, 2016, the Pebble Partnership and the EPA filed a joint Notice in federal court stating their intent to enter into mediation.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of Compliance*

These Financial Statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"s). They do not include all of the information required by International Financial Reporting Standards ("IFRS") for complete annual financial statements, and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended December 31, 2015, which were filed under the Company's profile on SEDAR at www.sedar.com. Accounting policies applied herein are the same as those applied in the Group's annual financial statements other than those as discussed in (e) and (f) below. These Financial Statements were authorized for issue by the Audit and Risk Committee on November 9, 2016.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(b) Basis of Preparation

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

(c) Basis of Consolidation

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

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

Notes:

1. An inactive wholly-owned subsidiary, 0796412 BC Ltd., was dissolved on February 17, 2016.
2. Holds 20% interest in the Northern Dynasty Partnership. The Company holds the remaining 80% interest.
3. Holds the Pebble Project claims.
4. Holds certain of the Pebble Project claims and claims located south and west of the Pebble Project claims.
5. Holds certain mineral claims located north of the Pebble Project claims.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(d) *Share-Based Payments*

Deferred Share Unit ("DSU") Plan

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

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

Restricted Share Unit ("RSU") Plan

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

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

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

The Group adopted the following amendments and annual improvements that became effective January 1, 2016:

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

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

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

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

- IFRS 9, *Financial Instruments* ("IFRS 9")
- IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

The Group anticipates that the adoption of IFRS 9 and IFRS 15 will have no material impact on its financial statements given the extent of its current use of financial instruments in the ordinary course of business and the current stage of development in the Group's operations.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

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

- IFRS 16, Leases ("IFRS 16") and revised IAS 17, Leases ("IAS 17").

The Group anticipates that the adoption of IFRS 16 which will replace IAS 17 will not have a significant impact other than the accounting for office, accommodation and storage leases the Group may have entered into where the minimum lease term is more than 12 months. Subsequent to the reporting date, the Group entered into a 5 year long term office lease (refer note 12(a)).

(g) Significant Accounting Estimates and Judgments

There was no change in the use of estimates and judgments during the current period as compared to those described in Note 2 in the Group's Consolidated Financial Statements for the year ended December 31, 2015.

3. MINERAL PROPERTY, PLANT AND EQUIPMENT

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

<i>Nine months ended September 30, 2016</i>	Mineral Property interest ¹	Plant and equipment	Total
Cost			
Beginning balance	\$ 112,541	\$ 1,032	\$ 113,573
Additions during the period	-	-	-
Dispositions during the period	-	(151)	(151)
Ending balance	\$ 112,541	\$ 881	\$ 113,422
Accumulated depreciation			
Beginning balance	\$ -	\$ (481)	\$ (481)
Charge for the period ²	-	(154)	(154)
Eliminated on disposal	-	128	128
Ending balance	\$ -	\$ (507)	\$ (507)
Foreign currency translation difference	26,106	213	26,319
Net carrying value - Ending balance	\$ 138,647	\$ 587	\$ 139,234

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

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

Notes to table:

- Comprises the Pebble Project, a contiguous block of 2,402 mineral claims covering approximately 417 square miles located in southwest Alaska, 19 miles (30 kilometers) from the villages of Iliamna and Newhalen, and approximately 200 miles (320 kilometers) southwest of the city of Anchorage.
- Depreciation is included in exploration and evaluation expenses.

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's available-for-sale financial asset was comprised of investments in marketable securities of Canadian publicly listed companies. The Group disposed of the marketable securities during the period ended September 30, 2016.

5. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	September 30 2016	December 31 2015
Sales tax receivable	\$ 62	\$ 164
Amounts receivable	77	514
Prepaid expenses	551	397
Total	\$ 690	\$ 1,075

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

6. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and Cash Equivalents

	September 30 2016	December 31 2015
Business and savings accounts	\$ 7,911	\$ 7,509

Supplementary cash flow information

Non-cash investing and financing activities:

- In the nine months ended September 30, 2015, the Company converted Special Warrants on a one-for-one basis into common shares at no additional cost to the holder (note 7(c)).

(b) Restricted Cash

During the nine month period ended September 30, 2016, the Group drew \$393 from restricted cash for demobilization costs incurred in the last quarter of 2015 and returned the remaining balance of \$60 to Anglo American plc.

7. CAPITAL AND RESERVES

(a) Authorized Share Capital

At September 30, 2016, the authorized share capital comprised an unlimited (December 31, 2015 – unlimited) number of common shares with no par value. All issued shares are fully paid.

(b) Financings

Prospectus Financing

In June 2016, the Group completed a prospectus offering of 38,000,000 units in the capital of the Company at a price of \$0.45 per unit for gross proceeds of approximately \$17,100. Each Unit consisted of one common share and one common share purchase warrant, which entitles the holder to purchase an additional common share at an exercise price of \$0.65 per common share until June 10, 2021.

As of the reporting date, the Group incurred a total of \$1,072 in issuance costs related to agents, advisory, regulatory and legal fees. The Group apportioned the gross proceeds and issuance costs between share capital and warrants based on the relative fair values of the common shares and warrants on date of issue. Accordingly, net proceeds of \$10,345 was allocated to share capital and \$5,683 to warrants.

Private Placement

In July 2016, the Group completed a private placement of 4,444,376 units in the capital of the Company, each unit comprising of one common share and one share purchase warrant, at a price of \$0.45 per Unit for gross proceeds of approximately \$2,000. Each share purchase warrant is exercisable into one common share at an exercise price of \$0.65 per common share until June 10, 2021. The common shares and share purchase warrants were subject to applicable resale restrictions, including a four month hold under Canadian legislation.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

As of the reporting date, the Group incurred a total of \$30 in issuance costs related to regulatory and legal fees. The Group apportioned the gross proceeds and issuance costs between share capital and warrants based on the relative fair values of the common shares and warrants on date of issue. Accordingly, net proceeds of \$1,267 was allocated to share capital and \$703 to warrants.

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

The following reconciles warrants and non-employee options (options which are not issued under the Group's incentive plan (note 7(d)), each exercisable to acquire one common share, at the beginning and end of the period:

Exercise price per common share (\$)	Expiry date	Nine months ended September 30, 2016				Balance at end of period
		Balance at beginning of period	Issued	Exercised/converted	Expired	
Options issued pursuant to the acquisition of Cannon Point¹						
0.29	January 29, 2016	150,400	-	(150,400)	-	-
0.37	January 29, 2016	220,900	-	(61,100)	(159,800)	-
0.40	January 29, 2016	150,400	-	-	(150,400)	-
0.43	January 29, 2016	37,600	-	-	(37,600)	-
0.37	July 23, 2017	18,800	-	-	-	18,800
0.37	June 30, 2019	56,400	-	-	-	56,400
0.40	June 30, 2019	225,600	-	-	-	225,600
0.37	March 10, 2021	9,400	-	-	-	9,400
0.40	March 10, 2021	150,400	-	-	-	150,400
0.37	December 15, 2021	37,600	-	-	-	37,600
0.40	December 12, 2022	75,200	-	-	-	75,200
0.29	December 8, 2024	37,600	-	-	-	37,600
Total		1,170,300	-	(211,500)	(347,800)	611,000
Warrants issued pursuant to the acquisition of Mission Gold¹						
0.55	July 9, 2020	13,801,672	-	(38,328)	-	13,763,344
3.00	September 14, 2017	2,871,676	-	-	-	2,871,676
Total		16,673,348	-	(38,328)	-	16,635,020
Warrants issued pursuant to financings²						
0.65	June 10, 2021	-	42,444,376	-	-	42,444,376
Total		-	42,444,376	-	-	42,444,376
Grand Total		17,843,648	42,444,376	(249,828)	(347,800)	59,690,396

Notes:

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

1. The Group exchanged options and warrants to purchase shares in Cannon Point Resources Ltd. ("Cannon Point") and warrants to purchase shares in Mission Gold Ltd. ("Mission Gold") for options and warrants to purchase shares in the Company pursuant to the acquisition of Cannon Point in October 2015 and Mission Gold in December 2015 respectively.
2. The Group issued warrants pursuant to the June 2016 prospectus and July 2016 private placement financings (note 7(b)).

At September 30, 2016, warrants and non-employee options had a weighted average exercise price of \$0.74 (December 31, 2015 - \$0.93) and a weighted average remaining life of 4.30 years (December 31, 2015 - 3.94 years).

The following table reconciles warrants for the corresponding period in 2015:

Exercise price per common share (\$)	Expiry date	Nine months ended September 30, 2015				Balance at end of period
		Balance at beginning of period	Issued	Exercised/converted	Expired	
Special warrants issued for cash ^{1,2}						
nil	Not applicable	27,622,642	45,940,093	(35,962,735)	-	37,600,000

Note:

1. In the period ended September 30, 2015, the Group completed two private placement financings of share purchase warrants ("Special Warrants"). Each of the Special Warrants was convertible, without payment of any additional consideration by the holder, into one common share of the Company, either at the option of the holder or automatically within a maximum of a two year period from the issuance date:
 - 8,340,093 Special Warrants at \$0.431 per warrant for gross proceeds of approximately \$3,595. The Group incurred a total of \$220 in advisory, finders', regulatory, and legal fees on the financing; and
 - 37,600,000 Special Warrants at \$0.399 per warrant for gross proceeds of approximately \$15,002. The Group incurred a total of \$651 in advisory, finders', regulatory, and legal fees on the financing.
2. All Special Warrants were converted by December 31, 2015.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(d) Share Purchase Option Compensation Plan

The following reconciles the Group's share purchase options ("options") issued pursuant to the Group's incentive plan outstanding for the nine months ended September 30, 2016 and 2015:

	2016		2015	
	Number of options	Weighted average exercise price (\$/option)	Number of options	Weighted average exercise price (\$/option)
Continuity of options				
Balance at beginning of period	9,755,600	1.27	7,687,000	1.95
Granted	6,806,000	0.49	-	-
Expired	(27,000)	15.44	(1,241,800)	3.00
Exercised	(56,667)	0.50	-	-
Forfeited/cancelled	(124,600)	1.13	(278,100)	2.35
Balance at end of period	16,353,333	0.92	6,167,100	1.72

For options granted in the three and nine months ended September 30, 2016 (2015 - nil granted), the weighted average fair value was estimated at \$0.48 and \$0.46 per option respectively and was based on the Black-Scholes option pricing model using the following weighted average assumptions:

Assumptions	Three months	Nine months
Risk-free interest rate	0.52%	0.54%
Expected life	4.70 years	4.73 years
Expected volatility ¹	83.15%	82.88%
Grant date share price	\$0.69	\$0.67
Expected dividend yield	Nil	Nil

Note:

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

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

The following tables summarizes information about the Group's options outstanding at September 30, 2016 and 2015:

2016		Options outstanding			Options exercisable		
Exercise prices (\$)	Number of options	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	
0.48	600,000	0.48	4.46	200,000	0.48	4.46	
0.49	6,184,000	0.49	4.49	2,046,670	0.49	4.50	
0.50	3,541,833	0.50	3.44	1,157,505	0.50	3.47	
0.72	200,000	0.72	2.96	200,000	0.72	2.96	
0.89	1,180,500	0.89	2.45	1,113,498	0.89	2.47	
1.77	4,172,000	1.77	1.97	4,172,000	1.77	1.97	
3.00	475,000	3.00	0.75	475,000	3.00	0.75	
	16,353,333	0.92	3.34	9,364,673	1.24	2.78	

2015		Options outstanding			Options exercisable		
Exercise prices (\$)	Number of options	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	
0.72	200,000	0.72	3.96	133,334	0.72	3.96	
0.89	1,180,500	0.89	3.45	745,166	0.89	3.47	
1.77	4,284,600	1.77	2.93	4,284,600	1.77	2.93	
3.00	475,000	3.00	1.75	475,000	3.00	1.75	
15.44	27,000	15.44	0.46	27,000	15.44	0.46	
	6,167,100	1.72	2.96	5,665,100	1.80	2.92	

(e) *Deferred Share Units ("DSUs")*

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

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

During the period ended September 30, 2016, the Group granted 458,129 DSUs with an aggregate market value of \$316 at date of grant which was recorded as share-based compensation in the statement of loss with a corresponding increase in the equity-settled share payment reserve in equity.

(f) Restricted Share Units ("RSUs")

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

During the period ended September 30, 2016, the Group granted an aggregate 639,031 RSUs to its Chairman, Chief Executive Officer and Chief Financial Officer with a vesting term of one year from the date of grant. The fair value of the RSUs at date of grant was \$441 determined using the quoted market value of Shares at date of grant. The Group has recognized \$98 during the period as share-based compensation with a corresponding increase in the equity-settled share payment reserve in equity

(g) Foreign Currency Translation Reserve

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

8. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Transactions and Balances with Key Management Personnel ("KMP")

The aggregate value of transactions with KMP, being the Group's directors, Chief Financial Officer ("CFO") and senior management including the Senior Vice President ("VP") Corporate Development, VP Corporate Communications, VP Engineering, VP Public Affairs, Chief Executive Officer of the Pebble Partnership ("PLP CEO"), Chairman of Pebble Mines Corp ("PMC Chair"), Senior VP Corporate Affairs of the Pebble Partnership ("PLP Senior VP") and Company Secretary, was as follows for the period ended September 30, 2016 and 2015:

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

Transactions	Three months		Nine months	
	2016	2015	2016	2015
Compensation				
Amounts paid to HDSI for services of KMP employed by HDSI ¹	\$ 550	\$ 1,371	\$ 1,707	\$ 2,280
Amounts paid and payable to KMP ^{2,3}	221	1,000	1,449	2,037
	771	2,371	3,156	4,317
Share-based compensation ^{3,4}	1,718	40	1,943	339
Total compensation	\$ 2,489	\$ 2,411	\$ 5,099	\$ 4,656

Notes:

1. The Group's Chairman, CEO, CFO and senior management (other than disclosed in 2 below) are employed by the Group through Hunter Dickinson Services Inc. (refer (b)).
2. The Group directly employs its non-executive directors, PLP CEO, PMC Chair and PLP Senior VP. Payments represent short term employee benefits incurred, including salaries and directors fees.
3. During the period ended September 30, 2016, the Group issued DSUs (note 7(e)) for annual compensation payable to non-executive directors. Consequently, accrued non-executive directors' fees totaling \$89 has been reversed in the three months ended September 30, 2016.
4. Includes cost of DSUs, RSUs and share purchase options issued during the period.

(b) Transactions and Balances with other Related Parties

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

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

For the period ended September 30, 2016 and 2015, the aggregate value of transactions were as follows:

Transactions	Three months		Nine months	
	2016	2015	2016	2015
Services rendered by HDSI:	\$ 864	\$ 1,696	\$ 2,888	\$ 3,587
Technical	259	136	886	792
Engineering	-	(36)	82	119
Environmental	73	116	274	467
Socioeconomic	158	(1)	492	-
Other technical services	28	57	38	206
General and administrative	605	1,560	2,002	2,795
Management, corporate communications, secretarial, financial and administration	509	1,405	1,616	2,283
Shareholder communication	96	155	386	512
Reimbursement of third party expenses	114	135	379	492
Conferences and travel	35	18	126	89
Insurance	12	12	54	63
Office supplies and information technology	67	105	199	340
Sale of available-for-sale financial assets to HDSI	-	(280)	-	(280)
Total value of transactions	\$ 978	\$ 1,551	\$ 3,267	\$ 3,799

The outstanding balances with HDSI were as follows

	September 30 2016	December 31 2015
Balances payable to HDSI		
Entity with significant influence over the Group	\$ 215	\$ 677

9. TRADE AND OTHER PAYABLES

	September 30 2016	December 31 2015
Falling due within the year		
Trade	\$ 1,154	\$ 1,594
Other (note 6(b))	-	453
Total	\$ 1,154	\$ 2,047

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

10. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following for the period ended September 30, 2016 and 2015:

	Three months		Nine months	
	2016	2015	2016	2015
Loss attributable to common shareholders	\$ 6,607	\$ 9,397	\$ 21,458	\$ 21,421
Weighted average number of common shares outstanding (000s)	264,622	137,173	239,211	134,835

For the three and nine months ended September 30, 2015, basic loss per share included the effect of Special Warrants issued due to their mandatory conversion requirements with no additional payments being made by the holder. Diluted loss per share does not include the effect of 16,353,333 employee share purchase options outstanding and 59,690,396 non-employee share purchase options and warrants as they are anti-dilutive (i.e. the diluted loss per share would be reduced).

11. EMPLOYMENT COSTS

During the three and nine months ended September 30, 2016, the Group recorded \$3,176 and \$8,397 (2015 – \$3,270 and \$7,703) respectively in salaries and benefits, including share-based payments and amounts paid to HDSI (note 8(b)) for services provided to the Group by HDSI personnel.

12. COMMITMENTS AND CONTINGENCIES

(a) Leases

The Group has the following commitments as of September 30, 2016:

	2016 (After September 30) ('000s)	Fiscal 2017 ('000s)	Fiscal 2018 ('000s)	Total ('000s)
Anchorage office lease ¹	US\$ 48	US\$ 87	US\$ 91	US\$ 226
Pebble Project site leases ²	39	56	–	95
Total	US\$ 87	US\$ 143	US\$ 91	US\$ 321
Total in Canadian dollars³	\$ 114	\$ 188	\$ 119	\$ 421

Notes:

1. The initial 5 year lease term expires on October 31, 2016. A new 5 year lease which expires November 30, 2021, has been entered into subsequent to the reporting date.
2. The Group has leases for a hangar at site and core storage. The hangar lease expires May 1, 2017 and the core yard lease expires June 1, 2017.
3. Converted at closing rate of \$1.3117 per US\$ on September 30, 2016, as per the Bank of Canada.

The Group has a sub-lease agreement for portion of the office space that will expire after the reporting date on October 31, 2016. The Group will receive approximately US\$19 (\$25) for the last month's rent.

Northern Dynasty Minerals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

(b) Legal

The Group, through the Pebble Partnership, is advancing its multi-dimensional strategy to address the EPA's preemptive regulatory action under Section 404(c) of the Clean Water Act, through litigation against the EPA contesting the EPA's statutory authority to act pre-emptively under the Clean Water Act, and alleging violation of FACA and the unlawful withholding of documentation under FOIA (refer note 1). The Group has a contingent liability for additional legal fees and costs that may be due to the Group's counsel should there be a successful outcome. However, the Group is unable to estimate or determine the length of time that each of the legal initiatives mentioned above will take to advance to specific milestone events or final conclusion. As of the reporting date, if there was a favourable outcome or settlement, the Company estimates there would potentially be additional legal fees of \$21.3 million (US\$16.2 million at closing Bank of Canada rate on September 30, 2016 of \$1.3117 per US\$) payable by the Company.



MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Table of Contents

1.1	DATE	3
1.2	OVERVIEW	5
1.2.1	PEBBLE PROJECT	7
1.2.1.1	TECHNICAL INFORMATION.....	7
1.2.1.2	LEGAL MATTERS.....	10
1.2.3	FINANCINGS	15
1.2.4	MARKET TRENDS.....	16
1.3	SELECTED ANNUAL INFORMATION	17
1.4	SUMMARY AND DISCUSSION OF QUARTERLY RESULTS.....	17
1.5	RESULTS OF OPERATIONS.....	18
1.6	LIQUIDITY 20	
1.7	CAPITAL RESOURCES	21
1.8	OFF-BALANCE SHEET ARRANGEMENTS.....	21
1.9	TRANSACTIONS WITH RELATED PARTIES.....	22
1.10	FOURTH QUARTER.....	23
1.11	PROPOSED TRANSACTIONS.....	23
1.12	CRITICAL ACCOUNTING ESTIMATES	23
1.13	CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION	23
1.14	FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS	23
1.15	OTHER MD&A REQUIREMENTS.....	25
1.15.1	DISCLOSURE OF OUTSTANDING SHARE DATA.....	25
1.15.2	DISCLOSURE CONTROLS AND PROCEDURES	25
1.15.3	MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	25
1.15.4	CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.....	26
1.15.5	LIMITATIONS OF CONTROLS AND PROCEDURES	26
1.15.6	RISK FACTORS.....	27

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

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, 2015 and the unaudited consolidated interim financial statements ("Financial Statements") for the three and nine months ended September 30, 2016 as publicly filed under the Company's profile on SEDAR at www.sedar.com.

The Company reports in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee (together, "IFRS"). The following disclosure and associated Financial Statements are presented in accordance with IFRS. This MD&A is prepared as of November 9, 2016. All dollar amounts herein are expressed in Canadian dollars, unless otherwise specified.

This discussion includes certain statements that may be deemed "forward-looking statements" or "forward looking information" within the meaning of Canadian and United States securities law. Forward-looking statements describe our future plans, strategies, expectations and objectives, and are generally, but not always, identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. Forward-looking statements include:

- the outcome of our multi-dimensional strategy to address the Environmental Protection Agency's pre-emptive regulatory action under Section 404(c) of the Clean Water Act and prepare the Pebble Project to initiate federal and state permitting under the National Environmental Policy Act ("Multi-Dimensional Strategy");
- the outcome of legal proceedings in which we are engaged;
- our expectations regarding the potential for permitting of a mine at the Pebble Project;
- our expected financial performance in future periods;
- our plan of operations, including our plans to carry out and finance the Multi-Dimensional Strategy, exploration and development activities and legal proceedings;
- our ability to raise capital for the Multi-Dimensional Strategy, exploration and development activities and operational costs;
- our expectations regarding the exploration and development potential of the Pebble Project; and
- factors relating to our investment decisions.

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

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

- that we will be able to secure sufficient capital necessary to fund the Multi-Dimensional Strategy, litigation, continued environmental assessment and permitting activities and engineering work which must be completed prior to any potential development of the Pebble Project which would then require engineering and financing in order to advance to ultimate construction;
- that the Company will ultimately be able to demonstrate that a mine at the Pebble Project can be developed and operated in an environmentally sound and socially responsible manner, meeting all relevant federal, state and local regulatory requirements so that we will be ultimately able to obtain permits authorizing construction of a mine at the Pebble Project;

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

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

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

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

- a negative outcome of the Multi-Dimensional Strategy, or other legal and political challenges with which we are engaged regarding the Pebble Project, which would have a material adverse effect on the Company;
- an inability to obtain permitting for a mine at the Pebble Project;
- an inability to continue to fund the exploration and development activities and other operating costs;
- the highly cyclical nature of the mineral resource exploration business;
- the pre-development stage economic and technical uncertainties of the Pebble Project and the lack of known reserves on the Pebble Project;
- an inability to establish that the Pebble Project contains commercially viable deposits of ore;
- an inability to recover the financial statement carrying values of the Pebble Project if the Company ceases to continue on a going concern basis;
- the potential for loss of the services of key executive officers;
- a history of, and expectation of further, financial losses from operations impacting our ability to continue on a going concern basis;
- the volatility of copper, gold, molybdenum and silver prices and mining share prices;
- the inherent risk involved in the exploration, development and production of minerals, and the presence of unknown geological and other physical and environmental hazards at the Pebble Project;
- the potential for changes in, or the introduction of new, government regulations relating to mining, including laws and regulations relating to the protection of the environment and project legal titles;
- potential claims by third parties to titles or rights involving the Pebble Project;
- the possible inability to insure our operations against all risks;
- the highly competitive nature of the mining business;
- the potential equity dilution to current shareholders from future equity financings; and
- that we have never paid dividends and will not do so in the foreseeable future.

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

During the period 2007 to 2013, the Pebble Limited Partnership expended several hundred million dollars on the Pebble Project, a major portion of which was spent on exploration programs, resource estimates, environmental data collection and technical studies, with a significant portion spent on engineering of various possible mine development models, as well as related infrastructure, power and transportation systems. As a consequence of several factors, including the US Environmental Protection Agency's (the "EPA") regulatory action with respect to the Pebble Project, the withdrawal of Anglo American plc from the project and the passage of time, technical and engineering studies related to mine-site and infrastructure development are considered to have uncertain value at this time. Environmental baseline studies and data collection, as well geological information remain a significant legacy asset of the Company from this period.

For more information on the Company, investors should review the Company's annual information form and home jurisdiction filings that are available on SEDAR at www.sedar.com.

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

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources

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

Cautionary Note to Investors Concerning Estimates of Inferred Resources

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

1.2 Overview

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

The Pebble Project is an initiative to develop one of the world's most important mineral resources, as measured by aggregate contained metals. The current estimate of these mineral resources at a 0.30% copper equivalent (CuEQ)¹ cut-off grade comprise:

- 6.44 billion tonnes in the combined Measured and Indicated categories at a grade of 0.40% copper, 0.34 g/t gold, 240 ppm molybdenum and 1.66 g/t silver, containing 57 billion pounds of copper, 70 million ounces of gold, 3.4 billion pounds of molybdenum and 344 million ounces of silver; and

¹ For additional details, see section 1.2.1 below.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

- 4.46 billion tonnes in the Inferred category at a grade of 0.25% copper, 0.26 g/t gold, 222 ppm molybdenum and 1.19 g/t silver, containing 24.5 billion pounds of copper, 37 million ounces of gold, 2.2 billion pounds of molybdenum and 170 million ounces of silver.

Mineralization indicating the presence of the Pebble deposit was discovered by a prior operator in 1987, and by 1997 an initial outline of the deposit had been identified. Northern Dynasty acquired the right to earn an interest in the Pebble property in 2001. Exploration since that time has led to significant expansion of the Pebble deposit, including the discovery of a substantial volume of higher grade mineralization in the eastern part of the deposit. Comprehensive deposit delineation, environmental, socioeconomic and engineering studies of the Pebble deposit began in 2004. A number of other occurrences of copper, gold and molybdenum have also been identified along the extensive northeast-trending mineralized system that underlies the property. The potential of these earlier-stage prospects has not yet been fully explored.

From 2001 when Northern Dynasty's involvement began to September 30, 2016, a total of \$811 million (US\$756 million) has been invested to advance the project.²

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

On October 27, 2016, the Pebble Partnership and the EPA filed a joint Notice in federal court stating their intent to enter into mediation in an effort to resolve ongoing litigation under the Federal Advisory Committee Act. Selection of a mediator will be undertaken jointly by EPA and the Pebble Partnership, with mediation talks expected to begin in Washington, D.C. in the fall of 2016. Further information and context is provided in section 1.2.1.2.

Ongoing work by Northern Dynasty and the Pebble Partnership in 2016 is concentrated on three key activities:

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

² Of this, approximately \$595 million (US\$573 million) was provided by a wholly-owned subsidiary of Anglo American plc which participated in the Pebble Limited Partnership (the "Pebble Partnership") from 2007 to 2013, and the remainder was financed by Northern Dynasty. During the period 2007 to 2013, a major part of the expenditures were on exploration programs, resource estimates, environmental data collection and technical studies, with a significant portion spent on engineering of various possible mine development models, as well as related infrastructure, power and transportation systems. As a consequence of several factors, including the EPA's actions with respect to the Pebble Project, the withdrawal of Anglo American plc from the project and the passage of time, technical and engineering studies related to mine-site and infrastructure development are considered to have very uncertain and perhaps little value at this time. Environmental baseline studies and data, as well as geological information remain a significant legacy asset of the Company from this period.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

In addition, Northern Dynasty and the Pebble Partnership continue to prepare documentation that will position the Pebble Project to initiate federal and state permitting under the National Environmental Policy Act ("NEPA").

Corporate

In June and July 2016, Northern Dynasty completed additional financings to support its activities.

As at September 30, 2016, the Company has \$7.9 million in cash and cash equivalents for its operating requirements.

The Company has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. The Company has also been reducing its operating costs and will continue to do so given the current market conditions. Although the Company will seek financing as necessary to advance its programs, there can be no assurances that it will be successful in obtaining additional financing. If the Company is unable to raise the necessary capital resources to meet obligations as they come due, the Company will at some point have to further reduce or curtail its operations.

1.2.1 Pebble Project

1.2.1.1 Technical Information

The Pebble property ("Pebble") is located in southwest Alaska, approximately 17 miles (27 kilometers) from the villages of Iliamna and Newhalen, and approximately 200 miles (320 kilometers) southwest of the city of Anchorage. The property consists of 2,402 mineral claims. Situated approximately 1,000 feet above sea-level and 65 miles (100 kilometers) from tidewater on Cook Inlet, the site conditions are favorable for sound mine site and infrastructure development.

Mineral Resources

The current estimate of the mineral resources in the Pebble deposit, effective date December 2014, is based on drilling to the end of 2013 and includes approximately 59,000 assays obtained from 699 drill holes. The resource was estimated using ordinary kriging by David Gaunt, P.Geo., a qualified person who is not independent of Northern Dynasty. A base case cut-off of 0.3% CuEq is highlighted.

Pebble Project Mineral Resources

Cut-off CuEq %	CuEq%	Tonnes	Cu (%)	Au (g/t)	Mo (ppm)	Ag (g/t)	Cu Blbs	Au Moz	Mo Blbs	Ag Moz
Measured										
0.3	0.65	527,000,000	0.33	0.35	178	1.66	3.83	5.93	0.21	28.13
0.4	0.66	508,000,000	0.34	0.36	180	1.68	3.80	5.88	0.20	27.42
0.6	0.77	279,000,000	0.40	0.42	203	1.84	2.46	3.77	0.12	16.51
1.0	1.16	28,000,000	0.62	0.62	302	2.27	0.38	0.56	0.02	2.04

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Cut-off CuEq %	CuEq%	Tonnes	Cu (%)	Au (g/t)	Mo (ppm)	Ag (g/t)	Cu Blbs	Au Moz	Mo Blbs	Ag Moz
Indicated										
0.3	0.77	5,912,000,000	0.41	0.34	245	1.66	53.42	64.62	3.20	315.50
0.4	0.82	5,173,000,000	0.45	0.35	260	1.75	51.31	58.21	2.97	291.05
0.6	0.99	3,450,000,000	0.55	0.41	299	1.99	41.82	45.47	2.27	220.71
1.0	1.29	1,411,000,000	0.77	0.51	343	2.42	23.95	23.14	1.07	109.79
Measured + Indicated										
0.3	0.76	6,439,000,000	0.40	0.34	240	1.66	56.76	70.38	3.40	343.63
0.4	0.81	5,681,000,000	0.44	0.35	253	1.75	55.09	63.92	3.17	319.62
0.6	0.97	3,729,000,000	0.54	0.41	291	1.98	44.38	49.15	2.39	237.37
1.0	1.29	1,439,000,000	0.76	0.51	342	2.42	24.11	23.60	1.08	111.97
Inferred										
0.3	0.54	4,460,000,000	0.25	0.26	222	1.19	24.55	37.25	2.18	170.49
0.4	0.68	2,630,000,000	0.33	0.30	266	1.39	19.14	25.38	1.55	117.58
0.6	0.89	1,290,000,000	0.48	0.37	291	1.79	13.66	15.35	0.83	74.28
1.0	1.20	360,000,000	0.69	0.45	377	2.27	5.41	5.14	0.30	25.94

Notes to the above table:

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

The mineral resource tabulation uses copper equivalency that incorporates the contribution of copper, gold and molybdenum. Although the estimate includes silver, it was not used as part of the copper equivalency calculation in order to facilitate comparison with previous estimates which did not consider the silver content or its potential economic contribution.

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

Contained metal calculations are based on 100% recoveries.

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

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

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

Additional details can be found in the technical report, entitled "*2014 Technical Report on the Pebble Project, Southwest Alaska, USA*," authored by J. David Gaunt, PGeo., James Lang, PGeo., Eric Titley, PGeo., and Ting Lu, PEng., effective date December 31, 2014, which is filed under the Company's profile at www.sedar.com.

Environmental and Socioeconomic

Extensive environmental baseline data has been collected since 2004. The goal is to design and plan a project that protects clean water, healthy fish and wildlife populations, and other natural resources in the region.

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

findings was coordinated in more than 20 communities throughout southwest Alaska and elsewhere around the State. Public and expert review of the EBD was facilitated under the Keystone initiative³.

The EBD encompasses data from the range of environmental and social conditions described above during the period 2004-2008 and from some disciplines in 2009. Environmental baseline data reports through 2014 are being integrated with the database from the EBD so that this information can be shared with state/federal agencies and the public as part of the future permitting process under NEPA. Environmental monitoring of the site has continued at reduced levels over the past two years.

Community Engagement

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

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

1.2.1.2 Legal Matters

Environmental Protection Agency and Bristol Bay Watershed Assessment

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

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

The EPA called for public comment on the quality and sufficiency of scientific information presented in the draft BBWA report. In response, the Pebble Partnership and Northern Dynasty made submissions on the draft report. Northern Dynasty made a presentation highlighting these shortcomings at public hearings held in Seattle, Washington, on May 31, 2012 and in Anchorage, Alaska, on August 7, 2012. In July 2012, the Company also submitted a 635-page critique of the draft report in response to the EPA's call for public comment, and has called upon the EPA to cease such unwarranted actions until such time as a definitive proposal for the development of the Pebble deposit is submitted into the rigorous NEPA permitting process. All submissions prepared by Northern Dynasty and the Pebble Partnership with respect to the EPA's BBWA and CWA 404(c) regulatory action can be found on Northern Dynasty's website.

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

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

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

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

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

On July 18, 2014, EPA Region 10 announced a "Proposed Determination" to restrict the discharge of dredged or fill material associated with mining the Pebble deposit in a 268 square mile area should that disposal result in any of the following: loss of five or more miles of streams with documented salmon occurrence; loss of 19 or more miles of streams where salmon are not documented but that are tributaries of streams with documented salmon occurrence; the loss of 1,100 or more acres of wetlands, lakes, and

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

ponds that connect with streams with documented salmon occurrence or tributaries of those streams; and stream flow alterations greater than 20 percent of daily flow in nine or more linear miles of streams with documented salmon occurrence. Northern Dynasty management does not accept that the EPA has the statutory authority to impose conditions on development at Pebble, or any development project anywhere in Alaska or the US, prior to the formal submission of a development plan and its thorough review by federal and state agencies including development of an Environmental Impact Statement ("EIS") and review under NEPA.

On September 19, 2014, the Pebble Partnership submitted a comprehensive legal and technical response to EPA Region 10's Proposed Determination. Northern Dynasty and the Pebble Partnership believe the Proposed Determination is flawed and unsupported by the administrative record as established by the Bristol Bay Watershed Assessment, and is therefore arbitrary and capricious.

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

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

On October 27, 2016, the Pebble Partnership and the EPA filed a joint Notice in federal court stating their intent to enter into mediation in an effort to resolve ongoing litigation under FACA. The joint Notice filed in federal court indicates the willingness of both parties to work toward a negotiated resolution to the current impasse. Selection of a mediator will be undertaken jointly by EPA and the Pebble Partnership, with mediation talks expected to begin in Washington, D.C. in the fall of 2016.

Discovery and other preparations for court proceedings in the FACA litigation is ongoing and will continue while mediation proceeds.

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

On October 14, 2014, the Pebble Partnership filed suit in federal district court in Alaska charging that EPA has violated the *Freedom of Information Act* ("FOIA") by improperly withholding documents related to the Pebble Project, the Bristol Bay Watershed Assessment and consideration of a pre-emptive 404(c) veto under the Clean Water Act. The EPA moved for summary judgment claiming that its search for and

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

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

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

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

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

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

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

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

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

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

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

- alleging that the EPA is unlawfully withholding relevant documentation and other information sought by the Pebble Partnership under FOIA.

While the litigation process is inherently uncertain, and it is difficult to predict with confidence the length of time that each of the legal initiatives described above will take to advance to specific milestone events or final conclusion, Northern Dynasty expects a final decision by a federal court judge in Alaska on the Pebble Partnership's FACA case in 2017.

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

Northern Dynasty and the Pebble Partnership are represented by respected international law firm Steptoe & Johnson LLP ("Steptoe"), which for more than seven decades has been acknowledged as a leader in litigation and advocacy in Washington DC. Steptoe and the Pebble Partnership have agreed to cap legal fees related to the FACA suit and other ongoing legal matters at US\$1 million to the point at which motions for summary judgment in the case have been fully argued to the court and are ripe for adjudication, expected to be in 2017. Steptoe will be due a success fee payment upon prevailing in the FACA litigation or arising from other positive outcomes (see 1.6 for estimate of success fees payable as at September 30, 2016).

1.2.3 Financings

\$17.1 Million Prospectus Financing

In June 2016, Northern Dynasty completed a prospectus offering of 38,000,000 units of the Company at a price of \$0.45 per unit (the "Offering") for gross proceeds to the Company of approximately \$17.1 million. Each Unit consists of one common share (a "Share ") and one common share purchase warrant (a "Warrant"). Each Warrant will be exercisable into one common share (a "Warrant Share") at an exercise price of \$0.65 per Warrant Share for a period of five (5) years from the closing of the Offering. On the closing date, the Warrants were listed for trading on the TSX under the symbol NDM.WT.B.

In Canada, the Offering was qualified by the Company's short form base shelf prospectus dated March 7, 2016 and the Company's prospectus supplement dated May 26, 2016, as filed by the Company with the Canadian securities regulatory authorities in the Provinces of British Columbia, Alberta and Ontario.

The Units were offered in the US pursuant to a base shelf prospectus contained in the Company's registration statement on Form F-3 (the "Registration Statement") filed by the Company with the US Securities and Exchange Commission (the "Commission") under the *United States Securities Act* of 1933, as amended (the "US Securities Act"). The Registration Statement was declared effective by the Commission on March 30, 2016. On March 31, 2016, the Company filed with the Commission pursuant to Rule 424(b) under the US Securities Act the base prospectus related to the Registration Statement (the "US Base Prospectus"). On May 26, 2016, the Company filed with the Commission pursuant to Rule 424(b) under the US Securities Act a prospectus supplement relating to the Shares and Warrants. On July 15, 2016, the Company filed with the Commission pursuant to Rule 424(b) under the US Securities Act a prospectus supplement relating to the additional Shares that may be issued should the Warrants held by US investors be exercised.

The net proceeds of the Offering are to fund the Company's Multi-Dimensional Strategy to address the EPA's proposed pre-emptive regulatory action under the Clean Water Act , prepare the Pebble Project to

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

initiate federal and state permitting under NEPA, keep the project in good standing, advance a potential partner(s) transaction and for working capital and general corporate purposes.

\$2 Million Private Placement

In July 2016, the Company completed a private placement of 4,444,376 units in the capital of the Company, each comprising of one share and one share purchase warrant, at a price of \$0.45 per unit for gross proceeds of approximately \$2 million. Each share purchase warrant is exercisable into one common share of the Company at the exercise price of \$0.65 per share until June 10, 2021. The shares and warrants were subject to applicable resale restrictions, including a four month hold under Canadian legislation. Following a four-month hold period, the warrants were listed for trading under the symbol NDM.WT.B.

The proceeds are to be used for working capital purposes.

1.2.4 Market Trends

Copper prices have been variable since late 2011 and averaged lower in each of the past four years. Prices continue to be variable. The recent closing price is US\$2.42/lb.

The gold price trended upward in 2011 and 2012, then decreased in 2013. Prices were variable in 2014 and 2015, with a decrease in the average price. Gold prices have generally increased in 2016, associated with global economic uncertainty. The recent closing price is US\$1,281/oz.

Molybdenum prices were variable but improving in 2010 and 2011, and variable but weakening in 2012 and 2013. Following an uptrend from January to August 2014, prices largely decreased over the next 18 months (to the end of 2015) but have been variable to improving so far in 2016 with a recent price of US\$6.92/lb.

Silver prices were on an uptrend that continued to late September 2011, with prices reaching as high as \$43/oz. Prices ranged from \$26/oz and \$35/oz between October 2011 and the end of 2012, then trended downward in 2013. Prices were variable, with a decrease in the average annual price in 2014 and 2015, but have been variable to improving so far in 2016. The recent closing price is US\$18.81/oz.

Average annual prices of copper, gold, molybdenum and silver for the past five years as well as the average prices so far in 2016 are shown in the table below:

Year	Average metal price ¹			
	Copper US\$/lb	Gold US\$/oz	Molybdenum US\$/lb	Silver US\$/oz
2011	4.00	1,572	15.41	35.25
2012	3.61	1,669	12.81	31.16
2013	3.32	1,410	10.40	23.80
2014	3.14	1,276	11.91	19.08
2015	2.49	1,160	6.73	15.68
2016 (to the date of this MD&A)	2.15	1,262	6.50	17.22

1. Source: LME Official Cash Price as provided at www.metalprices.com

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

1.3 Selected Annual Information

Not required for an interim MD&A.

1.4 Summary and Discussion of Quarterly Results

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

Excerpts from Statements of Comprehensive Loss (Income)	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
Expenses								
Exploration and evaluation	\$ 2,006	\$ 1,294	\$ 2,025	\$ 3,374	\$1,786	\$ 1,484	\$ 2,074	\$3,461
General and administrative ^{1,2}	1,444	1,844	2,130	1,813	3,076	1,567	1,816	2,119
Legal, accounting and audit ¹	1,286	3,318	3,854	6,379	4,452	2,922	3,248	4,932
Share-based compensation	1,939	186	156	469	33	41	360	522
Other items ³	(68)	(54)	98	373	50	(236)	(1,252)	(1,109)
Loss for the quarter	\$ 6,607	\$ 6,588	\$ 8,263	\$ 12,408	\$ 9,397	\$ 5,778	\$ 6,246	\$ 9,925
Basic and diluted loss per common share	\$ 0.02	\$ 0.03	\$ 0.04	\$ 0.07	\$ 0.07	\$ 0.04	\$ 0.05	\$ 0.10
Weighted average number of common shares (000s)	264,622	230,920	222,106	181,339	137,173	130,973	130,082	95,010

- From Q1-2015 onward, in presenting the statement of loss and comprehensive loss, the Company has separately reflected legal, accounting and audit expenditures. This line item is predominantly comprised of legal costs incurred by the Group in response to the EPA's activities surrounding the Pebble Project. These expenditures were previously included under general and administrative expenditures. Results for Q4-2014 have been adjusted to conform with this presentation.
- The Company did not accrue or pay CEO, CFO and directors' fees in Q1 and Q2 of 2015.
- Other items include interest income and expense, exchange gain or loss, gain or loss on disposal of financial assets and plant and equipment and deferred income tax (recovery) expense.

Discussion of Quarterly Trends

Exploration and evaluation expenses ("E&E") have trended down other than in Q4 2015 and Q4 2014 as the Company paid annual claim fees. E&E includes costs for Native community engagement, select environmental monitoring programs, annual fees for claims (paid in Q4 each year), site leases, land access agreements and technical studies.

General and administrative expenses ("G&A"), which exclude legal, accounting and audit expenses as per the revised presentation of the statement of loss and comprehensive loss adopted by the Company in fiscal year 2015, have fluctuated based on the level of corporate and financing activities undertaken. G&A has averaged approximately \$2.0 million over the period, with the exception of Q3 2015, when G&A increased mainly due to the recognition of arrear CEO, CFO and directors' fees and a bonus commitment which was not accrued or paid in Q1 and Q2 of 2015.

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Share-based compensation expense ("SBC") has fluctuated due to the timing of share purchase option grants and the vesting periods associated with these grants. In Q3 2016, SBC increased as the Company granted 6,206,000 options, 639,031 restricted share units ("RSUs") and 458,129 deferred share units ("DSUs").

1.5 Results of Operations

The following financial data has been prepared from the Financial Statements for the three and nine months ended September 30, 2016, and is expressed in thousands of Canadian dollars unless otherwise stated.

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

1.5.1 Results of Operations for the Three Months Ended September 30, 2016 vs. 2015

The Company recorded a decrease in loss of \$2.8 million due primarily to the decrease in legal, accounting and audit expenses of \$3.2 million and G&A of \$1.6 million which was offset by an increase in SBC of \$1.9 million.

E&E comprised mainly of the following for the period as compared to 2015, expressed in thousands of dollars:

E&E	2016	2015
Engineering	\$ 184	\$ 60
Environmental	160	162
Site activities	418	558
Socio-economic	1,244	960
Other activities and travel	-	46
Total	\$ 2,006	\$ 1,786

The Company incurred E&E associated with continued Native community engagement, stakeholder outreach, environmental monitoring and payments in respect to site leases. In 2015, site activities and environmental expenses were impacted by demobilization and remediation activities.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

The following table provides a breakdown of G&A, and legal, accounting and audit expenses incurred in the period as compared to 2015, expressed in thousands of dollars:

	2016	2015
Conference and travel	\$ 131	\$ 112
Consulting	59	(63)
Insurance	105	103
Office costs, including information technology	143	319
Management and administration	859	2,368
Shareholder communication	142	222
Trust and filing	5	15
Total G&A	1,444	3,076
Legal, accounting and audit	1,286	4,452
	\$ 2,730	\$ 7,528

G&A decreased by \$1.6 million due primarily to a decrease in management and administration costs. In Q3 2015, the Company recognized arrear directors' fees and a 2014 bonus commitment. The Company however incurred additional consulting fees relating to advice on various corporate matters. Legal, accounting and audit costs decreased by \$3.2 million as legal fees incurred were lower than in 2015.

SBC has fluctuated due to the timing of share purchase option grants and the vesting periods associated with these grants. SBC increased by \$1.9 million in the quarter as the Company granted 6,206,000 options in July 2016 (one third tranche vested on grant date, another two equal tranches vest in 12 months and 24 months respectively), SBC relating to the 639,031 RSUs issued to the Chairman, CEO and CFO (which vest in 12 months) and SBC on 458,129 DSUs issued to non-executive directors (2015 – no options granted and no DSUs or RSUs issued).

1.5.2 Results of Operations for the Nine Months Ended September 30, 2016 vs. 2015

The Company recorded largely the same loss as in 2015. In the current period there was an increase in SBC of \$1.8 million which offset decreases in G&A and legal, accounting and audit expenses of \$1.0 million and \$2.2 million respectively. In 2015 the Company recorded a deferred tax recovery of \$1.5 million

E&E comprised mainly of the following for the period as compared to 2015, expressed in thousands of dollars:

E&E	2016	2015
Engineering	\$ 266	\$ 197
Environmental	538	651
Site activities	1,070	1,450
Socio-economic	3,388	2,885
Other activities and travel	63	161
Total	\$ 5,325	\$ 5,344

The Company incurred E&E associated with continued Native community engagement, stakeholder outreach, environmental monitoring and payments in respect to site leases. In 2015, site activities and environmental expenses were impacted by demobilization and remediation activities.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

The following table provides a breakdown of G&A, and legal, accounting and audit expenses incurred in the period as compared to 2015, expressed in thousands of dollars:

	2016	2015
Conference and travel	\$ 291	\$ 292
Consulting	370	171
Insurance	316	293
Office costs, including information technology	652	981
Management and administration	3,126	3,882
Shareholder communication	497	575
Trust and filing	166	265
Total G&A	5,418	6,459
Legal, accounting and audit	8,458	10,622
	\$ 13,876	\$ 17,081

G&A decreased by \$1.0 million due to decreases in office, management and administration costs. In Q3 2015, the Company recognized arrear directors' fees and a 2014 bonus commitment. Legal, accounting and audit costs decreased by \$2.2 million due to less legal fees being incurred in the current period.

SBC has fluctuated due to the timing of share purchase option grants and the vesting periods associated with these grants. The Company granted 6,806,000 options in the period (one third has vested with another two equal tranches vesting in 12 months and 24 months from date of grant), the amortization of SBC on the issue of 639,031 RSUs to the Company's Chairman, CEO and CFO (which vest in 12 months) and 458,129 issued to non-executive directors. In 2015, no options granted and no DSUs or RSUs issued.

1.5.3 Financial position as at September 30, 2016 vs. December 31, 2015

The total assets of the Company decreased by \$9.9 million due in large part to the appreciation in the Canadian dollar versus the US dollar which resulted in a \$7.8 million decrease in the value of the Company's mineral property, plant and equipment when translated to the Company's reporting currency.

1.6 Liquidity

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

As at September 30, 2016, the Company's cash and cash equivalents were \$7.9 million, an increase of \$0.4 million from December 31, 2015 as the Company completed financings for gross proceeds of \$19.1 million (refer [1.2.3 Financings](#)), raised \$1.8 million from the sale of its available-for-sale financial assets (being shares in a listed entity which the Company received on the acquisition of Mission Gold Ltd. in 2015) and employed \$19.0 million in its operating activities. The Company has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required to pursue any material expenditures at the Pebble Project. There can be no assurances that the Company will be successful in obtaining additional financing. The Company has been reducing its operating costs and will continue to do so given the current market conditions. If the Company is unable to raise the necessary capital resources to meet

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

obligations as they come due, the Company will at some point have to further reduce or curtail its operations.

At September 30, 2016, the Company had working capital of approximately \$7.2 million as compared to \$7.9 million at December 31, 2015. The Company has no long term debt, capital lease obligations, operating leases or any other long term obligations other than those disclosed below:

The following commitments and payables (expressed in thousands) existed at September 30, 2016:

	Payments due by period as of the reporting date			
	Total	≤ 1 year	1-5 years	> 5 years
Trade and other payables	\$ 1,154	\$ 1,154	\$ –	\$ –
Payables to related parties	215	215	–	–
Lease commitments	792	273	497	22
Total	\$ 2,161	\$ 1,642	\$ 497	\$ 22

The Group, through the Pebble Partnership, is advancing its multi-dimensional strategy to address the EPA's preemptive regulatory action under Section 404(c) of the Clean Water Act, through litigation against the EPA contesting the EPA's statutory authority to act pre-emptively under the Clean Water Act, and alleging violation of FACA and the unlawful withholding of documentation under the Freedom of Information Act. The Group has a contingent liability for additional legal fees and costs that may be due to the Group's counsel should there be a successful outcome. However, the Group is unable to estimate or determine the length of time that each of the legal initiatives mentioned above will take to advance to specific milestone events or final conclusion. As of the reporting date of the Financial Statements, if there was a favourable outcome or settlement, the Company estimates there would potentially be additional legal fees of \$21.3 million (US\$16.2 million at closing Bank of Canada rate on September 30, 2016, of C\$1.3117) payable by the Company.

The Company has no "Purchase Obligations", defined as any agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company is responsible for maintenance payments on the Pebble Project claims and routine site and office leases (included in table above).

1.7 Capital Resources

The Company's capital resources consist of its cash reserves. As of September 30, 2016, the Company had no long term debt or commitments for material capital expenditures.

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

1.8 Off-Balance Sheet Arrangements

There are none.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

1.9 Transactions with Related Parties

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

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

Current directors of the Company namely Robert Dickinson and Ron Thiessen are active members of the HDI Board of Directors. Marchand Snyman, the Company's CFO, is also an active member of the HDI Board of Directors. Other key management personnel of the Company – Doug Allen, Stephen Hodgson, Bruce Jenkins, Sean Magee and Trevor Thomas – are active members of HDI's senior management team.

The business purpose of the related party relationship

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

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

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

The measurement basis used

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

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

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

Ongoing contractual or other commitments resulting from the related party relationship

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

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Key Management Personnel

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

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

1.13 Changes in Accounting Policies including Initial Adoption

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

1.14 Financial Instruments and Other Instruments

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

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents, restricted cash and amounts receivable. The Company limits the exposure to credit risk by only investing its cash and cash equivalents and restricted cash with high-credit quality financial institutions in business and saving accounts, guaranteed investment certificates, and in government treasury bills which are available on demand by the Group as and when required. There has been no change in the Company's objectives and policies for managing this risk except for changes in the carrying amounts of financial assets exposed to credit risk, and there was no significant change to the Company's exposure to credit risk during the period ended September 30, 2016. Amounts receivable include receivable balances with government agencies and refundable deposits. Management has also concluded that there is no objective evidence of impairment to its amounts receivable.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Liquidity Risk

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

Foreign Exchange Risk

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

There has been no change in the Company's objectives and policies for managing this risk, except for the changes in the carrying amounts of the financial assets exposed to foreign exchange risk, and there was no significant change to the Company's exposure to foreign exchange risk during the period ended September 30, 2016.

Interest rate risk

The Company is subject to interest rate risk with respect to its investments in cash and cash equivalents. There has been no change in the Company's objectives and policies for managing this risk and no significant change to the Company's exposure to interest rate risk during the period ended September 30, 2016.

Commodity price risk

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

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

Capital Management

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

1.15 Other MD&A Requirements

Additional information relating to the Company, including the Company's 2015 Annual Information Form, is available under the Company's profile on SEDAR at www.sedar.com.

1.15.1 Disclosure of Outstanding Share Data

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

	Number
Common shares issued and outstanding	265,377,481
Share options pursuant to the Company's incentive plan	16,271,999
Deferred share units	458,129
Restricted share units	639,031
Warrants and non-incentive options ¹	59,084,496

Notes:

1. Certain of the warrants were issued pursuant to the acquisition of Mission Gold. The non-incentive options were issued on the acquisition of Cannon Point.

1.15.2 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 that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

1.15.3 Management's Report on Internal Control over Financial Reporting

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

1.15.4 Changes in Internal Control over Financial Reporting

There has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR during the period covered by this MD&A.

1.15.5 Limitations of Controls and Procedures

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

1.15.6 Risk Factors

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

Inability to Achieve Mine Permitting of the Pebble Project

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

Negative Operating Cash Flow

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

The Pebble Project is Subject to Political and Environmental Regulatory Opposition

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

In the event that we are unsuccessful in our litigation against the Environmental Protection Agency, or are otherwise unable to reach a settlement with the federal agency, we may never be able to proceed with permitting with respect to the Pebble Project.

The principal risk currently facing the Company is that we may be unable to settle our ongoing issues with the EPA with respect to its regulatory action under Section 404(c) of the U.S. Clean Water Act. While we believe our position has merit, the proceedings have been lengthy and have required us to expend substantial funds and time. There can be no assurance that the funds allocated for combating the EPA action will be sufficient to bring our strategy to completion and we may be unable to raise additional funds, causing us to abandon our strategy. Further, even if we are able to raise sufficient funds to bring our strategy to completion, there is no assurance that we will ultimately be successful. In the event that we are unsuccessful, and the EPA's regulatory action is upheld, we will be unable to proceed with permitting of the Pebble Project and the Company will be materially adversely affected.

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Northern Dynasty will require Additional Funding to Meet the Development Objectives of the Pebble Project.

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

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

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

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

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

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

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

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

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Northern Dynasty May Not Be able to Continue as a Going Concern.

Northern Dynasty's consolidated interim financial statements have been prepared on the basis that Northern Dynasty will continue as a going concern. At September 30, 2016, Northern Dynasty had working capital of approximately \$7.2 million. Northern Dynasty has prioritized the allocation of available financial resources in order to meet key corporate and Pebble Project expenditure requirements in the near term. Additional financing will be required to pursue any material work programs at the Pebble Project. Northern Dynasty's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interest are entirely dependent upon the existence of economically recoverable mineral reserves at the Pebble Project, the ability of the Company to finance the completion of the exploration and development of the Pebble Project, the Pebble Partnership obtaining the necessary permits to mine, and on future profitable production at the Pebble Project. Furthermore, failure to continue as a going concern would require that Northern Dynasty's assets and liabilities be restated on a liquidation basis, which would likely differ significantly from their going concern assumption carrying values. Refer also to discussion in [1.6 Liquidity](#).

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

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

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

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

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

The mining industry is competitive in all of its phases, including financing, technical resources, personnel and property acquisition. It requires significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over Northern

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

Dynasty. Northern Dynasty faces strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than Northern Dynasty possesses. As a result of this competition, Northern Dynasty may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms Northern Dynasty considers acceptable or at all.

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

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

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

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

Litigation

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

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

Hazards such as unusual or unexpected geological formations and other conditions are involved in mineral exploration and development. Northern Dynasty may become subject to liability for pollution, cave-ins or hazards against which it cannot insure. The payment of such liabilities could result in increase in Northern Dynasty's operating expenses which could, in turn, have a material adverse effect on Northern Dynasty's financial position and its results of operations. Although Northern Dynasty and the Pebble Partnership maintain liability insurance in an amount which we consider adequate, the nature of these

Northern Dynasty Minerals Ltd.
Management's Discussion And Analysis
Three and Nine months ended September 30, 2016

risks is such that the liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or Northern Dynasty and the Pebble Partnership might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event Northern Dynasty could incur significant liabilities and costs that could materially increase Northern Dynasty's operating expenses.

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

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

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

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