



**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2014**

*(Expressed in thousands of Canadian Dollars)*

*(Unaudited)*

# Northern Dynasty Minerals Ltd.

## Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in thousands of Canadian Dollars)

	Notes	September 30 2014	December 31 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Mineral property, plant and equipment	3	\$ 119,409	\$ 108,050
<b>Total non-current assets</b>		119,409	108,050
<b>Current assets</b>			
Amounts receivable and prepaid expenses	4	1,308	6,663
Restricted cash	5	1,175	1,276
Cash and cash equivalents	5	7,342	25,795
<b>Total current assets</b>		9,825	33,734
<b>Total Assets</b>		<b>\$ 129,234</b>	<b>\$ 141,784</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	6	\$ 389,227	\$ 389,227
Reserves		67,872	58,649
Deficit		(335,370)	(313,948)
<b>Total Equity</b>		121,729	133,928
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income taxes		2,691	3,803
<b>Total non-current liabilities</b>		2,691	3,803
<b>Current liabilities</b>			
Payable to a related party	7(b)	276	459
Trade and other payables	8	4,538	3,594
<b>Total current liabilities</b>		4,814	4,053
<b>Total Liabilities</b>		7,505	7,856
<b>Total Equity and Liabilities</b>		<b>\$ 129,234</b>	<b>\$ 141,784</b>

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

/s/ Ronald W. Thiessen

Ronald W. Thiessen  
Director

/s/ Peter Mitchell

Peter Mitchell  
Director

## Northern Dynasty Minerals Ltd.

### Condensed Consolidated Interim Statements of Comprehensive (Income) Loss

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

	Notes	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
<b>Expenses</b>					
Exploration and evaluation expenses	10	\$ 2,436	\$ 270	\$ 9,416	\$ 915
General and administrative expenses	10	4,077	1,552	10,333	4,435
Share-based compensation	6(b)	557	-	3,355	641
Loss from operating activities		7,070	1,822	23,104	5,991
Foreign exchange loss (gain)		19	114	(266)	(157)
Interest income		(15)	(234)	(304)	(723)
Loss before tax		7,074	1,702	22,534	5,111
Deferred Income tax		(986)	-	(1,112)	-
<b>Loss for the period</b>		<b>\$ 6,088</b>	<b>\$ 1,702</b>	<b>\$ 21,422</b>	<b>\$ 5,111</b>
<b>Other comprehensive (income) loss</b>					
<b>Items that may be reclassified subsequently to loss</b>					
Foreign exchange translation (gain) loss	6(c)	(5,629)	2,147	(5,868)	(3,534)
Deferred income tax on investment	6(c)	-	(79)	-	128
<b>Other comprehensive (income) loss for the period</b>		<b>\$ (5,629)</b>	<b>\$ 2,068</b>	<b>\$ (5,868)</b>	<b>\$ (3,406)</b>
<b>Total comprehensive loss for the period</b>		<b>\$ 459</b>	<b>\$ 3,770</b>	<b>\$ 15,554</b>	<b>\$ 1,705</b>
<b>Basic and diluted loss per common share</b>	9	<b>\$ 0.06</b>	<b>\$ 0.02</b>	<b>\$ 0.22</b>	<b>\$ 0.05</b>

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	
		2014	2013
<b>Cash flows from operating activities</b>			
Loss for the period		\$ (21,422)	\$ (5,111)
Adjustments for items not affecting cash or operating activities:			
Depreciation		211	-
Deferred income tax recovery		(1,112)	-
Foreign exchange gain		(307)	(161)
Interest received on cash held		(171)	(354)
Interest receivable on loan prior to settlement	4	(133)	(369)
Loss on disposal of plant and equipment		59	-
Share-based compensation		3,355	641
		1,902	(243)
Changes in working capital items			
Amounts receivable and prepaid expenses		(91)	35
Amounts receivable from a related party		-	3
Transfer from restricted cash	5(b)	169	-
Trade and other payables		802	70
Payable to related party		(183)	(129)
		697	(21)
<b>Net cash used in operating activities</b>		<b>(18,823)</b>	<b>(5,375)</b>
<b>Cash flows from investing activity</b>			
Cash from sale of equipment		86	-
Interest received on cash held		171	354
<b>Net cash from investing activity</b>		<b>257</b>	<b>354</b>
<b>Cash flows from financing activity</b>			
Common shares issued for cash on exercise of share purchase options		-	30
<b>Net cash from financing activity</b>		<b>-</b>	<b>30</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(18,566)</b>	<b>(4,991)</b>
Effect of exchange rate fluctuations on cash held		113	(7)
Cash and cash equivalents at beginning of the period		25,795	27,537
<b>Cash and cash equivalents at end of the period</b>	5	<b>\$ 7,342</b>	<b>\$ 22,539</b>

**Non-cash investing activities:**

The Group received title to mineral claims in settlement of the loan receivable (notes 3 and 4)

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

## Northern Dynasty Minerals Ltd.

### Condensed Consolidated Interim Statements of Changes in Equity

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

	Share capital		Reserves				Deficit	Total equity
	Number of shares	Amount	Equity settled share-based payments reserve	Foreign currency translation reserve (note 6(c))	Investment revaluation reserve			
Balance at January 1, 2013	94,999,764	\$ 389,189	\$ 50,784	\$ 347	\$ (2)	\$ (311,425)	\$ 128,893	
Shares issued for cash on exercise of share purchase options	10,100	30	-	-	-	-	30	
Fair value of options allocated to shares issued on exercise	-	8	(8)	-	-	-	-	
Share-based compensation	-	-	641	-	-	-	641	
Loss for the period	-	-	-	-	-	(5,111)	(5,111)	
Other comprehensive income for the period net of tax	-	-	-	3,406	-	-	3,406	
Total comprehensive income							(1,705)	
<b>Balance at September 30, 2013</b>	<b>95,009,864</b>	<b>\$ 389,227</b>	<b>\$ 51,417</b>	<b>3,753</b>	<b>\$ (2)</b>	<b>\$ (316,536)</b>	<b>\$ 127,859</b>	
Balance at January 1, 2014	95,009,864	\$ 389,227	\$ 51,417	\$ 7,234	\$ (2)	\$ (313,948)	\$ 133,928	
Share-based compensation	-	-	3,355	-	-	-	3,355	
Loss for the period	-	-	-	-	-	(21,422)	(21,422)	
Other comprehensive income for the period net of tax	-	-	-	5,868	-	-	5,868	
Total comprehensive loss							(15,554)	
<b>Balance at September 30, 2014</b>	<b>95,009,864</b>	<b>\$ 389,227</b>	<b>\$ 54,772</b>	<b>\$ 13,102</b>	<b>\$ (2)</b>	<b>\$ (335,370)</b>	<b>\$ 121,729</b>	

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, 2014 and 2013

(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, 15<sup>th</sup> floor, Vancouver, British Columbia.

The condensed consolidated interim financial statements ("Financial Statements") of the Company as at and for the period ended September 30, 2014, 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 interest, are 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, 2014, the Group has \$7.3 million in cash and cash equivalents for its operating requirements. The Group is currently in the process of seeking to source significant additional financing and 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, may include any of, or a combination of: debt, equity and/or contributions from possible new Pebble Project participants. Additional financing will be required in order to progress any material work programs at the Pebble Project. 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 will at some point have to reduce or curtail its operations.

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 discharge 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 Company, along with the State of Alaska, 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 expects its legal rights will be upheld by the Court and that the Company will be able to apply for the necessary permits under NEPA. The Company has appealed the Court's decision to the 9<sup>th</sup> Circuit Court of Appeals.

### 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

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

conjunction with the Group's consolidated financial statements as at and for the year ended December 31, 2013, which were filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Accordingly, accounting policies applied other than as noted in (e) are the same as those applied in the Group's annual financial statements.

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current period.

These Financial Statements were authorized for issue by the Audit and Risk Committee of the Board of Directors on November 13, 2014.

### (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 and its subsidiaries and controlled entities listed below:

<b>Name of Subsidiary</b>	<b>Place of Incorporation</b>	<b>Principal Activity</b>	<b>Ownership</b>
U5 Resources Inc.	Nevada, USA	Holding Company <sup>1</sup> . Wholly-owned subsidiary of the Company.	100%
0796412 BC Ltd.	British Columbia, Canada	Not active. Wholly-owned subsidiary of the Company.	100%
3537137 Canada Inc.	Canada	Holding Company <sup>2</sup> . 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 PLP.	100% (indirect)
Pebble West Claims Corporation.	Alaska, USA	Holding Company <sup>3</sup> . Subsidiary of the Pebble Limited Partnership.	100% (indirect)
Pebble East Claims Corporation.	Alaska, USA	Holding Company <sup>3</sup> . Subsidiary of the Pebble Limited Partnership.	100% (indirect)
Kaskanak Copper LLC.	Delaware, USA	Holds 100% of Kaskanak Inc. Subsidiary of the Pebble Limited Partnership.	100% (indirect)
Kaskanak Inc.	Alaska, USA	Holding Company <sup>4</sup> .	100% (indirect)

<sup>1</sup> Holds the claims acquired from Liberty Star (note 3).

<sup>2</sup> Holds 20% interest in the Northern Dynasty Partnership. The Company holds the remaining 80% interest.

<sup>3</sup> Holds the Pebble Project claims.

<sup>4</sup> Holds the South Pebble, KAK and SP claims.

## Northern Dynasty Minerals Ltd.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

---

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Company has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

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

#### (d) *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, 2013.

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

Effective January 1, 2014, the Group adopted the following amendments and interpretation:

- Amendments to IAS 32, *Financial Instruments: Presentation*. The amendments clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legal enforceable right of set-off" and "simultaneous realization and settlement".
- Amendments to IAS 36, *Impairment of Assets*. The amendments clarify the recoverable amount disclosures for non-financial assets, including additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount was based on fair value less costs of disposal. The amendments apply retrospectively.
- IFRIC 21, *Levies* ("IFRIC 21"), provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation, and explicitly excludes from its scope outflows related to IAS 12, *Income Taxes*, fines and penalties and liabilities arising from emission trading schemes. IFRIC 21 clarifies that a liability is recognized only when the triggering event specified in the legislature occurs and not before. IFRIC 21 is effective retrospectively.

These amendments and interpretation did not impact the preparation of these Financial Statements given 1) the Group does not employ the use of financial instruments as contemplated; 2) the Group has not impaired non-financial assets; and 3) the Group is not currently subject to levies as defined in IFRIC 21.

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

*Effective for the Group's financial year commencing on January 1, 2015*

- Amendments to IAS 16, *Property, Plant and Equipment*
- Amendments to IAS 19, *Employee Benefits*
- Amendments to IAS 38, *Intangible Assets*
- Annual improvements to IFRS 2010 – 2012 Cycle and 2011 – 2013 Cycle
- Amendments to IFRS 7, *Financial Instruments – Disclosure* Amendments to IFRS 11, *Joint Arrangements*

The Group has not early adopted these revised standards and is currently assessing the impact, if any, that these amendments will have on the Group's consolidated financial statements.



# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

---

### *Effective for the Group's financial year commencing on January 1, 2016*

#### *Annual improvements to IFRS 2012 – 2014 Cycle ("AIP 2012-2014")*

The Group anticipates that AIP 2012-2014 which has amendments to five standards will have no material effect on the Group's consolidated financial statements.

### *Effective for the Group's financial year commencing on January 1, 2017*

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") which was issued by the IASB in May 2014, supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions involving Advertising Services*. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and certainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

The Company is currently evaluating the impact that IFRS 15 may have on its consolidated financial statements.

### *Effective for the Group's financial year commencing on January 1, 2018*

IFRS 9, *Financial Instruments* ("IFRS 9"), replaces IAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The standard incorporates a number of improvements: a) includes a logical model for classification and measurement (IFRS 9 provides for principle-based approach to classification which is driven by cash flow characteristics and the business model in which an asset is held); b) includes a single, forward-looking "expected loss" impairment model (IFRS 9 will require entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timely basis); and c) includes a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity (IFRS 9's new model aligns the accounting treatment with risk management activities). IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Group anticipates that the adoption of IFRS 9 will have no material impact on its consolidated financial statements given the extent of its current use of financial instruments in the ordinary course of business.

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

### 3. MINERAL PROPERTY, PLANT AND EQUIPMENT

For the nine months ended September 30, 2014, the Group's exploration and evaluation assets comprised of the following:

	<b>Mineral property interest</b>	<b>Plant and equipment</b>	<b>Total</b>
<b>Cost</b>			
Beginning balance	\$ 106,697	\$ 1,222	\$ 107,919
Additions during the period (b)	5,844	-	5,844
Disposals	-	(65)	(65)
Ending balance	\$ 112,541	\$ 1,157	\$ 113,698
<b>Accumulated depreciation</b>			
Beginning balance	\$ -	\$ -	\$ -
Charge for the period	-	(211)	(211)
Eliminated on disposal	-	5	5
Ending balance	\$ -	\$ (206)	\$ (206)
Accumulated foreign currency translation difference	\$ 5,859	\$ 58	\$ 5,917
<b>Net carrying value - Ending balance</b>	<b>\$ 118,400</b>	<b>\$ 1,009</b>	<b>\$ 119,409</b>
<b>Net carrying value - Beginning balance</b>	<b>\$ 106,827</b>	<b>\$ 1,223</b>	<b>\$ 108,050</b>

#### *Mineral Property Interest*

##### *(a) Pebble Project*

The Pebble Project is 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. Mineral rights were acquired by the Group in 2001. In July 2007, the Group established the Pebble Limited Partnership (the "Pebble Partnership") to advance the Pebble Project toward the feasibility stage. The Group's contribution to the Pebble Partnership was the Pebble Project. A wholly-owned subsidiary of Anglo American plc participated in the Pebble Partnership and provided approximately \$595 million (US\$573 million) in funding until its withdrawal in December 2013, when the Group re-acquired a 100% interest in the Pebble Partnership and control of the Pebble Project.

##### *(b) Other Claims*

The Group acquired mineral claims located to the west of the Pebble Project in 2010 for a cash payment of US\$1,000,000 (\$1,055) from Liberty Star Uranium & Metals Corp. and its subsidiary, Big Chunk Corp. (together, "Liberty Star"). The Group received further claims from Liberty Star in settlement for amounts advanced to Liberty Star (note 4).

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

### 4. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	September 30 2014	December 31 2013
Sales tax receivable	\$ 69	\$ 94
Amounts receivable	311	217
Loan receivable (a)	-	5,479
Prepaid expenses	928	873
<b>Total</b>	<b>\$ 1,308</b>	<b>\$ 6,663</b>

#### (a) Loan Receivable

The loan receivable at December 31, 2013 comprised the amount advanced to Liberty Star in cash and expenditures incurred by the Group in relation to Liberty Star's mineral claims in Alaska and interest accrued thereon (together, the "Loan") pursuant to a letter agreement dated June 2010 and subsequent amendments thereof (together, the "Letter Agreement"). The Loan accrued interest at 10% per annum, compounded monthly, and was secured by assets and mining claims owned by Liberty Star in Alaska, USA.

The following is a summary of the Loan until its settlement on March 27, 2014:

	March 27 2014	December 31 2013
Balance of the principal amount:	(Settlement date)	
Cash advance (US\$3,000,000)	\$ 3,325	\$ 3,191
Expenses incurred on behalf of Liberty Star (US\$730,174)	810	776
Total principal amount receivable (US\$3,730,174)	4,135	3,967
Accumulated accrued interest (March 27, 2014 - US\$1,542,203; December 31, 2013 - US\$1,421,306)	1,709	1,512
<b>Balance at settlement date/end of year</b> (March 27, 2014 - US\$5,272,377; December 31, 2013 - US\$5,151,480)	<b>\$ 5,844</b>	<b>\$ 5,479</b>

The Loan was advanced in conjunction with the acquisition of a mineral property interest (note 3) pursuant to the Letter Agreement, which contemplated a joint venture agreement whereby the Group, subject to an earn-in expenditure requirement, could acquire a 60% interest in certain of Liberty Star's mineral claims adjacent to the mineral claims acquired. Liberty Star's assets held as collateral for the Loan included, but were not limited to, these mineral claims.

In October 2012, as a joint venture agreement was not executed, the Group delivered a notice of repayment of the Loan to Liberty Star. In November 2012, the Group and Liberty Star negotiated a loan settlement agreement and an amendment thereto (together; the "Loan Settlement Agreement"), whereby the Group agreed to extinguish the Loan in consideration for receiving title to certain of Liberty Star's mineral claims (the "Settlement Claims") which were held as collateral for the Loan. Liberty Star, however, could not complete valid transfer of these claims to the Group as a third party purported to register a lien on the Settlement Claims in respect of a debt allegedly owed by Liberty Star. As a result and in accordance with the terms of the Loan Settlement Agreement, the Loan Settlement Agreement was not closed and the Group retained all its rights under the Letter Agreement at December 31, 2013, at which date the Group continued to recognize the Loan as a financial asset. On March 27, 2014, all outstanding liens against the Settlement Claims were released and the Group extinguished the Loan and recognized the addition of the Settlement Claims in mineral property interest for the same amount (note 3).

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

### 5. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

#### (a) Cash and Cash Equivalents

	September 30 2014	December 31 2013
Business and savings accounts	\$ 2,025	\$ 7,334
Guaranteed investment certificates	5,317	18,461
<b>Total</b>	<b>\$ 7,342</b>	<b>\$ 25,795</b>

#### (b) Restricted Cash

At September 30, 2014, restricted cash in the amount of US\$1,050 (\$1,175) (December 31, 2013 - \$1,276) was held in the Pebble Partnership for certain equipment demobilization expenses relating to its activities undertaken while the Pebble Partnership was subject to joint control of the Group and Anglo American (note 3(a)). This cash is not available for general use by the Group. The Group has a current obligation (note 8) to refund any unutilized balance upon the earlier of (i) sixty days from the date of completion of demobilization; and (ii) December 31, 2014.

### 6. CAPITAL AND RESERVES

#### (a) Authorized Share Capital

At September 30, 2014, the authorized share capital comprised an unlimited (2013 - unlimited) number of common shares with no par value. All issued shares are fully paid.

#### (b) Share Purchase Option Compensation Plan

The following reconciles the Group's share purchase options ("options") outstanding for the nine months ended September 30, 2014 and 2013:

	2014		2013	
	Number of options	Weighted average exercise price (\$/option)	Number of options	Weighted average exercise price (\$/option)
<b>Continuity of share options</b>				
Balance at beginning of period	3,735,700	4.13	7,611,530	7.00
Granted <sup>(1)</sup>	5,875,100	1.56	-	-
Exercised <sup>(2)</sup>	-	-	(10,100)	3.00
Expired	(1,852,800)	5.10	(1,668,330)	7.75
Forfeited	(7,400)	1.77	(64,000)	4.26
Cancelled	-	-	(2,000,900)	11.76
<b>Balance at end of period</b>	<b>7,750,600</b>	<b>1.95</b>	<b>3,868,200</b>	<b>4.27</b>

(1) The weighted average fair value for the options granted was estimated at \$0.75 per option and was based on the Black-Scholes option pricing model using the following assumptions:

## Northern Dynasty Minerals Ltd.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

#### Assumptions

Risk-free interest rate	1.53%
Expected life	4.56 years
Expected volatility	67.7%
Grant date share price	\$1.44
Expected dividend yield	Nil

- (2) The market price of the Company's common shares on the date of exercise of the options during the period ended September 30, 2013, was \$3.15.

The following tables summarize information about the Group's options outstanding at September 30, 2014 and 2013:

2014		Options outstanding			Options exercisable		
Exercise prices (\$)	Number of options outstanding	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	
0.72	200,000	0.72	4.96	66,667	0.72	4.96	
0.89	1,180,500	0.89	4.45	376,834	0.89	4.45	
1.77	4,484,600	1.77	3.86	2,244,700	1.77	3.86	
3.00	1,858,500	3.00	1.26	1,858,500	3.00	1.26	
15.44	27,000	15.44	1.46	27,000	15.44	1.46	
	7,750,600	1.95	3.35	4,573,701	2.26	2.85	

2013		Options outstanding			Options exercisable		
Exercise prices (\$)	Number of options outstanding	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price (\$/option)	Weighted average remaining contractual life (years)	
3.00	2,094,700	3.00	2.14	2,094,700	3.00	2.14	
5.00 – 5.35	1,643,000	5.01	0.36	1,643,000	5.01	0.36	
15.44	130,500	15.44	0.87	130,500	15.44	0.87	
	3,868,200	4.27	1.34	3,868,200	4.27	1.34	

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

### (c) Foreign Currency Translation Reserve

	Nine months ended September 30	
	2014	2013
Balance at beginning of period	\$ 7,234	\$ 347
Foreign exchange translation differences incurred in the period		
Exchange gain on translation of the investment in the Pebble Partnership under joint venture	-	3,534
Exchange gain on translation of foreign subsidiaries	5,868	-
Total foreign exchange translation differences at end of period	13,102	3,881
Deferred income tax on investment	-	(128)
<b>Balance at the end of period</b>	<b>\$ 13,102</b>	<b>\$ 3,753</b>

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, being the Pebble Partnership and U5 Resources Inc. In 2013 the Pebble Partnership was under joint control until December 10, 2013 when the Group reacquired 100% interest therein. Until the change in control, the investment in the Pebble Partnership was accounted for under the equity method with the related tax effect recognized in other comprehensive loss.

## 7. 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 of transactions and balance with other related parties are disclosed below:

### (a) Transactions and Balances with Key Management Personnel

The aggregate value of transactions with key management personnel ("KMP"), being the Group's directors 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 ("CEO of PLP"), Chairman of Pebble Mines Corp ("Chair of PMC") and Company Secretary, was as follows:

Compensation	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Payments to HDSI for services of KMP employed by HDSI <sup>(1)</sup>	\$ 626	\$ 497	\$ 1,997	\$ 1,608
Payments to KMP <sup>(2)</sup>	308	48	941	137
	934	545	2,938	1,745
Share-based compensation	422	-	2,421	230
<b>Total</b>	<b>\$ 1,356</b>	<b>\$ 545</b>	<b>\$ 5,359</b>	<b>\$ 1,975</b>

(1) The Group's executive directors and senior management (other than disclosed in (2)) are employed by the Group through Hunter Dickinson Services Inc. ("HDSI").

(2) The Group directly employs its independent directors, the CEO of PLP and the Chair of PMC. The payments represent short term employee benefits incurred including salaries and directors fees.

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

### (b) Transactions and Balances with other Related Parties

The aggregate value of transactions and outstanding balances with other related parties were as follows:

Transactions	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>Entity with significant influence</b> <sup>(i)</sup>				
Services rendered to the Group	\$ 1,107	\$ 810	\$ 3,803	\$ 2,758
Reimbursement of third party expenses incurred on behalf of the Group	162	240	622	638
<b>Total paid by the Group</b>	<b>\$ 1,269</b>	<b>\$ 1,050</b>	<b>\$ 4,425</b>	<b>\$ 3,396</b>

  

Balances payable to related parties	September 30	December 31
	2014	2013
Entity with significant influence over the Group <sup>(i)</sup>	\$ 276	\$ 459
<b>Total</b>	<b>\$ 276</b>	<b>\$ 459</b>

- (i) 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. HDSI also incurs third party costs on behalf of the Group which are reimbursed by the Group at cost. The Group may make pre-payments for services under terms of the services agreement. Several directors and other key management personnel of HDSI, who are close business associates, are also key management personnel of the Group.

### 8. TRADE AND OTHER PAYABLES

Falling due within the year	September 30	December 31
	2014	2013
Trade	\$ 3,363	\$ 2,318
Other (note 5 (b))	1,175	1,276
<b>Total</b>	<b>\$ 4,538</b>	<b>\$ 3,594</b>

### 9. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Loss attributable to common shareholders	\$ 6,088	\$ 1,702	\$ 21,422	\$ 5,111
Weighted average number of common shares outstanding ('000s)	95,010	95,010	95,010	95,007

Diluted loss per share did not include the effect of any options as these would be anti-dilutive i.e. the diluted loss per share would be reduced.

# Northern Dynasty Minerals Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

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

### 10. EMPLOYMENT COSTS

The amount of salaries <sup>(1)</sup> and benefits included in expenses are as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Exploration and evaluation expenses	\$ 1,268	\$ 150	\$ 4,052	\$ 586
General and administration expenses	1,257	722	3,939	2,325
Share-based compensation	557	-	3,355	641
<b>Total</b>	<b>\$ 3,082</b>	<b>\$ 872</b>	<b>\$ 11,346</b>	<b>\$ 3,552</b>

- (1) Salaries include directors' fees and amounts paid to HDSI (see 7(b)) for services provided to the Group by HDSI personnel.

### 11. COMMITMENTS AND CONTINGENCIES

The Group has the following commitments as of September 30, 2014:

	2014 ('000s)	2015 ('000s)	2016 ('000s)
Anchorage office lease <sup>(i)</sup>	US\$ 118	US\$ 477	US\$ 407
Anchorage other leases <sup>(ii)</sup>	36	84	-
Illiamna site leases <sup>(iii)</sup>	195	260	-
<b>Total</b>	<b>US\$ 349</b>	<b>US\$ 821</b>	<b>US\$ 407</b>
<b>Total</b> in Canadian dollars <sup>(iv)</sup>	<b>\$ 391</b>	<b>\$ 919</b>	<b>\$ 456</b>

- (i) The initial 5 year lease term expires on October 31, 2016.  
(ii) Lease term expires on July 31, 2015.  
(iii) Lease for site accommodation and facilities, term expires on April 30, 2015.  
(iv) Converted at closing rate of \$1.12/US\$ on September 30, 2014, as per Bank of Canada.

The Group has a sub-lease agreement in respect of a portion of the Anchorage office space subject to the operating lease for an average annual rent of approximately US\$218 (\$244). The term of the sub-lease expires on October 31, 2016.





**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014**

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

**Table of Contents**

<b>1.1 DATE</b>	<b>3</b>
<b>1.2 OVERVIEW</b>	<b>4</b>
<b>1.2.1 PEBBLE PROJECT</b>	<b>4</b>
<b>1.2.1.1 TECHNICAL PROGRAMS</b>	<b>6</b>
<b>1.2.1.2 LEGAL MATTERS</b>	<b>8</b>
<b>1.2.2 OTHER PROPERTIES</b>	<b>11</b>
<b>1.2.3 MARKET TRENDS</b>	<b>11</b>
<b>1.3 SELECTED ANNUAL INFORMATION</b>	<b>12</b>
<b>1.4 SUMMARY AND DISCUSSION OF QUARTERLY RESULTS</b>	<b>12</b>
<b>1.5 RESULTS OF OPERATIONS</b>	<b>14</b>
<b>1.6 LIQUIDITY</b>	<b>16</b>
<b>1.7 CAPITAL RESOURCES</b>	<b>16</b>
<b>1.8 OFF-BALANCE SHEET ARRANGEMENTS</b>	<b>16</b>
<b>1.9 TRANSACTIONS WITH RELATED PARTIES</b>	<b>17</b>
<b>1.10 FOURTH QUARTER</b>	<b>18</b>
<b>1.11 PROPOSED TRANSACTIONS</b>	<b>18</b>
<b>1.12 CRITICAL ACCOUNTING ESTIMATES</b>	<b>18</b>
<b>1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION</b>	<b>21</b>
<b>1.14 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS</b>	<b>21</b>
<b>1.15 OTHER MD&amp;A REQUIREMENTS</b>	<b>23</b>
<b>1.15.1 DISCLOSURE OF OUTSTANDING SHARE DATA</b>	<b>23</b>
<b>1.15.2 DISCLOSURE CONTROLS AND PROCEDURES</b>	<b>23</b>
<b>1.15.3 MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING</b>	<b>24</b>
<b>1.15.4 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</b>	<b>24</b>
<b>1.15.5 LIMITATIONS OF CONTROLS AND PROCEDURES</b>	<b>24</b>
<b>1.15.6 RISK FACTORS</b>	<b>24</b>

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

### 1.1 Date

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements ("Interim Financial Statements") for the three and nine months ended September 30, 2014 and the audited consolidated financial statements and MD&A of Northern Dynasty Minerals Ltd. ("Northern Dynasty" or the "Company") for the year ended December 31, 2013 as publicly filed under the Company's profile on SEDAR at [www.sedar.com](http://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 13, 2014. 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.

All statements in this disclosure, other than statements of historical facts, that address permitting, exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in its forward-looking statements are based on reasonable assumptions, such statements should not be in any way construed as guarantees of the ultimate size, quality or commercial feasibility of the Pebble Project or of the Company's future performance or the outcome of litigation. Assumptions used by the Company to develop forward-looking statements include the following: the Pebble Project will obtain all required environmental and other permits and all land use and other licenses, studies and development of the Pebble Project will continue to be positive, and no geological or technical problems will occur. The likelihood of future mining at the Pebble Project is subject to a large number of risks and will require achievement of a number of technical, economic and legal objectives, including obtaining necessary mining and construction permits, approvals, licenses and title, the final outcome of any litigation, completion of pre-feasibility and final feasibility studies, preparation of all necessary engineering for open pit and underground workings and processing facilities as well as receipt of significant additional financing to fund these objectives as well as funding mine construction and overcoming any potential delays due to third party opposition and changes in government policies regarding mining and natural resource exploration and exploitation. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. For more information on the Company, investors should review the Company's continuous disclosure filings that are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

For more information on the Company, investors should review the Company's Form 40-F filing with the United States Securities and Exchange Commission (the "SEC") at [www.sec.gov](http://www.sec.gov) and its annual information form and home jurisdiction filings that are available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

**Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources**

This report 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**

This report 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 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 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 interests in mining claims on State of Alaska land in southwest Alaska, USA ("US" or "America"). These claims are part of or in the vicinity of the Pebble Copper-Gold-Molybdenum Project (the "Pebble Project"). The Pebble Project is an advanced, pre-development stage initiative to develop one of the world's most important mineral resources when measured by aggregate contained metals.

As at September 30, 2014, Northern Dynasty has \$7.3 million in cash and cash equivalents for its operating requirements. The Company is currently seeking to source significant additional financing and 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, may include any of, or a combination of: debt, equity and/or contributions from possible new Pebble Project participants. Additional financing will be required to progress any material work programs at the Pebble Project. There can be no assurances that the Company will be successful in obtaining additional financing. If the Company is unable to raise the necessary capital resources to meet obligations as they come due, the Company will at some point have to reduce or curtail its operations.

### **1.2.1 Pebble Project**

The Pebble property ("Pebble") is 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. Situated approximately 1,000 feet above sea-level and 65 miles from tidewater on Cook Inlet, the site conditions are favorable for sound mine site and infrastructure development.

Mineralization indicating the presence of the Pebble deposit was discovered in 1987 by a prior operator. By 1997 an initial outline of a deposit of copper, gold and molybdenum had been identified.

Since 2001, Northern Dynasty has explored the Pebble deposit and surrounding property. The Company carried out this work directly to mid-2007 and since that time through the Pebble Limited Partnership (the "Pebble Partnership"). A wholly-owned subsidiary of Anglo American plc participated in the Pebble Partnership from mid-2007 to late 2013, and provided approximately \$595 million (US\$573 million) in funding to advance the Pebble Project. Northern Dynasty currently holds a 100% interest in the Pebble Partnership.

Work at Pebble has led to an overall expansion of the Pebble deposit, as well as the discovery of another porphyry copper-gold-molybdenum deposit, a porphyry copper zone, a gold-copper skarn occurrence, and

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

gold showings along the extensive northeast-trending mineralized system underlying the property. The most recent estimate of the mineral resources in the Pebble deposit was announced in February 2010, which at a 0.30% copper equivalent (CuEQ)<sup>1</sup> cut-off comprises:

- 5.94 billion tonnes of Measured and Indicated Mineral Resources grading 0.42% copper, 0.35 g/t gold and 250 ppm molybdenum (0.78% CuEQ), containing 55 billion pounds of copper, 67 million ounces of gold, and 3.3 billion pounds of molybdenum; and
- 4.84 billion tonnes of Inferred Mineral Resources grading 0.24% copper, 0.26 g/t gold and 215 ppm molybdenum (0.53% CuEQ), containing 25.6 billion pounds of copper, 40.4 million ounces of gold, and 2.3 billion pounds of molybdenum.

Engineering, environmental and socioeconomic studies and data collection programs designed to advance the project toward feasibility began in 2004. Extensive environmental baseline data has been collected with close and ongoing attention given to designing and planning 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 Environmental Baseline Document ("EBD") for the Pebble Project. It contains more than 27,000 pages of scientific data and analyses, characterizing 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 primarily based on research undertaken between 2004 and 2008, although baseline data collecting and monitoring has continued. Public and expert review of the EBD was facilitated under the Keystone initiative (see further details in section 1.2.1.3 below). Compilation of 2009 to 2013 environmental baseline data reports as well as reports that analyze the results of the baseline studies will be completed so that it can be shared with state/federal agencies and the public as part of the future permitting process. The EBD study is available at [www.pebbleresearch.com](http://www.pebbleresearch.com).

An active program of stakeholder outreach has been undertaken at Pebble. Through 2013, these activities 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 was 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 continues in 2014, although at a reduced scale commensurate with other project activities.

In light of more recent stakeholder and regulatory feedback, Northern Dynasty initiated a comprehensive review of previous analyses of the Pebble Project in late 2013. Current studies of the Pebble Project are investigating new infrastructure plans as well as lower throughput rates in a revised project development concept.

---

<sup>1</sup> Mineral resources at February 2010 estimated within a volume or shell defined by long-term metal price estimates of US\$2.50/lb copper, US\$900/oz gold and US\$25/lb molybdenum. M+I include 527 million tonnes in the measured category grading 0.33% copper, 0.35 g/t gold and 178 ppm molybdenum and 5,414 million tonnes in the indicated category grading 0.43% copper, 0.35 g/t gold and 257 ppm molybdenum. Copper equivalent calculations used metal prices of US\$1.85/lb for copper, US\$902/oz for gold and US\$12.50/lb for molybdenum, and metallurgical recoveries of 85% for copper, 69.6% for gold, and 77.8% for molybdenum in the Pebble West area and 89.3% for copper, 76.8% for gold, 83.7% for molybdenum in the Pebble East area. The qualified person for the estimate is David Gaunt, P.Geo., who is not independent of Northern Dynasty.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

### **1.2.1.1 Technical Programs**

The Company's priority goals in 2014 are to address the 404(c) regulatory process under the Clean Water Act initiated by US Environmental Protection Agency (the "EPA"), to move forward with environmental planning and project design work and to seek one or more potential joint venture or other partners to join the Pebble Project. On September 24, 2014, the US Federal Court in Alaska released an order recognizing that the EPA has voluntarily agreed not to advance the 404(c) process until at least January 2, 2015.

Northern Dynasty has consolidated all of the technical data, engineering work and permitting documentation related to the Pebble Project into a data room to facilitate due diligence reviews by interested parties. The Company will also continue its review of the project and advance engineering and environmental studies, as well as regulatory documentation, to prepare for federal and state permitting under the National Environmental Policy Act ("NEPA"). A final decision on formal permit application timing depends on factors such as completion of technical assessments, interaction with regulatory agencies and involvement of potential project partners, and would be made by the Northern Dynasty and Pebble Mines Corp. boards.

### **Engineering**

Engineering activities are currently directed toward an overall review of the Pebble Project. In this review, Northern Dynasty is analyzing open pit and process plant designs, associated infrastructure options and alternative options for the transportation infrastructure and power plant. Included in the analysis is an assessment of the project throughput capacity.

### **Environmental and Socioeconomic**

#### *Environmental Baseline Document ("EBD")*

The EBD discussed above provides information and analysis on baseline physical, chemical, biological and social conditions based upon data collection by the Pebble Partnership environmental study team from 2004 to 2008. Its purpose is to provide the public, regulatory agencies and the Pebble Partnership with a detailed compendium of pre-development environmental and socioeconomic conditions in the project area.

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. This work is ongoing.

The compilation of environmental studies undertaken in support of mine development is more commonly presented to regulatory agencies as part of a broader permitting package, which includes a Project Description. The Pebble EBD was released in advance in order to provide stakeholders with additional time to review the substantial documentation in advance of project permitting.

The Pebble Partnership 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. A series of public presentations was also coordinated in more than 20 communities throughout southwest Alaska and elsewhere around the State to present the EBD findings. These presentations involved several of the authors of the document.

Work toward completion of a Project Description for the Pebble Project advanced in 2013. The Pebble Partnership expects to be in a position to initiate federal and state permitting under the NEPA in 2014, although a final determination on permit timing has not yet been made.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

Field activities in 2014 are substantially reduced over previous years. Selected environmental monitoring programs continue in 2014, and compilation of baseline data collected from 2009 to 2013 is underway.

#### *Cultural Resource Studies*

Cultural resource studies have been carried out by the Pebble Partnership on all areas that might be affected by the Pebble Project, with the exception of possible locations of transportation infrastructure. Examination of the potential transportation infrastructure sites will be undertaken once a decision is made regarding the exact location of these project features.

#### *Employment and Workforce Development*

The Pebble Partnership has been one of the most important private sector employers in southwest Alaska for several years, and has implemented employee training and workforce development initiatives such as training in the areas of equipment operations, health, safety and environment for its site programs. Local employment at Pebble in 2014 is substantially reduced commensurate with the scale of field activities this year. However, the Pebble Partnership has maintained partnerships and commercial relationships with a number of Alaska Native village corporations in the Pebble Project area.

#### **Community Engagement**

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

1. The *Pebble Fund for Sustainable Bristol Bay Fisheries & Communities* – Established in 2008 with a five-year, US\$5 million commitment, with the goal of enhancing the health and sustainability of regional fisheries and the communities they support. Grants are determined based on criteria and selections made by an advisory board comprised of citizens from communities throughout the Bristol Bay region. The Pebble Fund concluded its 5-year commitment at the end of 2012. The Pebble Partnership continued a smaller-scale program and approved US\$500,000 for 2013.

The Bristol Bay Marketplace Business Idea Competition for residents of Bristol Bay communities was introduced in 2011. The competition, sponsored by the Pebble Partnership and the Pebble Fund, provides the opportunity for local entrepreneurs to compete for funding to start or expand Bristol Bay-based businesses. The Bristol Bay Marketplace Business Idea Competition continues, with the most recent round of grants awarded in the spring of 2014.

2. An independent stakeholder dialogue process concerning the Pebble Project was initiated in late 2010 by the Keystone Center – a non-profit organization specializing in facilitating stakeholder-driven consultation processes concerning contentious, science-based issues. Independent Science Panel ("ISP") events, consisting of respected experts in a range of technical, scientific and sociological fields, were assembled to review environmental and socioeconomic data compiled by the Pebble Partnership for the purpose of project engineering and permitting, while providing expert insight to Pebble Project stakeholders. The process was designed to address: geology and geochemistry; hydrology and water quality; fish, wildlife and habitat; and social, economic and cultural dynamics. Four ISP events were held in October 2012 and a final event, focused on Wildlife, Wetlands and Endangered Species, was held in May 2013.
3. Elders Forum - The Elders Forum is an event hosted by the Pebble Partnership to foster meaningful dialogue and provide updated information on the Pebble Project to Native elders from communities throughout the Bristol Bay region. The fifth annual Elders Forum was held in August 2013, and involved over 200 attendees representing 22 of the 31 in-region communities.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

In addition, an Elders Advisory Committee comprised of 10 members representing eight sub-regions within Bristol Bay works directly with the Pebble Partnership to outline community concerns pertaining to mining and potential impacts on subsistence ways of life. The committee has participated in mine tours, Pebble site tours and educational meetings and conferences in order to share information regarding modern mining with their communities.

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**

##### **i) Nunamta Aulukestai**

In October 2011, a lawsuit filed in July 2009 by the Trustees for Alaska (an environmental law firm) on behalf of Nunamta Aulukestai – an organization established and funded to oppose development of the Pebble Project - was rejected by the Anchorage Superior Court. The lawsuit alleged that the Alaska Department of Natural Resources had violated the state constitution by granting exploration and temporary water use permits to the Pebble Partnership, and exploration activities had caused harm to vegetation, water, fish and wildlife. The Pebble Partnership actively participated in the trial proceedings after being granted intervener status. Superior Court Judge Aarseth denied each of the allegations made by Nunamta Aulukestai, and ruled that no evidence of environmental harm was presented. The plaintiffs have filed an appeal that is now pending before the Alaska Supreme Court.

##### **ii) Lake and Peninsula Borough**

In November 2011, by a narrow 280 – 246 (53% – 47%) margin, voters in southwest Alaska's Lake & Peninsula Borough approved a ballot measure sponsored by anti-Pebble activists that proposed to restrict future development that affects more than one square mile of land within the 31,000 square mile borough. The initiative was opposed by a broad spectrum of Alaska interests, including a group of four Alaska Native village corporations representing seven Lake & Peninsula Borough communities whose private land holdings would be affected by the ordinance, the State of Alaska and the Pebble Partnership. It was also opposed by the Resource Development Council for Alaska, the Alaska State Chamber of Commerce, the Alaska Miners Association, Council of Alaska Producers, the Alaska Oil and Gas Association and the Alaska Industry Support Alliance, among others.

The Pebble Partnership and the State of Alaska filed legal challenges to the ballot initiative in the Alaska Superior Court, and on March 19, 2014 the court issued a permanent injunction barring the law from going into effect. The court ruled in favor of the Pebble Partnership, agreeing that the Alaska constitution and Alaska statutes preempted local governments from interfering with resource development on State lands. The ballot sponsors have appealed to the Alaska Supreme Court.

##### **iii) Renewable Resources Coalition**

An environmental group, Renewable Resources Coalition ("RRC"), filed a lawsuit against the Pebble Partnership and others in Superior Court in California. The lawsuit follows a complaint that Pebble Partnership filed with the Alaska Public Offices Commission in 2009 which alleged that RRC and others had engaged in illegal conduct during the course of a ballot initiative campaign in 2008. During the quarter, the parties settled.

##### **iv) Bristol Bay Watershed Assessment and Environmental Protection Agency**

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



**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

Kvichak area drainages. Reportedly, this process was 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 Clean Water Act to prohibit discharges of dredged or fill material in waters of the US within these drainages; however, evidence exists that EPA may have been considering a Section 404(c) veto of the Pebble Project 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 a proponent, 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 – it is 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.

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 on the watershed assessment until such time as a definitive proposal for the development of the Pebble deposit is submitted into the rigorous NEPA process.

Concerns about the reasonableness of the basis of risk assessment in the draft EPA report were stated by many of the independent experts on the peer review panel assembled to review the BBWA 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*". The full peer review report can be found at: <http://www.epa.gov/ncea/pdfs/bristolbay/Final-Peer-Review-Report-Bristol-Bay.pdf>.

"The authors have attempted to develop a hypothetical mine and attempted to assess possible environmental effects associated with mine development, operation, and closure," said Dr. William Stubblefield, a senior professor at Oregon State University and an expert in environmental toxicology. "Although interesting, the potential reality of the assessment is somewhat questionable. It is also unclear why EPA undertook this evaluation, given that a more realistic assessment could probably have been conducted once an actual mine was proposed and greater detail about operational parameters available."

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. For additional information on Northern Dynasty's submission to the EPA and the Company's critique of the BBWA report, see <http://www.northerndynastyminerals.com/ndm/BristolBay.asp>.

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 process under the Clean Water Act to consider restriction or a prohibition on mining activities associated with the Pebble deposit in order to

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

protect aquatic resources in southwest Alaska. In late April 2014, the Pebble Partnership submitted a comprehensive response to the EPA's February 28, 2014 letter.

In late May 2014, the Pebble Partnership filed suit in the U.S. District Court for Alaska seeking an injunction to halt the regulatory process initiated by the EPA under the Clean Water Act, asserting that, in the absence of a permit application, the process 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 (the "plaintiffs"). On September 26, 2014, U.S. federal court in Alaska granted 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 has also appealed the decision to grant the motion to dismiss to the 9th Circuit Court of Appeals.

On July 18, 2014, EPA Region 10 announced a 'Proposed Determination' to restrict all discharge of dredged or fill material associated with mining the Pebble deposit in a 268 square mile area should that disposal result in any of the following: loss of five or more miles of streams with documented salmon occurrence; loss of 19 or more miles of streams where salmon are not documented but that are tributaries of streams with documented salmon occurrence; the loss of 1,100 or more acres of wetlands, lakes, and ponds that connect with streams with documented salmon occurrence or tributaries of those streams; and stream flow alterations greater than 20 percent of daily flow in nine or more linear miles of streams with documented salmon occurrence. Northern Dynasty management 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 submission of a detailed development plan and its thorough review by federal and state agencies including review under NEPA.

On August 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 unsupported by the administrative record as established by the Bristol Bay Assessment, and is therefore arbitrary and capricious.

On September 24, 2014, U.S. federal court in Alaska released an order recognizing that EPA has agreed not to take the next step to advance its Clean Water Act Section 404(c) regulatory process with respect to southwest Alaska's Pebble Project until at least January 2, 2015. This ruling is associated with the Pebble Partnership's case of pending litigation in U.S federal court that charges that the EPA has not complied with the Federal Advisory Committee Act (FACA) in preparing the Bristol Bay Assessment study, upon which the Section 404(c) regulatory process is largely based. The Pebble Partnership is seeking a Preliminary Injunction (PI) in the U.S. federal court in Alaska; a decision on the PI is expected in December 2014.

Northern Dynasty has submitted six letters to the EPA Inspector General since January 2014 raising serious issues of bias, process irregularities and collusion with environmental organizations in the EPA's preparation of the Bristol Bay Watershed Assessment. In response to congressional and other requests, on May 5, 2014, the Office of the Inspector General ("IG") of the EPA announced that it will investigate the EPA's conduct in preparing '*An Assessment of Potential Mining Impacts on Salmon Ecosystems of Bristol Bay, Alaska*'. A team of IG investigators is now in place and a full investigation is underway "to determine whether the EPA adhered to laws, regulations, policies and procedures in developing its assessment of potential mining impacts in Bristol Bay, Alaska."

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

**1.2.2 Other Properties**

***U5 Resources Inc.***

Northern Dynasty through its subsidiary, U5 Resources Inc., holds 294 claims covering approximately 73.5 square miles located north and northwest of claims held directly by the Pebble Partnership.

**1.2.3 Market Trends**

Copper prices increased in the first half of 2008, but declined in late 2008 and early 2009, steadily increased until late 2011. From that time to the end of June 2014, prices have been variable and weakened overall. The recent closing price is US\$3.06/lb.

Although gold prices have dropped from time to time, the average annual price steadily increased from 2008 to 2012. Gold prices trended lower in 2013, and have been variable but weakened overall in 2014. The recent closing price is US\$1,162/oz.

Molybdenum prices have been more volatile than gold or copper, rising until the latter part of 2008, when they dropped significantly. This decrease continued until May 2009. Prices improved but were variable in 2010 and 2011. Prices were variable in 2013, and then began an uptrend that extended through the end of June 2014. Prices have weakened since that time with a recent closing price of US\$9.53/lb.

Average annual prices as well as the average prices so far in 2014 for copper, gold and molybdenum are shown in the table below:

Year	Average metal price		
	Copper US\$/lb	Gold US\$/oz	Molybdenum US\$/lb
2008	3.16	871	29.70
2009	2.34	974	11.29
2010	3.42	1,228	15.87
2011	4.00	1,572	15.41
2012	3.61	1,669	12.81
2013	3.32	1,410	10.40
2014 (to the date of this MD&A)	3.14	1,276	11.91

Source: LME Official Cash Price as provided at [www.metalprices.com](http://www.metalprices.com)

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

**1.3 Selected Annual Information**

Not required for 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.

<b>Statements of Financial Position</b>	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012
Investment in PLP <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ -	\$102,870	\$105,017	\$101,443	\$ 99,336
Mineral property, plant & equipment	119,409	113,830	117,969	108,050	1,055	1,055	1,055	1,055
Current assets	9,825	15,018	21,117	33,734	28,044	29,693	30,817	32,543
<b>Total assets</b>	<b>129,234</b>	<b>128,848</b>	<b>139,086</b>	<b>141,784</b>	<b>131,969</b>	<b>135,765</b>	<b>133,315</b>	<b>132,934</b>
Equity	121,729	121,631	131,967	133,928	127,859	131,629	129,456	128,893
Deferred income tax ("DIT")	2,691	3,677	3,785	3,803	3,760	3,839	3,709	3,632
Current liabilities	4,814	3,540	3,334	4,053	350	297	150	409
<b>Total shareholders' equity and liabilities</b>	<b>129,234</b>	<b>128,848</b>	<b>139,086</b>	<b>141,784</b>	<b>131,969</b>	<b>135,765</b>	<b>133,315</b>	<b>132,934</b>
Working capital	5,011	11,478	17,783	29,681	27,694	29,396	30,667	32,134
<b>Comprehensive Loss (Income)</b>								
<b>Expenses</b>								
Exploration and evaluation	2,436	2,952	4,028	1,076	270	246	399	663
General and administrative	4,077	3,431	2,825	1,810	1,552	1,495	1,388	2,076
Share-based compensation	557	699	2,099	-	-	217	424	486
Loss from operating activities	7,070	7,082	8,952	2,886	1,822	1,958	2,211	3,225
Exchange loss (gain)	19	(55)	(230)	(183)	114	(175)	(96)	(48)
Interest income	(15)	(48)	(241)	(413)	(234)	(265)	(224)	(233)
Gain on discontinuance of equity method <sup>(1)</sup>	-	-	-	(5,062)	-	-	-	-
Loss (income) before tax	7,074	6,979	8,481	(2,772)	1,702	1,518	1,891	2,944
DIT (recovery) expense	(986)	(108)	(18)	184	-	-	-	2
<b>Loss (income) for the quarter</b>	<b>6,088</b>	<b>6,871</b>	<b>8,463</b>	<b>(2,588)</b>	<b>1,702</b>	<b>1,518</b>	<b>1,891</b>	<b>2,946</b>
Foreign exchange translation difference	(5,629)	4,164	(4,403)	(3,340)	2,147	(3,574)	(2,107)	(1,168)
Deferred income tax	-	-	-	-	(79)	130	77	41
Reversal of DIT	-	-	-	(141)	-	-	-	-
<b>Comprehensive loss (income)</b>	<b>459</b>	<b>11,035</b>	<b>\$ 4,060</b>	<b>\$ (6,069)</b>	<b>\$ 3,770</b>	<b>\$ (1,926)</b>	<b>\$ (139)</b>	<b>\$ 1,819</b>
Basic and diluted loss (income) per common share	\$ 0.06	\$ 0.07	\$ 0.09	\$ (0.03)	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.03

<sup>(1)</sup> Pebble Limited Partnership. Prior to Q4 of 2013, the Company held 50% joint control of PLP under a joint venture arrangement and accounted for the investment using the equity method. In Q4 of 2013, the Company obtained 100% control.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

**Discussion of Quarterly Trends**

Exploration and evaluation expenses ("E&E expenses") were approximately \$0.7 million for Q4 of 2012 as the Company was completing its technical studies subsequent to the issuance of the 2011 Preliminary Assessment ("2011 PA"). From Q4 of 2012 through Q3 of 2013, E&E expenses trended lower due to the completion of work related to the technical studies. In Q4 of 2013, additional costs were incurred as a result of the withdrawal of Anglo American from the Pebble Partnership and the Company consolidating the Pebble Partnership from December 10, 2013 onwards. In Q1 of 2014, E&E expenses increased as the Company commenced funding of evaluation related work on the Pebble Project and incurred E&E expenses relating to technical work on an update to the 2011 PA. In Q2 and Q3 of 2014 E&E expenses decreased as the Company focused on the work program at Pebble (discussed in Section [1.2.1.1 Technical Programs](#)).

General and administrative expenses ("G&A") have fluctuated based on the level of corporate activities undertaken. In 2012, the Company retained US political and scientific advisors to assist, represent the Company and evaluate the EPA's draft Bristol Bay Watershed Assessment report (refer Section [1.2.1.2 Legal Matters](#)). In 2013, G&A trended lower until Q4 2013, when the added costs associated with the management and administration of the Pebble Partnership was borne by the Company as a result of Anglo American's withdrawal from the Pebble Partnership. In 2014, G&A was higher per quarter due to the inclusion of the management and administration of the Pebble Partnership and additional cost associated with ongoing activities around the EPA's initiatives as discussed in Section [1.2.1.2 Legal Matters](#).

Share-based compensation expense ("SBC") has fluctuated due to the timing of share purchase option grants and the vesting periods associated with these grants. The fair value of share purchase options ("options") is determined at the grant date and the SBC for each tranche is recognized over the period during which the options vest. The Company granted 2.2 million options in Q2 of 2012 with an estimated fair value of \$0.87 per option. In 2013, no options were granted and the remaining unamortized SBC was recognized in Q1 and Q2 of 2013. All outstanding options were fully vested by the end of Q2 of 2013. In Q1 of 2014, the Company granted 4.5 million options with an estimated weighted average fair value of \$0.85 per option. In Q2 of 2014, a further 1.2 million options were granted with an estimated weighted average fair value of \$0.47 per option. In the current quarter of 2014, the Company granted 200,000 options with an estimated weighted average fair value of \$0.39 per option. The increase in SBC in 2014 as compared to 2013 reflects these grants.

The functional currency of the Pebble Partnership and U5 Resources Inc. is the US dollar. Exchange differences arising from the translation of these entities into the Company's presentation currency are taken directly to the foreign currency translation reserve through other comprehensive income or loss. The Company has recorded translation gains in six quarters as a result of depreciation of the Canadian dollar relative to the US dollar and losses in three quarters as a result of the appreciation of the Canadian dollar relative to the US dollar. The following table summarizes the movement in the US dollar to the Canadian dollar and the resulting exchange differences recognized in each quarter:

Period	USD movement to CAD	CAD for 1USD		Recognized (gain) loss
		Start	End	
Q4 2012	Appreciation	\$0.98	\$0.99	\$ (1.1) million
Q1 2013	Appreciation	\$0.99	\$1.02	\$ (2.1) million
Q2 2013	Appreciation	\$1.02	\$1.05	\$ (3.6) million
Q3 2013	Depreciation	\$1.05	\$1.03	\$ 2.1 million
Q4 2013	Appreciation	\$1.03	\$1.06	\$ (3.4) million
Q1 2014	Appreciation	\$1.06	\$1.11	\$ (4.4) million
Q2 2014	Depreciation	\$1.11	\$1.07	\$ 4.2 million
Q3 2014	Appreciation	\$1.07	\$1.12	\$ (5.6) million
FY 2012	Depreciation	\$1.02	\$0.99	\$ 2.2 million
FY 2013	Appreciation	\$0.99	\$1.06	\$ (6.8) million

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

## 1.5 Results of Operations

The following financial data has been prepared in accordance with IFRS effective for the period ended September 30, 2014 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, 2014 vs. 2013

The Company recorded an increase in loss of \$4.4 million due to the increase in E&E expenses, G&A and SBC.

E&E expenses increased by \$2.2 million as the Company funded all exploration and evaluation work on the Pebble Project (discussed in Section [1.2.1.1 Technical Programs](#)). E&E expenses comprised mainly of the following during the three months ended September 30, 2014:

- engineering (2014 – \$7,000; 2013 – \$91,000);
- environmental planning and testing (2014 – \$720,000; 2013 – \$43,000);
- site activities (2014 – \$752,000; 2013 – nil); and
- socio-economic (2014 – \$920,000; 2013 – nil).

G&A increased to \$4.1 million from \$1.5 million in 2013 due to the inclusion of the Pebble Partnership's management, administration and office expenses in the Company's G&A costs and increased legal costs which were incurred in response to the EPA's activities during the quarter (see [1.2.1.2 Legal Matters](#)).

The following table provides a breakdown of G&A incurred during the three months ended September 30, 2014 and 2013, expressed in thousands of dollars:

<b>G&amp;A</b>	<b>2014</b>	<b>2013</b>
Conference and travel	\$ 76	\$ 167
Consulting	358	325
Insurance	101	86
Legal, accounting and audit	1,957	42
Office costs	295	108
Management and administration	1,093	501
Shareholder communication	178	309
Trust and filing	19	14
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 1,552</b>

SBC increased to \$0.6 million from \$nil million in 2013 due to the vesting of options granted in Q2 of 2014 and the granting of 200,000 options in Q3 of 2014 of which one third vested on grant date.

After the recognition of a recovery in deferred income tax of \$1.0 million (2013 – nil) and an exchange gain on translation of \$5.6 million (2013 – loss of \$2.1 million) (refer *Discussion of Quarterly Trends in 1.4*), the comprehensive loss for the period was \$0.5 million as compared to a comprehensive loss of \$3.8 million in 2013.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

**1.5.2 Results of Operations for the Nine Months Ended September 30, 2014 vs. 2013**

The Company recorded an increase in loss of \$16.3 million due to the increase in E&E expenses, G&A and SBC.

E&E expenses increased by \$8.5 million as the Company funded all exploration work on the Pebble Project (discussed in Section [1.2.1.1 Technical Programs](#)). E&E expenses comprised mainly of the following during the nine months ended September 30, 2014:

- engineering (2014 – \$1,303,000; 2013 – \$587,000);
- environmental planning and testing (2014 – \$1,969,000; 2013 – \$173,000);
- site activities (2014 – \$2,649,000; 2013 – nil); and
- socio-economic (2014 – \$3,255,000; 2013 – \$2,000).

G&A increased to \$10.3 million from \$4.4 million in 2013 due to the inclusion of the Pebble Partnership's management, administration and office expenses in the Company's G&A costs and increased legal costs which were incurred in response to the EPA's activities (see [1.2.1.2 Legal Matters](#)).

The following table provides a breakdown of G&A incurred during the nine months ended September 30, 2014 and 2013, expressed in thousands of dollars:

<b>G&amp;A</b>	<b>2014</b>	<b>2013</b>
Conference and travel	\$ 252	\$ 311
Consulting	523	682
Insurance	320	256
Legal, accounting and audit	3,393	61
Office costs	1,425	433
Management and administration	3,588	1,678
Shareholder communication	616	792
Trust and filing	216	222
<b>Total</b>	<b>\$ 10,333</b>	<b>\$ 4,435</b>

SBC increased to \$3.4 million from \$0.6 million in 2013 as the Company granted 5.9 million options in the current year (2013 – no options granted). In 2013, the Company recognized the remaining unamortized SBC on options that were granted in 2011 and 2012.

After the recognition of a recovery in deferred income tax of \$1.1 million (2013 – nil) and a translation exchange gain for the period of \$5.9 million (2013 – \$3.5 million) (refer *Discussion of Quarterly Trends in 1.4*), the comprehensive loss for the period was \$15.5 million as compared to a comprehensive loss of \$1.7 million in 2013.

**1.5.3 Cash Flows for the Nine Months Ended September 30, 2014 vs. 2013**

Net cash used in operations increased by \$13.6 million to \$18.8 million in 2014 due mainly to the increase in corporate and exploration related activities following Anglo American's withdrawal from the Pebble Partnership. This includes a transfer of \$0.2 million from restricted cash during the period for reimbursement of demobilization costs incurred.

The Company received \$0.2 million (2013 - \$0.4 million) in interest on cash balances and received \$0.1 million (2013 – \$nil) on sale of site equipment. As a result, the Company had a net decrease in cash of \$18.6 million (2013 – \$5.0 million) in the period.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

#### **1.5.4 Financial position as at September 30, 2014 vs. December 31, 2013**

During the nine months ended on September 30, 2014, the Company's total assets decreased by \$12.6 million, and are \$129.2 million at September 30, 2014. Mineral property, plant and equipment increased by \$11.4 million as a result of the addition of the Settlement Claims that were transferred to the Company and an exchange gain on translation (refer Notes 3 and 4 in the accompanying Interim Financial Statements). Current assets decreased by \$23.9 million due to settlement of the loan receivable and decrease in cash and cash equivalents as the Company utilized cash in its operations.

#### **1.6 Liquidity**

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. However, since 2008, inflows into the treasury have primarily been through the issue of common shares pursuant to the exercise of options. 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, 2014, Northern Dynasty has \$7.3 million in cash and cash equivalents for its operating requirements. The Company is currently seeking to source significant additional financing and 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, may include any of, or a combination of: debt, equity and/or contributions from possible new Pebble Project participants. Additional financing will be required to progress any material work programs at the Pebble Project. There can be no assurances that the Company will be successful in obtaining additional financing. If the Company is unable to raise the necessary capital resources to meet obligations as they come due, the Company will at some point have to reduce or curtail its operations.

At September 30, 2014, the Company had working capital of approximately \$5.0 million as compared to \$29.7 million at December 31, 2013. The decrease was partly due to the settlement of the loan receivable for consideration of the Settlement Claims (refer Notes 3 and 4 in the accompanying Interim Financial Statements) and the decrease in cash and cash equivalents in the ordinary course. The Company has no long term debt, capital lease obligations, operating leases or any other long term obligations other than those disclosed in the notes to Interim Financial Statements (refer Note 11, *Commitments and Contingencies* in the accompanying Interim Financial Statements).

The Company has no material "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 Company's property claims and routine office leases (refer commitments discussed above).

#### **1.7 Capital Resources**

The Company's capital resources consist of its cash reserves. As of September 30, 2014, the Company had no long term debt or commitments for material capital expenditures other than what has been disclosed in the Interim Financial Statements.

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, 2014**

---

**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.

Many of the current directors of the Company namely Scott Cousens, Robert Dickinson, Russell Hallbauer, Marchand Snyman and Ron Thiessen are active members of the HDI Board of Directors. Other key management personnel of the Company namely, 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 on SEDAR at [www.sedar.com](http://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. Such charge-out rates are agreed and set annually in advance.

Third party costs are billed at cost to the Company, 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.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

The following summarizes the transactions with HDSI expressed in thousands of dollars for the three and nine months ended September 30, 2014 and 2013:

<b>Transactions</b>	Three months ended September 30		Nine months ended September 30	
	<b>2014</b>	2013	<b>2014</b>	2013
<b>Services rendered by HDSI</b>	\$ 1,107	\$ 810	\$ 3,803	\$ 2,758
Technical	418	262	1,407	689
Engineering	117	88	472	399
Environmental	169	43	510	156
Socioeconomic	98	85	277	85
Other technical services	34	46	148	49
General and administrative	689	548	2,396	2,069
Management, financial & administration	537	548	1,896	2,069
Shareholder communication	152	-	500	-
<b>Reimbursement of third party expenses</b>	162	240	622	638
Conference and travel	32	107	166	227
Insurance	8	10	71	57
Office supplies and other	122	123	385	354
<b>Total paid by the Company</b>	<b>\$ 1,269</b>	<b>\$ 1,050</b>	<b>\$ 4,425</b>	<b>\$ 3,396</b>

### **Key Management Personnel**

The required disclosure for the remuneration of the Company's key management personnel is provided in Note 7 (a) in the Notes to Interim Financial Statements which accompany this MD&A and which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **1.10 Fourth Quarter**

Only applicable for the year end MD&A.

#### **1.11 Proposed Transactions**

There are no proposed assets 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 preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period presented and reported amounts of expenses during said reporting period. Actual outcomes may differ from these estimates. The following are specific areas where significant estimates or judgments exist:

##### **Estimates**

- i. The Company uses the Black-Scholes Option Pricing Model to calculate the fair value of options granted for determining share-based compensation included in the loss for the period. Inputs used in

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

this model require subjective assumptions including the expected price volatility from three to five years. Changes in the subjective input assumptions can affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

- ii. The Company received clear title to certain agreed mineral claims (the "Settlement Claims") as a result of the release of all liens thereon in payment of the loan receivable by the debtor (refer Note 4 in the Notes to the Interim Financial Statements). The Company has recognized the Settlement Claims in mineral property interest at the carrying value of the outstanding loan receivable on the date the mutual release was signed by the Company.
- iii. Significant assumptions about the future and other sources of estimation uncertainty are made in determining the provision for any deferred income tax expense (recovery) included in the loss for the period and the composition of deferred income tax liabilities included in the Statement of Financial Position in the Interim Financial Statements.

### ***Judgments***

- i. In terms of IFRS 6, *Exploration and Evaluation of Mineral Resources* ("IFRS 6"), the Company used judgment in determining that although there were indicators suggesting that the carrying amount of the Company's exploration and evaluation assets (which comprise the mineral property and plant and equipment) ("E&E assets") may exceed their recoverable amount, on further analysis no impairment charge was required to be recognized.
- ii. IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), defines the functional currency as the currency of the primary economic environment in which an entity operates. IAS 21 requires the determination of functional currency to be performed on an entity by entity basis, based on various primary and secondary factors. In identifying the functional currency of the parent and of its subsidiaries, Management considered the currency that mainly influences the cost of undertaking the business activities in each jurisdiction in which the Company operates.
- iii. The Company has employed judgment that going concern was still an appropriate basis for the preparation of the Interim Financial Statements. The Company is currently seeking to source significant additional financing and has prioritized the allocation of available financial resources to meet key corporate and Pebble Project expenditure requirements in the near term (refer [1.6 Liquidity](#)).

#### **1.12.1 Mineral Resources and Carrying Value of the Company's Mineral Property Interest**

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

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

### **1.12.2 Impairment Analysis of Assets**

At the end of each reporting period, the carrying amounts of the Company's assets, which currently consist largely of its E&E assets, are reviewed to determine whether there is any indication that these assets are impaired. The Company determined that with respect to its E&E assets, as per IFRS 6, there were two related indicators suggesting that the recoverable amount of the Company's E&E assets may be less than the carrying amount and so further analysis was performed including impairment testing of the Company's E&E assets under IAS 36, *Impairment of Assets*. Based on this analysis, no impairment charge was required to be made at September 30, 2014.

Recoverability of the carrying amount of the mineral property is dependent on successful development and commercial exploitation or, alternatively, sale thereof.

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

### **1.12.3 Restoration, Rehabilitation, and Environmental Obligations**

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using pre-tax rates that reflect the time value of money are used to calculate the net present value of restoration, rehabilitation and environmental costs. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds, creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations or changes in estimates used in determining restoration and rehabilitation obligations. Both the likelihood of new regulations or degree of changes in estimates and their overall effect upon the Company are not predictable.

At September 30, 2014, the Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is minimal.

### **1.12.4 Share-based Compensation Expense**

As indicated in 1.12 (i) the Company uses the Black-Scholes option pricing model to estimate the fair value of options granted by its Board of Directors to directors, employees and service providers. Changes in any of the inputs in the model, such as expected volatility, expected life to exercise and interest rates, could cause a significant change in SBC charged in a period. Total SBC recognized in the period relates to: (i) the immediate vesting of one tranche and (ii) amortization of the SBC on tranches still vesting. Further discussion on the

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

estimation of fair value and assumptions used can be found in Note 6(b) in the Interim Financial Statements which accompany this MD&A.

#### **1.12.5 Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the statements of financial position and their corresponding tax values, generally using the substantively enacted or enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource-related pools and other deductions. A deferred tax asset is only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

#### **1.13 Changes in Accounting Policies including Initial Adoption**

##### ***Accounting Standards, Amendments and Revised Standards Adopted***

The Company adopted a number of new and revised standards and amendments that became effective on January 1, 2014 which are discussed in Note 2 in the Notes to the Interim Financial Statements which accompany this MD&A.

##### ***Accounting Standards, Amendments and Revised Standards Not Yet Effective***

The Company has disclosed information and potential impact thereof in Note 2 in the Notes to the Interim Financial Statements which accompany this MD&A.

#### **1.14 Financial Instruments and Other Instruments**

The Company has no derivative financial assets or liabilities.

##### **1.14.1 Non-derivative financial assets:**

The Company has the following non-derivative financial assets: available-for-sale financial assets and loans and receivables.

##### ***Available-for-sale ("AFS") financial assets***

The Company has marketable securities which are classified as AFS financial assets and are measured at fair value with changes therein, other than impairment losses recognized in other comprehensive income or loss. At the reporting date these securities had a nominal value.

##### ***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables currently comprise (i) amounts receivable, and (ii) cash and cash equivalents and restricted cash (see below).

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

***Cash and cash equivalents and restricted cash***

Cash and cash equivalents and restricted cash in the statement of financial position comprise cash and investments held at major financial institutions that are readily convertible into a known amount of cash and which are only subject to an insignificant risk of change in value, and are measured at amortized cost.

The Company's cash and cash equivalents and restricted cash are invested in business and savings accounts and guaranteed investment certificates which are available on demand by the Company.

**1.14.2 Non-derivative financial liabilities:**

The Company has the following non-derivative financial liabilities: trade and other payables and a payable to a related party.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

**1.14.3 Financial Risk Management**

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, which include any amounts receivable from related parties and included until recently a loan receivable which was extinguished in March 2014 (refer Note 4 in the Notes to the Interim Financial Statements). 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 nine months ended September 30, 2014. Management has also concluded that there is no objective evidence of impairment to its amounts receivable.

***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. There has been no change in the Company's objectives and policies for managing this risk. The Company's liquidity position 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 loan receivable, which was extinguished in March 2014, was denominated in US dollars; the Pebble Partnership has a US dollar functional currency; and certain of the Company's corporate expenses are incurred in US dollars. As the Company's functional and presentation currency is the Canadian dollar, the fluctuation of the US dollar in relation to the Canadian dollar will consequently have an impact upon the losses incurred by the Company as well as the value of the Company's assets and total shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

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 financial assets exposed to foreign exchange risk, and there was no significant change to the Company's exposure to foreign exchange risk during the nine months ended September 30, 2014.

***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 nine months ended September 30, 2014.

***Commodity price risk***

While the value of the Company's core mineral resource property, 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 consists of equity, comprising share capital, net of accumulated deficit.

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

**1.15 Other MD&A Requirements**

Additional information relating to the Company, including the Company's Annual Information Form, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**1.15.1 Disclosure of Outstanding Share Data**

The capital structure of the Company is shown in the following table:

Common shares issued and outstanding As of November 13, 2014	95,009,864
Share purchase options – as of November 13, 2014 (Weighted average exercise price per share: \$1.95)	7,714,500

**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

**Northern Dynasty Minerals Ltd.**  
**Management's Discussion And Analysis**  
**Three and nine months ended September 30, 2014**

---

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 Chief Executive Officer ("CEO") and the Chief Financial Officer ("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.

### **1.15.4 Changes in Internal Control over Financial Reporting**

There has been no change in the design of 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.

### **1.15.6 Risk Factors**

Please refer to "Risk Factors" under **Item 5** in the Company's **2013 Annual Information Form** filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) for a detailed discussion. The Company's Form 40-F which is filed with the SEC on EDGAR at [www.sec.gov.com](http://www.sec.gov.com) also discusses certain risk factors.