

# NORTHERN DYNASTY MINERALS LTD.

## The Dust Has Settled; Re-Instating Speculative Buy Rating

### EVENT

We placed our target and rating on Northern Dynasty Under Review on August 23 after various news outlets broke highly conflicting reports on the permitting review process for the Pebble project (note [here](#)). Since that date, NAK shares have traded wildly, initially down 59%, but rebounding sharply in recent days, up 66% off the lows.

### BOTTOM LINE

**Mixed** – Over the last two weeks, the U.S. Army Corps of Engineers (USACOE) has provided more clarity on its August 20<sup>th</sup> letter (link [here](#)), Alaska Governor Mr. Mike Dunleavy penned an op-ed decrying political interference in the Pebble permitting process (link [here](#)), and we have had several discussions with Northern Dynasty management. We are reinstating our Speculative Buy rating on the Company, but at a lower target price of \$2.00/C\$2.50/share.

### FOCUS POINTS

- **The Next Steps** – Northern Dynasty will submit the required compensatory mitigation plan in 4-6 weeks, well within the 90-day window.
- **“In Kind” Compensatory Mitigation** – Our initial reaction (note [here](#)) was that the cost of mitigation would likely be extremely punitive. We were incorrect in this view as the request for “in kind” mitigation does not involve direct payments for wetlands disturbance.
- **Timeline Update** – Despite all the wild “noise” over the last two weeks, the permitting process is continuing at Pebble with the USACOE. However, with the request for compensatory mitigation, the timeline for completion of a Record of Decision (ROD) will likely be extended beyond the U.S. Presidential election in November (Cantor view).

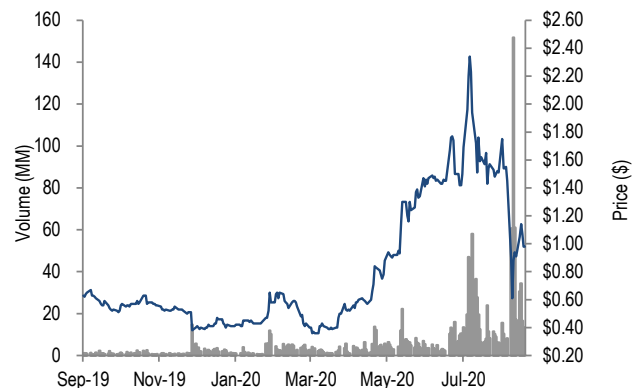
### Recommendation:

### Speculative BUY

Symbol/Exchange: NAK/NYSE, NDM/TSX  
Sector: Metals & Mining  
*All dollar values in US\$ unless otherwise noted.*  
Current price: \$0.98, C\$1.30  
One-year target: \$2.00, C\$2.50  
Return to Target: 104%  
Cash on hand: \$54.6 MM

### Financial summary

|                       |               |                       |                 |                |                |
|-----------------------|---------------|-----------------------|-----------------|----------------|----------------|
| Shares O/S (M)        | 506.6         | 52-week range         | \$0.35 - \$2.49 |                |                |
| Market cap (\$M)      | \$496         | Avg. daily vol. (000) | 16,319.3        |                |                |
| Market float (\$M)    | \$447         | Fiscal year-end       | 31-Dec          |                |                |
| <b>Pebble</b>         | <b>MMt</b>    | <b>% Cu</b>           | <b>g/T Au</b>   | <b>BBib Cu</b> | <b>MMoz Au</b> |
| P&P                   | -             | -                     | -               | -              | -              |
| M&I (incl. P&P)       | 6,456         | 0.40%                 | 0.34            | 56.9           | 70.6           |
| Inferred              | 4,454         | 0.25%                 | 0.25            | 24.5           | 35.8           |
| <b>Total Resource</b> | <b>10,910</b> | <b>0.34%</b>          | <b>0.30</b>     | <b>81.5</b>    | <b>106.4</b>   |



**Company profile:** Northern Dynasty's 100%-owned Pebble project in Alaska is the world's largest undeveloped Cu-Au project. NAK/NDM is attempting to find a JV-partner and advance Pebble through permitting.

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See disclosure and a description of our recommendation structure at the end of this report.

## THE DUST HAS SETTLED FOR NOW

Our initial fear over the August 23/24 period (notes linked [here](#) and [here](#)) was that the Pebble permitting process was once again, at the 11<sup>th</sup> hour, being co-opted by politics being played out at the highest levels. Social media posts and interviews given by high-profile individuals associated with the current administration in Washington added fuel to the fire. For now, it appears the fire has burned out, the dust has settled, and cooler heads have prevailed. Despite all the wild noise over the last two weeks, the Pebble project is by no means “dead” as reported by several news outlets, and the permitting process is continuing with the U.S. Army Corps of Engineers following due process.

## THE NEXT STEPS AND “IN KIND” MITIGATION

On August 20, the USACOE published a letter addressed to Pebble Limited Partnership requiring “in kind” mitigation of +3,600 acres of Alaskan wetlands (including open waters) and 185 miles of streams that would potentially be impacted by the Pebble project and its associated infrastructure. The letter is available on the USACOE Pebble Project EIS website (link [here](#)), and clearly states that Northern Dynasty/Pebble Limited Partnership have 90-days in which to submit the required compensatory mitigation plan to the Corps for review. When we first reviewed the letter, we incorrectly assumed that the compensatory mitigation would likely have an associated cost extremely punitive to Pebble’s project economics. After additional consideration, our view on this has changed. “In kind” compensatory mitigation will require Pebble Limited Partnership to rehabilitate, create, or preserve wetlands, entirely within the Kaktuli watershed (100 miles from Bristol Bay), in a ratio ranging from 1:1 to 10:1 for every acre of wetlands affected by the project. Under a worst case scenario, this would require the Company to identify and preserve 28,250 acres of wetlands (10:1) *elsewhere* in the Kaktuli watershed, *outside* of the proposed Pebble mining area. Once identified, the act of preserving this area is satisfied by obtaining a “preservation order” from the State of Alaska that would designate the 28,250 acres of wetlands, outside of the proposed Pebble mining area, for hunting and fishing only (no logging or mineral development).

## TIMELINE UPDATE

We have no doubt that Pebble will have a comprehensive mitigation plan complete and delivered to the USACOE well within the 90-day deadline (Cantor estimate 4-6 weeks). What is uncertain is how long the Corps will then take to review Pebble’s proposed mitigation plan and make a decision on it, which must be done prior to the issuance of an unconditional ROD. While compensatory mitigation is unlikely to add any significant *cost* to the Pebble project, given that it will be “in kind” as opposed to “out of kind”, it will add critical *time* to the permitting process, at its crucial final stages. We hold the view that with the request for compensatory mitigation, the timeline for completion of the ROD will likely extend beyond the U.S. Presidential election in November.

## REINSTATING SPECULATIVE BUY RATING

For well over a decade Northern Dynasty has sought nothing more than access to apolitical science-based permitting under well-established NEPA/LEDPA guidelines, and on July 24 of this year, the USACOE delivered an overwhelmingly positive Final Environmental Impact Statement (EIS) on Pebble in co-operation with eight Federal agencies, three State agencies, the Lake & Peninsula Borough,

and federally recognized tribes. The Final EIS clearly outlines that the Pebble project can be developed and operated in an environmentally benign and sustainable manner with no measurable impact to the Bristol Bay fisheries. The permitting process and compensatory mitigation discussions continue with the Corps, and absent political interference coming from the highest levels in Washington, DC, the Pebble project should receive a positive ROD. We are reinstating our Speculative Buy rating on the Company, but at a lower target price of \$2.00/C\$2.50/share, down from our \$3.50/C\$4.50/share target prior to placing our estimates Under Review. Our lower target price (0.75x NAVPS down from 1.00x NAVPS previously) reflects our view that the ROD timeline will likely be extended as a result of the compensatory mitigation review process. This adds additional risk, particularly if the ROD extends beyond the upcoming U.S. election, which we view as likely. For a re-cap of our investment thesis, our initiation report on Northern Dynasty is linked [here](#). We continue to believe that Pebble is a generational asset that is strategically too important to the United States not to be developed, and can be built and operated with no negative impact to Bristol Bay.

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The analysts responsible for this research report *do not have*, either directly or indirectly, a long or short position in the shares or options of Northern Dynasty Minerals Ltd.

The analyst responsible for this report *has* visited the material operations (Pebble) of Northern Dynasty Minerals Ltd. No payment or reimbursement was received for the related travel costs.

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**BUY (Speculative):** The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

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**SELL:** The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

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