

NORTHERN DYNASTY MINERALS LTD.

EPA Resolves Ambiguity, Pebble to Receive Due Process

EVENT

Yesterday, U.S. Environmental Protection Agency (“EPA”) (link [here](#)) stated that it will evaluate whether to withdraw the 2014 proposed water pollution restrictions that have effectively stalled the project.

BOTTOM LINE

Positive – The fact that the EPA will move forward with evaluating removal of the pre-emptive veto is a significant de-risking event. This will presumably help in driving the next round of financing and ultimately re-partnering. We are maintaining our Speculative Buy rating and our target price of \$1.30/C\$1.60/share.

FOCUS POINTS

- **Pebble to Receive Due Process** – The recent news release states that the Pebble project will be granted the due process that the EPA, under the Obama Administration, denied it back in 2014. The previously proposed restrictions imposed on the Project prior to any mine plan submissions will be up for review.
- **Draft EIS Looks Very Solid** – The Draft EIS in its entirety can be accessed [here](#). We reviewed the 80-page Executive Summary, and in our view, believe it concludes that the Pebble project as designed by Northern Dynasty, can and should receive all necessary Federal permits required to build and ultimately operate the mine.
- **Well-Financed for Work Programs** – Northern Dynasty recently closed a \$5 MM financing to support further work to advance the U.S. Army Corps of Engineers (“Corps”) Environmental Impact Statement (“EIS”), and on-going outreach to local communities. This news will presumably help for the next round of financing and ultimately re-partnering.

Recommendation:

Speculative BUY

Symbol/Exchange: NAK/NYSE, NDM/TSX
Sector: Metals & Mining
All dollar values in US\$ unless otherwise noted.
Current price: \$0.60; C\$0.78
One-year target: \$1.30, C\$1.60
Return to Target: 53.8%
Cash on hand: C\$26.4 MM

Financial summary

		52-week range			
Shares O/S (M)	357.8			\$0.41 - \$1.12	
Market cap (\$M)	\$215	Avg. weekly vol. (000)		428.29	
Market float (\$M)	\$184	Fiscal year-end		31-Dec	
Pebble	MMt	% Cu	g/T Au	BBib Cu	MMoz Au
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
Total Resource	10,910	0.34%	0.30	81.5	106.4



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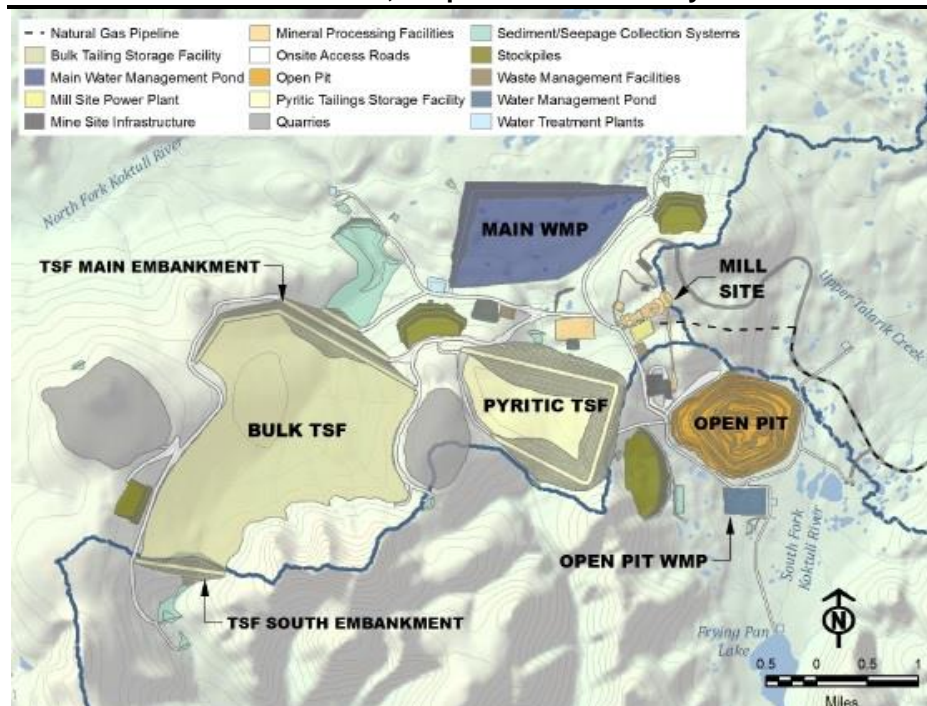
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See disclosure and a description of our recommendation structure at the end of this report.

PEBBLE TO RECEIVE DUE PROCESS

Yesterday, the EPA released news ([link here](#)) that it will resume consideration of the withdrawal of the 2014 Proposal Determination, which proposed to restrict use of the Pebble Deposit Area as a disposal site. Prior to this, U.S. EPA General Counsel Matthew Z. Leopold released a memo ([link here](#)) directing Chris Hladick, EPA Region 10 (Pacific Northwest) Administrator to resume consideration of the withdrawal. Effectively, the memo describes the low level of transparency and confusion of the arcane regulatory framework over the past five years. In July 2014, EPA Region 10 pre-emptively issued a Proposed Determination under section 404(c) of the Clean Water Act (“CWA”) to restrict use of the Pebble Deposit Area as a disposal site. Effectively, the Proposed Determination was executed without justification provided that it must be exercised in conjunction with a pending permit application for which there was none. Over the five years that followed, the EPA offered no clarity on the matter. In that time-frame, a number of events transpired that support further review of the earlier decision: a lawsuit challenging the EPA’s decision-making process and a related settlement, a permit application to the Corps, and submission of a Draft EIS (“DEIS”), which is subject to public comment until July 1, 2019. The directive issued by Mr. Leopold highlights the importance of acting in accordance with EPA member obligations in a manner that reduces ambiguity and uncertainty. Mr. Leopold continues stating that the Agency has significant new information, in conjunction with the millions of public comments previously submitted to the Agency, to inform its decision-making (mentioned above) whether to withdraw the 2014 Proposed Determination or to leave it in place.

Exhibit 1. Action Alternative 1, Proposed Mine Site Layout



Source: U.S. Army Corps of Engineers

DRAFT EIS LOOKS VERY SOLID

The +1,400-page Draft EIS in its entirety can be accessed [here](#). For the purpose of this report, we reviewed the 80-page Executive Summary. In our initial read-

through, we were unable to find anything in the Draft EIS that would impede Federal permitting of the project, or any design alternatives proposed by the Corps that would render the project sub-economic. Effectively, we believe the Draft EIS concludes that the Pebble project as designed by Northern Dynasty can and should receive all necessary Federal permits required to build and ultimately operate what will be an incredibly economic, and important mine for the State of Alaska. We note that the positive Draft EIS may support the removal of the pre-emptive 404(c) veto with the EPA. Most importantly, the filing of the DEIS, and the fact that it did not identify any new environmental concerns, or raise any new issues that cannot be mitigated, should provide added confidence to potential large-cap JV-partners for Northern Dynasty and Pebble.

THE TIMING OF RE-PARTNERING

The reality is that Pebble still needs a partner (or additional funding) to complete the Federal NEPA process, and will certainly need a partner to help fund construction. The goal of Northern Dynasty's management is to re-partner in 2019, and presumably, the EPA's recent decision to resume consideration of the withdrawal of the Proposed Determination and the positive DEIS filed by the Corps, will materially help the re-partnering process along. A re-partnering event if/when it occurs will be the single most important de-risking event for Northern Dynasty and likely the largest positive catalyst for its share price.

Exhibit 2. NAVPS Breakdown

Asset		Value (\$MM)	\$ Per Share	% of NAV
Pebble - 50%	DCF-7.5%	\$1,425.3	\$1.18	68%
Other		\$0.0	\$0.00	0%
Total Mining Assets		\$1,425.3	\$1.18	68%
Total Mining Assets (C\$)		C\$1,781.7	C\$1.48	68%
Cash (current)		\$26.4	\$0.02	1%
Cash from ITM options/warrants		\$7.9	\$0.01	0%
Cash fully financed		\$1,591.7	\$1.32	30%
Debt fully financed		(\$955.0)	(\$0.79)	
Debt (exit Q1/19)		\$0.0	\$0.00	0%
Net Asset Value, fully diluted		\$1,425.32	\$1.74	100%
Net Asset Value, fully diluted		C\$2,620.4	C\$2.17	100%
P/NAV			0.35x	

Source: Cantor Fitzgerald

MAINTAINING SPEC. BUY RATING AND TARGET

We are confident that Northern Dynasty will successfully navigate the Federal permitting process under NEPA with the Corps, and receive a positive Record of Decision ("ROD") on Pebble by mid-2020. While the company still has a long way to go as it pertains to public perception in Alaska on the Pebble project, the recent development with the EPA in conjunction with the positive DEIS completed by the Corps acting as the lead agency, is another large step in the right direction. Post completion of the Federal permitting process, Northern Dynasty will enter into permitting at the State level, and the more public support PLP has in Alaska and with the Regional Native Corporations, the better the company's prospects will be. Our NAVPS breakdown (Exhibit 2) reflects an adjustment for the equity financing completed by NAK whereby the company raised \$5.0 MM,

less applicable fees, at \$0.41/share in which Cantor Fitzgerald participated as lead underwriter. Based on a target multiple of 0.75x NAVPS, we are maintaining our Speculative Buy rating and our target of \$1.30/C\$1.60/share. This target price level is our best estimate as to where the stock is likely to trade following the removal of the pre-emptive 404(c) veto with the EPA and once Northern Dynasty secures its next round of financing to complete the Federal permitting process. If/when a re-partnership does occur, we would expect the stock to trade closer to intrinsic value (1.0x NAVPS) of \$1.74/C\$2.17/share (Exhibit 2), and potentially significantly higher, depending on the partner, and the terms of the partnership. Over the longer-term, following the ROD at the Federal level, and should State permitting advance in an objective, apolitical, science-based manner, our target price has significant room to the upside.

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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.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

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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UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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