

POLYMET MINING CORP  
Form 20-F  
April 21, 2015

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the fiscal year ended January 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

Commission file number 001-32929

**POLYMET MINING CORP.**

(Exact name of Registrant as specified in its charter)

**British Columbia, Canada**

(Jurisdiction of incorporation or organization)

**Suite 5700 100 King Street West, Toronto, Ontario M5X 1C7**

(Address of principal executive offices)

**Douglas Newby c/o Poly Met Mining Inc.**

**444 Cedar Street, Suite 2060**

**St Paul, Minnesota 55101**

**Tel: 651-389-4100**

**Fax: 651-389-4101**

**E-mail: dnewby@polymetmining.com**

(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

**Common Shares, without par value**

(Title of Class)

---

Name of each exchange on which registered

**NYSE MKT**  
**TSX**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**276,351,374**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No



## TABLE OF CONTENTS

**Part I**

<b>ITEM 1.</b>	<b><u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u></b>	<b>5</b>
<b>ITEM 2.</b>	<b><u>OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>	<b>5</b>
<b>ITEM 3.</b>	<b><u>KEY INFORMATION</u></b>	<b>5</b>
<b>ITEM 4.</b>	<b><u>INFORMATION ON THE COMPANY</u></b>	<b>13</b>
<b>ITEM 5.</b>	<b><u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>	<b>27</b>
<b>ITEM 6.</b>	<b><u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>	<b>36</b>
<b>ITEM 7.</b>	<b><u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u></b>	<b>40</b>
<b>ITEM 8.</b>	<b><u>FINANCIAL INFORMATION</u></b>	<b>44</b>
<b>ITEM 9.</b>	<b><u>THE OFFER AND LISTING</u></b>	<b>45</b>
<b>ITEM 10.</b>	<b><u>ADDITIONAL INFORMATION</u></b>	<b>46</b>
<b>ITEM 11.</b>	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u></b>	<b>56</b>
<b>ITEM 12.</b>	<b><u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></b>	<b>56</b>

**Part II**

<b>ITEM 13.</b>	<b><u>DEFAULT, DIVIDEND ARREARAGES AND DELINQUENCIES</u></b>	<b>57</b>
<b>ITEM 14.</b>	<b><u>MATERIAL MODIFICATIONS TO THE RIGHT OF SECURITY HOLDERS AND USE OF PROCEEDS</u></b>	<b>57</b>
<b>ITEM 15.</b>	<b><u>CONTROLS AND PROCEDURES</u></b>	<b>58</b>
<b>ITEM 16A.</b>	<b><u>AUDIT COMMITTEE FINANCIAL EXPERT</u></b>	<b>59</b>
<b>ITEM 16B.</b>	<b><u>CODE OF ETHICS</u></b>	<b>59</b>
<b>ITEM 16C.</b>	<b><u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>	<b>59</b>
<b>ITEM 16D.</b>	<b><u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u></b>	<b>60</b>
<b>ITEM 16E.</b>	<b><u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u></b>	<b>60</b>
<b>ITEM 16F.</b>	<b><u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u></b>	<b>60</b>
<b>ITEM 16G.</b>	<b><u>CORPORATE GOVERNANCE</u></b>	<b>60</b>
<b>ITEM 16H.</b>	<b><u>MINE SAFETY DISCLOSURE</u></b>	<b>60</b>

**Part III**

<b>ITEM 17.</b>	<b><u>FINANCIAL STATEMENTS</u></b>	<b>61</b>
<b>ITEM 18.</b>	<b><u>FINANCIAL STATEMENTS</u></b>	<b>61</b>
<b>ITEM 19.</b>	<b><u>EXHIBITS</u></b>	<b>62</b>

**Financial Statements:**

<u>Management Report</u>	<u>F-1</u>
<u>Independent Auditor's Report</u>	<u>F-2</u>
<u>Consolidated Balance Sheets</u>	<u>F-4</u>
<u>Consolidated Statements of Loss and Comprehensive Loss</u>	<u>F-5</u>

<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>F-6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-8</u>

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F (this Annual Report ) contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These statements appear in a number of different places in this Annual Report and can be identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", "projects", "plans", and similar expressions, or statements that events, conditions or results will, may, could, or should occur or be achieved or to the negatives or other comparable words. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. The statements, including the statements contained in Item 3D Risk Factors , Item 4B Business Overview , Item 5 Operating and Financial Review and Prospects and Item 11 Quantitative and Qualitative Disclosures About Market Risk , are inherently subject to a variety of risks and uncertainties that could cause actual results, performance or achievements to differ significantly. Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for our exploration and development programs, statements about future market conditions, supply and demand conditions, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. Our actual results may differ materially from those in the forward-looking statements due to risks facing us or due to actual facts differing from the assumptions underlying our predictions. Some of these risks and assumptions include:

- completion of environmental review on the expected timeframe;
- obtaining permits on a timely basis;
- our ability to raise the funds necessary to develop the NorthMet Project;
- our ability to execute prospective business plans;
- changes in the general economic and business conditions, including changes in interest rates and exchange rates;
- changes in the resources market, including prices of natural resources, costs associated with mineral exploration and development, and other economic conditions;
- natural phenomena;
- actions by government authorities, including changes in government regulation;
- uncertainties associated with legal proceedings; and
- future decisions by management in response to changing conditions.

All forward-looking statements included in this Annual Report are based on information available to us on the date of this Annual Report. We expressly disclaim any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law, rule or regulation. You should not place undue reliance on forward-looking statements. You should carefully review the cautionary statements and risk factors contained in this and other documents that we file from time to time with the Securities and Exchange Commission (the SEC ).

## NOMENCLATURE

In this Annual Report, unless the context otherwise dictates, we, our, us, PolyMet or the Company refers to PolyMet Mining Corp. and its subsidiaries.

**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not required.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not required.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data**

The following selected financial data, as at January 31, 2015, 2014, 2013, 2012, and 2011 and for the years ended January 31, 2015, 2014, 2013, 2012, and 2011 are derived from our audited consolidated financial statements included herein and filed previously. The selected financial data should be read in conjunction with Item 5 - Operating and Financial Review and Prospects, the consolidated financial statements and related notes of the Company included under Item 18 "Financial Statements" and other financial information included elsewhere in this Annual Report.

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ), effective with our transition to IFRS on February 1, 2010.

Unless otherwise indicated, all monetary amounts in this Annual Report are expressed in United States dollars, our reporting currency.

Selected Financial Data IFRS  
(\$'000s, except loss per share and weighted average shares)

	Year Ended 1/31/2015	Year Ended 1/31/2014	Year Ended 1/31/2013	Year Ended 1/31/2012	Year Ended 1/31/2011
Operating Revenues	\$	\$	\$	\$	\$
Income (loss) from Operations	\$	\$	\$	\$	\$
Net Loss	\$ (7,276)	\$ (8,132)	\$ (6,626)	\$ (3,045)	\$ (6,662)
Basic & Diluted Loss Per Share	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.02)	\$ (0.04)
Dividends Per Share	\$	\$	\$	\$	\$
Weighted Average Shares	275,726,953	236,303,304	178,949,306	160,358,498	149,444,955
Working Capital	\$ (31,672)	\$ (1,872)	\$ 2,629	\$ 16,375	\$ 4,199
Net Assets	\$ 192,376	\$ 196,332	\$ 142,912	\$ 132,366	\$ 102,417
Total Assets	\$ 313,229	\$ 287,525	\$ 236,127	\$ 189,571	\$ 156,736
Share Capital (includes Share Capital Premium)	\$ 244,496	\$ 243,337	\$ 184,222	\$ 170,566	\$ 143,248

**B. Capitalization and Indebtedness**

Not Applicable

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable





#### **D. Risk Factors**

*Our business is subject to many risks and uncertainties, which may affect our future financial performance. If any of the events or circumstances described below occurs, our business and financial performance could be harmed, our actual results could differ materially from our expectations and the market value of our securities could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe are material that may harm our business and financial performance.*

#### **RISKS RELATING TO OUR BUSINESS**

##### **We may experience delays, higher than expected costs, difficulties in obtaining environmental permits and other obstacles when implementing our capital expenditure projects.**

We are investing heavily in various facets of our NorthMet Project. Our NorthMet Project is subject to a number of risks that may make it less successful than anticipated, including:

- we may encounter delays or higher than expected costs completing the environmental review process necessary before construction and operating permits can be issued;
- delays in the issuance of permits after completion of the environmental review process;
- delays or higher than expected costs in obtaining the necessary equipment or services to build and operate our projects; and
- adverse mining conditions may delay and hamper our ability to produce the expected quantities of minerals.

##### **Our future activities could be subject to environmental laws and regulations, which may have a materially adverse effect on our future operations, in which case our operations could be suspended or terminated.**

We, like other companies doing business in the United States and Canada, are subject to a variety of federal, provincial, state and local statutes, rules and regulations designed to, among other things:

- protect the environment, including the quality of the air and water in the vicinity of exploration, development, and mining operations;
- remediate the environmental impacts of those exploration, development, and mining operations;
- protect and preserve wetlands and endangered species; and
- mitigate negative impacts on certain archaeological and cultural sites.

We are required to obtain various governmental permits to conduct exploration, development, construction and mining activities at our properties. Obtaining the necessary governmental permits is often a complex and time-consuming process involving numerous United States or Canadian federal, provincial, state, and local agencies. The duration and success of each permitting effort is contingent upon many variables not within our control. In the context of obtaining permits or approvals, we must comply with known standards, existing laws, and regulations that may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the interpretation of the laws and regulations implemented by the permitting authority. The failure to obtain certain permits or the adoption of more stringent permitting requirements could have a material adverse effect on our business, operations, and properties and we may be unable to proceed with our exploration and development programs.

Federal legislation and implementing regulations adopted and administered by the United States Environmental Protection Agency, Army Corp of Engineers, Forest Service, Fish and Wildlife Service, Mine Safety and Health Administration, and other federal agencies, and legislation such as the Federal Clean Water Act, Clean Air Act, National Environmental Policy Act, Endangered Species Act, and Comprehensive Environmental Response, Compensation, and Liability Act, have a direct bearing on exploration, development and mining operations United States. Due to the uncertainties inherent in the permitting process, we cannot be certain that we will be able to obtain

required approvals for proposed activities at any of our properties in a timely manner, or that our proposed activities will be allowed at all.

Compliance with statutory environmental quality requirements described above may require significant capital outlays, significantly affect our earning power, or cause material changes in our intended activities. Environmental standards imposed by federal, state, or local governments may be changed or become more stringent in the future, which could materially and adversely affect our proposed activities.

**Because the price of metals fluctuate, if the prices of metals in our ore body decrease below a specified level, it may no longer be profitable to develop our NorthMet Project for those metals and we will cease operations.**

Prices of metals are determined by some of the following factors:

- global and regional supply and demand;
- political and economic conditions and production costs in major metal producing regions;
- the strength of the United States dollar; and
- expectations for inflation.

The aggregate effect of these factors on metals prices is impossible for us to predict. In addition, the prices of metals are sometimes subject to rapid short-term and/or prolonged changes because of speculative activities. The current demand for and supply of various metals affect the prices of copper, nickel, cobalt, platinum, palladium and gold, but not necessarily in the same manner as current supply and demand affect the prices of other commodities. The supply of these metals primarily consists of new production from mining. If the prices of copper, nickel, cobalt, platinum, palladium and gold are, for a substantial period, below our foreseeable costs of production, we could cease operations.

**We are dependent on our key personnel.**

Our success depends on key members of our management. The loss of the services of one or more of such key management personnel could have a material adverse effect on us. Our ability to manage exploration and development activities, and hence our success, will depend in large part on the efforts of these individuals. We face intense competition for qualified personnel, and we cannot be certain that we will be able to attract and retain such personnel.

**We may not be able to raise the funds necessary to develop the NorthMet Project. If we are unable to raise such additional funds, we will have to suspend or cease operations.**

We will need to seek additional financing to complete our development and construction of the NorthMet Project. Sources of such external financing include future equity and debt offerings, advance payments by potential customers to secure long-term supply contracts, grants and low-cost debt from certain state financial institutions, and commercial debt secured by the NorthMet Project. If we cannot raise the money necessary to continue to explore and develop our property, we will have to suspend or cease operations.

**Our metals exploration and development efforts are highly speculative in nature and may be unsuccessful.**

As a development stage company, our work is speculative and involves unique and greater risks than are generally associated with other businesses.

The development of mineral deposits involves uncertainties, which careful evaluation, experience, and knowledge cannot eliminate. Few properties explored are ultimately developed into producing mines. It is impossible to ensure that the current development program we have planned will result in a profitable commercial mining operation.

**We are subject to all the risks inherent to the mining industry, which may have an adverse affect on our business operations.**

We are subject to all of the risks inherent in the mining industry, including, without limitation, the following:

Success in discovering and developing commercially viable quantities of minerals is the result of a number of factors, including the quality of management, the interpretation of geological data, the level of geological and technical expertise and the quality of land available for exploration;

Exploration for minerals is highly speculative and involves substantial risks, even when conducted on properties known to contain significant quantities of mineralization, and most exploration projects do not result in the discovery of commercially mineable deposits of ore;

Operations are subject to a variety of existing laws and regulations relating to exploration and development, permitting procedures, safety precautions, property reclamation, employee health and safety, air and water quality standards, pollution and other environmental protection controls, all of which are subject to change and are becoming more stringent and costly to comply with;

A large number of factors beyond our control, including fluctuations in metal prices and production costs, inflation, the proximity and liquidity of precious metals and energy fuels markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection, and other economic conditions, will affect the economic feasibility of mining;

Substantial expenditures are required to construct mining and processing facilities;

Title to mining properties may be subject to other claims; and

In the development stage of a mining operation, our mining activities could be subject to substantial operating risks and hazards, including metal bullion losses, environmental hazards, industrial accidents, labor disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave-ins, pit-wall failures, flooding, rock falls, periodic interruptions due to inclement weather conditions or other unfavorable operating conditions and other acts of God. Some of these risks and hazards are not insurable or may be subject to exclusion or limitation in any coverage which we obtain or may not be insured due to economic considerations.

**Our actual mineral reserves and mineral resources may not conform to our established estimates.**

The figures for mineral reserves and mineral resources stated in this Annual Report are estimates and no assurances can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations and the prices of metals may render reserves and mineral resources uneconomic. Moreover, short-term operating factors relating to the mineral deposits, such as the need for the orderly development of the deposits or the processing of new or different grades of ore, may cause a mining operation to be unprofitable in any particular accounting period.

**There is no assurance that any of our mineral resources, not currently classified as mineral reserves, will ever be classified as mineral reserves under the disclosure standards of the SEC.**

Item 4.D of this Annual Report discusses our mineral resources in accordance with NI 43-101. Resources are classified as measured resources, indicated resources and inferred resources under NI 43-101. However, U.S. investors are cautioned that the SEC does not recognize these resource classifications. There is no assurance that any of our mineral resources, not currently classified as mineral reserves, will be converted into mineral reserves under the disclosure standards of the SEC.

**We have had no production history and we do not know if we will generate revenues in the future.**

While we were incorporated in 1981, we have no history of producing minerals. We have not developed or operated any mines and we have no operating history upon which an evaluation of our future success or failure can be made. We currently have no mining operations of any kind. Our ability to achieve and maintain profitable mining operations is dependent upon a number of factors, including our ability to successfully build and operate mines, processing plants and related infrastructure ourselves. We may not successfully establish mining operations or profitably produce metals at any of our properties. As such, we do not know if we will ever generate revenues.

**We have a history of losses, which we expect will continue for the future. If we do not begin to generate revenues we may either have to suspend or cease operations.**

As a development stage company with no holdings in any producing mines, we continue to incur losses and expect to incur losses in the future. As at January 31, 2015, we had an accumulated deficit of \$103.8 million. We may not be able to achieve or sustain profitability in the future. If we do not begin to generate revenues we may either have to suspend or cease operations.

We have prepared our consolidated financial statements on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations.

We currently have negative cash flow from operating activities and cannot predict if or when we will operate profitably to generate positive cash flows. We have taken steps to fund our operations through the issuance of equity and debt. We plan to meet our financial obligations to the point at which all regulatory approvals for our NorthMet Project have been obtained and which will allow us to raise capital to construct our mine and commence commercial production.

Since transitioning to a development stage entity in September 2006 we have raised \$177 million in equity, \$45 million of initial principal debt of which \$25 million is exchangeable into equity upon receipt of permits necessary to build and operate our NorthMet Project, \$4 million is secured by land acquired with proceeds from the loan and \$16 million initial draw under a \$30 million loan facility secured by our assets.

We will need to raise sufficient funds to meet our current obligations as well as fund ongoing development, capital expenditures and administration expenses, in accordance with our spending plans for the next year. While in the past the Company has been successful in closing financing agreements with Glencore AG, a wholly owned subsidiary of Glencore plc (together Glencore ) and other parties, there can be no assurance it will be able to do so again in the future. Factors that could affect the availability of financing include the state of international debt and equity markets, investor perceptions and expectations and the global metals markets.

We anticipate that we will be able to reach an agreement with Glencore to either extend the term of \$25 million initial principal debentures convertible into our common shares at \$1.2920 per share that are currently due on September 30, 2015 or convert on or before that date even if the conditions under which we could call for conversion have not been met. If, however, no such agreement is reached, we would have to repay approximately \$34 million (including capitalized interest) and we do not currently have sufficient working capital to cover repayment and therefore would have to raise additional funding.

**We may not have adequate, if any, insurance coverage for some business risks that could lead to economically harmful consequences to us.**

Our businesses are generally subject to a number of risks and hazards, including:

- industrial accidents;
- railroad accidents;
- labor disputes;
- environmental hazards;
- electricity stoppages;
- equipment failures; and
- severe weather and other natural phenomena.

These occurrences could result in damage to, or destruction of, mineral properties, production facilities, transportation facilities, or equipment. They could also result in personal injury or death, environmental damage, waste of resources or intermediate products, delays or interruption in mining, production or transportation activities, monetary losses and possible legal liability. The insurance we maintain against risks that are typical in our business may not provide adequate coverage. Insurance against some risks (including liabilities for environmental pollution or certain hazards or interruption of certain business activities) may not be available at a reasonable cost or at all. As a result, accidents or other negative developments involving our mining, production or transportation facilities could have a material adverse effect on our operations.

**The mining industry is an intensely competitive industry, and we may have difficulty effectively competing with other mining companies in the future.**

We face intense competition from other mining and producing companies. In recent years, the mining industry has experienced significant consolidation among some of our competitors. We cannot assure you that the result of current or further consolidation in the industry will not adversely affect us.

In addition, because mines have limited lives we must periodically seek to replace and expand our reserves by acquiring new properties. Significant competition exists to acquire properties producing, or capable of producing, copper, nickel and other metals.

If we are unable to successfully manage these risks, our growth prospects and profitability may suffer.

**We may be subject to risks relating to the global economy.**

Market events and conditions in recent years, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions could impede our access to capital or increase the cost of capital. These disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, including us. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining capital and financing for our operations.

## **RISKS RELATED TO THE OWNERSHIP OF OUR COMMON SHARES**

### **We may experience volatility in our share price.**

Our common shares are listed for trading on the TSX and on the NYSE MKT. Our shareholders may be unable to sell significant quantities of the common shares into the public trading markets without a significant reduction in the price of our shares, if at all. The market price of our common shares may be affected significantly by factors such as changes in our operating results, the availability of funds, fluctuations in the price of metals, the interest of investors, traders and others in development stage public companies such as us and general market conditions. In recent years the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly development companies similar to us, have experienced wide fluctuations, which have not necessarily been related to the operating performances, underlying asset values, or the future prospects of such companies. There can be no assurance that future fluctuations in the price of our shares will not occur.

### **A large number of shares will be eligible for future sale and may depress our share price.**

Our shares that are eligible for future sale may have an adverse effect on the price of our common shares. As at January 31, 2015 there were 276,351,374 of our common shares outstanding. The average trading volume for the three months prior to January 31, 2015 was approximately 21,000 shares per day on the TSX and 163,000 shares per day on the NYSE MKT. Sales of substantial amounts of our common shares, or a perception that such sales could occur, and the existence of options or warrants to purchase common shares and debt convertible into common shares at prices that may be below the then current market price of our common shares, could adversely affect the market price of our common shares and could impair our ability to raise capital through the sale of our equity securities.

### **Your ownership interest, voting power and the market price of our common shares may decrease because we have issued, and may continue to issue, a substantial number of securities convertible or exercisable into our common shares.**

We have issued common shares, options, restricted shares, restricted share units, convertible debt and warrants to purchase our common shares to satisfy our obligations and fund our operations (see Item 5.A). Since we currently do not have a source of revenue, we will likely issue additional common shares, options, warrants, preferred shares or other securities exercisable for or convertible into our common shares to raise money for our continued operations or as non-cash incentives to our own and our subsidiaries' directors, officers, and key employees. If conversions of warrants and/or options into common shares or additional sales of equity occur, your ownership interest and voting power in us will be diluted and the market price of our common shares may decrease.

Under our 2007 Omnibus Share Compensation Plan, as amended and restated ( *Omnibus Plan* ), the aggregate number of share options, restricted shares, restricted share units, and other share-based awards is restricted to 10% of our issued and outstanding common shares on the grant date, excluding 2,500,000 common shares pursuant to an exemption approved by the Toronto Stock Exchange.

### **We have a Shareholders Rights Plan Agreement and certain employment and management contracts that contain provisions designed to discourage a change of control.**

A Shareholders Rights Plan was approved in May 2004, modified and further ratified and reconfirmed by shareholders most recently in July 2013. Under the Shareholders Rights Plan, if a shareholder individually or in concert with other shareholders acquires 20% or more of our outstanding common shares without complying with the Shareholders Rights Plan or without the approval of our Board of Directors, all holders of record will have a right to one common share for each common share owned. We have also entered into agreements with certain key employees and officers that contain severance provisions in the event of a take-over bid. The Shareholders Rights Plan and the preceding agreements may make it more difficult for a third party to acquire control of us, even if such a change of control is



more beneficial to shareholders.

**Because we believe that we will be classified as a passive foreign investment company, or PFIC, U.S. holders of our common shares may be subject to United States federal income tax consequences that are worse than those that would apply if we were not a PFIC.**

Because we believe that we will be classified as a PFIC, U.S. holders of our common shares may be subject to United States federal income tax consequences that are worse than those that would apply if we were not a PFIC, such as ordinary income treatment plus a charge in lieu of interest upon a sale or disposition of our common shares even if the shares were held as a capital asset. See further discussion in Item 10(E).

**Absence of Dividends.**

We have never declared or paid cash dividends on our common shares and do not anticipate doing so in the foreseeable future. There can be no assurance that our board of directors will ever declare cash dividends, which action is exclusively within its discretion. Investors cannot expect to receive a dividend on our common shares in the foreseeable future, if at all.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **A. History and Development of the Company**

PolyMet Mining Corp. was incorporated under the British Columbia *Companies Act* and continued under the *Business Corporations Act* (British Columbia) in British Columbia, Canada on March 4, 1981, under the name Fleck Resources Ltd., which we changed to PolyMet Mining Corp. on June 10, 1998.

Our corporate office is located at 100 King Street West, Suite 5700, Toronto, ON M5X 1C7, Canada and our principal executive office of our wholly owned Minnesota subsidiary, Poly Met Mining, Inc. ( PMI ), is located at 444 Cedar Street, Suite 2060, St. Paul, MN 55101, USA. Our registered and records office is located at our legal counsel's offices situated at 2500 700 West Georgia Street, Vancouver, B.C. V7Y 1B3, Canada. Our operational headquarters is located at 6500 County Road 666, Hoyt Lakes, MN 55750-0475, USA.

We are a reporting issuer in the following Canadian provinces: Alberta, British Columbia, and Ontario. Our common shares have been listed on the Toronto Stock Exchange ( TSX ) since February 1, 2007 and on the TSX Venture Exchange ( TSX-V ) from April 13, 1984 to January 31, 2007 under the symbol "POM" and since June 26, 2006, our common shares have been listed on the NYSE MKT under the symbol PLM .

Our registrar and transfer agent is Computershare Investor Services Inc. located at 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, Canada.

During the years ended January 31, 2015, 2014, and 2013 we made net cash investments of \$27.253 million, \$25.523 million, and \$18.404 million, respectively to acquire property, and advance the environmental review and permitting of our NorthMet Project.

All of these expenses were incurred at our NorthMet Project and were funded from the proceeds of equity and debenture financings. Since completion of the Definitive Feasibility Study ( DFS ) in September 2006, these expenditures and the Erie Plant acquisition have been capitalized.

### **B. Business Overview**

We are a development stage company engaged in the exploration and development of natural resource properties. Currently our sole mineral property is the NorthMet Project, which comprises the NorthMet copper-nickel-precious metals ore body and the Erie Plant, a large processing facility located approximately six miles from the ore body in the established mining district of the Mesabi Iron Range in northeastern Minnesota, USA.

In the years ended January 31, 2015, 2014, and 2013, we conducted exploration, development and acquisition activities only and did not conduct any operations that generated revenues. Thus, we rely principally on equity or debt to fund our projects and expenditures.

Since 2003, we have focused on commencing commercial production on our NorthMet Project. We have focused our efforts on five main areas:

Advancing the NorthMet ore body. The NorthMet ore body is at the western end of a series of known copper-nickel-precious metals deposits in the Duluth Complex. Completion of the DFS in 2006 established proven and probable reserves, positioning NorthMet as the most advanced of the four advanced projects in the Duluth Complex: namely, from west to east NorthMet, Mesaba, Serpentine, and Nokomis.

Acquisition of the Erie Plant. The Erie Plant is a large processing facility and associated infrastructure located approximately six miles west of our NorthMet ore body that we acquired through three Contracts for Deed with Cliffs Erie LLC, a subsidiary of Cliffs Natural Resources Inc. ( Cliffs ). The Erie Plant facility comprises a 100,000 ton-per-day crushing and milling facility, a railroad and railroad access rights connecting the Erie Plant to the

NorthMet ore body, tailings facilities, 120 railcars, locomotive fueling and maintenance facilities, water rights and pipelines, large administrative offices on site and approximately 6,000 acres to the east and west of and contiguous to the existing tailing facilities. As partial consideration, we have agreed to indemnify Cliffs for the reclamation and remediation obligations of the acquired property. See additional discussion in section 4(D)(c)(ii).

Environmental Review and Permitting. We are seeking to obtain permits to construct and operate our NorthMet Project. Our NorthMet Project is subject to extensive environmental review under both state and federal regulations before permits can be issued to allow construction and operation of the Project. The environmental review process started in 2004 and we believe it is nearing completion.

The environmental review and permitting process is managed by the regulatory agencies and, therefore, timelines are not under our control. We anticipate that the final EIS will be published in the state Environmental Quality Board ( EQB ) Monitor and the Federal Register in the summer of 2015 and we expect to submit permit applications around the same time. We further expect that, under state guidelines, there should be decisions on state permits within 150 days of the applications being submitted and Records of Decision on the federal 404 Wetland Permit and the land exchange before the end of 2015.

See additional discussion in section 4(D)(d).

Engineering and feasibility. In September 2006 Bateman Engineering Pty Ltd of Brisbane, Australia ( Bateman ) published a DFS that confirmed the economic and technical viability of our NorthMet Project, enabling us to transition to a development stage entity.

Since 2006 we have made numerous process and project improvements, including extensive environmental controls designed to reduce and mitigate the environmental impact of the Project. Our plan is to develop a new open pit mine at our NorthMet ore body, use existing rail infrastructure to move the run-of-mine rock to the Erie Plant, where we will reuse existing and new equipment to produce a copper concentrate and a nickel bulk concentrate. We are also seeking permits to build and operate a new hydrometallurgical facility to upgrade the nickel bulk concentrate to nickel-cobalt hydroxide and a precious metals precipitate, with copper recombined into the copper concentrate.

We plan to complete a Definitive Cost Estimate and Project Update in the next several months, which will incorporate these changes. The Project Update will include detailed capital and operating costs reflecting the advanced stage of engineering and design.

See additional discussion in section 4(D)(g).

Financing and corporate development. Since transitioning to a development stage entity in September 2006 we have raised \$177 million in equity, \$45 million of initial principal debt of which \$25 million is exchangeable into equity upon receipt of permits necessary to build and operate our NorthMet Project, \$4 million is secured by land acquired with proceeds from the loan and \$16 million initial draw under a \$30 million loan facility secured by our assets.

Prior to receipt of permits, we will seek to secure construction debt financing that would be available upon receipt of key permits, with construction and ramp-up to commercial production anticipated to take approximately 21 months.

See additional discussion in section 5(b).

### **C. Organizational Structure**

Poly Met Mining, Inc., incorporated in Minnesota, USA on February 16, 1989, is our only material, wholly owned operating subsidiary.

### **D. Property, Plant and Equipment**

#### Mineral Property - NorthMet Project, Minnesota, USA

Our primary mineral property is the NorthMet Project, which comprises the NorthMet copper-nickel-precious metals ore body and the nearby Erie Plant facilities.

In the years ended January 31, 2015, 2014, and 2013, we conducted exploration, development and acquisition activities only and did not conduct any operations.

#### **(a) History**

The NorthMet ore body is located immediately south of the eastern end of the historic Mesabi Iron Range in northeastern Minnesota. Mining in the Iron Range dates back to the 1880 s when high grade iron ore known as hematite was first mined commercially. During the 1940 s and 1950 s, with reserves of hematite dwindling, the iron industry began to focus on taconite, a lower-grade iron ore. Eight large crushing, grinding, milling and pelletizing facilities were built by various iron and steel companies to process the taconite, including the Erie Plant that we acquired in November 2005.

In the 1940s, copper and nickel were discovered nearby, following which, in the 1960s, United States Steel Corporation ( US Steel ) drilled what is now our NorthMet ore body. US Steel investigated the deposit as a high-grade, underground copper-nickel resource, but considered it to be uneconomic based on its inability to produce separate, clean nickel and copper concentrates with the metallurgical processes available at that time. In addition, prior to the development of the autocatalyst market in the 1970s, there was little market for platinum group metals (PGMs) and there was no economic and reliable method to assay for low grades of these metals.

In 1987, the Minnesota Natural Resources Research Institute ( NRRI ) published data suggesting the possibility of a large resource of PGMs in the base of the Duluth Complex. In 1989, we acquired a perpetually renewable mining lease over the property from US Steel and commenced an investigation into the potential for mining and recovery of copper, nickel, and PGMs. We re-assayed pulps and rejects from the previous US Steel drilling to obtain data on the PGMs. Sequentially we entered into joint venture agreements with Nerco and Argosy Mining, which assisted in identifying and quantifying potential PGM values. However, the challenge of producing separate concentrates of saleable copper and nickel remained.

In the mid-90 s, we began investigating the use of alternative metallurgical processes, including bio-leaching and pressure oxidation. In 1998 we focused on a hydrometallurgical technology that uses autoclaves, which are vessels operating at high temperature, high pressure, and in an oxygen-enriched environment, to oxidize the sulfidic ores and leach the metals therein. This technology was developed in the 1950s and has been used commercially in the copper, nickel, cobalt, and gold mining industries since the 1980s.

Following completion of metallurgical pilot plant work we commissioned a pre-feasibility study on the Project that was completed in 2001. The pre-feasibility study contemplated a 50,000 metric tonne-per-day (55,000 short tpd) operation and anticipated the construction of a new, stand-alone processing plant to produce copper, nickel and cobalt metals on site. The study found the economics of the NorthMet Project were unacceptably low owing to the capital cost of building a new plant facility combined with low metal prices prevailing at that time.



In March 2003 a new management team took over our Company and commenced a detailed review of the Project. The new management team believed that acquisition of the Erie Plant had the potential to substantially reduce the capital cost and to simplify the permitting process.

The Erie Plant facility includes land, crushing and milling equipment, extensive spare parts, plant site buildings, real estate, tailings impoundments and workshops, access to extensive mining infrastructure, a railroad connection to the site of the NorthMet ore body, a 120-railcar fleet, locomotive fueling and maintenance facilities, water rights and pipelines, large administrative offices on site and approximately 6,000 acres to the east and west of and contiguous to our existing tailings facilities. We also agreed to indemnify Cliffs for the reclamation and remediation obligations of the acquired property.

The consideration paid for the Erie Plant and associated infrastructure was \$18.9 million in cash and 9,200,547 shares at a fair value of \$13.953 million.

See additional discussion in section 4D(c)(ii).

Since inception, we have a cumulative deficit of \$103.8 million, much of which has been incurred directly and indirectly in connection with our NorthMet Project. These expenditures supported drilling, sampling, assaying, environmental, metallurgical testing, and the pre-feasibility studies.

Figure No. 1  
NorthMet Project Location Map





**(b) Location / Access / Climate**

The NorthMet Project covers a total of approximately 16,700 acres or 25.9 square miles comprising two areas: the NorthMet mine site totaling approximately 4,300 acres or 6.5 square miles of leased mineral rights and the Erie Plant site totaling approximately 12,400 acres or 19.4 square miles of freehold land located approximately six miles west of the mine site. The property is located in St. Louis County in the Mesabi Iron Range mining district about 60 miles north of Duluth, Minnesota. The NorthMet Project is easily accessible via state and county roads. The surfaced County Highway 666 links the plant to the town of Hoyt Lakes, itself approximately 25 miles east of Virginia, Minnesota which is located on State Highway 53. The mine site is accessible by an all-season gravel road from the plant site and a private railroad crosses the property immediately south of the deposit and runs to the plant site. The plant site is serviced by commercial railroad which connects into the US national and Trans-Canadian railroad systems, as well as a private railroad providing access to port facilities located on Lake Superior. High-voltage power lines owned by Minnesota Power supply the plant site and there is ready access to industrial electric power at the mine site.

The northern Minnesota climate is continental, characterized by wide variations in temperature. The temperature in the nearby town of Babbitt averages -14°C (7°F) in January and 19°C (66°F) in July. The average annual precipitation is 28 inches with approximately 30% during the months from November to April and 70% from May through October.

**(c) Claims and ownership**

**(i) NorthMet Leases**

Pursuant to two lease agreements, we lease certain lands covering 4,282 acres or 6.5 square miles located in St. Louis County, Minnesota, known as the NorthMet Project:

Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, we lease 4,162 acres from RGGGS Land & Minerals Ltd., L.P ( RGGGS ). The initial term of the perpetually renewable lease was 20 years and called for total lease payments of \$1.475 million. We can, at our option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination date or can indefinitely extend the term by continuing to make \$150,000 annual lease payments on each successive anniversary date. All lease payments have been paid or accrued to January 31, 2015. The next payment is due in January 2016.

The lease payments are considered advance royalty payments and shall be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company. Our recovery of \$2.375 million in advance royalty payments is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.

Pursuant to an agreement effective December 1, 2008, we lease 120 acres from LMC Minerals. The initial term of the renewable lease is 20 years and calls for minimum annual lease payments of \$3,000 for the first four years after which the minimum annual lease payment increased to \$30,000. The initial term may be extended for up to four additional five-year periods on the same terms. All lease payments have been paid or accrued to January 31, 2015. The next payment is due in November 2015.

The lease payments are considered advance royalty payments and will be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company. Our recovery of \$0.099 million in advance royalty payments is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.



Pursuant to these leases, we hold mineral rights and the right to mine upon receiving the required permits. We have proposed to acquire surface rights through a land exchange with the USFS.

**(ii) The Erie Plant**

The Erie Plant comprises a large crushing, grinding and milling facility that was built by a consortium of steel companies in the mid-1950s and processed low grade iron ore known as taconite that was transported to the facility by railroad from nearby mines. In the mid-1980s, the consortium was consolidated into a single owner LTV Steel. Pickands, Mather and Company and its successor Cliffs operated the plant on behalf of the owners, processing approximately 100,000 tons per day of taconite ore. The plant was shut down in 2001 after LTV Steel filed for bankruptcy protection. Since then it has been maintained initially by Cliffs and, since November 15, 2005, by us. The plant did not operate during the 12 months ended January 31, 2015.

The plant is located approximately six miles west of our NorthMet ore body, about five miles north-northwest of the town of Hoyt Lakes, itself located about 25 miles west of Virginia, Minnesota. The plant site covers approximately 12,400 acres, or 19.4 square miles, and is powered by electricity from local power lines. Established plant infrastructure includes a 225 MVA high voltage electrical substation, water supply, roads, tailings basins and rail facilities. We also acquired a 120-railcar fleet, locomotive fueling and maintenance facilities, water rights and pipelines, and large administrative offices on site.

Until the plant was closed in 2001, Cliffs had undertaken numerous programs to update and modernize control systems. The plant is generally in good physical condition and was operating at or near full capacity prior to its closure. We are not yet utilizing the Erie Plant but we have examined the plant in detail and have restarted certain pieces of equipment and believe it to be serviceable.

By a Memorandum of Understanding in December 2003 and an option agreement in February 2004, we obtained the right to acquire certain property, plant, and equipment located near our NorthMet ore body from Cliffs, including the Erie Plant. As consideration for the option, we paid \$0.500 million and issued to Cliffs 1,000,000 of our common shares valued at \$0.229 million to maintain our exclusive rights until June 30, 2006.

In November 2005 we exercised our option and agreed to pay Cliffs \$1.0 million in cash, 6,200,547 million of our common shares valued at \$7.564 million, and \$2.4 million plus interest at 4% per annum in quarterly payments of \$250,000 starting in March 2006.

In September 2006, we entered into an agreement through two separate contracts for deed with Cliffs whereby we would acquire additional property and associated rights ( Cliffs II ) for 2,000,000 of our common shares valued at \$6.160 million, \$1.0 million in cash and two notes each for \$7.0 million. We repaid the two \$7 million notes plus accrued interest in December 2011.

As set forth under the Asset Purchase Agreement, we have indemnified Cliffs for reclamation and remediation obligations in connection with acquired property. Once we obtain our permit to mine and Cliffs is released from its obligations by certain state agencies, we will be directly obligated to comply with applicable obligations. Until operating permits are granted to us, Cliffs remains the Regulated Party for such obligations.

On January 28, 2010, Cliffs received a notice of intent to sue pursuant to Section 505 of the Clean Water Act on behalf of the Center for Biological Diversity, Save Lake Superior Association and the Indigenous Environmental Network. Pursuant to the notice, these environmental groups intended to file a lawsuit in Federal court for alleged violations by Cliffs of National Pollutant Discharge Elimination System ("NPDES") permits at three separate locations on the Cliffs Erie property.

In 2010 Cliffs entered a consent decree with the Minnesota Pollution Control Agency ( MPCA ) under which it is obligated to proceed with both short and long-term mitigation of the alleged violations. As the indemnifying party, we are working closely with Cliffs on fulfillment of Cliffs obligations under the consent decree. Field study activities were completed in 2010 and 2011 and short-term mitigations were initiated in 2011, as outlined in the plans and approved by the MPCA. Long-term mitigation plans were submitted to the MPCA in April of 2012. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action.

As at January 31, 2015 we estimate the total reclamation and remediation liability to be approximately \$72.6 million in present day costs and, based on the expected timing of such payments, our cost of capital, and anticipated inflation rates, we made a provision of \$72.3 million in our financial statements at that date.

This is our best estimate of the future liability. However, there is substantial uncertainty related to the long-term mitigation plan implementation cost as a result of uncertainty about applicable water quality standards, engineering scope, and responsibility for the financial liability. Outcomes that are unfavorable to us could result in material additional liability.

**(d) Environmental Review and Permitting**

Under the Minnesota Environmental Policy Act ( MEPA ) and the National Environmental Policy Act ( NEPA ), state and federal agencies are required to complete an EIS with periods for public review and comment before permits to construct and operate can be issued.

We commenced the environmental review and permitting process in 2004. In 2005, the Minnesota Department of Natural Resources ( MDNR ) published its Environmental Assessment Worksheet Decision Document establishing the MDNR as the lead state agency and the U.S. Army Corp of Engineers ( USACE ) as the lead federal agency for preparation of an EIS for the NorthMet Project.

In November 2009, the Co-lead Agencies published the NorthMet Draft EIS, which marked the start of a 90-day period for public review and comment including two public meetings. The U.S. Environmental Protection Agency ( EPA ) issued an extensive comment letter and rating of the Project and the draft EIS in its role as reviewer of projects that could impact the environment.

In June 2010 the Co-lead Agencies announced that they intended to complete the EIS process by preparing a supplemental draft EIS ("SDEIS ") incorporating a proposed land exchange with the U.S. Forest Service ( USFS ) and expanding government agency cooperation. The USFS joined the USACE as a federal Co-lead Agency and, in June 2011, the EPA joined as a Cooperating Agency.

On December 6, 2013 the Co-lead Agencies published the SDEIS, which started a new 90-day period for public review and comment, including three public meetings, which ended on March 13, 2014. The EPA issued comments on the SDEIS, which included an EC-2 rating. The EC-2 rating is the highest rating for a proposed mining project, so far as we are aware. The highest rating LO (Lack of Objections) is typically applied to non-industrial projects such as the Upper Mississippi National Wildlife and Fish Refuge Comprehensive Conservation Plan Implementation. The EC-2 (Environmental Concerns) rating is the same as received by some other notable Minnesota projects including the Central Corridor Light Rail Project in the Twin Cities and the St. Croix River Crossing, which have been built or are in the process of being constructed.

The SDEIS received approximately 58,000 comments, of which several thousand were substantive. The Co-lead Agencies have made substantial progress in their analysis of all of the comments and assessment of modifications to the EIS in order to respond appropriately to each of those comments.

Under NEPA, the preliminary final EIS incorporating appropriate responses to the comments will be reviewed by the Co-operating Agencies prior to publication of the final EIS. In October 2014 the Commissioner of the MDNR stated that the Co-lead Agencies expect to complete preparation of the final EIS in the spring of 2015.

Publication of the final EIS and a subsequent adequacy decision by the MDNR and Records of Decision by the federal agencies are necessary before the land exchange can occur and various permits required to construct and operate the NorthMet Project can be issued.

The environmental review and permitting process is managed by the regulatory agencies and, therefore, timelines are not under our control. We anticipate that the final EIS will be published in the state Environmental Quality Board ( EQB ) Monitor and the Federal Register in the summer of 2015 and we expect to submit permit applications around the same time. We further expect that, under state guidelines, there should be decisions on state permits within 150 days of the applications being submitted and Records of Decision on the federal 404 Wetland Permit and the land exchange before the end of 2015.

The major permits are:

U.S. Army Corps of Engineers

Section 404 Individual Permit for Impacted Wetlands

Minnesota Department of Natural Resources

Permit to Mine  
Water Appropriations Permit  
Dam Safety Permit  
Wetland Replacement Plan

Minnesota Pollution Control Agency

National Pollutant Discharge Elimination System (NPDES) Permit (storm water)  
State Disposal System (SDS) Permit  
Air Emissions Permit

As at January 31, 2015, we had spent approximately \$85.4 million on environmental review and permitting activities comprising \$6.5 million expensed prior to October 2006 and \$78.9 million since October 2006.

See discussion of development plans in section 4(D)(g).

(e) **History of Exploration**

**Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources**

This section uses the terms measured resources, indicated resources, and inferred resources. We advise United States investors that while these terms are recognized and required by Canadian regulations (under NI- 43-101), the SEC does not recognize them. **United States investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted to reserves.** In addition, inferred resources have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian Rules, estimates of Inferred Mineral Resources may not form the basis of Feasibility or Pre-Feasibility Studies, or economic studies except for a Preliminary Assessment as defined under NI 43-101. **United States investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.**

**Important Notes and Assumptions Throughout.**

- 1. The terms Mineral Resources and Reserves as used herein conform to the definitions contained in NI 43-101.**
- 2. Reserves are contained within the envelope of Measured & Indicated Mineral Resource. Mineral Resources are not Reserves and do not have demonstrated economic viability.**
- 3. Mineral Resources and Reserves have been calculated using the following metal prices: Copper - \$1.25/lb, Nickel - \$5.60 per pound, Cobalt - \$15.25/lb, Palladium - \$210 per ounce, Platinum - \$800 per ounce and Gold - \$400 per ounce.**
- 4. Base Case economics for the purpose of the 2006 DFS and associated NI 43-101 Technical Report are the weighted average of the three-year trailing (60%) and two-year forward (40%) market prices using July 31, 2006 as a reference for the three-year trailing price and average forward prices during July 2006 for forward prices. Specifically, these prices are: Copper - \$2.25/lb, Nickel - \$7.80 per pound, Cobalt - \$16.34/lb, Palladium - \$274 per ounce, Platinum - \$1,040 per ounce and Gold - \$540 per ounce.**
- 5. The copper equivalent grade is calculated by multiplying the grade of each metal by the metal price (in the same units) used in reserve and resource modeling (see note 3) and dividing the product by the copper price.**
- 6. The Net Metal Value (NMV) is calculated by summing the product of the grade of each metal, the metal price (in the same units) used in reserve and resource modeling (see note 3), the expected metal recovery, and the expected payment terms.**

Prospectors first discovered copper and nickel near Ely, Minnesota about 20 miles north of NorthMet in the 1940s. Subsequently, the Bear Creek Mining Company conducted a regional exploration program resulting in the discovery of the Babbitt deposit (northeast of NorthMet). US Steel began an exploration program in the Duluth Complex in the late 1960s and over the next few years drilled 112 core holes into the NorthMet property (then called Dunka Road) to an average depth of 1,200 feet. In 1991, Nerco drilled an additional 2 shallow holes.

Since 1998 we have conducted a series of drilling programs totaling 323 holes for approximately 172,000 feet of core and reverse circulation drilling. These holes, combined with recompilation of all prior work, for a total of 437 diamond and reverse circulation holes aggregating to approximately 306,000 feet, were the basis of our December 2007 resource and reserve estimates summarized in our most recent Technical Report under NI 43-101 filed on EDGAR and SEDAR.





The historic drilling was conducted using industry standard procedures of the time. The core was retained and has been resampled by PolyMet. More recent work by PolyMet has been conducted using standard industry protocols, including Quality Assurance/Quality Control procedures under the supervision of Qualified Persons. We believe that the resulting drill hole database is reliable and can be confidently used in the estimation of the NorthMet resource and reserves.

### Mineral Resources and Mineral Reserves

Within the overall mineralized envelope defined by these exploration programs, the DFS defined measured and indicated mineral resources above the 500-foot elevation (approximately 1,120 feet below surface.) The results of additional drilling through October 2007 resulted in a further increase in measured and indicated mineral resources to 694 million short tons from the 422 million short tons reported in the DFS. The 2008 updated mineral resource estimates are based on the same cut-off grades used in the DFS – namely a Net Metal Value ( NMV ) of \$7.42 per ton, reflecting mine planning at a copper price of \$1.25 per pound and a nickel price of \$5.60 per pound – see notes to the following table.

Details of the mineral resources are set out in the following table:

#### 2008 Updated Mineral Resources compared with 2006 DFS Mineral Resources

	Short Tons (million)	Copper (%)	Nickel (%)	Cobalt (%)	Precious Metals (oz/st)	(g/mt)
<b>2008 Updated Mineral Resource Estimate</b>						
Measured (M)	202.5	0.29	0.08	0.01	0.010	0.359
Indicated (I)	491.7	0.26	0.08	0.01	0.009	0.325
Measured & Indicated (M&I)	694.2	0.27	0.08	0.01	0.010	0.334
Inferred	229.7	0.27	0.08	0.01	0.011	0.385
<b>2006 DFS Mineral Resource Estimate</b>						
Measured (M)	133.7	0.30	0.09	0.01	0.011	0.371
Indicated (I)	288.4	0.27	0.08	0.01	0.010	0.330
Measured & Indicated (M&I)	422.1	0.28	0.08	0.01	0.010	0.343
Inferred	120.6	0.25	0.07	0.01	0.009	0.315

The increase in mineral resources reflects two changes:

Data from the 2007 drill program which confirmed the continuity of the main mineralized zone and the size of the Magenta Zone, which was extended down dip and to the west.

Extension of the overall mineral envelope to approximately 1,620 feet below surface (0 elevation), compared with the prior cutoff at approximately 1,120 feet below surface (500 elevation).

The mineral resource estimate update was completed by Pierre Desautels of AGP Mining Consultants in Toronto working closely with PolyMet's chief geologist, at the time, Richard Patelke. A NI 43-101 Technical Report describing this increase is filed on EDGAR and SEDAR.

The 2006/2007 drill program also increased proven and probable mineable reserves at the NorthMet Project. Reserves are constrained to mineable blocks associated with material contained in the measured and indicated resource blocks in the DFS for which detailed mining cost estimates, infrastructure planning, and waste rock stockpile locations were prepared as part of a larger study supporting the DFS. It should be noted that the inferred resources were not included in the DFS or in this interim reserve update.

In conjunction with this increase in reserves, the strip (waste:ore) ratio for the revised mine plan declined to 1.46:1 from 1.66:1.

Details of the mineral reserves are set out in the following table:

**Updated Mineral Reserves compared with DFS Mineral Reserves**

	<b>Short Tons</b> (millions)	<b>Copper</b> (%)	<b>Nickel</b> (%)	<b>Cobalt</b> (%)	<b>Precious Metals</b> (oz/st)	<b>Precious Metals</b> (g/mt)
<b>2008 Updated Reserves</b>						
Proven	118.1	0.30	0.09	0.008	0.011	0.368
Probable	156.5	0.27	0.08	0.008	0.010	0.327
Proven and Probable	274.7	0.28	0.08	0.008	0.010	0.337
Waste	401.2					
Strip Ratio	1.46					
<b>2006 DFS Reserves</b>						
Proven	80.4	0.32	0.09	0.008	0.012	0.406
Probable	101.3	0.30	0.08	0.007	0.011	0.385
Proven and Probable	181.7	0.31	0.08	0.008	0.012	0.395
Waste	302.3					
Strip Ratio	1.66					

The reserve estimate update was completed by Gordon Zurowski of AGP Mining Consultants (formerly Wardrop) in Toronto working closely with our then team of Don Hunter and Richard Patelke. Gordon Zurowski of AGP Mining Consultants and Don Hunter of PolyMet were the Qualified Persons.

While we believe that we have completed sufficient exploration work required for the initial phases of production, we plan to conduct further in-fill drilling during construction and operations.

**(f) Geology and Mineralization**

The geology of northeastern Minnesota is predominantly Precambrian in age. Approximately 1.1 billion years ago, mid-continent rifting resulted in mafic volcanism and associated intrusions along a portion of the Midcontinent Rift System, which extends from Ohio, through the Lake Superior region to Kansas. The Midcontinent Rift consists of three parts: thick lava flows, intrusive rock and overlying sedimentary rock. There are three major intrusive complexes: the Coldwell Complex of Ontario, the Mellen Complex along the south shore of Lake Superior and the Duluth Complex along the north shore.

The Duluth Complex hosts the NorthMet mineralization. The Complex extends in an arcuate belt from Duluth to the northeastern tip of Minnesota. Emplacement of the intrusion appears to have been along a system of northeast-trending normal faults that form half-grabens stepping down to the southeast. The magma was intruded as sheet-like bodies along the contact between the Early Proterozoic sedimentary rocks of the Animikie Group and the mafic lava flows of the North Shore Volcanic Group.

The Duluth Complex is represented by the Partridge River intrusion which overlays the Biwabik Iron Formation. The Partridge River intrusion is locally sub-divided into seven troctolitic units:

Unit 7 and Unit 6 – texturally homogeneous plagioclase-rich troctolite, each with a persistent ultramafic base. Units 6 and 7 are each about 400 ft. thick.

Unit 5 – coarse grained anorthositic troctolite (300 ft.) grading down to Unit 4.

Unit 4 – homogeneous augite troctolite and troctolite, with a less persistent ultramafic horizon. The contact between Unit 4 and Unit 5 is difficult to establish and the two units may actually be a single unit.

Unit 3 the most easily recognized unit because of its mottled appearance due to olivine oikocrysts. It is fine grained troctolitic anorthosite to anorthositic troctolite. Average thickness is 250 ft. but locally can be up to 500 ft.

Unit 2 homogeneous troctolite with abundant ultramafic units and a generally persistent basal ultramafic. This unit shows the most variation in thickness and may be locally absent. Units 2 & 3 are modeled as a single package for resource estimation.

Unit 1 the most heterogeneous unit, both texturally and compositionally. Grain size is generally coarser at the top of the unit and fines downward. The unit contains abundant inclusions of the footwall rock and is noritic towards the base. This is the main sulfide mineral bearing unit. Two internal ultramafic layers are generally present. Unit 1 is probably the result of multiple pulses of magma injection. Average thickness is about 450 ft. The general trend of the sedimentary rocks at the base of the NorthMet deposit is striking east-northeast and dipping to the southeast at about 15-25°; the Partridge River intrusion appears to follow this general trend.

The majority of the rock at NorthMet is unaltered, with minor alteration comprising serpentine, chlorite and magnetite replacing olivine, uralite and biotite replacing pyroxene, and sausserite and sericite replacing plagioclase. Sulfide mineralization does not appear to be directly related to the alteration.

The metals of interest at NorthMet are copper, nickel, cobalt, platinum, palladium, gold, and silver with lesser amounts of rhodium and ruthenium. With the exception of cobalt, the metals are generally positively correlated with copper mineralization. Unit 1 mineralization is found throughout the deposit. A shallow dipping, near surface though less extensively mineralized zone that is copper-rich relative to sulfur is found in Units 4, 5, and 6 in the western part of the deposit.

Sulfide mineralization consists of chalcopyrite, cubanite, pyrrhotite and pentlandite with minor bornite, violarite, pyrite, sphalerite, galena, talnakhite, mackinawite and valleriite. Sulfide minerals occur mainly as blebs interstitial with plagioclase, olivine and augite grains, but also occur within plagioclase and augite grains, as intergrowths with silicates, or as fine veinlets. The percentage of sulfides average less than 1%, varying from trace to about 5%. Precious metals are associated with the sulfides.

The NorthMet deposit has been identified over a length of approximately 2.5 miles and has been found to a depth of more than 2,600 feet. It is covered by a thin layer of glacial till but otherwise reaches to the surface at the northern edge.

#### **(g) Development Plans**

The DFS prepared by Bateman contemplated the development of a new open pit mine at our NorthMet ore body, using existing rail infrastructure to transport ore from the mine site to our Erie Plant, where we would use our existing facilities to crush and mill the rock. The finely ground material would then pass to a new flotation circuit with waste material sent to existing tailings facilities. The 2006 plan contemplated a hydrometallurgical plant to recover value-added metals from the concentrate.

In 2008 we reported revised plans that included the sale of concentrate during the construction and commissioning of the autoclaves resulting in a shorter pre-production construction period and reduced capital costs prior to first revenues, with the new metallurgical facilities to be constructed during initial production and sales of concentrate and funded from cash flow from initial operations.

In 2011 we further simplified the proposed metallurgical process and we announced that we planned to build the Project in two phases:

Phase I: produce and market concentrates containing copper, nickel, cobalt and precious metals;  
and

Phase II: process the nickel concentrate through an autoclave, resulting in production and sale of high grade copper concentrate, value added nickel-cobalt hydroxide, and precious metals precipitate products.

In 2013, we announced further improvements to the NorthMet Project that we anticipate will reduce the NorthMet Project's environmental impacts. The reduced environmental impacts include: reductions in sulfur dioxide, mercury and greenhouse gas emissions at the plant site, capture of groundwater and surface seepage with the construction of an in ground containment system to the north and west of the existing tailings basin, and all contact water discharged from the NorthMet Project will be treated through reverse osmosis plants.

We plan to complete a Definitive Cost Estimate and Project Update prior to commencement of construction. The Project Update will incorporate numerous process and project improvements, environmental controls described in the SDEIS and subsequent changes that will be reflected in the final EIS. The Project Update will include detailed capital and operating costs reflecting the advanced stage of engineering and design.

#### Saleable Products

Prior to construction and commissioning of the hydrometallurgical plant, we anticipate that we will sell copper concentrate and a nickel bulk concentrate. Once the hydrometallurgical plant is operational, our products will comprise copper concentrate, a mixed hydroxide of nickel and cobalt that will be shipped to a third-party processor to produce nickel and cobalt metals, and a precious metals precipitate that will be shipped to a third-party refiner for production of palladium, platinum and gold.

In October 2008 we entered into an agreement with Glencore whereby Glencore will purchase our production of concentrates, metals, or intermediate products at prevailing market terms at the time of delivery for at least the first 5 years of production.

#### Capital Costs

Our 2008 DFS Update set out total capital cost of \$601.9 million, reflecting both cost inflation and design scope changes since the DFS, including facilities needed to ship concentrate during the construction and commissioning of the new hydrometallurgical plant. This staged approach shortened the initial construction period, makes the project less sensitive to the delivery schedule for long lead time equipment such as autoclave vessels, and means that we can commence operations of the mine, the existing crushing and milling plant, the existing tailings disposal facilities, and the new flotation circuit, before starting the new hydrometallurgical plant.

Further simplification of the metallurgical process reported in 2011 eliminated the planned copper solvent-extraction/electro-winning circuit.



**h) Regulations and Government Rules**

The mining industry has been subject to increasing government controls and regulations in recent years. We have obtained all necessary permits for exploration work performed to date and anticipate no material problems obtaining the necessary permits to proceed with further development.

**Disclosure Pursuant to Section 219 of the Iran Threat Reduction & Syria Human Rights Act**

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ( ITRA ), effective August 10, 2012, added a new subsection (r) to Section 13 of the Exchange Act, which requires issuers that file periodic reports with the SEC to disclose in their annual and quarterly reports whether, during the reporting period, they or any of their affiliates (as defined in Rule 12b-2 under the Exchange Act) have knowingly engaged in specified activities or transactions relating to Iran, including activities not prohibited by U.S. law and conducted outside the U.S. by non-U.S. affiliates in compliance with applicable laws. Issuers must also file a notice with the SEC if any disclosable activity under ITRA has been included in an annual or quarterly report.

Because the SEC defines the term affiliate broadly, our largest shareholder may be considered an affiliate of the Company despite the fact that the Company has no control over our largest shareholder's actions or the actions of its affiliates. As such, pursuant to Section 13(r)(1)(D)(iii) of the Exchange Act, the Company hereby discloses the following information provided by our largest shareholder regarding transactions or dealings with entities controlled by the Government of Iran (the GOI ):

During the period from February 1, 2014 until January 31, 2015, a non-U.S. affiliate of the largest shareholder of the Company (the non-U.S. Shareholder Affiliate ) entered into sales contracts for agricultural products for delivery to Iranian entities wholly or majority owned by the GOI. The non-U.S. Shareholder Affiliate performed its obligations under the contracts in compliance with applicable sanction laws and, where required, with the necessary prior approvals by the relevant governmental authorities.

The gross revenue of the non-U.S. Shareholder Affiliate related to these contracts did not exceed the value of \$119 million for the twelve months ended January 31, 2015. The non-U.S. Shareholder Affiliate does not allocate net profit on a country-by-country or activity-by-activity basis, but estimates that the net profit attributable to the contracts would not exceed a small fraction of the gross revenue from such contracts. It is not possible to determine accurately the precise net profit attributable to such contracts.

The contracts disclosed above do not violate applicable sanctions laws administered by the U.S. Department of the Treasury, Office of Foreign Assets Control, and are not the subject of any enforcement action under Iran sanction laws.

In compliance with applicable economic sanctions and in conformity with U.S. secondary sanctions, the non-U.S. Shareholder Affiliate expects to continue to engage in similar activities in the future.

Neither the Company nor any of its subsidiaries (i) engaged in any transactions or activities requiring disclosure under ITRA nor (ii) were involved in the transactions described in this section. As of the date of this report, the Company is not aware of any other activity, transaction or dealing by us or any of its affiliates during the fiscal year ended January 31, 2015 that requires disclosure in this report under Section 13(r) of the Exchange Act.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.



**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****(a) Operating Results**

This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes for the years ended January 2015, 2014, and 2013 appearing under Item 18 Financial Statements and listed under Item 19 Exhibits.

Our functional currency is the United States dollar and our financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

**Summary of Key Developments During the Fiscal Year Ended January 31, 2015**

During the year ended January 31, 2015, and through the date of the filing of this Annual Report, we continued to advance our NorthMet Project including the activities noted below:

Completion of the public review and comment period on the SDEIS on March 13, 2014.;

EPA review of the SDEIS, including an EC-2 rating. The EC-2 rating is the highest rating for a proposed mining project, so far as we are aware;

The Co-lead Agencies made substantial progress responding to approximately 58,000 comments received on the SDEIS. In October 2014, the Commissioner of the MDNR indicated at a public meeting that he thought preparation of the EIS would be completed in the spring of 2015;

PolyMet advanced its Definitive Cost Estimate and Project Update; and

PolyMet secured a \$30 million loan facility from Glencore to fund the company through fiscal 2016. PolyMet received the first tranche of \$8 million prior to January 31, 2015 and the second tranche of \$8 million on April 15, 2015. The remaining \$14 million is scheduled to be drawn in two further tranches on or before July 1, 2015 and October 1, 2015. Glencore also agreed a one-year extension of \$25 million initial principal convertible debentures, originally issued in 2008, that were due September 30, 2014.

Net cash used in operating and investing activities was \$31.449 million, of which approximately \$19 million was spent on environmental review and permitting as PolyMet pays its own engineering and legal consultants and also reimburses the state of Minnesota for its internal staff costs and the cost of the EIS Contractor. Other spending relates to maintaining existing infrastructure, engineering, and general corporate purposes.

See discussion of subsequent event in section 8(B).

**Summary of Operating Results**

*(All figures in Thousands of U.S. dollar except Loss per share)*

	Year Ended January 31,		
	2015	2014	2013
Revenue	-	-	-
Loss for the Year	(7,276)	(8,132)	(6,626)
Basic and Diluted Loss per Share	(0.03)	(0.04)	(0.04)
Total Assets	313,229	287,525	236,127
Long-Term Debt including Convertible Debt	41,306	36,243	34,458
Total Shareholders' Equity	192,376	196,332	142,912

Year ended January 31, 2015 compared with the year ended January 31, 2014

Overall: Our focus for the fiscal year ended January 31, 2015 was to provide the Co-lead Agencies with input into the final EIS and permit work at our NorthMet Project, and obtain additional financing.

Loss for the year: During the year ended January 31, 2015, we incurred a loss of \$7.276 million (\$0.03 loss per share) compared to a loss of \$8.132 million (\$0.04 loss per share) during the year ended January 31, 2014. The decrease in the net loss for the year was primarily attributable to a decrease in investor and public relations in the current year to \$1.276 million (prior year - \$2.075 million) relating to the Rights Offering in the prior year. This was partially offset by an increase in finance costs in the current year to \$1.816 million, (prior year - \$1.465 million) relating to an increase in the accretion of the environmental rehabilitation provision.

Year ended January 31, 2014 compared with the year ended January 31, 2013

Overall: Our focus for the fiscal year ended January 31, 2014 was to provide the Co-lead Agencies with input into the SDEIS and permit work at our NorthMet Project, and obtain additional financing.

Loss for the year: During the year ended January 31, 2014, we incurred a loss of \$8.132 million (\$0.04 loss per share) compared to a loss of \$6.626 million (\$0.04 loss per share) during the year ended January 31, 2013. The increase in the net loss for the year was primarily attributable to an increase in investor and public relations in the current year to \$2.075 million (prior year - \$0.571 million) relating to the Rights Offering and an increase in finance costs in the current year to \$1.465 million (prior year - \$0.821 million) relating to an increase in the accretion of the environmental rehabilitation provision. These items were partially offset by a decrease in share-based compensation in the current year to \$1.697 million (prior year - \$2.255 million) primarily due to a shareholder approved modification of the expiry dates of outstanding share options in the prior year.

Goals and Outlook for fiscal 2016

Under NEPA, the preliminary final EIS incorporating appropriate responses to the comments will be reviewed by the Co-operating Agencies prior to publication of the final EIS in the Minnesota EQB Monitor and the Federal Register.

Publication of the final EIS and a subsequent adequacy decision by the MDNR and Records of Decision by the federal agencies are necessary before the land exchange can occur and various permits required to construct and operate the NorthMet Project can be issued.

The environmental review and permitting process is managed by the regulatory agencies and, therefore, timelines are not under our control. Understanding that, our objectives include:

- Publication of the final EIS, which we anticipate will be in the summer of 2015;
- Submission of permit applications around the same time as publication of the final EIS;
- Decision on state permits within 150 days of application under state guidelines;
- Records of Decision on the federal 404 Wetland Permit and the Land Exchange;
- Completion of the Definitive Cost Estimate and Project Update; and
- Construction finance plan including commitment of debt prior to the issuance of permits but subject to typical conditions precedent, such as receipt of permits.

We expect to spend approximately \$30 million in the year to January 31, 2016. The primary focus remains completion of the environmental review and permitting process, which is anticipated to cost approximately \$16 million. Other areas of focus include engineering and completion of the definitive cost estimates, which is anticipated to cost approximately \$3 million.



We are in discussion with Glencore regarding a further extension of the \$25 million initial principal convertible debentures and anticipate that either the term will be extended or Glencore will convert on or before September 30, 2015.

Prior to receipt of permits, we will seek to secure construction financing that would be available upon receipt of key permits, with construction and ramp-up to commercial production anticipated to take approximately 21 months.

We are in discussion with commercial banks and other financial institutions regarding construction finance.

See additional discussion of environmental review and permitting in section 4(D)(d) and development plans in section 4(D)(g).

**(b) Liquidity and Capital Resources**

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents.

Our capital management objective is to safeguard our ability to continue as a going concern in order to pursue the development of our mineral property. In the management of capital, we include the components of shareholders equity, convertible debt and non-convertible debt. We manage the capital structure and make adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, we may attempt to issue new shares, issue new debt, acquire or dispose of assets. We have no externally imposed capital requirements.

In order to assist in management of our capital requirements, we prepare budgets that are updated as necessary depending on various factors. The budgets are approved by our Board of Directors.

Although we plan to have the resources to carry out our plans and operations through January 31, 2016, we do not currently have sufficient capital to meet our estimated project capital expenditure requirements and are currently in discussions to arrange sufficient capital to meet these requirements. During the upcoming fiscal year, our objective is to identify the source or sources from which we will obtain the capital required to complete the Project.

Year Ended January 31, 2015 compared with the year ended January 31, 2014

As at January 31, 2015 we had a working capital deficiency of \$31.672 million compared with working capital of \$1.872 million as at January 31, 2014 consisting primarily of cash and cash equivalents of \$9.301 million (January 31, 2014 - \$32.790 million), amounts receivable of \$0.381 million (January 31, 2014 - \$1.420 million), prepaid expenses of \$1.108 million (January 31, 2014 - \$1.195 million), accounts payable and accrued liabilities of \$2.673 million (January 31, 2014 - \$3.806 million), convertible debt of \$33.451 million (January 31, 2014 - \$31.967), non-convertible debt of \$4.614 million (January 31, 2014 - \$nil), and the current portion of environmental rehabilitation provision of \$1.724 million (January 31, 2014 - \$1.504 million).

Cash used in operating activities in the year ended January 31, 2015 was \$4.196 million compared to cash used in the year ended January 31, 2014 of \$8.034 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted operating variances.

Cash provided by financing activities for the year ended January 31, 2015 was \$7.977 million compared to cash provided in the year ended January 31, 2014 of \$58.269 million. The current year includes funding of the non-convertible loan and proceeds from share option exercises. The prior year includes proceeds from the rights offering, funding of the Glencore bridge loan, and repayment of the Glencore bridge loan.



Cash used in investing activities for the year ended January 31, 2015 was \$27.253 million compared to cash used in the year ended January 31, 2014 of \$25.523 million. The increase was primarily due to increased efforts surrounding the SDEIS public comment period and review of comments received.

Including the effect of foreign exchange, total cash for the year ended January 31, 2015 decreased by \$23.489 million for a balance of \$9.301 million compared to the year ended January 31, 2014 where cash increased \$24.702 million for a balance of \$32.790 million.

Year Ended January 31, 2014 compared with the year ended January 31, 2013

As at January 31, 2014 we had a working capital deficiency of \$1.872 million compared with working capital of \$2.629 million as at January 31, 2013 consisting primarily of cash and cash equivalents of \$32.790 million (January 31, 2013 - \$8.088 million), amounts receivable of \$1.420 million (January 31, 2013 - \$0.830 million), prepaid expenses of \$1.195 million (January 31, 2013 - \$0.771 million), accounts payable and accrued liabilities of \$3.806 million (January 31, 2013 - \$5.269 million), convertible debt of \$31.967 million (January 31, 2013 - \$nil) and the current portion of environmental rehabilitation provision of \$1.504 million (January 31, 2013 - \$1.808 million).

Cash used in operating activities in the year ended January 31, 2014 was \$8.034 million compared to cash used in the year ended January 31, 2013 of \$1.116 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted operating variances.

Cash provided by financing activities for the year ended January 31, 2014 was \$58.269 million compared to cash provided in the year ended January 31, 2013 of \$10.130 million. The current year includes funding from the Rights Offering. The prior year includes exercise of share options and funding from share issuances to Glencore.

Cash used in investing activities for the year ended January 31, 2014 was \$25.523 million compared to cash used in the year ended January 31, 2013 of \$18.404 million. The increase was primarily due to increased spending on permitting prior to publication of the supplement draft EIS in December 2013.

Including the effect of foreign exchange, total cash for the year ended January 31, 2014 increased by \$24.702 million for a balance of \$32.790 million compared to the year ended January 31, 2013 where cash decreased \$9.390 million to a balance of \$8.088 million.

Financing Activities

The universal shelf registration on Form F-3 and short form base shelf prospectus were renewed in January 2013 for the same offering limit and covering the same securities. These documents allow us the option to offer and sell, from time to time in one or more offerings, up to \$500 million of our debt securities, common shares, warrants and units in the United States for 36 months and Canada for 25 months. The Company is currently evaluating the renewal of the universal shelf registration in Canada. Unless otherwise specified the net proceeds from the offering of the securities will be used for construction finance for our copper, nickel, precious metals development project located in Minnesota and for working capital. There were no issuances of securities under these registrations during the years ended January 31, 2015 or 2014.



### Glencore Financing

Since October 31, 2008 Glencore has entered into a series of financing agreements and a marketing agreement with us whereby Glencore committed to purchase all of our production of concentrates, metal, or intermediate products on market terms at the time of delivery, for at least the first five years of production. As part of the 2013 financing agreement, we entered into a Corporate Governance Agreement whereby from January 1, 2014, as long as Glencore holds 10% or more of our shares (on a fully diluted basis), Glencore shall have the right, but not obligation to designate at least one director and not more than the number of directors proportionate to Glencore's fully diluted ownership of us, rounded down to the nearest whole number, such number to not exceed 49% of the total board.

The financing agreements comprise \$25.0 million initial principal debentures in calendar 2008 drawn in four tranches (Tranches A through D, together the 2008 Debenture ), \$25.0 million placement of our common shares in calendar 2009 in two tranches, \$30.0 million placement of our common shares in calendar 2010 in three tranches, \$20.0 million placement of our common shares in calendar 2011 in one tranche, \$20.960 million purchase of our common shares in the Rights Offering (the Rights Offering ), and \$30.0 million initial principal debentures in calendar 2015 drawn and to be drawn in four tranches. As a result of the series of financing transactions and the purchase by Glencore of our common shares previously owned by Cliffs, Glencore's current and potential ownership of us comprises:

78,724,821 shares representing 28.5% of our issued and outstanding common shares;

\$25.0 million initial principal floating rate secured debentures due September 30, 2015. Including capitalized and accrued interest as at January 31, 2015, these debentures are exchangeable at \$1.2920 per share into 25,891,843 of our common shares upon us giving Glencore notice that we have received permits necessary to start construction of NorthMet and availability of senior construction finance in a form reasonably acceptable to Glencore or are repayable on September 30, 2015. The exercise price of the exchange warrants and the number of warrants are subject to conventional anti-dilution provisions which were triggered upon close of the Rights Offering; and

Glencore holds warrants to purchase 6,458,001 common shares at \$1.3007 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ( VWAP ) of our common shares is equal to or greater than 150% of the exercise price and we provides notice to Glencore that we have received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore. The exercise price of the purchase warrants and the number of warrants are subject to conventional anti-dilution provisions which were triggered upon close of the Rights Offering.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 111,074,665 of our common shares, representing 36.0% on a partially diluted basis, that is, if no other options or warrants were exercised or 33.3% on a fully diluted basis, if all other options and warrants were exercised, whether they are currently in-the-money or not.

On April 10, 2013, we amended our previous financing arrangement and issued a Tranche E debenture ( 2013 Debenture ) with the principal amount of \$20.0 million to Glencore and Glencore agreed to a Standby Purchase Agreement ( Standby ) related to a proposed \$60.480 million Rights Offering by the Company. Under the Standby, Glencore agreed to purchase any common shares offered under the Rights Offering that were not subscribed for by holders of the rights, subject to certain conditions and limitations. The 2013 Debenture carried a fixed interest rate of 4.721% per annum payable in cash monthly and was repaid upon the closing of the Rights Offering on July 5, 2013. We provided security by way of a guarantee and by our assets and our wholly-owned subsidiary. The 2013 Debenture was issued on April 11, 2013. We accounted for the 2013 Debenture issued initially at fair value and subsequently at its amortized cost. Transaction costs for the financing were \$0.103 million.

Glencore purchased 31,756,979 of our common shares for \$20.960 million upon closing of the Rights Offering on July 5, 2013.



On April 25, 2014 we and Glencore extended the term of the 2008 Debentures and the expiration date of the associated Exchange Warrants to the earlier of the Early Maturity Event (as defined above) or September 30, 2015. All other terms of both the debentures and the warrants described above are unchanged.

On January 28, 2015, we amended our previous financing arrangement and agreed to issue to Glencore new Tranche F, G, H, and I debentures with the total principal amount of \$30.0 million. Tranche F in the amount of \$8.0 million was issued on January 30, 2015. Tranche G in the amount of \$8.0 million was issued subsequent to year end on April 15, 2015. Tranches H and I in the amounts of \$8 million and \$6 million respectively are to be issued on or before July 1 and October 1, 2015 respectively. The 2015 Debentures bear interest at 12-month US dollar LIBOR plus 8.0% per annum payable in cash upon maturity and matures on the earlier of (i) the availability of at least \$100 million of finance provided we demonstrate repayment is prudent or (ii) March 31, 2016. We provided security by way of a guarantee and a pledge of our assets and our wholly-owned subsidiary. We recognized the Tranche F Debenture initially at fair value and subsequently accounted for the debenture at its amortized cost. Transaction costs for the financing were \$0.150 million.

#### Iron Range Resources & Rehabilitation Board ("IRRRB") Financing

On June 30, 2011 we closed a \$4.000 million loan from the IRRRB, a development agency created by the State of Minnesota to stabilize and enhance the economy of northeastern Minnesota. At the same time, we exercised our options to acquire two tracts of land as part of the proposed land exchange with the USFS. The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually if not paid, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS (expected to occur within 12 months from January 31, 2015). We issued warrants giving the IRRRB the right to purchase 461,286 of our common shares at \$2.1678 per share at any time until the earlier of June 30, 2016 and one year after permits are received.

#### AG for Waterfowl, LLP ("AG") Financing

In March 2012 we acquired a secured interest in land ( AG Land ) owned by AG that is permitted for restoration to wetland. AG subsequently assigned the agreement to EIP Minnesota, LLC ( EIP ) in September 2012. EIP will restore the wetlands and, upon completion, wetland credits are to be issued by the proper governmental authorities. In April 2015 we entered into a revised agreement with EIP whereby EIP will seek to sell to third parties credits that we do not need and, over time, reimburse us for our costs.

As part of the initial consideration, AG holds warrants to purchase 1,249,315 common shares at \$1.3007 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price ( VWAP ) of our shares is equal to or greater than \$3.00 and we provide notice to AG that we have received permits necessary to start construction of the NorthMet Project. The exercise price of the purchase warrants and the number of warrants are subject to conventional anti-dilution provisions.

#### Rights Offering Financing

On May 24, 2013, we filed the final prospectus for an offering of rights ("Rights") to holders of our common shares to raise up to \$60.480 million in gross proceeds (the "Rights Offering"). Every shareholder received one Right for each common share owned on June 4, 2013, the Record Date, and two Rights entitled the holder to acquire one new common share at \$0.66 per share.

Upon the closing of the Rights Offering on July 5, 2013, we issued a total of 91,636,202 common shares for gross proceeds of \$60.480 million. Expenses and fees relating to the Rights Offering were \$2.108 million, including the \$1.061 million standby commitment fee paid to Glencore, and reduced the gross proceeds recorded as share capital. The closing of the Rights Offering triggered customary anti-dilution provisions for outstanding warrants, share options, and unissued restricted share units.



Other Financings

During the year ended January 31, 2015 we issued 75,000 shares (prior year - nil) upon exercise of options for proceeds of \$0.081 million (prior year - \$nil).

During the year ended January 31, 2015, we also issued 143,130 shares (prior year - 140,123) as partial payment for options to purchase land.

Escrowed Securities

As at January 31, 2015, we had the following outstanding securities held in escrow:

Designation of Class	Number of Securities held in Escrow	Percentage of Class
Common shares <sup>(1)</sup>	371,854	0.01%
Common shares <sup>(2)</sup>	350,353	0.01%

(1) Common shares held by Andersen & Butterworth, P.A. were issued in connection with purchase of the Wetland Credit Intangible and have subsequently been released from escrow.

(2) Common shares held by Farris, Vaughan, Wills & Murphy LLP and were issued as restricted shares to U.S. employees.

**(c) Research and Development, Patents and Licenses, Etc.**

We are engaged in the exploration and development of mineral properties. See Item 5(a) and 5(b) above for a discussion of the expenditures incurred in connection with our business activities.

We hold a royalty-free license to use the PLATSOL technology originally developed for our NorthMet deposit by International PGM Technologies to recover precious metals from a hydrometallurgical circuit. Separately, we have filed for patents related to copper concentrate enrichment technology that we have developed. PLATSOL and the copper concentrate enrichment technology will not be used in Phase I of the project development but we do plan to use them in Phase II upgrading of the nickel-PGM concentrate.

**(d) Trend Information**

There are no major trends anticipated to have a material effect on our financial condition and results of operations in the near future.

**(e) Off-Balance Sheet Arrangements**

None.

**(f) Tabular Disclosure of Contractual Obligations**

The following table lists as at January 31, 2015 information with respect to our known contractual obligations and environmental rehabilitation provision:

<b>Contractual Obligations (in 000 s)</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 3 years</b>	<b>3 5 years</b>	<b>More than 5 years</b>
Accounts payable and accrued liabilities	\$ 2,673	\$ 2,673	\$ -	\$ -	\$ -
Convertible debt	34,493	34,493	-	-	-
Non-convertible debt	13,747	5,111	8,636	-	-
Environmental rehabilitation provision	72,563	1,724	6,972	25,734	38,133
Commitments	3,900	2,964	616	204	116
<b>Total</b>	<b>\$ 127,376</b>	<b>\$ 46,965</b>	<b>\$ 16,224</b>	<b>\$ 25,938</b>	<b>\$ 38,249</b>

**(g) Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, which requires the use of certain critical accounting estimates. These critical accounting estimates require management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements.

Critical accounting estimates and judgments made in the preparation of these consolidated financial statements are as follows:

**(i) Determination of mineral reserves**

Reserves are estimates of the amount of product that can be economically and legally extracted from our property. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. In addition, management will form a view of forecast sales prices, based on current and long-term historical average price trends. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, rehabilitation provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

**(ii) Impairment of non-financial assets**

The carrying amounts of our non-financial assets, including mineral property, plant and equipment, and wetland credit intangible are reviewed at each reporting date or when events or changes in circumstances occur that indicate the asset may not be recoverable to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss previously recorded is reversed if there has been a change in the estimates used to determine the recoverable amount resulting in an increase in the estimated service potential of an asset.

For its mineral property interest the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral property interests. Internal sources of information the Company

considers include indications of economic performance of the asset. No impairment loss for of the mineral property interests was recorded for the year ended January 31, 2015 or January 31, 2014.

(iii) Provisions for Environmental Rehabilitation Costs

Provisions for environmental rehabilitation costs associated with mineral property, plant and equipment, are recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

It is possible that our estimates of our ultimate environmental rehabilitation liabilities could be affected by changes in regulations, changes in the extent of environmental rehabilitation required, changes in the means of rehabilitation, changes in the extent of responsibility for the financial liability or changes in cost estimates. Our operations may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon us may vary greatly and are not predictable.

Our provision for environmental rehabilitation cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability.



**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

Each Director serves until the next annual general meeting of shareholders or until his/her successor is duly elected, unless his/her office is vacated in accordance with our Articles of Incorporation. Vacancies on the Board of Directors are filled by election from nominees chosen by the remaining Directors and the persons filling those vacancies will hold office until the next annual general meeting of shareholders, at which time they may be re-elected or replaced.

The following is a list of the names and ages of our directors and senior management:

<b>Name</b>	<b>Age</b>	<b>Position</b>
W. Ian L. Forrest	76	Chairman, Director
Jonathan Cherry	45	Director, President, and Chief Executive Officer
Matthew Daley	36	Director
David Dreisinger	57	Director
Alan R. Hodnik	55	Director
William Murray	66	Director
Stephen Rowland	53	Director
Michael M. Sill	53	Director
Douglas J. Newby	56	Chief Financial Officer
Bradley Moore	54	Executive Vice President, Environmental & Governmental Affairs

**W. Ian L. Forrest** has served as a member of our board of directors since October 2003 and our Chairman since July 2012. Mr. Forrest previously served as Chairman of our board until from May 2004 to February 2008 and Co-Chairman from January 2011 to July 2012. He also serves as the Chair on both our Business Development and Risk Management and our Nominating and Corporate Governance committees and serves on our Audit, our Compensation, and our Capital Finance committees. Mr. Forrest played an important role in our revival in 2003. Mr. Forrest is a member of the Institute of Chartered Accountants of Scotland. Mr. Forrest has more than 40 years of experience with public companies in the resource sector. His experience encompasses the areas of promotion, financing, exploration, production and company management. He has also participated in several notable projects including Gulfstream's North Dome gas discovery, Qatar, Reunion Mining's Scorpion zinc, Namibia, which was subsequently developed by Anglo American, and Ocean Diamond Mining, which pioneered the independent diamond dredging industry off the west coast of southern Africa. He also served as a director of Tanager Energy Inc. (formerly MGold Resources Inc.) until October, 2011 and Belmore Resources (Holdings) plc until July, 2011 when it was acquired by Lundin Mining Ltd. He currently serves on the boards of Georex SA and Poros SAS. Mr. Forrest was a director of Viatrade plc, which was put into receivership in August 2009. Mr. Forrest currently resides in Vaud, Switzerland.

**Jonathan Cherry** has served as our President and Chief Executive Officer and as a member of our board of directors since July 2012. He also serves as the Chair on both our Safety, Health and Environmental and our Capital Finance committees and serves on our Technical Steering committee. Prior to July 2012, Mr. Cherry's career spanned more than 20 years with Rio Tinto where he worked in a number of positions, including general manager, where he was responsible for permitting and the initial development of the Eagle Mine in Michigan's Upper Peninsula. His last position was Vice President with Rio Tinto, responsible for strategic direction in environmental permitting and compliance, legal matters and external relations related to mine development of the Resolution copper project in Arizona. Mr. Cherry is a licensed Professional Engineer. Mr. Cherry currently resides in Minnesota, United States.

**Matthew Daley** has served as a member of our board of directors since July 2014. He also serves on both our Technical Steering and our Safety, Health and Environmental committees. Mr. Daley started his career with Mount Isa Mines in Australia, then held senior management positions with Xstrata plc in Australia, Asia and South America before joining Glencore Xstrata plc in Canada in 2013. He is responsible for technical and project support for Glencore's copper assets in Australia, Asia and the Americas. Mr. Daley currently resides in Ontario, Canada.



**Dr. David Dreisinger** has served as a member of our board of directors since October 2003. He serves on our Safety, Health and Environmental, our Audit, our Technical Steering and on our Nominating and Corporate Governance committees. Since 1988, Dr. Dreisinger has been a member of the faculty at the University of British Columbia in the Department of Materials Engineering and is currently Professor and Chairholder of the Industrial Research and Chair in Hydrometallurgy. He has published over 250 papers and has been extensively involved as a process consultant in industrial research programs with metallurgical companies. Dr. Dreisinger has participated in 19 U.S. patents for work in areas such as pressure leaching, ion exchange removal of impurities from process solutions, use of thiosulfate as an alternative to cyanide in gold leaching, and leach-electrolysis treatment of copper recovery from sulfide ores, and the Sepon Copper Process for copper recovery from sulfidic-clayey ores. Dr. Dreisinger serves as a director of Search Minerals, Inc. and as Vice President Metallurgy for each of Baja Mining Corp, Search Minerals Inc., and TriMetals Mining Inc. Dr. Dreisinger currently resides in British Columbia, Canada.

**Alan R. Hodnik** has served as a member of our board of directors since March 2011. He also serves as the Chair on our Compensation Committee and serves on our Safety, Health and Environmental, our Business Development and Risk Management and our Nominating and Corporate Governance committees. Mr. Hodnik was named President of ALLETE, Inc. in May 2009, CEO in May 2010, and Chairman of that company in May 2011. Since joining ALLETE in 1982, Mr. Hodnik has served as Vice President-Generation Operations, Senior Vice President of Minnesota Power Operations, and Chief Operating Officer. As Chief Operating Officer, he led BNI Coal Mining, Superior Water Light & Power (SWLP) and transmission, distribution, generation, customer service and engineering for all aspects of Minnesota Power. Mr. Hodnik also serves on the Edison Electric Institute (EEI) Board of Directors. Mr. Hodnik was elected and served as Mayor of the City of Aurora, Minnesota from 1987-1998. The cities of Aurora and Hoyt Lakes co-host our PolyMet Erie Mine site location. He is a member of the board of Essentia Health-East Region and the Area Partnership for Economic Expansion (APEX). Mr. Hodnik currently resides in Minnesota, United States.

**William Murray** served as our Executive Chairman from February 2008 to December 2010 and has served as a member of our board of directors since March 2003. He previously served as our President and Chief Executive Officer from March 2003 until February 2008. He also serves as the Chair of our Technical Steering Committee and serves on our Business Development and Risk Management and our Compensation committees. Mr. Murray is an engineer in the mining industry with more than 35 years of experience in construction management, project evaluation in North America and Africa. From April 1993 to 2003, Mr. Murray provided consulting services to the mining industry as a principal of Optimum Project Services Ltd. Prior to that, Mr. Murray was employed by Fluor Daniel, a large U.S. Engineering & Construction contractor, as the Director of New Business from October 1989 to April 1993. From September 1981 to May 1986, Mr. Murray was a Director of Project Services at Denison Mines where he was part of the core team that built the \$1.2 billion Quintette Coal project. From September 1970 to August 1981, Mr. Murray held a number of positions at Anglo American Corp in South Africa, principally in the Gold Division. Mr. Murray is also a director of Aura Minerals, Inc., and Prospero Silver Corp. Mr. Murray currently resides in British Columbia, Canada.

**Stephen Rowland** has served as a member of our board of directors since October 2008. He also serves on our Technical Steering Committee and as an ex-officio member of our Nominating and Corporate Governance Committee. Mr. Rowland has been an executive with Glencore, a diversified natural resources company, since 1988. Mr. Rowland has held various positions with responsibility for international trading in metals and minerals in London, Switzerland, and the United States. Prior to joining Glencore, Mr. Rowland started his career in 1985 with Cargill, Inc. in Minneapolis. Mr. Rowland currently resides in Connecticut, United States.

**Michael M. Sill** has served as a member of our board of directors since March 2011. He also serves as the Chair on our Audit Committee and serves on our Capital Finance, our Safety, Health and Environmental and our Compensation committees. Mr. Sill has served as President and CEO of Road Machinery & Supplies Co. since 1994, having joined the company in 1988. Road Machinery is a distributor of construction, mining and forestry equipment. Educated at Dartmouth College and J.L. Kellogg Graduate School of Management, Mr. Sill started his career as a financial analyst and commercial lending officer with The Northern Trust Company. He has served on the boards of the Associated

Equipment Distributors, Associated General Contractors of Minnesota, the Twin Cities Regional Board of US Bank, and Dunwoody College of Technology. Mr. Sill currently resides in Minnesota, United States.

**Douglas J. Newby** has served as our Chief Financial Officer since November 2005. Mr. Newby has more than 30 years of experience in the evaluation and financing of mining companies and projects around the world. Before coming to PolyMet, Mr. Newby served variously as a Director, Executive Vice President, interim Chairman, President and Chief Executive Officer of Western Goldfields, Inc. (now New Gold, Inc.) a US-based gold mining company. Mr. Newby has also been President of Proteus Capital Corp., a corporate advisory firm that specializes in the natural resource industries, since July 2001. Mr. Newby served as Managing Director of Proteus Consultants Ltd. from January 1991 to July 2001. Prior to January 1991, Mr. Newby held senior positions with the investment banking firms of S.G. Warburg & Co., Inc., Morgan Grenfell & Co., and James Capel & Co. From June 2011 to August 2014 Mr. Newby served as a director of Coronet Metals, Inc., a Canadian company developing a gold mine in Peru. Mr. Newby currently resides in New York, United States.

**Bradley Moore** has served as our Executive Vice President, Environmental & Government Affairs since January 2011. Mr. Moore has nearly 30 years experience in regulatory and government relation positions. He served as Commissioner of the Minnesota Pollution Control Agency from 2006 to 2008, and as Assistant Commissioner for Operations of the Minnesota Department of Natural Resources ( MDNR ) from January 1999 to August 2006. Prior to that, he worked in leadership and policy analyst positions with the MDNR and the Minnesota Department of Public Service (now the Department of Commerce). In December 2008, Mr. Moore joined Barr Engineering as Senior Advisor, Public and Governmental Affairs where he advised several companies on environmental strategy. Mr. Moore currently resides in Minnesota, United States.

## B. Statement of Executive Compensation

During the fiscal year ended January 31, 2015, we had five Named Executive Officers ( NEOs ) (for the purposes of applicable securities legislation): Jonathan Cherry, President and Chief Executive Officer; Douglas Newby, Chief Financial Officer; Bradley Moore, Executive Vice President, Environmental & Governmental Affairs; Andrew Ware, Chief Geologist; and Bruce Richardson, Vice President, Corp Communications and External Affairs. Mr. Ware and Mr. Richardson are not executive officers (for the purposes of applicable securities legislation) but constitute NEOs.

The following table sets forth the compensation paid to our Named Executive Officers for the fiscal year ended January 31, 2015:

Named Executive Officer	Salaries Commissions and Bonuses	Options / Restricted Share Units	Pension, Retirement and Similar Benefits <sup>(1)</sup>	Total Compensation
Jonathan Cherry, Director, President and Chief Executive Officer	\$ 509,500	\$ 488,800	\$ 21,000	\$ 1,019,300
Douglas Newby, Chief Financial Officer	317,700	207,100	7,500	532,300
Bradley Moore, Executive Vice President, Environmental and Governmental Affairs	241,500	134,800	12,000	388,300
Andrew Ware, Chief Geologist	184,600	104,000	9,000	297,600
Bruce Richardson, Vice President, Corp Communications and External Affairs	\$ 184,000	\$ 102,000	\$ 9,000	\$ 295,000

<sup>(1)</sup> Balances represent Company contributions under 401k pension plans.

The Company has no pension plan or other arrangement for non-cash compensation to the NEOs.

Other than the arrangements noted in the tables above and below, during the fiscal year ended January 31, 2015, no compensation was paid or is payable by us to the directors of the Company, or our subsidiaries, if any, for their services in their capacity as directors, including any amounts payable for committee participation or special assignments;

Director	Director's Fees	Options/Restricted		Total Compensation
			Share Units	
W. Ian L. Forrest	\$ 50,000	\$	25,500	\$ 75,500
David Dreisinger	40,000		25,500	65,500
Alan R. Hodnik	40,000		25,500	65,500
William Murray	40,000		25,500	65,500
Stephen Rowland	40,000		25,500	65,500
Michael M. Sill	40,000		25,500	65,500
Matthew Daley	\$ 20,000	\$	109,500	\$ 129,500

Other than the President and Chief Executive Officer, none of our other directors has a service contract with us providing for benefits upon termination of his employment.

### C. Board Practices

All of our directors hold office until the next annual meeting of shareholders and until their successors have been elected and qualified. Our officers are elected by the Board of Directors at the first Board of Directors meeting after each annual meeting of shareholders and hold office until death, resignation, or upon removal from office.

Our Audit Committee consists of Michael M. Sill (Chair), W. Ian L. Forrest, and Dr. David Dreisinger, all of whom are independent directors. Mr. Forrest meets the criteria of an Audit Committee Financial Expert under the applicable rules and regulations of the SEC and such designation has been ratified by the Board of Directors. The Audit Committee oversees our auditing procedures, receives and accepts the reports of our independent chartered accountants, oversees our internal systems of accounting and management controls, and makes recommendations to the Board of Directors as to the selection and appointment of our auditors.

Our Compensation Committee consists of Alan R. Hodnik (Chair), W. Ian L. Forrest, William Murray and Michael M. Sill, all of whom are independent directors. The function of the Compensation Committee is to administer the 2007 PolyMet Omnibus Share Compensation Plan and to have authority over the salaries, bonuses, and other compensation arrangements of our executive officers.

Our Nominating and Corporate Governance Committee consists of W. Ian L. Forrest (Chair), Alan R. Hodnik, and David Dreisinger, all of whom are independent directors. Stephen Rowland is an ex-officio member as he is not considered independent. The committee (1) identifies individuals qualified to become members of the Board, (2) selects, or recommends to the Board, the director nominees for the next annual shareholders meeting, (3) selects candidates to fill any vacancies on the Board, and (4) develops and recommends to the Board a set of corporate governance principles applicable to PolyMet.

### D. Employees

As at January 31, 2015 we had 24 full-time employees, with 1 located in our Toronto office, 15 located in our Hoyt Lakes office, and 8 located in our St. Paul office. None of our employees are covered by a collective bargaining agreement. We believe that our relations with our employees are good.

### E. Share Ownership

See Item 7(A) for shareholdings of persons listed in Item 6(B).



**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The following table sets forth certain information that has been provided to us regarding the beneficial ownership of our common shares as of April 14, 2015 by those known to our management to be (i) the beneficial owner of more than 5% of our outstanding common shares, (ii) our directors, (iii) our current executive officers identified under Item 6(A), and (iv) all directors and executive officers as a group.

<b>Name and Address of Beneficial Owner</b> <sup>(1)</sup>	<b>Amount and Nature of Beneficial Ownership</b> <sup>(2)</sup>	<b>Percent of Common Shares</b> <sup>(3)</sup>
William Murray <sup>(4)</sup>	3,837,854	1.4%
W. Ian L. Forrest <sup>(5)</sup>	3,629,500	1.3%
Jonathan Cherry <sup>(6)</sup>	3,486,115	1.3%
David Dreisinger <sup>(7)</sup>	2,314,450	*
Douglas J. Newby <sup>(8)</sup>	1,975,750	*
Michael M. Sill <sup>(9)</sup>	1,030,201	*
Stephen Rowland <sup>(10)</sup>	900,000	*
Alan R. Hodnik <sup>(11)</sup>	850,500	*
Bradley Moore <sup>(12)</sup>	685,176	*
Matthew Daley <sup>(13)</sup>	250,000	*
Total directors and executive officers as a group <sup>(14)</sup>	18,959,546	6.8%
<b><u>5% or more shareholders:</u></b>		
Glencore <sup>(15)</sup>	111,373,135	36.0%

Baarermttstrasse 3  
CH-6341 Baar, Switzerland

\* Less than 1.0%

- (1) The address of each person, unless otherwise noted, is c/o PolyMet Mining Corp., 100 King Street West, Suite 5700, Toronto, Ontario M5X 1C7.
- (2) The number of shares beneficially owned by each person or group includes common shares that such person or group had the right to acquire on or within 60 days after that date, including, but not limited to, upon the exercise of options and vesting and release of restricted stock units. To our knowledge, except as otherwise indicated in the footnotes to this table and subject to applicable community property laws, each shareholder named in the table has the sole power to vote or direct the voting of (voting power) and the sole power to sell or otherwise direct the disposition of (dispositive power) the shares set forth opposite such shareholder's name.
- (3) For each person and group included in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group as described above by the sum of the 276,467,262 common shares outstanding on April 14, 2015 and the number of common shares that such person or group had the right to acquire on or within 60 days of that date, including, but not limited to, upon the exercise of options and upon vesting and payment of restricted stock units.
- (4) Includes 1,007,090 common shares directly owned by Mr. Murray and 1,430,764 common shares held in the name of Group 4 Ventures of which he is the sole shareholder, 300,000 common shares issuable upon exercise of options at an exercise price of CDN\$1.1793 per share set to expire on September 19, 2015, 450,000 common shares issuable upon exercise of options at an exercise price of CDN\$2.3932 per share set to expire on March 20, 2016, 200,000 common shares issuable upon exercise of options at an exercise price of \$0.7110 per share set to expire on February 17, 2019, 150,000 common shares issuable upon exercise of options at an exercise price of \$0.8237 per share set to expire July 11, 2022 and 300,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire December 16, 2023. In addition, Mr. Murray has the right,



upon certain milestones, to receive 93,825 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.

- (5) Includes 2,217,000 common shares owned in the name of Micor Trading SA of which Mr. Forrest is a director and has voting and dispositive control, 562,500 common shares owned in the name of Panares Resources Inc. of which he is a director and has voting and dispositive control, 150,000 common shares issuable upon exercise of options at an exercise price of CDN\$1.1793 per share set to expire on September 19, 2015, 250,000 common shares issuable upon exercise of options at an exercise price of CDN\$2.3932 per share set to expire on March 20, 2016, 150,000 common shares issuable upon exercise of options at an exercise price of \$0.7110 per share set to expire on February 17, 2019 and 300,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire December 16, 2023. In addition, Mr. Forrest has the right, upon certain milestones, to receive 53,571 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (6) Includes 664,095 common shares directly owned by Mr. Cherry, 91,353 restricted common shares for which he has voting power but does not currently have dispositive control, 1,666,667 common shares issuable upon exercise of options at an exercise price of \$0.7613 per share set to expire on June 21, 2022, 562,000 common shares issuable upon exercise of options at an exercise price of \$0.98 set to expire January 17, 2024, and 502,000 common shares issuable upon exercise of options at an exercise price of \$1.0700 set to expire January 5, 2020. In addition, Mr. Cherry holds currently un-exercisable options to acquire 833,333 common shares at an exercise price of \$0.7613 per share set to expire on June 21, 2022 and has the right, upon certain milestones, to receive 347,625 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (7) Includes 1,314,450 common shares directly owned by Dr. Dreisinger, 150,000 common shares issuable upon exercise of options at an exercise price of CDN\$1.1793 per share set to expire on September 19, 2015, 250,000 common shares issuable upon exercise of options at an exercise price of CDN\$2.3932 per share set to expire on March 20, 2016, 150,000 common shares issuable upon exercise of options at an exercise price of \$0.7110 per share set to expire on February 17, 2019, 150,000 common shares issuable upon exercise of options at an exercise price of \$0.7977 per share set to expire on January 7, 2023 and 300,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire December 16, 2023. Mr. Dreisinger has the right, upon certain milestones, to receive 53,571 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (8) Includes 65,000 common shares held in the name of Proteus Capital Corp. of which Mr. Newby is the President and controlling shareholder, 323,750 common shares directly owned by Mr. Newby, 45,000 restricted common shares for which he has voting power but does not currently have dispositive control, 100,000 common shares issuable upon exercise of options at an exercise price of CDN\$0.9972 per share set to expire on December 5, 2015, 500,000 common shares issuable upon exercise of options at an exercise price of CDN\$2.3932 per share set to expire on March 20, 2016, 200,000 common shares issuable upon exercise of options at an exercise price of \$1.0318 per share set to expire on March 8, 2022, 100,000 common shares issuable upon exercise of options at an exercise price of \$0.7977 per share set to expire on January 7, 2023, 219,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 set to expire January 17, 2024, and 213,000 common shares issuable upon exercise of options at an exercise price of \$1.0700 set to expire January 5, 2020 in Mr. Newby's name; and 210,000 common shares issuable upon exercise of options at an exercise price of CDN\$1.1793 per share set to expire on September 19, 2015 held in the name of Proteus Capital Corp. In addition, Mr. Newby has the right, upon certain milestones, to receive 140,803 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.

- (9) Includes 251,500 common shares directly owned by Mr. Sill, 6,201 common shares held in the name of Matthew Sill, 22,500 common shares held in the name of Michael R. Sill Family Trust, of which Mr. Sill is a trustee, 250,000 common shares issuable upon exercise of options by Mr. Sill at an exercise price of USD \$1.7689 per share set to expire on March 10, 2021, 200,000 common shares issuable upon exercise of options at an exercise price of \$1.0318 per share set to expire on March 8, 2022 and 300,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire December 16, 2023. In addition, Mr. Sill has the right, upon certain milestones, to receive 53,571 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (10) Includes 150,000 common shares directly owned by Mr. Rowland, 250,000 common shares issuable upon exercise of options by Mr. Rowland at an exercise price of \$1.0318 per share set to expire on March 8, 2022, 300,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire December 16, 2023 and 200,000 common shares issuable upon exercise of options at an exercise price of \$0.9300 per share set to expire January 9, 2024. In addition, Mr. Rowland has the right, upon certain milestones, to receive 53,571 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (11) Includes 100,500 common shares directly owned by Mr. Hodnik, 250,000 common shares issuable upon exercise of options by Mr. Hodnik at an exercise price of USD \$1.7689 per share set to expire on March 10, 2021, 200,000 common shares issuable upon exercise of options at an exercise price of \$1.0318 per share set to expire on March 8, 2022 and 300,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire December 16, 2023. In addition, Mr. Hodnik has the right, upon certain milestones, to receive 53,571 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (12) Includes 87,176 common shares directly owned by Mr. Moore, 200,000 common shares issuable upon exercise of options at an exercise price of \$1.8816 per share set to expire on January 25, 2021, 100,000 common shares issuable upon exercise of options at an exercise price of \$1.0318 per share set to expire on March 8, 2022, 160,000 common shares issuable upon exercise of options at an exercise price of \$0.9800 per share set to expire January 17, 2024, and 138,000 common shares issuable upon exercise of options at an exercise price of \$1.0700 per share set to expire on January 5, 2020. In addition, Mr. Moore holds currently un-exercisable options to acquire 100,000 common shares at an exercise price of \$1.8816 per share set to expire on January 25, 2021 and has the right, upon certain milestones, to receive 55,720 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (13) Includes 250,000 common shares issuance upon exercise of options at an exercise price of \$1.0700 per share set to expire on July 9, 2024. In addition, Mr. Daley has the right, upon certain milestones, to receive 23,809 common shares issuable under Restricted Share Units for which he currently has neither voting nor dispositive rights.
- (14) Includes 8,202,526 common shares owned, 10,620,667 common shares issuable upon exercise of options, and 136,353 restricted common shares for which the holder has voting power but does not currently have dispositive control. Does not include 929,637 common shares issuable under Restricted Share Units for which the holder currently has neither voting nor dispositive rights nor currently un-exercisable options to acquire 933,333 common shares.
- (15) Includes 78,724,821 common shares owned, \$25.0 million initial principal debentures exchangeable into 26,190,313 of our common shares (including interest capitalized as at March 31, 2015) and warrants to acquire 6,458,001 of our common shares at \$1.3007 per share.

Our shareholder who beneficially owns more than 5% of our common shares outstanding do not have voting rights different from any other shareholders of common shares.

As at April 14, 2015, there were 335 holders of record of our common shares of which 261 were U.S. residents owning 24.0% of our outstanding common shares.

**B. Related Party Transactions**

We conducted transactions with senior management, directors and persons or companies related to these individuals, and paid or accrued amounts as follows:

(in \$000 s)	Year ended January 31,		
	2015	2014	2013
Salaries and other short-term benefits	\$ 1,509	\$ 1,718	\$ 1,468
Other long-term benefits	49	60	54
Termination benefits	-	-	279
Share-based payments <sup>(1)</sup>	1,093	2,366	2,102
Total	\$ 2,651	\$ 4,144	\$ 3,903

<sup>(1)</sup> Share-based payment represents the fair value determined at grant date to be expensed over the vesting period.

There are agreements with key employees that contain severance provisions for termination without cause or in the event of a take-over bid. Other than the President and Chief Executive Officer, none of PolyMet's other directors has a service contract with the Company providing for benefits upon termination of his employment.

As a result of Glencore's ownership of 28.5% of the Company it is also a related party. Transactions with Glencore are described in Item 5(b) above.

To the knowledge of the Company, except as disclosed above, none of the directors, executive officers or other insiders, as applicable, of the Company or any affiliate of the Company has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

**C. Interests of experts and counsel.**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

See Item 18.

**Legal Proceedings and Regulatory Actions**

To the knowledge of Company's management, there are no material legal proceedings or regulatory actions outstanding to which the Company is a party, or to which any of its property is subject to during the financial year ended January 31, 2015, and no such proceedings or regulatory actions are known to the Company to be threatened or pending, as of the date hereof.

**Dividend Policy**

Since our incorporation, we have not declared or paid, and have no present intention to declare or to pay in the foreseeable future, any cash dividends with respect to our common shares. Earnings will be retained to finance further growth and development of our business. However, if our board of directors declares dividends, all common shares will participate equally, and, in the event of liquidation, in our net assets.

**B. Significant Changes**

On April 15, 2015, the Company issued to Glencore a Tranche G Debenture in the initial principal amount of \$8.0 million. The debenture bears interest at 12-month US dollar LIBOR plus 8.0%. The Company has provided security on the debenture covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet's 100% shareholding in PolyMet US. The due date of the Tranche G Debenture is the earlier of (i) the availability of at least \$100 million of finance provided we demonstrate repayment is prudent or (ii) March 31, 2016, on which date all principal and interest accrued to such date will be due and payable.

**ITEM 9. THE OFFER AND LISTING****A. The Offer and Listing Details**

The following table outlines the annual high and low market prices for the five most recent fiscal years:

<b>Fiscal Year Ended</b>	<b>TSX</b>		<b>NYSE MKT</b>	
	<b>High (CDN\$)</b>	<b>Low (CDN\$)</b>	<b>High (US\$)</b>	<b>Low (US\$)</b>
January 31, 2015	1.66	1.08	1.50	1.00
January 31, 2014	1.34	0.69	1.28	0.67
January 31, 2013	1.37	0.73	1.37	0.70
January 31, 2012	2.61	1.00	2.65	0.97
January 31, 2011	3.56	1.33	3.38	1.26

The following table outlines the high and low market prices for each fiscal financial quarter for the two most recent fiscal periods:

<b>Fiscal Quarter Ended</b>	<b>TSX</b>		<b>NYSE MKT</b>	
	<b>High (CDN\$)</b>	<b>Low (CDN\$)</b>	<b>High (US\$)</b>	<b>Low (US\$)</b>
January 31, 2015	1.38	1.17	1.18	1.01
October 31, 2014	1.36	1.14	1.25	1.04
July 31, 2014	1.38	1.08	1.26	1.00
April 30, 2014	1.66	1.13	1.50	1.02
January 31, 2014	1.34	0.77	1.28	0.74
October 31, 2013	0.91	0.69	0.88	0.67
July 31, 2013	1.21	0.74	1.19	0.68
April 30, 2013	1.27	1.02	1.25	0.99

The following table outlines the high and low market prices for the periods indicated:

<b>Month Ended</b>	<b>TSX</b>			<b>NYSE MKT</b>		
	<b>High (CDN\$)</b>	<b>Low (CDN\$)</b>	<b>Total Volume (#)</b>	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>Total Volume (#)</b>
April 1 - 14, 2015	1.61	1.56	109,400	1.29	1.25	1,427,000
March 31, 2015	1.70	1.35	642,900	1.33	1.09	6,982,000
February 28, 2015	1.38	1.26	516,900	1.10	1.04	3,209,400
January 31, 2015	1.38	1.23	505,700	1.18	1.05	3,652,200
December 31, 2014	1.24	1.19	450,900	1.08	1.01	3,429,100
November 30, 2014	1.28	1.17	281,800	1.13	1.05	2,856,900
October 31, 2014	1.21	1.14	266,100	1.08	1.04	3,440,600
September 30, 2014	1.32	1.20	173,700	1.21	1.04	3,999,800
August 30, 2014	1.36	1.26	181,200	1.25	1.15	2,626,000
July 31, 2014	1.36	1.11	311,000	1.24	1.06	4,205,100
June 30, 2014	1.25	1.08	349,000	1.17	1.00	4,638,900
May 31, 2014	1.38	1.25	320,600	1.26	1.15	3,611,500
April 30, 2014	1.55	1.25	574,600	1.41	1.15	7,438,900
March 31, 2014	1.66	1.26	1,341,800	1.50	1.14	14,285,100
February 28, 2014	1.31	1.13	751,400	1.19	1.02	7,334,700





**B. Plan of Distribution**

Not applicable.

**C. Markets**

On April 13, 1984, our common shares commenced trading on what is now the TSX Venture Exchange under the symbol "POM. On February 1, 2007, our common shares graduated to trading on the TSX under the symbol POM. In August 2000, our common shares began trading on the OTCBB under the symbol POMGF. On June 26, 2006, our common shares commenced trading on what is now the NYSE MKT under the symbol PLM.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not Applicable.

**B. Memorandum and Articles of Association**

*Incorporation*

We were incorporated under the name Fleck Resources Ltd. pursuant to the *Companies Act* (British Columbia) and continued under the *Business Corporations Act* (British Columbia) by registration of our memorandum in British Columbia, Canada, under Certificate of Incorporation #BC0228310 on March 4, 1981. We changed our name to PolyMet Mining Corp. on June 10, 1998. We do not have any stated objects or purposes as such that are not required by the corporate laws of the Province of British Columbia. Rather, we are, by such corporate laws, entitled to carry on any activities whatsoever that are not specifically precluded by other statutory provisions of the Province of British Columbia.

*Powers and Functions of the Directors*

The powers and functions of the directors are set forth in our Articles, the current version of which were adopted on October 6, 2004, and in the *Business Corporations Act* (British Columbia). They provide that:

- (a) a director who holds office or possesses any property, right, or interest that could result, directly or indirectly, in the creation of a duty of interest that materially conflicts with his duty or interest as a director must disclose the nature and extent of the conflict and abstain from voting on the approval of the proposed contract or transaction, unless all the directors have a disclosable interest, in which case the director may vote on such resolution, and moreover, may be liable to account to us for any profit that accrued under such an interest contract or transaction;

- (b) a director is not deemed to be interested in a proposed contract or transaction merely because it relates to the remuneration of a director in that capacity. The directors may, in the absence of an independent quorum, vote compensation to themselves;
- (c) there are no specific limitations on the exercise by the directors of our borrowing powers;
- (d) there are no provisions for the retirement or non-retirement of directors under an age limit, and
- (e) there is no requirement for a director to hold any shares in us.

*Rights and Restrictions Attached to the Shares*

As all of our authorized and issued shares are of one class of common shares, there are no special rights or restrictions of any nature or kind attached to any of the shares, including any dividend rights. All authorized and issued shares rank equally in respect to the declaration and receipt of dividends and rights to share in any profits or surplus upon our liquidation, dissolution or winding-up. Each share has attached to it one non-cumulative vote. Shareholders are not liable to further capital calls made by us. There is no specific sinking fund provision or any provision discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares. See further discussion of Shareholder Rights Plan in Item 14.

*Alteration of Share Rights*

The rights of holders of our issued common shares may be altered by special resolution, which requires the approval of the holders of two-thirds or more of the votes cast at a meeting of our shareholders called and held in accordance with applicable law. See further discussion of Shareholder Rights Plan in Item 14.

*Annual General Meetings*

Annual General Meetings are called and scheduled upon decision by the Board of Directors. Pursuant to the *Business Corporations Act* (British Columbia), we are required to hold an annual meeting in each year, not more than 15 months after the date of the most recent annual meeting. The directors may call a meeting of the shareholders whenever they see fit. All meetings of the shareholders may be attended by registered shareholders or persons who hold powers of attorney or proxies given to them by registered shareholders.

*Foreign Ownership Limitations*

Our Articles and other charter documents do not contain limitations prohibiting non-residents, foreigners or any other group from holding or voting shares.

*Change of Control*

There are no provisions in our Articles or charter documents that currently have the effect of delaying, deferring or preventing a change in the control in us, or that would operate with respect to any proposed merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

*Share Ownership Reporting Obligations*

There are no provisions in our Articles requiring share ownership to be disclosed.

Securities legislation in Canada requires that shareholder ownership must be disclosed once a person owns beneficially or has control or direction, directly or indirectly, over greater than 10% of the issued voting shares of a

corporation, such as us. This threshold is higher than the 5% threshold under U.S. securities legislation at which shareholders must report their share ownership.

### **C. Material Contracts**

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which we are a party, for the two years preceding the date of this document:

Acquisition of the mine site lease, see Item 4(D)(c)(i) for a complete description.

Acquisition of the Erie Plant and associated infrastructure acquired in the Asset Purchase Agreements I and II, see Item 4(D)(c)(ii) for a complete description.

Share purchase agreement entered into with Glencore, see Item 5(B) for a complete description.

### **D. Exchange Controls**

There are no governmental laws, decrees or regulations in Canada relating to restrictions on the export or import of capital, or affecting remittance of interest, dividends or other payments to non-resident holders of our common shares. Any remittances of dividends to United States residents are, however, subject to a 15% withholding tax (5% if the shareholder is a company owning at least 10% of the outstanding common shares) pursuant to the reciprocal tax treaty between Canada and the United States. See the section of this Form 20-F entitled "Taxation."

Except as provided in the Investment Canada Act (the "ICA"), which has provisions which govern the acquisition of a control block of voting shares by a person who is not a Canadian resident (a "non-Canadian") of a company carrying on a Canadian business, there are no limitations specific to the rights of non-Canadians to hold or vote the common shares under the laws of Canada or the Province of British Columbia or in our charter documents.

### **E. Taxation**

This summary is not exhaustive of all possible income tax consequences. It is not intended as legal or tax advice to any particular holder of our common shares and should not be so construed. The tax consequences to any particular holder of common shares will vary according to the status of that holder as an individual, trust, corporation, or member of a partnership, the jurisdiction in which that holder is subject to taxation, the place where that holder is resident and, generally, according to that holder's particular circumstances. Each holder should consult his own tax advisor with respect to the income tax consequences applicable to him in his own particular circumstances.

#### **Certain Canadian Federal Income Tax Consequences**

The following is a summary of the material Canadian federal income tax considerations generally applicable to a holder of our common shares who, at all relevant times for the purposes of the Income Tax Act (Canada) and the regulations thereunder (collectively, the "Tax Act"), is not, and is not deemed to be, resident in Canada, deals at arm's length with and is not affiliated with us, holds their common shares as capital property and has not and will not enter into a derivative forward transaction (as defined in the Tax Act) with respect to the common shares of the Company.

Common shares of the Company will generally be considered to be capital property of a holder unless such common shares are held in the course of carrying on a business in Canada or were acquired in one or more transactions considered to be an adventure in the nature of trade for the purposes of the Tax Act. Special rules, which are not discussed in this summary, may apply to a non-resident holder that is an insurer that carries on business in Canada and elsewhere.

This summary is based on the current provisions of the Tax Act, all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister prior to the date hereof (the "Tax Proposals"), and the current published administrative policies and assessing practices of the Canada Revenue Agency ("CRA"). This summary assumes that all Tax Proposals will be enacted in the form proposed; however no assurance can be given that the Tax Proposals will be enacted in the form proposed or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, administrative or legislative decision or action or changes in CRA's administrative and assessing policies and practices, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from those described herein. The provisions of the Tax Act are subject to income tax

treaties to which Canada is a party, including the Canada-United States Income Tax Convention (1980), as amended (the Convention ). **This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular holder. This summary is not exhaustive of all possible Canadian federal income tax consequences that may affect holders of common shares. Accordingly, holders should consult their own tax advisors with respect to their particular circumstances.**

Dividends on Common Shares

Under the Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25 percent on dividends paid or credited, or deemed to have been paid or credited, by the Company. We are responsible for withholding this tax at source. The Convention generally limits the rate of withholding tax on dividends to 15 percent if the shareholder is a resident of the U.S., the dividends are beneficially owned by and paid to such shareholder, and such shareholder is entitled to benefits under the Convention. The rate of withholding tax may be reduced to 5 percent if, in addition to the above, the shareholder is a company that beneficially owns at least 10 percent of the voting stock of the Company.

Disposition of Common Shares

Under the Tax Act, a taxpayer's capital gain or capital loss from a disposition of a share of the Company is the amount, if any, by which the taxpayer's proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of the taxpayer's adjusted cost base of the share and reasonable expenses of disposition. The capital gain or loss is generally computed in Canadian currency using a weighted average adjusted cost base for identical properties.

A non-resident of Canada is generally not subject to tax under the Tax Act in respect of a capital gain realized upon the disposition or deemed disposition of a share of a class that is listed on a designated stock exchange (which includes the TSX) unless the share is taxable Canadian property of the holder and the holder is not entitled to relief under an applicable income tax convention between Canada and the country in which the holder is resident.

Generally, provided that the common shares of the Company are listed on a designated stock exchange (which includes the TSX) at the time of disposition or deemed disposition, a common share will not constitute taxable Canadian property of a holder, unless at any time during the 60-month period immediately preceding the disposition or deemed disposition, (i) the non-resident holder, persons with whom the non-resident holder did not deal at arm's length, or partnerships in which the holder or persons with whom the holder did not deal at arm's length holds a membership interest directly or indirectly through one or more partnerships, or the holder together with any such persons and partnerships, owned 25% or more of our issued shares of any class or series of the Company; and (ii) more than 50% of the fair market value of the common shares was derived, directly or indirectly, from one or any combination of real or immovable property situated in Canada, Canadian resource property (as defined in the Tax Act), timber resource property (as defined in the Tax Act) and an option in respect of, an interest in, or for civil law rights in, such property. Notwithstanding the foregoing, a common share may be deemed to be taxable Canadian property in certain circumstances set out in the Tax Act. Holders whose common shares may constitute taxable Canadian property should consult with their own tax advisors.

### **Certain United States Federal Income Tax Consequences**

The following discussion is a summary of certain U.S. federal income tax consequences that may be relevant with respect to the ownership and disposition of our common shares by a U.S. Holder (as hereinafter defined). This discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the Code), Treasury Regulations promulgated thereunder, administrative rulings and judicial decisions, in each case as of the date hereof. These authorities are subject to differing interpretations and may be changed, perhaps retroactively, resulting in U.S. federal income tax consequences different from those discussed below. We have not sought any ruling from the U.S. Internal Revenue Service (IRS) with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

For purposes of this discussion, a U.S. Holder means a holder of our common shares who is (i) a citizen or an individual resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S., any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if it is subject to the primary supervision of a court within the U.S. and one or more U.S. persons, as defined in the Code, have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. This summary does not apply to you if you are not a U.S. Holder.

This summary applies to you only if you are a U.S. Holder (i) that holds Common Shares as capital assets for tax purposes, and (ii) (a) that is a resident of the United States for purposes of the current Convention between the United States and Canada signed on September 26, 1980 (as amended by the Protocols, the Treaty), (b) whose Common Shares are not, for purposes of the Treaty, effectively connected with a permanent establishment in Canada and (c) that otherwise qualifies for the full benefits of the Treaty.

In addition, this discussion does not address the U.S. federal income tax consequences to certain categories of U.S. Holders subject to special rules, including U.S. Holders that are (i) banks, financial institutions or insurance companies; (ii) regulated investment companies or real estate investment trusts; (iii) brokers or dealers in securities or currencies or traders in securities that elect to use a mark-to-market method of accounting; (iv) tax-exempt organizations, qualified retirement plans, individual retirement accounts or other tax-deferred accounts; (v) holders that hold Common Shares as part of a hedge, straddle, conversion transaction or a synthetic security or other integrated transaction; (vi) holders that have a functional currency other than the United States dollar; (vii) holders that own directly, indirectly or constructively 10 percent or more of the voting power of the Corporation; and (viii) United States expatriates. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our common shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner should consult its own tax advisors as to the U.S. federal income tax consequences of being a partner in a partnership that holds or disposes of our common shares.

This discussion addresses only certain aspects of U.S. federal income taxation to U.S. Holders. In addition, this discussion does not address any U.S. federal alternative minimum tax, U.S. federal estate, gift, or other non-income tax; or state, local or non-U.S. tax consequences of the acquisition, ownership and disposition of Common Shares. U.S. Holders should consult their own tax advisors regarding the U.S. federal, state, local, non-U.S. and other tax consequences of the ownership and disposition of our common shares.

### **Distributions on Common Shares**

Subject to the discussion below under Passive Foreign Investment Company, U.S. Holders receiving dividend distributions (including constructive dividends) with respect to our common shares generally are required to include in gross income for U.S. federal income tax purposes the gross amount of such distributions (without reduction for any Canadian income or other tax withheld from such distributions), equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that we have current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated as a return of capital to the

extent of a U.S. Holder's adjusted tax basis in our common shares and thereafter as capital gain from the sale or exchange of such common shares. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that the full amount of a distribution with respect to the common shares will be treated, and reported by us, as a dividend.



Dividends received by U.S. Holders that are individuals, estates or trusts from a qualified foreign corporation, as defined in the Code, generally are taxed at the same preferential tax rates applicable to long-term capital gains. A corporation that is a passive foreign income company as defined below under Passive Foreign Investment Company, for its taxable year during which it pays a dividend, or for its immediately preceding taxable year, however, is not a qualified foreign corporation. We believe we will meet the definition of a PFIC, dividends received by U.S. Holders that are individuals, estates or trusts generally will be subject to U.S. federal income tax at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). Dividends paid on our common shares will not be eligible for the dividends received deduction provided to corporations receiving dividends from certain U.S. corporations.

In the case of foreign currency (such as Canadian dollars) received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss.

The maximum rate of withholding tax on dividends paid to you pursuant to the Treaty is 15 percent. You may be required to properly demonstrate to the company and the Canadian tax authorities your entitlement to the reduced rate of withholding under the Treaty.

#### Disposition of Common Shares

Subject to the discussion below under Passive Foreign Investment Company, U.S. Holders will recognize gain or loss upon the sale of our common shares equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the U.S. Holder's tax basis in our common shares. Any gain or loss on disposition of our common shares generally will be U.S. source gain or loss and will be capital gain or loss. If, at the time of the disposition, a U.S. holder is treated as holding the common shares for more than one year, such gain or loss will be a long-term capital gain or loss. Long-term capital gain recognized by a non-corporate U.S. holder is currently subject to taxation at a reduced rate. The deductibility of capital losses is subject to limitations.

#### Passive Foreign Investment Company

We believe that we will meet the definition of passive foreign investment company under Section 1297 of the Code. A U.S. Holder that holds shares in a non-U.S. corporation during any year in which such corporation is a PFIC is subject to numerous special U.S. federal income tax rules. A non-U.S. corporation is considered to be a PFIC for any taxable year if either: at least 75% of its gross income is passive income (the income test), or at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the asset test).

For purposes of the income test and the asset test, respectively, we will be treated as earning our proportionate share of the income and owning our proportionate share of the assets of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the shares. In addition, for purposes of the income test, passive income does not include any interest, dividends, rents, or royalties received or accrued by us from certain related persons, to the extent such items are properly allocable to income of such related person that is not passive.

We must make a separate determination each year as to whether or not we are a PFIC. As a result, our PFIC status may change. In particular, because the total value of our assets for purposes of the asset test will be calculated using the market price of our common shares (assuming that we continue to be a publicly traded corporation for purposes of the PFIC rules), our PFIC status will depend in large part on the market price of our common shares. Accordingly, fluctuations in the market price of our common shares may result in our being a PFIC for any year. If we are a PFIC for any year during which a U.S. Holder holds our common shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds the common shares, absent a special election. For instance, if we cease to be a PFIC, a U.S. Holder may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to its common shares pursuant to which such U.S. Holder recognizes gain (which

will be taxed under the default PFIC tax rules discussed below) as if such common shares had been sold on the last day of the last taxable year for which we were a PFIC. If a non-U.S. corporation is a PFIC for any taxable year and any of its non-U.S. subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules.

If we are a PFIC for any taxable year during which a U.S. Holder holds our common shares, such U.S. Holder will be subject to special tax rules with respect to any excess distribution that it receives and any gain it realizes from a sale or other disposition (including a pledge) of the common shares, unless the U.S. Holder makes a mark-to-market election, as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions such U.S. Holder received during the shorter of the three preceding taxable years and its holding period for the common shares will be treated as an excess distribution. Under these special tax rules, (a) the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we became a PFIC will be treated as ordinary income, and (c) the amount allocated to each other taxable year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year. You will be required to file IRS Form 8621 if you hold our Rights or Common Shares in any year in which we are classified as a PFIC.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the disposition of the common shares cannot be treated as capital.

Alternatively, a U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election with respect to shares of a PFIC to elect out of the tax treatment discussed above. If a U.S. Holder makes a valid mark-to-market election for the common shares, the U.S. Holder will include in income each year an amount equal to the excess, if any, of the fair market value of the common shares as of the close of its taxable year over its adjusted basis in such common shares. The U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of the common shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the common shares included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of the common shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the common shares, as well as to any loss realized on the actual sale or disposition of the common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such common shares. A U.S. Holder's basis in the common shares will be adjusted to reflect any such income or loss amounts. If a U.S. Holder makes such an election, the tax rules that ordinarily apply to distributions by corporations that are not PFICs would apply to distributions by us, except that the preferential tax rates applicable to long-term capital gains on dividends received from a qualified foreign corporation discussed above under Distributions on the Common Shares would not apply.

The mark-to-market election is available only for marketable stock, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange, including the TSX and the NYSE MKT, or other market, as defined in applicable U.S. Treasury regulations. We cannot provide any assurances that our common shares will continue to be listed on each of the TSX and the NYSE MKT on at least 15 days during each calendar quarter and traded in other than de minimis quantities. You are urged to consult your own tax advisor concerning the availability of the mark-to-market election.

If a non-U.S. corporation is a PFIC, a holder of shares in that corporation can avoid taxation under the rules described above by making a qualified electing fund election to include the holder's share of the corporation's income on a current basis in gross income. However, a U.S. Holder can make a qualified electing fund election with respect to its common shares only if we furnish the U.S. Holder annually with certain tax information, and we do not intend to prepare or provide such information.

You are urged to consult your own tax advisors concerning the U.S. federal income tax consequences of holding Common Shares if we are considered a PFIC any taxable year.

#### Foreign Tax Credits

Subject to certain conditions and limitations, including potential limitations under the Treaty, Canadian taxes paid on or withheld from distributions from us and not refundable to a U.S. Holder may be, at the election of such U.S. Holder, either credited against such U.S. Holder's U.S. federal income tax liability or deducted from such U.S. Holder's taxable income. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by or withheld from a U.S. Holder that year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's foreign source taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. In addition, this limitation is calculated separately with respect to specific categories of income. Dividends paid by us generally will constitute foreign source income and generally will be categorized as passive category income.

Because the rules governing foreign tax credits are complex, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

#### Additional Tax on Passive Income

For tax years beginning after December 31, 2012, certain individuals, estates and trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on net investment income including, among other things, dividends and net gain from dispositions of property (other than property held in a trade or business). U.S. Holders should consult with their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of Common Shares.

#### Information Reporting: Backup Withholding Tax

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on individuals who are U.S. Holders that hold certain specified foreign financial assets in excess of \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Common Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult with their own tax advisors regarding the requirements of filing information returns under these rules, including the requirement to file an IRS Form 8938.

In general, payments made in the U.S. or through certain U.S. related financial intermediaries with respect to the ownership and disposition of our common shares will be required to be reported to the IRS unless the U.S. Holder is a corporation or other exempt recipient and, when required, demonstrates this fact. In addition, a U.S. Holder may be subject to a backup withholding (currently at a rate of 28%) on such payments unless the U.S. Holder (i) is a corporation or other exempt recipient and when required, demonstrates this fact or (ii) provides a taxpayer identification number and otherwise timely complies with applicable certification requirements. U.S. Holders should consult their own tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability and such U.S. Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

**THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS FOR GENERAL INFORMATION PURPOSES ONLY, DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF THE POTENTIAL TAX CONSIDERATIONS RELATING TO OUR COMMON SHARES AND IS NOT TAX ADVICE. U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES.**

**F. Dividends and Paying Agents**

Not Applicable.

**G. Statement by Experts**

None of the following companies, partnerships or persons, each being persons or companies who have prepared or supervised the preparation of reports relating to the Corporation's mineral properties and whose profession or business gives authority to such reports, or partner thereof, as applicable, received or has received a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. As of the date hereof, the aforementioned persons and persons at the companies specified above who participated in the preparation of such reports, as a group, beneficially own, directly or indirectly, less than 1 % of our outstanding securities of any class and less than 1% of the outstanding securities of any class of our associates or affiliates, except for David Dreisinger and William Murray, who are both directors of the Corporation:

Pierre Desautels, P. Geo., of AGP Mining Consultants Inc., of Barrie, ON;  
Gordon Zurowski, P. Eng., of AGP Mining Consultants Inc., of Barrie, ON;  
Karl Everett, P. E., of Foth Infrastructure & Environment LLC; of Duluth, MN;  
David Dreisinger, Ph.D., P Eng., of Dreisinger Consulting Inc., of Delta, BC; and  
William Murray, P. Eng., of Optimum Project Services Ltd., of Richmond, BC

None of such persons, or any director, officer or employee, as applicable of any such companies or partnerships, is currently expected to be elected, appointed or employed as a director, officer or employee of the Corporation or any of our associates or affiliates, except for David Dreisinger and William Murray, who are both directors of the Corporation.

**H. Documents on Display**

All documents referred to in this Form 20-F are available for inspection at our registered and records office, listed below, during normal office hours.

Farris LLP  
c/o Farris, Vaughan, Wills & Murphy LLP  
2500 - 700 W Georgia St  
Vancouver BC  
Canada V7Y 1B3

We are subject to the informational requirements of the Exchange Act. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this Annual Report on Form 20-F and its exhibits, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional office at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the materials may be obtained from the Public Reference Room of the Commission at 100 F. Street, N.E., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330.

Our reports, registration statements and other information can also be inspected on EDGAR available on the SEC's website at [www.sec.gov](http://www.sec.gov).

In Canada, additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our Management Information Circular for our most recent annual meeting of security holders that involves the election of directors.



Additional financial information is provided in our financial statements and MD&A, copies of which can be obtained by contacting our Corporate Secretary in writing at 100 King Street West, Suite 5700, Toronto, Ontario M5X 1C7 or by e-mail at [info@polymetmining.com](mailto:info@polymetmining.com). Copies of such documents will be provided to shareholders free of charge.

Additional information relating to PolyMet may be found on the System for Electronic Document Analysis and Retrieval ( SEDAR ) at [www.sedar.com](http://www.sedar.com).

**I. Subsidiary Information**

Not Applicable

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Currency Risk**

The Company incurs expenditures in Canada and in the United States. The functional and reporting currency of the Company and its subsidiary is the US dollar. Foreign exchange risk arises because the amount of Canadian dollar cash and cash equivalents, amounts receivable, or accounts payables and accrued liabilities will vary in US dollar terms due to changes in exchange rates.

As the majority of the Company's expenditures are in US dollars, the Company has kept a significant portion of its cash and cash equivalents in US dollars. The Company has not hedged its exposure to currency fluctuations.

Based on net exposures as at January 31, 2015, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately \$9,000.

**Interest Rate Risk**

Interest rate risk arises from interest paid on floating rate debt and interest received on cash and short-term deposits. The Company has not hedged any of its interest rate risk. The Company currently capitalizes the majority of interest charges, and therefore the risk exposure is primarily on cash interest payable and net earnings in relation to the subsequent depreciation of capitalized interest charges.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable.



**PART II**

**ITEM 13. DEFAULT, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHT OF SECURITY HOLDERS AND USE OF PROCEEDS**

**Shareholder Rights Plan**

The Shareholder Rights Plan is designed to ensure that all shareholders receive equal treatment and to maximize shareholder values in the event of a take-over bid or other acquisition that could lead to a change in control of the Company. It is not intended to deter take-over bids. The Shareholder Rights Plan is intended to provide time for shareholders to properly assess any take-over bid and to provide non-abstaining members of the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value, including, if considered appropriate, identifying and locating other potential bidders.

Effective December 4, 2003, the Company adopted the Shareholder Rights Plan ( Rights Plan ), which was approved by the Company s shareholders on May 28, 2004, modified and further ratified and reconfirmed by the Company s shareholders most recently on July 9, 2013. Under the Rights Plan, the Company has issued one right for no consideration in respect of each outstanding common share held by the shareholder of the Company on December 4, 2003. All common shares subsequently issued by the Company during the term of the Rights Plan will have one right represented for each common share held by the shareholder of the Company. The Rights Plan expires if not reapproved at every third annual shareholder meeting.

The Rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of the Company's common shares without complying with the Rights Plan or without the approval of non-abstaining Board of Directors. Each Right entitles the registered holder to purchase one common share of the Company at the price of CDN\$43.06 per share, subject to adjustment which was triggered upon close of the Rights Offering (the Exercise Price ). However, if a Flip-in Event (as defined in the Rights Plan) occurs, each Right would then entitle the registered holder to purchase that number of common shares having a market value at the date of the Flip-in Event equal to twice the Exercise Price upon payment of the Exercise Price.

The Amended and Restated Shareholder Rights Plan is included as Exhibit 4.3.

## **ITEM 15. CONTROLS AND PROCEDURES**

### **A. Evaluation of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13(a)-15(e) and 15(d)-15(e) under the "Exchange Act" as of the end of the period covered by this Annual Report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective. Such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and includes controls and procedures designed to ensure information relating to the Company required to be included in our reports filed or submitted under the Exchange Act is accumulated and communicated to the Company's management to allow timely decision regarding disclosure.

### **B. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements for external reporting purposes in accordance with IFRS as issued by IASB.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as at January 31, 2015. In making its assessment, management has used the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) to evaluate our internal control over financial reporting.

Based on its assessment, management has concluded that, as at January 31, 2015, our internal control over financial reporting is effective.

### **C. Attestation Report of the Registered Public Accounting Firm**

The effectiveness of the Company's internal control over financial reporting as of January 31, 2015, has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report which appears herein.

### **D. Changes in Internal Controls**

There have been no changes in the Company's internal control over financial reporting during the period covered by this Annual Report that have materially affected, or is reasonably likely to material affect, the Company's internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's Board of Directors has determined that there is at least one audit committee financial expert, as defined under Item 16A of Form 20-F, serving on its audit committee, namely, W. Ian L. Forrest, whose qualifications are set out in Item 6, above. Mr. Forrest is independent, as such term is defined by the listing standards of the NYSE MKT. All other members of the Audit Committee are also independent as defined by the listing standards of the NYSE MKT.

**ITEM 16B. CODE OF ETHICS**

We have adopted a Code of Ethics, effective April 5, 2006, which applies to all our employees, including our directors and executive officers, including our principal executive, financial and accounting officers, and persons performing similar functions. The Code of Ethics covers areas of professional and business conduct, and is intended to promote honest and ethical behavior, including fair dealing and the ethical handling of conflicts of interest, support full, fair, accurate, and timely disclosure in reports and documents we file with, or submit to, the SEC and other governmental authorities, and in its other public communications; deter wrongdoing; encourage compliance with applicable laws, rules, and regulations; and to ensure the protection of our legitimate business interests. We also encourage our directors, officers, employees and consultants to promptly report any violations of the Code of Ethics.

The Code of Ethics is included as Exhibit 11.1.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following outlines the expenditures for accounting fees billed and paid for the last two fiscal periods ended:

<i>Financial Year Ending</i>	<i>Audit Fees</i>	<i>Audit Related Fees</i>	<i>Tax Fees</i>	<i>All Other Fees</i>
January 31, 2015	CDN \$190,000	CDN \$52,500	CDN \$27,500	CDN \$Nil
January 31, 2014	CDN \$185,000	CDN \$85,500	CDN \$22,300	CDN \$Nil

"Audit Fees" are the aggregate fees billed by PricewaterhouseCoopers LLP for the audit of the Company's consolidated annual financial statements.

"Audit-Related Fees" are fees billed by PricewaterhouseCoopers LLP for services reasonably related to the performance of the audit or interim review and services associated with registration statements and prospectuses.

"Tax Fees" are fees for professional services rendered by PricewaterhouseCoopers LLP for tax compliance, tax advice on actual or contemplated transactions.

**Pre-Approval Policies and Procedures**

All of the fees paid to our auditors, PricewaterhouseCoopers LLP, were pre-approved by our Audit Committee. This pre-approval involved a submission by our auditors to our Audit Committee of a scope of work to complete the audit and prepare tax returns, an estimate of the time involved, and a proposal for the fees to be charged for the audit. The Audit Committee reviewed this proposal with our management and after discussion with our auditors, pre-approved the scope of work and fees.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Our corporate governance practices do not differ in any significant way from those followed by U.S. domestic companies listed on the NYSE MKT.

**ITEM 16H. MINE SAFETY DISCLOSURE**

PolyMet is required to report certain mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and that required information is included in Exhibit 16.1.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

Our financial statements are stated in United States dollars (\$) and are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

**Index to Financial Statements**

<b><u>Description</u></b>	<b><u>Page</u></b>
<u>Management Report</u>	<u>F-1</u>
<u>Independent Auditor's Report</u>	<u>F-2</u>
<u>Consolidated Balance Sheets</u>	<u>F-4</u>
<u>Consolidated Statements of Loss and Comprehensive Loss</u>	<u>F-5</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>F-6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-8</u>

**POLYMET MINING CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**As at January 31, 2015 and 2014**

**And for the years ended January 31, 2015, 2014, and 2013**

---

## Management Report

### *Management's Responsibility for Consolidated Financial Statements*

The accompanying Consolidated Financial Statements of PolyMet Mining Corp. (the Company) are the responsibility of management. The Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and include certain estimates that reflect management's best judgments.

The Company's Board of Directors has approved the information contained in the Consolidated Financial Statements. The Board of Directors fulfills its responsibilities regarding the Consolidated Financial Statements mainly through its Audit Committee, which has a written mandate that complies with current requirements of Canadian securities legislation, United States securities legislation, and the United States Sarbanes-Oxley Act of 2002. The Audit Committee meets at least on a quarterly basis.

### *Management's Annual Report on Internal Control over Financial Reporting*

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements for external reporting purposes in accordance with IFRS as issued by the IASB.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at January 31, 2015. In making its assessment, management has used the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as at that date.

The effectiveness of the Company's internal control over financial reporting as at January 31, 2015 has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report, which appears herein.

*/s/ Jonathan Cherry*  
Jonathan Cherry  
President and Chief Executive Officer

*/s/ Douglas Newby*  
Douglas Newby  
Chief Financial Officer

## **Independent Auditor's Report**

### **To the Shareholders of PolyMet Mining Corp.**

We have completed integrated audits of PolyMet Mining Corp.'s 2015, 2014 and 2013 consolidated financial statements and its internal control over financial reporting as at January 31, 2015. Our opinions, based on our audits are presented below.

#### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of PolyMet Mining Corp., which comprise the consolidated balance sheets as at January 31, 2015 and January 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the three-year period ended January 31, 2015, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PolyMet Mining Corp. as at January 31, 2015 and January 31, 2014 and its financial performance and its cash flows for each of the three years in the period ended January 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### **Report on internal control over financial reporting**

We have also audited PolyMet Mining Corp.'s internal control over financial reporting as at January 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).





**Management's responsibility for internal control over financial reporting**

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting.

**Auditor's responsibility**

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

**Definition of internal control over financial reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) 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 financial statements.

**Inherent limitations**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

**Opinion**

In our opinion, PolyMet Mining Corp. maintained, in all material respects, effective internal control over financial reporting as at January 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

*signed PricewaterhouseCoopers LLP*

**Chartered Accountants**

Vancouver, British Columbia

April 21, 2015



**PolyMet Mining Corp.**  
**Consolidated Balance Sheets**

All figures in thousands of U.S. Dollars

	January 31, 2015	January 31, 2014
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 9,301	\$ 32,790
Amounts receivable	381	1,420
Prepaid expenses	1,108	1,195
	<b>10,790</b>	<b>35,405</b>
<b>Non-Current</b>		
Mineral Property, Plant and Equipment (Notes 3 and 4)	296,247	246,028
Wetland Credit Intangible (Note 5)	6,192	6,092
<b>Total Assets</b>	<b>\$ 313,229</b>	<b>\$ 287,525</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,673	\$ 3,806
Convertible debt (Notes 7 and 8)	33,451	31,967
Non-convertible debt (Notes 7 and 9)	4,614	-
Environmental rehabilitation provision (Note 6)	1,724	1,504
	<b>42,462</b>	<b>37,277</b>
<b>Non-Current</b>		
Non-convertible debt (Note 9)	7,855	4,276
Environmental rehabilitation provision (Note 6)	70,536	49,640
<b>Total Liabilities</b>	<b>120,853</b>	<b>91,193</b>
<b>SHAREHOLDERS EQUITY</b>		
Share Capital (Note 10)	241,489	240,330
Share Premium	3,007	3,007
Equity Reserves	51,704	49,543
Deficit	(103,824)	(96,548)
<b>Total Shareholders Equity</b>	<b>192,376</b>	<b>196,332</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 313,229</b>	<b>\$ 287,525</b>

**Nature of Business and Liquidity (Notes 1 and 16)**

**Commitments and Contingencies (Note 14)**

**Subsequent Event (Note 16)**

ON BEHALF OF THE BOARD OF DIRECTORS:

/S/ Jonathan Cherry

, Director

/S/ William Murray

, Director

- See Accompanying Notes -



**PolyMet Mining Corp.****Consolidated Statements of Loss and Comprehensive Loss**

All figures in thousands of U.S. Dollars, except for number of shares and loss per share

	For the years ended January 31,		
	2015	2014	2013
<b>General and Administrative</b>			
Salaries and benefits	\$ 1,422	\$ 1,379	\$ 1,394
Share-based compensation (Note 10)	1,121	1,697	2,255
Director fees and expenses	295	293	290
Professional fees	409	426	455
Filing and regulatory fees	173	81	281
Investor and public relations	1,276	2,075	571
Travel	323	295	305
Rent and other office expenses	247	225	180
Insurance	191	157	139
Amortization	32	26	38
	<b>5,489</b>	<b>6,654</b>	<b>5,908</b>
<b>Other Expenses (Income)</b>			
Finance costs (Note 11)	1,816	1,465	821
Loss / (gain) on foreign exchange	11	18	(44)
Loss on sale of investment	-	48	-
Rental income	(40)	(53)	(59)
	<b>1,787</b>	<b>1,478</b>	<b>718</b>
<b>Loss for the year</b>	<b>7,276</b>	<b>8,132</b>	<b>6,626</b>
<b>Other Comprehensive Loss</b>			
<b>Components of other comprehensive loss that are reclassified to profit or loss:</b>			
Unrealized loss (gain) on investment	-	(7)	13
Reclassification adjustment on sale of investment	-	(48)	-
<b>Total Comprehensive Loss for the Year</b>	<b>\$ 7,276</b>	<b>\$ 8,077</b>	<b>\$ 6,639</b>
<b>Basic and Diluted Loss per Share</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>
<b>Weighted Average Number of Shares</b>	<b>275,726,953</b>	<b>236,303,304</b>	<b>178,949,306</b>
	- See Accompanying Notes -		

**PolyMet Mining Corp.****Consolidated Statements of Changes in Shareholders' Equity**

All figures in thousands of U.S. Dollars, except for number of shares

	Share Capital (authorized = unlimited)			Equity Reserves			Total Equity Reserves	Deficit	Total Shareholders' Equity
	Issued Shares	Paid-in Share Capital	Share Premium	Warrants and Share-based Payments	Accumulated Other Comp Loss	Total Equity Reserves			
Balance - February 1, 2012	174,738,124	\$ 168,434	\$ 2,132	\$ 43,632	\$ (42)	\$ 43,590	\$ (81,790)	\$ 132,300	
Loss and comprehensive loss for the year	-	-	-	-	(13)	(13)	(6,626)	(6,626)	
Equity offering and issuance costs	5,000,000	9,107	875	-	-	-	-	9,982	
Purchase of wetland credit intangible	2,788,902	3,375	-	525	-	525	-	3,900	
Payment of land purchase options	87,174	89	-	-	-	-	-	87,263	
Exercise of share options	185,000	210	-	(62)	-	(62)	-	142,788	
Modification of share options	-	-	-	795	-	795	-	795	
Share-based compensation	450,882	-	-	1,884	-	1,884	-	1,884	
Bonus share cost amortization	-	-	-	387	-	387	-	387	
Balance - January 31, 2013	183,250,082	\$ 181,215	\$ 3,007	\$ 47,161	\$ (55)	\$ 47,106	\$ (88,416)	\$ 142,900	
Loss and comprehensive loss for the year	-	-	-	-	55	55	(8,132)	(8,022)	
Rights offering and issuance costs (Note 10)	91,636,202	58,372	-	-	-	-	-	58,372	
Payment of land purchase options	140,123	125	-	-	-	-	-	140,248	
Share-based compensation (Note 10)	548,985	618	-	1,693	-	1,693	-	2,311	
	-	-	-	689	-	689	-	689	

Bonus share cost amortization (Note 10)									
Balance - January 31, 2014	275,575,392	\$ 240,330	\$ 3,007	\$ 49,543	-	\$ 49,543	\$ (96,548)		196,3
Loss and comprehensive loss for the year	-	-	-	-	-	-	(7,276)		(7,2
Payment of land purchase options	143,130	157	-	-	-	-	-		15
Exercise of share options (Note 10)	75,000	161	-	(80)	-	(80)	-		8
Share-based compensation (Note 10)	557,852	841	-	1,671	-	1,671	-		2,5
Bonus share cost amortization (Note 10)	-	-	-	570	-	570	-		5
<b>Balance - January 31, 2015</b>	<b>276,351,374</b>	<b>\$ 241,489</b>	<b>\$ 3,007</b>	<b>\$ 51,704</b>	<b>-</b>	<b>\$ 51,704</b>	<b>\$ (103,824)</b>		<b>192,3</b>
			- See Accompanying Notes -						



**PolyMet Mining Corp.**  
**Consolidated Statements of Cash Flows**  
*All figures in thousands of U.S. Dollars*

	For the years ended January 31,		
	2015	2014	2013
<b>Operating Activities</b>			
<b>Loss for the year</b>	\$ (7,276)	\$ (8,132)	\$ (6,626)
<b>Items not involving cash</b>			
Amortization	32	26	38
Environmental rehabilitation provision accretion (Note 6)	1,639	1,521	792
Share-based compensation (Note 10)	1,121	1,697	2,255
Loss on sale of investment	-	48	-
Unrealized foreign exchange loss	17	10	-
<b>Changes in non-cash working capital</b>			
Amounts receivable	1,039	(590)	(390)
Prepaid expenses	87	(424)	163
Accounts payable and accrued liabilities	(855)	(2,190)	2,652
<b>Net cash used in operating activities</b>	<b>(4,196)</b>	<b>(8,034)</b>	<b>(1,116)</b>
<b>Financing Activities</b>			
Share issuance proceeds, net of costs (Note 10)	81	58,372	10,130
Debenture funding, net of costs (Notes 7 and 9)	7,896	19,897	-
Debenture repayment (Notes 7 and 9)	-	(20,000)	-
<b>Net cash provided by financing activities</b>	<b>7,977</b>	<b>58,269</b>	<b>10,130</b>
<b>Investing Activities</b>			
Property, plant and equipment purchases (Note 4)	(27,153)	(25,224)	(16,312)
Investment sale proceeds	-	24	-
Interest and fees paid	-	(223)	-
Wetland credit intangible purchases (Note 5)	(100)	(100)	(2,092)
<b>Net cash used in investing activities</b>	<b>(27,253)</b>	<b>(25,523)</b>	<b>(18,404)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(23,472)</b>	<b>24,712</b>	<b>(9,390)</b>
<b>Effect of foreign exchange on Cash and Cash Equivalents</b>	<b>(17)</b>	<b>(10)</b>	<b>-</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>32,790</b>	<b>8,088</b>	<b>17,478</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 9,301</b>	<b>\$ 32,790</b>	<b>\$ 8,088</b>
<b>Reconciliation of Cash and Cash Equivalents:</b>			
Cash at bank	\$ 9,301	\$ 32,765	\$ 8,085
Short-term deposits	-	25	3
<b>Total Cash and Cash Equivalents</b>	<b>\$ 9,301</b>	<b>\$ 32,790</b>	<b>\$ 8,088</b>
<b>Supplementary information:</b>			
Accounts payable and accrued liabilities related to PP&E	\$ (325)	\$ 727	\$ 938
	<b>1,827</b>	<b>1,785</b>	<b>1,768</b>

Edgar Filing: POLYMET MINING CORP - Form 20-F

Accretion and capitalized interest on debt ( <i>Notes 7, 8, and 9</i> )				
Share-based compensation ( <i>Note 10</i> )	<b>1,391</b>		614	424
Milestone 4 Bonus Shares amortization ( <i>Note 10</i> )	<b>570</b>		689	387
Shares and warrants issued for Wetland Credit Intangible ( <i>Note 5</i> )	-		-	3,900
Shares issued for land options	\$ <b>157</b>	\$	125	\$ 89
- See Accompanying Notes -				

F-7

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**1. Nature of Business and Liquidity**

PolyMet Mining Corp. ( PolyMet or the Company ) was incorporated in British Columbia, Canada on March 4, 1981 under the name Fleck Resources Ltd. The Company changed its name from Fleck Resources to PolyMet Mining Corp. on June 10, 1998. The Company is engaged in the exploration and development of natural resource properties. The Company's primary mineral property is the NorthMet Project ( NorthMet or Project ), a polymetallic project in northeastern Minnesota, USA which comprises the NorthMet copper-nickel-precious metals ore body and the Erie Plant, a large processing facility located approximately six miles from the ore body. The realization of the Company's investment in NorthMet and other assets is dependent upon various factors, including the existence of economically recoverable mineral reserves, the ability to complete the environmental review and obtain permits necessary to construct and operate NorthMet, the ability to obtain financing necessary to complete the exploration and development of NorthMet, and future profitable operations or alternatively, disposal of the investment on an advantageous basis.

On September 25, 2006, the Company received the results of a Definitive Feasibility Study ( DFS ) prepared by Bateman Engineering Pty Ltd and NorthMet moved from the exploration stage to the development stage. An Updated Technical Report under National Instrument 43-101 incorporating numerous project improvements was filed in January 2013.

The corporate address and records office of the Company are located at 100 King Street West, Suite 5700, Toronto, Ontario, Canada M5X 1C7, and 700 West Georgia, 25<sup>th</sup> Floor, Vancouver, British Columbia, Canada, V7Y 1B3, respectively. The executive office of Poly Met Mining, Inc. ( PolyMet US ), the Company's wholly-owned subsidiary, is located at 444 Cedar Street, Suite 2060, St. Paul, Minnesota, United States of America, 55101.

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations.

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over available financial assets due at any point in time. As at January 31, 2015, PolyMet had cash of \$9.301 million and a working capital deficiency of \$31.672 million primarily due to the \$33.451 million convertible debt due to Glencore AG, a wholly owned subsidiary of Glencore plc (together Glencore ) being classified as a current liability on the basis it matures on September 30, 2015. If Glencore does not exchange the convertible debt for common shares, PolyMet will need to renegotiate the agreement or raise sufficient funds to repay the debt. While in the past the Company has been successful in renegotiating debt and closing financing agreements, there can be no assurance it will be able to do so again.

Management believes that, based upon the underlying value of the NorthMet Project, the advanced stage of permitting, the ongoing financing arrangements with Glencore (see Notes 7, 9, and 16) and the ongoing discussions with numerous investment banks and investors including Glencore regarding potential financing, that financing will continue to be available from Glencore and/or other potential third party sources allowing the Company to meet its current obligations, as well as fund ongoing development, capital expenditures and administration expenses in accordance with the Company's spending plans for the next twelve months.



**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**2. Summary of Significant Accounting Policies**

**a) Statement of Compliance**

The consolidated financial statements of PolyMet Mining Corp. have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ). The financial statements were approved by the Board of Directors on April 21, 2015.

**b) Basis of Consolidation and Presentation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Inter-company balances and transactions have been eliminated on consolidation.

The consolidated financial statements have been prepared under the historical cost convention. All dollar amounts presented are in United States ( US ) dollars unless otherwise specified.

**c) Critical Accounting Estimates and Judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These critical accounting estimates require management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements.

Critical accounting estimates and judgments used in the preparation of these consolidated financial statements are as follows:

**(i) Determination of mineral reserves**

Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's property. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. In addition, management will form a view of forecast sales prices, based on current and long-term historical average price trends. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, rehabilitation provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**2. Summary of Significant Accounting Policies - Continued**

**c) Critical Accounting Estimates and Judgments - Continued**

(ii) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, including mineral property, plant and equipment, and wetland credit intangible are reviewed at each reporting date or when events or changes in circumstances occur that indicate the asset may not be recoverable to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss previously recorded is reversed if there has been a change in the estimates used to determine the recoverable amount resulting in an increase in the estimated service potential of an asset.

For its mineral property interest the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral property interests. Internal sources of information the Company considers include indications of economic performance of the asset. No impairment loss on the mineral property interest was recorded for the year ended January 31, 2015 or January 31, 2014.

The carrying value of mineral property, plant, and equipment, and wetland credit intangible at the balance sheet date is disclosed in Note 4 and Note 5, respectively.

(iii) Provision for Environmental Rehabilitation Costs

Provisions for environmental rehabilitation costs associated with mineral property, plant and equipment, are recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

It is possible that the Company's estimates of its ultimate environmental rehabilitation liabilities could be affected by changes in regulations, changes in the extent of environmental rehabilitation required, changes in the means of rehabilitation, changes in the extent of responsibility for the financial liability or changes in cost estimates. The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company may vary greatly and are not predictable.

The Company's provision for environmental rehabilitation cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability. See additional discussion in Note 6.



**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**2. Summary of Significant Accounting Policies - Continued**

**d) Foreign Currency Translation**

The US dollar is the functional currency of the Company and its wholly-owned subsidiary. Amounts in these consolidated financial statements are expressed in US dollars unless otherwise stated. Transactions in foreign currencies are translated into the functional currency at the exchange rates at the date of the transactions. Monetary assets and liabilities of the Company's operations denominated in a currency other than the U.S. dollar are translated using exchange rates prevailing at the balance sheet date. Revenue and expense items are translated at the exchange rates in effect at the date of the underlying transaction, except for amortization related to non-monetary assets, which are translated at historical exchange rates. Exchange differences are recognized in net loss in the year in which they arise.

**e) Cash and Cash Equivalents**

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with maturities at point of purchase of three months or less.

**f) Financial Assets**

All financial assets are initially recorded at fair value and designated upon inception as one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ( FVTPL ). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except when there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive loss shall be reclassified from equity to profit or loss as a reclassification adjustment. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. See additional discussion in Note 15.



**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***2. Summary of Significant Accounting Policies - Continued****g) Mineral Property, Plant and Equipment****Mineral Property**

Mineral property costs, aside from mineral property acquisition costs, incurred prior to determination of the 2006 DFS are expensed as incurred and expenditures incurred subsequent to the DFS and mineral property acquisition costs are capitalized until the property is placed into production, sold, allowed to lapse or abandoned. As a result of the DFS, NorthMet entered the development stage effective October 1, 2006. The Company has capitalized mineral property development expenditures related to NorthMet from that date.

Upon commencement of production, mineral properties and acquisition costs relating to mines are amortized on a unit of production basis over the estimated proven and probable mineral reserves not to exceed the assets' useful lives.

**Plant and Equipment**

Plant and equipment are recorded at historical cost less accumulated depreciation and if applicable, accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, if it is probable that the future economic benefits of the expenditure will flow to the Company and its cost can be measured reliably. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the statement of loss and comprehensive loss during the period in which they are incurred. Plant and equipment is depreciated over the estimated life of the related assets calculated on a unit of production or straight-line basis, as appropriate.

Depreciation of plant and equipment is calculated using the cost of the asset, less its residual value, on a straight-line basis over the estimated useful life of the asset. Estimated useful lives are as follows:

Leasehold improvements	Straight-line over the term of the lease
Furniture and equipment	Straight-line over 10 years
Computers	Straight-line over 5 years
Computer software	Straight-line over 1 year

**h) Wetland Credit Intangible**

Wetland Credit Intangible costs and related acquisition costs are capitalized until the wetland credits are used, sold, or abandoned. Wetland credits are used through offset with wetlands disturbed during construction and operation of NorthMet. As such, costs are amortized on a unit of production basis over the estimated proven and probable mineral reserves not to exceed the assets' useful lives. See additional discussion in Note 5.

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**2. Summary of Significant Accounting Policies - Continued**

**i) Financial Liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. See additional discussion in Note 15.

**j) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset until such time as the asset is substantially complete and ready for its intended use or sale. Where funds have been borrowed specifically to finance an asset, the amount capitalized is the actual borrowing costs incurred. Where the funds used to finance an asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant borrowings of the Company during the period. Other borrowing costs not directly attributable to a qualifying asset are expensed in the year incurred.

**k) Share-Based Compensation**

All share-based compensation awards made to directors, employees and non-employees are measured and recognized using a fair value based method. For directors and employees, or those providing services similar to employees, the fair value of options is determined using the Black-Scholes option pricing model. The fair value of the bonus shares, restricted shares, and restricted share units is calculated using the intrinsic value of the shares at issuance, and is amortised straight-line over the vesting period.

The fair value of the award is accrued and charged either to operations or mineral property plant and equipment, with the offsetting credit to warrants and share-based payment reserve, on a graded method over the vesting period. If and when share options are ultimately exercised or bonus shares, restricted shares, and restricted share units vest, the applicable amounts from the warrants and share-based payment reserve are transferred to share capital.

Certain awards vest upon achievement of a specified performance condition. On a quarterly basis, management assesses the probability of achieving those performance conditions using the best available information, and estimates the appropriate vesting period.

When the Company amends the terms of share options, the incremental change in the fair value of the options due to the amendment, as determined using the Black-Scholes option pricing model, is recognized over the vesting period in the statement of loss or capitalized as appropriate.



**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**2. Summary of Significant Accounting Policies - Continued**

**l) Share Purchase Warrants**

The Company issues share purchase warrants in connection with certain equity transactions. The fair value of the warrants, as determined using the Black-Scholes option pricing model or fair value of goods or services received, is credited to the warrants and share-based payment reserve. The recorded value of share purchase warrants is transferred to share capital upon exercise.

**m) Loss Per Share**

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Basic and diluted loss per share for each year presented are the same as the effect of potential issuances of shares under warrant or share option agreements would, in total, be anti-dilutive.

**n) Income Taxes and Deferred Taxes**

The income tax expense or benefit for the year consists of two components: current and deferred.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and include any adjustments for taxes payable or recovery in respect of prior periods.

Taxable profit or loss differs from profit or loss as reported in the Consolidated Statements of Comprehensive Loss because of items of income or expense that are taxable or deductible in other years, and items that are never taxable or deductible.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences not eligible for offset. Deferred tax assets are generally recognized for all deductible temporary differences, loss carry forwards and tax credit carry forwards to the extent that it is probable that taxable profits will be available against which they can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences, loss carry forwards, and tax credit carry forwards can be utilized, a deferred tax asset is not recognized.

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**2. Summary of Significant Accounting Policies - Continued**

**o) Adoption of New or Amended IFRS**

On February 1, 2014, the Company adopted the following new or amended accounting standards previously issued by the IASB, which did not have a significant impact on the Company's consolidated financial statements.

*IFRIC 21 Levies*

IFRIC 21 is an interpretation of IAS 37 and addresses the accounting for an obligation to pay a levy that is not an income tax. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

**p) Future Accounting Changes**

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements and are therefore not discussed below.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers and is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of adopting IFRS 15 on its consolidated financial statements.

*IFRS 9 Financial Instruments - Classification and Measurement*

IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements, including the applicability of early adoption.

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**3. Mineral Property Agreements**

**NorthMet, Minnesota, U.S.A.**

Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, the Company leases certain property in St. Louis County, Minnesota from RGGGS Land & Minerals Ltd., L.P. The initial term of the perpetually renewable lease was 20 years and called for total lease payments of \$1.475 million. The Company can, at its option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination date or can indefinitely extend the term by continuing to make \$150,000 annual lease payments on each successive anniversary date. All lease payments have been paid or accrued to January 31, 2015. The next payment is due in January 2016.

The lease payments are considered advance royalty payments and shall be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company. The Company's recovery of \$2.375 million in advance royalty payments is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.

Pursuant to an agreement effective December 1, 2008, the Company leases certain property in St. Louis County, Minnesota from LMC Minerals. The initial term of the renewable lease is 20 years and calls for minimum annual lease payments of \$3,000 for the first four years after which the minimum annual lease payment increased to \$30,000. The initial term may be extended for up to four additional five-year periods on the same terms. All lease payments have been paid or accrued to January 31, 2015. The next payment is due in November 2015.

The lease payments are considered advance royalty payments and will be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company. The Company's recovery of \$0.099 million in advance royalty payments is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.

Pursuant to the leases, PolyMet holds mineral rights and the right to mine upon receiving the required permits. PolyMet has proposed to acquire surface rights through a land exchange with the United States Forest Service (see Note 9).

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***4. Mineral Property, Plant and Equipment**

Details of Mineral Property, Plant, and Equipment are as follows:

<b>Net Book Value</b>	NorthMet	Other fixed assets	Total
Balance at January 31, 2013	\$ 220,293	\$ 136	\$ 220,429
Additions	27,937	38	27,975
Changes to environmental rehabilitation provision ( <i>Note 6</i> )	(2,350)	-	(2,350)
Amortization	-	(26)	(26)
Balance at January 31, 2014	\$ 245,880	148	246,028
Additions	29,768	29	29,797
Changes to environmental rehabilitation provision ( <i>Note 6</i> )	20,454	-	20,454
Amortization	-	(32)	(32)
<b>Balance at January 31, 2015</b>	<b>\$ 296,102</b>	<b>145</b>	<b>296,247</b>

<b>NorthMet</b>	<b>January 31, 2015</b>	January 31, 2014
Mineral property acquisition and interest costs	\$ 48,051	\$ 46,334
Mine plan and development	40,451	38,065
Environmental	78,866	61,866
Consulting and wages	41,247	34,630
Reclamation and remediation ( <i>Note 6</i> )	69,454	49,000
Site activities	17,084	15,036
Mine equipment	949	949
Total	\$ 296,102	\$ 245,880

**Erie Plant, Minnesota, U.S.A.**

In February 2004, the Company entered into an option with Cliffs Natural Resources Inc. ( Cliffs ) to purchase 100% ownership of large parts of the former LTV Steel Mining Company ore processing plant in northeastern Minnesota (the Erie Plant ). The Company exercised this option on November 15, 2005 under the Asset Purchase Agreement with Cliffs.

On December 20, 2006, the Company closed a transaction in which it acquired, from Cliffs, property and associated rights sufficient to provide it with a railroad connection linking the mine development site and the Erie Plant. The transaction also included a railcar fleet, locomotive fuelling and maintenance facilities, water rights and pipelines, large administrative offices on site and an additional 6,000 acres to the east and west of and contiguous to its existing tailing facilities.

The consideration paid for the Erie Plant and associated infrastructure was \$18.9 million in cash and 9,200,547 shares at a fair market value of \$13.953 million.

The Company indemnified Cliffs for reclamation and remediation obligations as a result of the above purchases (see Note 6). These obligations are presently contractual in nature under the terms of the purchase agreements with Cliffs.

Once the Company obtains its permit to mine and Cliffs is released from its obligations by the State Agencies, the Company's obligations will be direct with the governing bodies.

F-17

---



**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***4. Mineral Property, Plant and Equipment - Continued**

During the year ended January 31, 2015, the Company capitalized 100% of the borrowing costs on the convertible debt (see Note 8) and non-convertible debt (see Note 9) in the amount of \$1.931 million (January 31, 2014 - \$2.111 million) as part of the cost of NorthMet assets. As NorthMet assets are not in use or capable of operating in a manner intended by management, no amortization of these assets has been recorded to January 31, 2015.

**5. Wetland Credit Intangible**

Details of Wetland Credit Intangibles are as follows:

		January 31, 2015	January 31, 2014
Wetland Credit Intangible	Exercised options	\$ 1,579	\$ 1,579
Wetland Credit Intangible	Unexercised options	4,613	4,513
	Total	\$ 6,192	\$ 6,092

In March 2012 the Company acquired a secured interest in land owned by AG for Waterfowl, LLP ("AG") that is permitted for wetland restoration. AG subsequently assigned the agreement to EIP Minnesota, LLC ( EIP ) in September 2012. EIP will restore the wetlands and, upon completion, wetland credits are to be issued by the relevant governmental authorities.

As part of the initial consideration, AG holds warrants to purchase 1,249,315 common shares at \$1.3007 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price ( VWAP ) of PolyMet shares is equal to or greater than \$3.00 and PolyMet provides notice to AG that it has received permits necessary to start construction of the NorthMet Project. The exercise price of the purchase warrants and the number of warrants are subject to conventional anti-dilution provisions.

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***6. Environmental Rehabilitation Provision**

Details of Environmental Rehabilitation Provision are as follows:

		<b>Year ended January 31, 2015</b>	Year ended January 31, 2014
Environmental Rehabilitation Provision	beginning of year	\$ 51,144	\$ 53,488
Change in estimated liability		9,867	2,430
Liabilities discharged		(977)	(1,515)
Accretion expense		1,639	1,521
Change in risk-free interest rate		10,587	(4,780)
Environmental Rehabilitation Provision	end of year	72,260	51,144
Less current portion		(1,724)	(1,504)
Non-current portion		\$ 70,536	\$ 49,640

Federal, state and local laws and regulations concerning environmental protection affect the Company's NorthMet assets. As part of the consideration for the Cliffs Purchase Agreements (see Note 4), the Company indemnified Cliffs for reclamation and remediation obligations of the acquired property. The Company's provisions are based upon existing laws and regulations. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency (MPCA) relating to alleged violations on the Cliffs Erie Property. This consent decree required both short-term and long-term mitigation. Field study activities were completed in 2010 and 2011 and short-term mitigations were initiated in 2011 as outlined in the plans and approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October 2012 response from the MPCA and subsequent communication provides clarification to the potential liability for the long-term mitigation included in the Company's environmental rehabilitation provision. This resulted in a \$9.9 million increase to the provision during the year ended January 31, 2015 and a \$2.4 million increase to the provision during the year ended January 31, 2014.

The Company's best estimate of the environmental rehabilitation provision at January 31, 2015 was \$72.3 million (January 31, 2014 - \$51.1 million) based on estimated cash flows required to settle this obligation in present day costs of \$72.6 million (January 31, 2014 - \$60.4 million), an annual inflation rate of 2.00% (January 31, 2014 - 2.00%) and a risk-free interest rate of 2.04% (January 31, 2014 - 3.35%). Payments are expected to occur over a period of approximately 31 years.

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**7. Glencore Financing**

Since October 31, 2008 the Company and Glencore have entered into a series of financing agreements and a marketing agreement whereby Glencore committed to purchase all of the Company's production of concentrates, metal, or intermediate products on market terms at the time of delivery for at least the first five years of production. As part of the 2013 financing agreement, PolyMet and Glencore entered into a Corporate Governance Agreement whereby from January 1, 2014 as long as Glencore holds 10% or more of PolyMet's shares (on a fully diluted basis) Glencore shall have the right, but not obligation to designate at least one director and not more than the number of directors proportionate to Glencore's fully diluted ownership of PolyMet, rounded down to the nearest whole number, such number to not exceed 49% of the total board.

The financing agreements comprise \$25.0 million initial principal debentures in calendar 2008 drawn in four tranches (Tranches A through D, together the 2008 Debentures), \$25.0 million placement of PolyMet common shares in calendar 2009 in two tranches, \$30.0 million placement of PolyMet common shares in calendar 2010 in three tranches (the 2010 Agreement), \$20.0 million placement of PolyMet common shares in calendar 2011 in one tranche (the 2011 Agreement), \$20.960 million purchase of PolyMet common shares in the Rights Offering (the 2013 Agreement), and \$30.0 million initial principal debentures in calendar 2015 drawn and to be drawn in four tranches (the 2015 Debentures). As a result of the series of financing transactions and the purchase by Glencore of PolyMet common shares previously owned by Cliffs, Glencore's current ownership and ownership rights of PolyMet comprises:

78,724,821 shares representing 28.5% of PolyMet's issued shares;

\$25.0 million initial principal floating rate secured debentures due September 30, 2015 (see Note 8). Including capitalized and accrued interest as at January 31, 2015, these debentures are exchangeable at \$1.2920 per share into 25,891,843 common shares of PolyMet upon PolyMet giving Glencore ten days notice that it has received permits necessary to start construction of NorthMet and availability of senior construction finance in a form reasonably acceptable to Glencore (Early Maturity Event) or are repayable on September 30, 2015. The exercise price of the exchange warrants and the number of warrants are subject to conventional anti-dilution provisions; and

Glencore holds warrants to purchase 6,458,001 million common shares at \$1.3007 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price (VWAP) of PolyMet common shares is equal to or greater than 150% of the exercise price and occurrence of the Early Maturity Event. The exercise price of the purchase warrants and the number of warrants are subject to conventional anti-dilution provisions.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 111,074,665 common shares of PolyMet, representing 36.0% on a partially diluted basis, that is, if no other options or warrants were exercised or 33.3% on a fully diluted basis, if all other options and warrants were exercised, whether they are in-the-money or not.

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**7. Glencore Financing - Continued**

2013 Agreement

On April 10, 2013, the Company amended its previous financing arrangement and issued a Tranche E debenture ( 2013 Debenture ) with the principal amount of \$20.0 million to Glencore and Glencore agreed to a Standby Purchase Agreement ( Standby ) related to the \$60.480 million Rights Offering by the Company (see Note 10). Under the Standby, Glencore agreed to purchase any common shares offered under the Rights Offering that were not subscribed for by holders of the rights, subject to certain conditions and limitations. The 2013 Debenture carried a fixed interest rate of 4.721% per annum payable in cash monthly. The Company provided security by way of a guarantee and by the assets of the Company and its wholly-owned subsidiary. The 2013 Debenture was issued on April 11, 2013. The Company recognized the 2013 Debenture issued initially at fair value and subsequently accounted for the debenture at its amortized cost. Transaction costs for the financing were \$0.103 million. The 2013 Debenture was repaid upon the closing of the Rights Offering on July 5, 2013. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2014.

Glencore purchased 31,756,979 common shares of the Company for \$20.960 million upon closing of the Rights Offering on July 5, 2013 (see Note 10).

2014 Agreement

On April 25, 2014, the Company amended its previous financing arrangement and extended the term of the 2008 Debentures and the expiration date of the associated Exchange Warrants to the earlier of the Early Maturity Event or September 30, 2015. All other terms of both the debentures and the warrants described above are unchanged.

2015 Agreement

On January 28, 2015, the Company amended its previous financing arrangement and agreed to issue to Glencore new Tranche F, G, H, and I debentures with the total principal amount of \$30.0 million. Tranche F in the amount of \$8.0 million was issued on January 30, 2015 (see Note 9). Tranche G in the amount of \$8.0 million was issued subsequent to year end on April 15, 2015 (see Note 16). Tranches H and I in the amounts of \$8 million and \$6 million respectively are to be issued on or before July 1 and October 1, 2015 respectively. The 2015 Debentures bear interest at 12-month US dollar LIBOR plus 8.0% per annum payable in cash upon maturity and mature on the earlier of (i) the availability of at least \$100 million of finance provided the Company demonstrates repayment is prudent or (ii) March 31, 2016. The Company provided security by way of a guarantee and a pledge of the assets of the Company and its wholly-owned subsidiary. The Company recognized the Tranche F Debenture initially at fair value and subsequently accounted for the debenture at amortized cost. Transaction costs for the financing were \$0.150 million.

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***8. Convertible Debt**

Details of the Convertible Debt are as follows:

	<b>Year ended January 31, 2015</b>	Year ended January 31, 2014
Convertible Debt beginning of year	\$ 31,967	\$ 30,508
Accretion and capitalized interest	1,484	1,459
Convertible Debt end of year	<b>33,451</b>	31,967
Less current portion	<b>(33,451)</b>	(31,967)
Non-current portion	\$ -	\$ -

On October 31, 2008, the Company issued \$25.0 million of Debentures to Glencore that bear interest at 12-month US dollar LIBOR plus 4.0%, compounded quarterly. Interest is payable in cash or by increasing the principal amount of the Debentures, at Glencore's option. At January 31, 2015, \$8.451 million (January 31, 2014 - \$6.967 million) of interest had been accreted and capitalized to the principal amount of the debt since inception. The Company has provided security on the Debentures covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet's 100% shareholding in PolyMet US. The due date of the Debentures is the earlier of (i) the Early Maturity Event (see Note 7), and (ii) September 30, 2015, on which date all principal and interest accrued to such date will be due and payable. Upon occurrence of the Early Maturity Event and at the Company's option, the initial principal and capitalized interest are exchangeable into common shares of PolyMet at \$1.2920 per share. Glencore has the right to exchange some or all of the debentures at any time under the same conversion terms. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2015.

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***9. Non-Convertible Debt**

Details of Non-Convertible Debt are as follows:

	<b>January 31, 2015</b>	January 31, 2014
IRRRB debt ( <i>Note 9a</i> )	\$ <b>4,614</b>	\$ 4,276
Glencore debt ( <i>Note 9b</i> )	<b>7,855</b>	-
Total Non-Convertible Debt	<b>12,469</b>	4,276
Less current portion	<b>(4,614)</b>	-
Non-current portion	\$ <b>7,855</b>	\$ 4,276

**a) IRRRB debt**

On June 30, 2011, the Company closed a \$4.0 million loan from Iron Range Resources & Rehabilitation Board ("IRRRB"), a development agency created by the State of Minnesota to stabilize and enhance the economy of northeastern Minnesota. At the same time, the Company exercised its options to acquire two tracts of land as part of the proposed land exchange with the U.S. Forest Service ( USFS ). The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS. The loan is classified as current as the land exchange is expected to occur within 12 months from January 31, 2015. The Company has issued warrants giving the IRRRB the right to purchase 461,286 shares of its common shares at \$2.1678 per share at any time until the earlier of June 30, 2016 and one year after permits are received ( IRRRB Warrants ). All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2015.

**b) Glencore debt**

On January 30, 2015, the Company issued \$8.0 million Tranche F debentures to Glencore that bear interest at 12-month US dollar LIBOR plus 8.0% . The Company has provided security on the debentures covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet s 100% shareholding in PolyMet US. The due date of the debentures is the earlier of (i) the availability of at least \$100 million of finance provided the Company demonstrates repayment is prudent or (ii) March 31, 2016, on which date all principal and interest accrued to such date will be due and payable. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2015.

On April 15, 2015, the Company received an additional \$8.0 million under Tranche G of the debenture (see Note 16).

**PolyMet Mining Corp.**

**Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**10. Share Capital**

**a) Share Issuances for Cash**

On May 24, 2013, the Company filed the final prospectus for an offering of rights ("Rights") to holders of common shares of the Company (the "Rights Offering"). Every shareholder received one Right for each common share owned on June 4, 2013, the Record Date, and two Rights entitled the holder to acquire one new common share of the Company at \$0.66 per share.

Upon the closing of the Rights Offering on July 5, 2013, the Company issued a total of 91,636,202 common shares for gross proceeds of \$60.480 million. Expenses and fees relating to the Rights Offering were \$2.108 million, including the \$1.061 million standby commitment fee paid to Glencore, and reduced the gross proceeds recorded as share capital. The closing of the Rights Offering triggered customary anti-dilution provisions for outstanding warrants, share options, and unissued restricted share units.

During the year ended January 31, 2015 the Company issued 75,000 shares (January 31, 2014 - nil) pursuant to the exercise of share options for total proceeds of \$0.081 million (January 31, 2014 - \$nil).

**b) Share-Based Compensation**

The Omnibus Share Compensation Plan ( Omnibus Plan ) was created to align the interests of the Company s employees, directors, officers and consultants with those of shareholders. Effective May 25, 2007, the Company adopted the Omnibus Plan, which was approved by the Company s shareholders on June 27, 2007, modified and further ratified and reconfirmed by the Company s shareholders most recently on July 10, 2012. The Omnibus Plan restricts the award of share options, restricted shares, restricted share units, and other share-based awards to 10% of the common shares issued and outstanding on the grant date, excluding 2,500,000 common shares pursuant to an exemption approved by the Toronto Stock Exchange. Options granted may not exceed a term of ten years and expire if the grantee ceases to be qualified to receive options from the Company.

During the year ended January 31, 2015, the Company recorded \$2.512 million for share-based compensation (January 31, 2014 - \$2.311 million) with \$1.121 million expensed to share-based compensation (January 31, 2014 - \$1.697 million) and \$1.391 million capitalized to mineral property, plant and equipment (January 31, 2014 - \$0.614 million). The offsetting entries were to warrants and share-based payment reserve and share capital. Total share-based compensation for the year comprised \$1.033 million for share options (January 31, 2014 - \$1.405 million), \$0.953 million for restricted shares and restricted share units (January 31, 2014 - \$0.368 million), and \$0.526 million for issuance of unrestricted shares (January 31, 2014 - \$0.538 million). Exercise of share options and vesting of restricted shares and restricted share units resulted in \$0.395 million being transferred from warrants and share-based payment reserve to share capital (January 31, 2014 - \$0.080 million).

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***10. Share Capital - Continued****c) Share Options**

Details of share options are as follows:

	<b>Year ended January 31, 2015</b>	<b>Weighted Average Exercise Price <sup>(1)</sup></b>	<b>Year ended January 31, 2014</b>	<b>Weighted Average Exercise Price</b>
	<b>Number of Options</b>		<b>Number of Options</b>	
Outstanding beginning of period	<b>18,659,000</b>	<b>1.41</b>	14,920,000	1.94
Granted	<b>2,701,002</b>	<b>1.17</b>	4,639,000	0.97
Exercised	<b>(75,000)</b>	<b>1.08</b>	-	-
Expired	<b>(200,000)</b>	<b>1.02</b>	(750,000)	2.60
Forfeited	-	-	(150,000)	2.75
Anti-dilution price adjustment	-	-	-	(0.26)
Outstanding end of period	<b>21,085,002</b>	<b>1.33</b>	18,659,000	1.41

<sup>(1)</sup> For information purposes, those share options granted with an exercise price in Canadian dollars ( CDN\$ ) have been translated to the Company's reporting currency using the exchange rate as at January 31, 2015 of US\$1.00 = CDN\$1.2660.

Effective July 5, 2013, the Company reduced the exercise price of all options that were outstanding prior to the Rights Offering, to reflect the dilutive effect of the 91.6 million common shares that were issued at \$0.66 per share in connection with the Rights Offering. The adjustment did not impact the financial statements.

The weighted average share price when stock options were exercised in the year ended January 31, 2015 was \$1.39.

The fair value of share options granted was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<b>Year ended January 31, 2015</b>	<b>Year ended January 31, 2014</b>
Risk-free interest rate	0.51% to 0.76%	0.23% to 0.44%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	Nil	Nil
Expected volatility	50.97% to 57.08%	76.04% to 90.43%
Expected life in years	2.00 to 3.00	1.62 to 2.00
Weighted average fair value of each option	\$0.20 to \$0.41	\$0.28

The expected volatility reflects the Company's expectation that historical volatility over a period similar to the life of the option is indicative of future trends, which may or may not necessarily be the actual outcome.





**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***10. Share Capital - Continued**c) **Share Options - Continued**

Details of share options outstanding as at January 31, 2015 are as follows:

<b>Range of Exercise Prices <sup>(1)</sup></b>	<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Weighted Average Exercise Price <sup>(1)</sup></b>	<b>Weighted Average Remaining Life</b>
0.7110 to 0.8671	5,045,000	4,161,667	0.75	6.03
0.9300 to 1.1500	8,822,002	8,722,002	1.00	6.06
1.5000 to 1.8904	3,583,000	3,483,000	1.80	3.19
2.0342 to 2.4886	1,565,000	1,215,000	2.26	1.80
2.5059 to 3.3990	2,070,000	1,107,500	2.66	2.24
	21,085,002	18,689,169	1.33	4.88

<sup>(1)</sup> For information purposes, those share options granted with an exercise price in Canadian dollars ( CDN ) have been translated to the Company's reporting currency using the exchange rate as at January 31, 2015 of 1.00 US\$ = 1.2660 CDN\$.

As at January 31, 2015 all outstanding share options had vested and were exercisable, with the exception of 2,395,833, which were scheduled to vest upon completion of specific targets (EIS 160,000; Permits 1,113,333; Construction 662,500; Production 300,000; Other 160,000). The outstanding share options have expiry periods between 0.26 and 9.44 years.

d) **Restricted Shares and Restricted Share Units**

Details of restricted shares and restricted share units are as follows:

	<b>Year ended January 31, 2015</b>	Year ended January 31, 2014
Outstanding - beginning of period	<b>1,615,510</b>	785,882
Issued	<b>849,522</b>	909,574
Vested	<b>(334,746)</b>	(91,353)
Anti-dilution quantity adjustment	-	11,407
Outstanding - end of period	<b>2,130,286</b>	1,615,510

Effective July 5, 2013, the Company increased the number of common shares issuable for all restricted stock units outstanding prior to the Rights Offering, to reflect the dilutive effect of the 91.6 million common shares that were issued at \$0.66 per share in connection with the Rights Offering. The adjustment did not impact the financial statements.

During the year ended January 31, 2015, the Company issued 849,522 restricted share units which had a fair value of \$0.909 million to be expensed and capitalized over the vesting periods compared with the year ended January 31, 2014 when the Company issued 909,574 restricted share units which had a fair value of \$0.881 million to be expensed and capitalized over the vesting periods.

As at January 31, 2015 outstanding restricted shares and restricted share units were scheduled to vest upon completion of specific targets (EIS 91,353; Permits 168,891; Production 168,890; December 2015 909,574; December 2016 559,802; Other 231,776).

F-26

---

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***10. Share Capital - Continued****e) Bonus Shares**

Details of bonus shares are as follows:

		Year ended January 31, 2015		Year ended January 31, 2014	
		Allocated	Authorized & Unissued	Allocated	Authorized & Unissued
Outstanding	beginning of period	3,540,000	3,640,000	3,140,000	3,640,000
	Allocated	-	-	400,000	-
	Forfeited	(390,000)	-	-	-
Outstanding	end of period	3,150,000	3,640,000	3,540,000	3,640,000

The bonus share incentive plan was established for the Company's directors and key employees and was approved by the disinterested shareholders at the Company's shareholders' meeting held on May 28, 2004. The Company has authorized 3,640,000 bonus shares for the achievement of Milestone 4 representing commencement of commercial production at NorthMet at a time when the Company has not less than 50% ownership interest in NorthMet. At the Company's Annual General Meeting of shareholders held on June 17, 2008, the disinterested shareholders approved the bonus shares for Milestone 4. Regulatory approval is required prior to issuance of these shares. The current year period includes forfeiture by individuals upon ceasing to be a director or key employee of the Company.

The fair value of these unissued bonus shares is being amortized until the estimated date of issuance. During the year ended January 31, 2015, the Company recorded \$0.570 million amortization related to Milestone 4 bonus shares (January 31, 2014 - \$0.689 million), which was capitalized to Mineral Property, Plant and Equipment.

**f) Share Purchase Warrants**

Details of share purchase warrants are as follows:

		Year ended January 31, 2015		Year ended January 31, 2014	
		Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding	beginning of period	8,168,602	1.35	7,083,333	1.56
	Anti-dilution price adjustment	-	-	-	(0.21)
	Anti-dilution quantity adjustment	-	-	1,085,269	-
Outstanding	end of period	8,168,602	1.35	8,168,602	1.35

Effective July 5, 2013, the Company increased the number of common shares issuable and reduced the exercise price of all warrants that were outstanding prior to the Rights Offering, to reflect the dilutive effect of the 91.6 million

common shares that were issued in connection with the Rights Offering. The adjustment did not impact the financial statements.

F-27

---

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***11. Finance Costs**

Details of finance costs are as follows:

	<b>2015</b>	Year ended January 31,	
		2014	2013
Interest and financing costs, net	\$ 177	\$ (56)	\$ 29
Accretion of environmental rehabilitation provision ( <i>Note 6</i> )	1,639	1,521	792
Finance costs	\$ 1,816	\$ 1,465	\$ 821

**12. Related Party Transactions**

The Company conducted transactions with senior management, directors and persons or companies related to these individuals, and paid or accrued amounts, as follows:

	<b>2015</b>	Year ended January 31,	
		2014	2013
Salaries and other short-term benefits	\$ 1,509	\$ 1,718	\$ 1,468
Other long-term benefits	49	60	54
Termination benefits	-	-	279
Share-based payment <sup>(1)</sup>	1,093	2,366	2,102
Total	\$ 2,651	\$ 4,144	\$ 3,903

<sup>(1)</sup> Share-based payment represents the fair value determined at grant date to be expensed over the vesting period. Share-based payments are described in Note 10.

There are agreements with key employees that contain severance provisions for termination without cause or in the event of a take-over bid. Other than the President and Chief Executive Officer, none of PolyMet's other directors has a service contract with the Company providing for benefits upon termination of his employment.

As a result of Glencore's ownership of 28.5% of the Company it is also a related party. Transactions with Glencore are described in Notes 7, 8, 9, and 10.

**13. Income Taxes****a) Effective tax rate**

The effective tax rate differs from the cumulative Canadian federal and provincial income tax rate due to the following:

	<b>2015</b>	Year ended January 31,	
		2014	2013
Loss for the year before taxes	\$ (7,276)	\$ (8,132)	\$ (6,626)
Canadian statutory tax rate	26.0%	26.0%	25.0%
Expected tax recovery	(1,892)	(2,114)	(1,657)
Difference in foreign tax rates	(407)	(454)	(199)
Non-deductible items	291	424	564

Edgar Filing: POLYMET MINING CORP - Form 20-F

Change in unrecognized deferred tax and other items		<b>2,008</b>		2,144		1,292
Income Tax Expense / (Recovery)	\$	-	\$	-	\$	-
		F-28				

---

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***13. Income Taxes - Continued****b) Deferred income tax assets and liabilities**

Deferred income tax assets and liabilities have been recognized in respect of the following items:

	Year ended January 31,	
	2015	2014
Non-capital loss carry forward assets	\$ 25,952	\$ 21,323
Mineral property acquisition, exploration and development costs	(25,952)	(21,314)
Other	-	(9)
Net deferred income tax liabilities	\$ -	\$ -

Deferred income tax assets have not yet been recognized in respect of the following items:

	Year ended January 31,	
	2015	2014
Non-capital loss carry forward assets	\$ 21,022	\$ 19,906
Capital loss carry forward assets	347	-
Intercompany receivable assets	2,031	2,031
Other assets	1,056	101
Unrecognized deferred income tax assets	\$ 24,456	\$ 22,038

In each period since our inception, we have recorded a valuation allowance for the full amount of our deferred tax asset, as the realization of the deferred tax asset is uncertain.

As of January 31, 2015, the Company has Canadian non-capital loss carry forwards of approximately \$20.4 million (January 31, 2014 - \$16.6 million) and US non-capital loss carry forwards of approximately \$100.6 million (January 31, 2014 - \$89.4 million). The non-capital loss carry forwards are available to reduce future income for tax purposes and expire between 2019 and 2035.

Under IRS Section 382 substantial changes in our ownership (generally greater than 50% change in ownership) may limit the amount of US non-capital loss carry forwards that could be utilized annually to offset future taxable income. Any such annual limitation may reduce the Company's ability to utilize US non-capital losses before they expire. The Company has not yet completed a 382 limitation study and the amount of such limitation cannot be reasonably quantified as at January 31, 2015.

**14. Commitments and Contingencies**

In addition to items described elsewhere in these financial statements:

- As at January 31, 2015, the Company had firm commitments related to the environmental review process, land options, wetland credit intangibles, consultants, and rent of approximately \$3. million with the majority due over the next year and the remainder due over seven years.
- As at January 31, 2015, the Company had non-binding commitments to maintain its mineral lease rights of \$0.180 million with all due in the next year.



c) The following table lists the known contractual obligations as at January 31, 2015:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 3 years</b>	<b>3 5 years</b>	<b>More than 5 years</b>
Accounts payable and accrued liabilities	\$ 2,673	\$ 2,673	\$ -	\$ -	\$ -
Convertible debt ( <i>Note 8</i> )	34,493	34,493	-	-	-
Non-convertible debt ( <i>Note 9</i> )	13,747	5,111	8,636	-	-
Commitments	3,900	2,964	616	204	116
<b>Total</b>	<b>\$ 54,813</b>	<b>\$ 45,241</b>	<b>\$ 9,252</b>	<b>\$ 204</b>	<b>\$ 116</b>

F-29

**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***15. Financial Instruments and Risk Management**

The Company's financial instruments are classified as loans and receivables and other financial liabilities.

The carrying values of each classification of financial instrument at January 31, 2015 are:

	Loans and receivables	Other financial liabilities	Total carrying value
<b>Financial assets</b>			
Cash and cash equivalents	\$ 9,301	\$ -	\$ 9,301
Amounts receivable	381	-	381
<b>Total financial assets</b>	<b>\$ 9,682</b>	<b>\$ -</b>	<b>\$ 9,682</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ -	\$ 2,673	\$ 2,673
Convertible debt	-	33,451	33,451
Non-convertible debt	-	12,469	12,469
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 48,593</b>	<b>\$ 48,593</b>

The carrying values of each classification of financial instrument at January 31, 2014 are:

	Loans and receivables	Other financial liabilities	Total carrying value
<b>Financial assets</b>			
Cash and cash equivalents	\$ 32,790	\$ -	\$ 32,790
Amounts receivable	1,420	-	1,420
<b>Total financial assets</b>	<b>\$ 34,210</b>	<b>\$ -</b>	<b>\$ 34,210</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ -	\$ 3,806	\$ 3,806
Convertible debt	-	31,967	31,967
Non-convertible debt	-	4,276	4,276
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 40,049</b>	<b>\$ 40,049</b>

*Fair Value Measurements*

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs for the asset or liability that are not based on observable market data.



**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share*

**15. Financial Instruments and Risk Management - Continued**

The fair values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. The fair value of the Company's convertible debt and non-convertible debt approximates the carrying amount at amortized cost using the effective interest method.

*Risks Arising from Financial Instruments and Risk Management*

The Company's activities expose it to a variety of financial risks: market risk (including currency and interest rate), credit risk, and liquidity risk. Reflecting the current stage of development of the Company's NorthMet Project, the overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan.

Risk management is the responsibility of executive management. Material risks are identified and monitored and are discussed with the Audit Committee and the Board of Directors.

*Currency Risk*

The Company incurs expenditures in Canada and in the United States. The functional and reporting currency of the Company and its subsidiary is the United States dollar. Foreign exchange risk arises because the amount of Canadian dollar cash and cash equivalents, amounts receivable, or accounts payable and accrued liabilities will vary in United States dollar terms due to changes in exchange rates.

As the majority of the Company's expenditures are in United States dollars, the Company has kept a significant portion of its cash and cash equivalents in United States dollars. The Company has not hedged its exposure to currency fluctuations.

The Company was exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	<b>January 31, 2015</b>	January 31, 2014
Cash and cash equivalents	\$ 90	\$ 77
Amounts receivables	8	12
Accounts payable and accrued liabilities	(8)	(8)
Total	\$ 90	\$ 81

Based on the above net exposures, as at January 31, 2015, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately \$9,000.

*Interest Rate Risk*

Interest rate risk arises from interest paid on floating rate debt and interest received on cash and short-term deposits. The Company has not hedged any of its interest rate risk. The Company currently capitalizes the majority of interest charges, and therefore the risk exposure is primarily on cash interest payable and net earnings in relation to the subsequent depreciation of capitalized interest charges.



**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***15. Financial Instruments and Risk Management - Continued**

The Company was exposed to interest rate risk through the following assets and liabilities:

	<b>January 31, 2015</b>	January 31, 2014
Cash and cash equivalents	\$ <b>9,301</b>	\$ 32,790
Convertible debt	<b>33,451</b>	31,967
Non-convertible debt	\$ <b>7,855</b>	\$ -

*Credit Risk*

Credit risk arises on cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding amounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets of \$9.682 million.

The Company's cash and cash equivalents are primarily held through a large Canadian financial institution.

*Liquidity Risk*

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time and is achieved by maintaining sufficient cash and cash equivalents. See additional discussion in Note 1.

*Capital Management*

The Company's capital management objective is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral property. In the management of capital, the Company includes the components of shareholders' equity, convertible debt and non-convertible debt. The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. The Company has no externally imposed capital requirements.

In order to assist in management of its capital requirements, the Company prepares budgets that are updated as necessary depending on various factors. The budgets are approved by the Company's Board of Directors.

Although the Company plans to have the resources to carry out its plans and operations through January 31, 2016, it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is currently in discussions to arrange sufficient capital to meet these requirements. During the upcoming fiscal year, the Company's objective is to identify the source or sources from which it will obtain the capital required to complete the Project. See additional discussion in Note 1.



**PolyMet Mining Corp.****Notes to Consolidated Financial Statements**

As at January 31, 2015 and 2014 and for the years ended January 31, 2015, 2014, and 2013

*Tabular amounts in thousands of U.S. Dollars, except for number of shares and price per share***16. Subsequent Event**

On April 15, 2015, the Company issued to Glencore the 2015 Agreement Tranche G debenture in the amount of \$8.0 million. The debenture bears interest at 12-month US dollar LIBOR plus 8.0% . The Company has provided security on the debenture covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet's 100% shareholding in PolyMet US. The due date of the debenture is the earlier of (i) the availability of at least \$100 million of finance provided the Company demonstrates repayment is prudent or (ii) March 31, 2016, on which date all principal and interest accrued to such date will be due and payable.

F-33

**ITEM 19. EXHIBITS**

1.1	Certificate of Incorporation	(2)
1.2	Certificate of Change of Name	(2)
1.3	Articles of Incorporation	(2)
4.1	Shareholder Rights Plan Agreement	(2)
4.2	Contract for Deed between us and Cleveland Cliffs, Ohio, dated November 15, 2005	(2)
4.3	Contract for Deed between us and Cleveland Cliffs, Ohio, dated December 20, 2006	(1)
4.4	Shareholder Rights Plan as amended and restated	(7)
4.5	Omnibus Share Compensation Plan as amended and restated	(7)
4.6	Purchase Agreement between us and Glencore, dated October 31, 2008	(8)
4.7	Form of Floating Rate Secured Debenture between us and Glencore dated October 31, 2008	(8)
4.8	Guarantee between PolyMet Mining Corp. and Glencore, dated October 31, 2008	(8)
4.9	Security Agreement between PolyMet Mining Corp. and Glencore, dated October 31, 2008	(8)
4.10	Security Agreement between Poly Met Mining, Inc. and Glencore, dated October 31, 2008	(8)
4.11	Pledge Agreement between Poly Met Mining, Inc. and Glencore, dated October 31, 2008	(8)
4.12	Amendment to Purchase Agreement between us and Glencore dated October 20, 2009	(9)



Edgar Filing: POLYMET MINING CORP - Form 20-F

4.13	Amendment to Purchase Agreement between us and Glencore dated November 16, 2009	(9)
4.14	Amendment to Purchase Agreement and Waiver between us and Glencore dated November 12, 2010	(10)
4.15	Form of Purchase Warrant between us and Glencore dated November 12, 2010	(10)
4.16	Form of Purchase Warrant between us and Glencore dated November 30, 2011	(11)
4.17	Amendment to Purchase Agreement and Waiver between us and Glencore dated November 30, 2011	(11)
4.18	Amended and Restated Exchange Warrant between us and Glencore dated December 6, 2011	(11)
4.19	Amendment to Purchase Agreement between us and Glencore dated April 10, 2013	(14)
4.20	Amendment to Purchase Agreement and Exchange Warrants between us and Glencore dated April 25, 2014	(17)
4.21	Amendment to Purchase Agreement between us and Glencore dated January 28, 2015	(18)
8.1	List of Subsidiaries	(16)
11.1	Code of Ethics	(3)
11.2	Statement of Corporate Governance Practices	(4)
<u>12.1</u>	<u>Certification of Principal Executive Officer pursuant to 17 C.F.R. 240.13a-14(a)</u>	*
<u>12.2</u>	<u>Certification of Principal Financial Officer pursuant to 17 C.F.R. 240.13a-14(a)</u>	*
<u>13.1</u>	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 17 C.F.R. 240.13a-14(b) and 18 U.S.C. 1350.</u>	*
<u>15.1</u>	<u>Consent of Independent Auditors</u>	*
15.2	Lease Agreement between us and U.S. Steel Corporation, dated January 4, 1989.	(2)
15.3	Notice of Assignment of the Lease Agreement from U.S. Steel Corporation to RGGGS Land and Minerals, Ltd. L.P dated February 26, 2004	(2)

15.4	Executive employment agreement with Mr. Douglas Newby dated July 1, 2007	(7)
15.5	Executive employment agreement with Mr. Jonathan Cherry dated July 16, 2012	(15)
15.6	Technical Report on NorthMet Project dated January 14, 2013	(12)
<u>15.7</u>	<u>Consents for use of information and inclusion of the Technical Report in Exhibit 15.1 and reference in Form 20-F</u>	*
<u>16.1</u>	<u>Disclosure of Mine Safety and Health Administration Safety Data</u>	*

\* Filed herewith.

- (1) Incorporated by reference to our Annual Report on Form 20-F/A for the fiscal year ended January 31, 2007, filed on May 31 2007.
- (2) Incorporated by reference to our Annual Report on Form 20-F/A for the fiscal year ended January 31, 2006, filed on July 31 2006.
- (3) Incorporated by reference to our Annual Report on Form 20-F/A for the fiscal year ended January 31, 2004, filed on July 7, 2005.
- (4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended January 31, 2005, filed on July 25, 2005.
- (5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended January 31, 2004, filed on June 30, 2004.
- (6) Incorporated by reference to our Report on Form 6-K, filed on November 13, 2006.
- (7) Incorporated by reference to our Annual Report on Form-20-F/A for the fiscal year ended January 31, 2008, filed on August 27, 2008.
- (8) Incorporated by reference to our Form 13-D filed on November 10, 2008.
- (9) Incorporated by reference to our Report on Form 6-K filed on November 23, 2009.
- (10) Incorporated by reference to our Report on Form 6-K filed on November 18, 2010.
- (11) Incorporated by reference to our Report on Form 6-K filed on December 7, 2011
- (12) Incorporated by reference to our Report on Form 6-K filed on April 5, 2013
- (13) Incorporated by reference to our Registration Statement on Form F-10 (File No 333-187853) filed on April 10, 2013
- (14) Incorporated by reference to our Report on Form 6-K filed on April 11, 2013
- (15) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended January 31, 2013, filed on April 22, 2013.

- (16) Incorporated by reference to Item 4(c) Organizational Structure.
- (17) Incorporated by reference to our Report on Form 6-K filed on April 25, 2014.
- (18) Incorporated by reference to our Report on Form 6-K filed on February 2, 2015.

**SIGNATURES**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Dated: April 21, 2015

POLYMET MINING CORP.

/s/ Jonathan Cherry

Name: Jonathan Cherry

Title: Chief Executive Officer

64

---