

POLYMET MINING CORP
Form 20-F
April 25, 2014

**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, 2014**

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: 651-389-4105
Fax: 651-389-4101**

Edgar Filing: POLYMET MINING CORP - Form 20-F

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.

275,575,392

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

ITEM 1.	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	<u>5</u>
ITEM 2.	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>5</u>
ITEM 3.	<u>KEY INFORMATION</u>	<u>5</u>
ITEM 4.	<u>INFORMATION ON THE COMPANY</u>	<u>13</u>
ITEM 5.	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>30</u>
ITEM 6.	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>39</u>
ITEM 7.	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>44</u>
ITEM 8.	<u>FINANCIAL INFORMATION</u>	<u>49</u>
ITEM 9.	<u>THE OFFER AND LISTING</u>	<u>50</u>
ITEM 10.	<u>ADDITIONAL INFORMATION</u>	<u>51</u>
ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	<u>60</u>
ITEM 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>60</u>

Part II

ITEM 13.	<u>DEFAULT, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>61</u>
ITEM 14.	<u>MATERIAL MODIFICATIONS TO THE RIGHT OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>61</u>
ITEM 15.	<u>CONTROLS AND PROCEDURES</u>	<u>62</u>
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>63</u>
ITEM 16B.	<u>CODE OF ETHICS</u>	<u>63</u>
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>63</u>
ITEM 16D.	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>64</u>
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>64</u>
ITEM 16F.	<u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	<u>64</u>
ITEM 16G.	<u>CORPORATE GOVERNANCE</u>	<u>64</u>
ITEM 16H.	<u>MINE SAFETY DISCLOSURE</u>	<u>64</u>

Part III

ITEM 17.	<u>FINANCIAL STATEMENTS</u>	<u>65</u>
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	<u>65</u>
ITEM 19.	<u>EXHIBITS</u>	<u>66</u>

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-5</u>
<u>Consolidated Statements of Loss and Comprehensive Loss</u>	<u>F-6</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>F-7</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-9</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 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;
- 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;
- future decisions by management in response to changing conditions;
- our ability to execute prospective business plans; and
- misjudgments in the course of preparing forward-looking statements.

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, 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, 2014, 2013, 2012, and 2011, as at February 1, 2010, and for the years ended January 31, 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 Form 20-F.

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 1/31/2014	Year Ended 1/31/2013	Year Ended 1/31/2012	Year Ended 1/31/2011	Opening Balance Sheet 2/1/2010
Revenue	\$	\$	\$	\$	
Income (loss) from Operations	\$	\$	\$	\$	
Net Loss	\$ (8,132)	\$ (6,626)	\$ (3,045)	\$ (6,662)	
Loss Per Share	\$ (0.04)	\$ (0.04)	\$ (0.02)	\$ (0.04)	
Diluted Net Loss Per Share	\$ (0.04)	\$ (0.04)	\$ (0.02)	\$ (0.04)	
Dividends Per Share	\$	\$	\$	\$	
Weighted Average Shares	236,303,304	178,949,306	160,358,498	149,444,955	
Working Capital	\$ (1,872)	\$ 2,629	\$ 16,375	\$ 4,199	\$ 16,313
Total Assets	\$ 287,525	\$ 236,127	\$ 189,571	\$ 156,736	\$ 149,692

Edgar Filing: POLYMET MINING CORP - Form 20-F

Long-Term and Convertible Debt	\$	36,243	\$	34,458	\$	32,690	\$	29,406	\$	33,395
Shareholders Equity	\$	196,332	\$	142,912	\$	132,366	\$	102,417	\$	97,645
Share Capital including Share Capital Premium	\$	243,337	\$	184,222	\$	170,566	\$	143,248	\$	132,066

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, 2014, we had an accumulated deficit of \$96.5 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, PolyMet has raised US\$177 million in equity and US\$25 million initial principal debt exchangeable into equity upon receipt of permits necessary to build and operate the NorthMet Project.

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 Xstrata 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 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.

Recent market events and conditions, 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 unprecedented 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, 2014 there were 275,575,392 of our common shares outstanding. The average trading volume for the three months prior to January 31, 2014 was approximately 62,000 shares per day on the TSX and 430,000 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 our common shares that may be issuable pursuant to the Omnibus Plan may not at any time exceed 10% of our issued and outstanding common shares. As at January 31, 2014, the aggregate number of our common shares issuable pursuant to the Omnibus Plan was 19,655,981 shares. Our bonus share incentive plan, or the *Bonus Plan*, was established for our directors and key employees and was approved by the disinterested shareholders at the Company's shareholders' meeting held on May 28, 2004. Under the Bonus Plan we may issue an additional 3,640,000 shares upon achieving certain milestones.

Upon any issuances or exercise of options issued, the ownership interests and voting power of existing shareholders may be further diluted.

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, 2014, 2013, and 2012 we made net investments of \$25.626 million, \$18.404 million, and \$16.137 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 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, 2014, 2013, and 2012, 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 convertible into equity financings 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 four main areas:

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. On November 15, 2005 and December 20, 2006, the Corporation entered into a total of three Contracts for Deed with Cliffs Erie LLC, a subsidiary of Cliffs Natural Resources Inc. (formerly Cleveland Cliffs, Inc.) (Cliffs), under which we now own 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 liability related to final reclamation and closure of the acquired property. See additional discussion in section 4(D)(c)(ii).

Environmental Review and Permitting. To commence commercial production at our NorthMet Project, various regulatory approvals are needed. The environmental review process is very thorough:

In October 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 United States Army Corps of Engineers (USACE) as the lead federal agency (together, the Co-lead Agencies) for preparation of an Environmental Impact Statement (EIS) for our NorthMet Project.

In November 2009, the Co-lead Agencies published the PolyMet draft EIS, which marked the start of a period for public review and comment including two public meetings. The United States 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 that incorporates a proposed land exchange with the United States Forest Service (USFS) and expands government agency cooperation. The USFS joined the USACE as a federal Co-lead Agency through the completion of the EIS process.

In June 2011, the EPA joined as a Cooperating Agency.

- On December 6, 2013 the Co-lead Agencies published the supplemental draft EIS, which started a new period for public review and comment, including three public meetings, which ended on March 13, 2014. The EPA rated the supplemental draft EIS EC-2, EC being one of four possible ratings, with the highest LO (Lack of Objections) typically applied to non-industrial projects such as the Upper Mississippi National Wildlife and Fish Refuge Comprehensive Conservation Plan Implementation. The EC (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, the St. Croix River Crossing, and several other major highway improvement and bridge projects. The end of the public review and comment period and EPA rating marks important and necessary steps forward so the EIS can be finalized and we can permit and build the mine.

On December 16, 2013 the USACE published notice of our Section 404 Wetland Permit application, a key federal permit needed for construction and operation of the our NorthMet Project. The publication was subject to public review for 90 days, which ended March 13, 2014 and included a public meeting in Duluth, MN on January 16, 2014.

Completion of the final EIS, incorporating appropriate responses to public comments, and a subsequent adequacy decision by the MDNR and Record 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. We anticipate the land exchange will occur and permits be issued during late first quarter of calendar 2015.

Prior to receipt of these permits, we will seek to secure production debt financing that would be available upon receipt of key permits, with construction anticipated through the middle of calendar year 2016.

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

Engineering and feasibility. We retained Bateman Engineering Pty Ltd of Brisbane, Australia (Bateman) as the coordinating consultant to prepare a Definitive Feasibility Study (the 2006 DFS). In September 2006 we reported that the DFS confirmed the economic and technical viability of our NorthMet Project.

Bateman was responsible for completing the process design and detail engineering and cost estimates for the plant and infrastructure. This work was supported by other firms that provided geo-statistical reviews of the ore body, mine planning and scheduling of ore and waste, and assessment of the market for the metals and intermediate products planned to be produced.

Between September 2006 and October 2007 we completed additional drilling and expanded the reserves. In May 2008 we completed an internal update of the DFS (the 2008 DFS Update), which contemplates an initial stage in which we would sell concentrate during completion of construction and commissioning of the hydrometallurgical plant that was contemplated in the 2006 DFS. This approach has the advantage of staging capital costs so that the hydrometallurgical plant can be funded in part from cash flow from sales of concentrate, and it reduces our reliance on delivery of long lead-time equipment before we start commercial production.

In February 2011, we announced that we anticipate building the NorthMet Project in two phases, the first to produce and market concentrates containing copper, nickel, cobalt and precious metals, and the second to process the nickel concentrate through a single autoclave, resulting in production and sale of high grade copper concentrate, value added nickel-cobalt hydroxide, and precious metals precipitate products.

The results of the 2007 drill program, the 2008 DFS Update and the February 2011 revisions are described in the technical report under NI 43-101 as amended, filed on EDGAR on April 5, 2013 and on SEDAR on January 23, 2013 (the Technical Report).

In February 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.

With project design locked down in the supplemental draft EIS, we are undertaking a complete review of capital and operating costs based on detailed project plans. We anticipate issuing an updated Technical Report under National Instrument 43-101 in the second calendar quarter of 2014 (the 2014 Project Update).

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 US\$177 million in equity and US\$25 million initial principal debt exchangeable into equity upon receipt of permits necessary to build and operate the NorthMet Project. We also have a loan of \$4 million secured by land acquired with proceeds from the loan.

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, 2014, 2013, and 2012, 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 20-year 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.

In July 2000, we entered into a joint venture arrangement with North Limited (North), a major Australian mining company, to advance the NorthMet Project (which did not include the Erie Plant at that time) to commercial production. Under the joint venture arrangement, North had the opportunity to earn an 87.5% interest in the NorthMet Project by producing a feasibility study and funding 100% of the total capital costs to develop the project.

In August 2000, Rio Tinto Limited (Rio Tinto) acquired North. Subsequently, Rio Tinto decided not to proceed with the NorthMet Project and we exercised our 30-day pre-emptive right, under a change of control clause, to terminate the joint venture arrangement. As a result, we regained a 100% interest in the NorthMet Project.

Following completion of metallurgical pilot plant work in November 2000, we commissioned a pre-feasibility study on the project that was completed in April 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. No further work was done until March 2003, when 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 which could improve the project economics.

By a Memorandum of Understanding dated December 5, 2003 and an option agreement dated February 14, 2004, we obtained an option (the Cliffs Option) to acquire certain property, plant, and equipment located near our NorthMet ore body from Cliffs. As consideration for the Cliffs Option, we paid \$500,000 prior to January 31, 2004 and issued to Cliffs 1,000,000 of our common shares on March 30, 2004, valued at \$229,320 to maintain our exclusive rights until June 30, 2006. On September 15, 2005 we reached agreement with Cliffs on the terms for the early exercise of our option and expansion of the assets to be acquired to include 100% ownership of the Erie Plant (the Asset Purchase Agreement). Under this agreement we agreed to pay Cliffs \$1 million in cash, 6,200,547 million of our common shares valued at \$7.564 million, and commence quarterly payments of \$250,000 starting on March 31, 2006 for a total of \$2.4 million plus interest at 4% per annum on the outstanding balance. On November 15, 2005, we consummated the Asset Purchase Agreement and completed the acquisition thereunder. The final payment was made on June 30, 2008.

On September 14, 2006, we entered into an agreement through two separate contracts for deed with Cliffs whereby we would acquire property and associated rights (Cliffs II.) for 2,000,000 of our common shares valued at \$6.16 million and \$15.0 million payable in cash and two notes, each for \$7 million. We closed the transaction on December 20, 2006 and repaid the outstanding balance of the two \$7 million notes plus accrued interest on December 21, 2011.

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 assumed certain liabilities associated with the property purchased above. See additional discussion in section 4D(c)(ii).

Since inception, we have a cumulative deficit of \$96.5 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.

The following diagram illustrates the location of the NorthMet Project.

Figure No. 1
NorthMet Project 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 RGGSLand & Minerals Ltd., L.P (RGGSL). The initial term of the 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 20-year 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, 2014. The next payment is due in January 2015.

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 that we receive. Our recovery of \$2.225 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 increases 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, 2014. The next payment is due in November 2014.

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 that we receive. Our recovery of \$0.069 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 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 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 when 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, 2014.

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.

The plant facilities include two rail dump pockets, two primary 60 gyratory crushers, eight secondary 36 gyratory crushers, seven tertiary seven-foot standard cone crushers, 14 seven-foot short-head crushers, 30 mill circuits each

comprising one 12 x 14' rod mill and one 12 x 14' ball mill, three 12'x 24' regrind mills, maintenance facilities and spare parts, extensive conveyors, feeders, bins, auxiliary facilities and offices, established infrastructure including a 225 MVA high voltage electrical substation, water supply, roads, tailings basins and rail facilities.

With the completion of Cliffs II, we also own 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.

We plan to use approximately one-third of the historic productive capacity to crush and grind material that we expect to mine from the NorthMet deposit. We intend to construct new facilities to recover copper metal, nickel and cobalt hydroxides, and precious metal precipitates.

The cost of acquisition of 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. As set forth under the Asset Purchase Agreement, we have assumed certain ongoing site-related environmental and reclamation obligations of Cliffs in connection with the Erie Plant. 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 environmental and reclamation obligations. Prior to Cliffs' acquisition of the plant from LTV Steel and prior to our acquisition of the plant from Cliffs, both Cliffs and ourselves undertook environmental assessments and concluded that there were no material liabilities other than the ultimate closure and reclamation of the site. Until operating permits are granted to us, Cliffs remains the Regulated Party for such obligations although, as part of the Asset Purchase Agreement, we have indemnified Cliffs for such costs.

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 Erie of National Pollutant Discharge Elimination System ("NPDES") permits at three separate locations on the Cliffs Erie property.

On April 6, 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, 2014 we estimate the total indemnification liability (including the additional liabilities associated with the consent decree) to be approximately \$60.4 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 \$51.1 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

We commenced the environmental review and permitting process in early 2004. In October 2005, the MDNR published its Environmental Assessment Worksheet Decision Document establishing the MDNR as the lead state agency and the USACE as the lead federal agency for preparation of an EIS for the project. In 2006 the Co-lead Agencies selected Environmental Resources Management (ERM) as the independent environmental contractor (the EIS Contractor) to prepare the EIS. ERM is a leading global provider of environmental, health and safety, risk, and social consulting services. The EIS Contractor team includes members with expertise and experience in mining non-ferrous ores. Several other government agencies (including the USFS, the Bois Forte Band of Chippewa and the Fond Du Lac Band of Lake Superior Chippewa) joined the EIS preparation team as Cooperating Agencies, which brought their special expertise to the process.

In January 2007, we submitted a Detailed Project Description (DPD) to state and federal regulators. The DPD laid out our development plans and proposed environmental safeguards including a mine plan, a wetland mitigation plan, air and water quality monitoring plans and a closure plan with closure estimate. Since then, we have submitted a supplemental DPD as well as more than 100 supporting research studies, including comprehensive mine waste characterization studies, water quality modeling and air quality modeling.

Under state and federal guidelines and regulations, a Draft EIS identifies the environmental impact of a proposed project as well as evaluating alternatives and ways to mitigate potential impacts. We were involved in the process of alternative/mitigation development and had input into the technical and economic feasibility of potential alternatives and mitigations. The EIS Contractor prepared a series of preliminary versions of the Draft EIS that were reviewed and commented on by the Lead Agencies, other governmental agencies, and PolyMet.

In November 2009, the Co-lead Agencies published the PolyMet Draft EIS with formal notification of publication in the Minnesota Environmental Quality Board (EQB) Monitor and the Federal Register, which started a 90-day period for public review and comment, which ended on February 3, 2010. During this period, the lead Agencies held two public meetings – one in the town of Aurora, MN near the project location and one in Blaine, MN in the metropolitan Minneapolis-St. Paul area.

The Lead Agencies received more than 3,700 comment letters, including an extensive comment letter from the EPA 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) that incorporates a proposed land exchange with the USFS Superior National Forest and expands government agency cooperation. The USFS joined the USACE as a federal Co-lead Agency through the completion of the EIS process. In addition, in June 2011 the EPA joined as a Cooperating Agency.

In October 2010 the USACE and the USFS published a Notice of Intent to complete the SDEIS to supplement and supersede the Draft EIS and respond to concerns identified by the EPA and other comments on the Draft EIS and Incorporate potential effects from the proposed land exchange between the USFS Superior National Forest and us.

On December 6, 2013 the Co-lead Agencies published the SDEIS, which started a new period for public review and comment, including three public meetings, which ended on March 13, 2014. The EPA rated the supplemental draft EIS EC-2, EC being one of four possible ratings, with the highest LO (Lack of Objections) typically applied to non-industrial projects such as the Upper Mississippi National Wildlife and Fish Refuge Comprehensive Conservation Plan Implementation. The EC (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, the St. Croix River Crossing, and several other major highway improvement and bridge projects. The EC (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, the St. Croix River Crossing, and several other major highway improvement and bridge projects. The end

of the public review and comment period and EPA rating marks important and necessary steps forward so the EIS can be finalized and we can permit and build the mine.

On December 16, 2013 the USACE published notice of our Section 404 Wetland Permit application, a key federal permit needed for construction and operation of the our NorthMet Project. The publication was subject to public review for 90 days, which ended March 13, 2014 and included a public meeting in Duluth, MN on January 16, 2014.

Completion of the final EIS, incorporating appropriate responses to public comments, and a subsequent adequacy decision by the MDNR and Record 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. We anticipate the land exchange will occur and permits be issued during late first quarter of calendar 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

Prior to receipt of the permits, the Company will seek to secure construction financing that would be available upon receipt of key permits, with construction anticipated through the middle of calendar year 2016.

As at January 31, 2014, we had spent approximately \$68.4 million on environmental review and permitting activities comprising \$6.5 million expensed prior to October 2006 and \$61.9 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 Technical Report to NI 43-101 standards 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 in our most recent Technical Report under NI 43-101 as amended, filed on April 5, 2013.

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 2006 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 2006 DFS. The 2008 updated mineral resource estimates are based on the same cut-off grades used in the 2006 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)	
2008 Updated Mineral Resource Estimate						
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
2006 DFS Mineral Resource Estimate						