



P O L Y M E T
M I N I N G

POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2014 and 2013
And for the years ended January 31, 2014, 2013, and 2012



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, 2014. In making its assessment, management has used the criteria established in *Internal Control - Integrated Framework (1992)* 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, 2014 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



April 25, 2014

Independent Auditor's Report

To the Shareholders of PolyMet Mining Corp.

We have completed integrated audits of PolyMet Mining Corp.'s 2014, 2013 and 2012 consolidated financial statements and its internal control over financial reporting as at January 31, 2014. 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, 2014 and 2013 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, 2014, 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.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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, 2014 and 2013 and its financial performance and its cash flows for each of the years in the three-year period ended January 31, 2014 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, 2014 based on criteria established in Internal Control - Integrated Framework (1992), 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, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by COSO.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

PolyMet Mining Corp.
(a development stage company)
Consolidated Balance Sheets

All figures in Thousands of U.S. Dollars

	January 31, 2014	January 31, 2013
ASSETS		
Current		
Cash and cash equivalents	\$ 32,790	\$ 8,088
Amounts receivable	1,420	830
Investment	-	17
Prepaid expenses	1,195	771
	<u>35,405</u>	<u>9,706</u>
Non-Current		
Mineral Property, Plant and Equipment (Notes 3 and 4)	246,028	220,429
Wetland Credit Intangible (Note 5)	6,092	5,992
Total Assets	\$ 287,525	\$ 236,127
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,806	\$ 5,269
Convertible debt (Note 9)	31,967	-
Environmental rehabilitation provision (Note 6)	1,504	1,808
	<u>37,277</u>	<u>7,077</u>
Non-Current		
Long term debt (Note 7)	4,276	3,950
Convertible debt (Note 9)	-	30,508
Environmental rehabilitation provision (Note 6)	49,640	51,680
	<u>49,640</u>	<u>51,680</u>
Total Liabilities	91,193	93,215
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	240,330	181,215
Share Premium (Notes 8 and 10)	3,007	3,007
Equity Reserves	49,543	47,106
Deficit	(96,548)	(88,416)
	<u>196,332</u>	<u>142,912</u>
Total Shareholders' Equity	196,332	142,912
Total Liabilities and Shareholders' Equity	\$ 287,525	\$ 236,127

Nature of Business and Liquidity (Note 1)

Commitments and Contingencies (Notes 3, 5, 6, 7, 8, 9, 10, and 15)

Subsequent Events (Note 17)

ON BEHALF OF THE BOARD OF DIRECTORS:

_____/S/ Jonathan Cherry_____, Director

_____/S/ William Murray_____, Director

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Consolidated Statements of Loss and Comprehensive Loss

All figures in Thousands of U.S. Dollars, except per share amounts

	For the years ended January 31,		
	2014	2013	2012
General and Administrative			
Salaries and benefits	\$ 1,379	\$ 1,394	\$ 664
Share-based compensation (Note 10)	1,697	2,255	625
Director fees and expenses	293	290	248
Consulting fees	28	81	31
Professional fees	398	374	740
Filing and regulatory fees	81	281	99
Shareholder, investor, and public relations	2,075	571	385
Travel	295	305	226
Rent and other office expenses	225	180	171
Insurance	157	139	149
Amortization	26	38	31
	6,654	5,908	3,369
Other Expenses (Income)			
Finance costs (Note 11)	1,465	821	351
Loss (gain) on foreign exchange	18	(44)	104
Gain on asset held for sale (Note 4)	-	-	(72)
Loss on sale of investment	48	-	-
Rental income	(53)	(59)	(50)
	1,478	718	333
Loss for the year before tax	8,132	6,626	3,702
Income tax recovery	-	-	(657)
Loss for the year	8,132	6,626	3,045
Other Comprehensive Loss			
Components of other comprehensive income that are reclassified to profit or loss:			
Unrealized loss (gain) on investment	(7)	13	36
Reclassification adjustment on sale of investment	(48)	-	-
Total Comprehensive Loss for the year	\$ 8,077	\$ 6,639	\$ 3,081
<hr/>			
Basic and Diluted Loss per Share	\$ (0.04)	\$ (0.04)	\$ (0.02)
<hr/>			
Weighted Average Number of Shares	236,303,304	178,949,306	160,358,498

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Consolidated Statements of Changes in Shareholders' Equity

All figures in Thousands of U.S. Dollars, except for Shares

	Share Capital (authorized = unlimited)			Equity Reserves			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, 2011	154,825,791	\$ 142,373	\$ 875	\$ 37,920	\$ (6)	\$ 37,914	\$ (78,745) \$ 102,417
Loss and comprehensive loss for the period	-	-	-	-	(36)	(36)	(3,045) (3,081)
Equity offering and issuance costs (Note 9 & 10)	13,333,333	15,162	4,667	-	-	-	- 19,829
Equity offering and issuance costs (Note 9 & 10)	5,000,000	9,103	875	-	-	-	- 9,978
Exercise of options	1,185,000	902	-	-	-	-	- 902
Fair value transfer on exercised options	-	663	-	(663)	-	(663)	- -
Restricted shares held in trust	259,000	-	-	-	-	-	- -
Land purchase options	135,000	231	-	-	-	-	- 231
Refinancing of convertible debt	-	-	(4,285)	4,285	-	4,285	- -
Issuance of convertible debt warrants	-	-	-	550	-	550	- 550
Income tax recovery on warrant expiration	-	-	-	(657)	-	(657)	- (657)
Share-based compensation	-	-	-	962	-	962	- 962
Bonus Share cost amortization	-	-	-	1,235	-	1,235	- 1,235
Balance - January 31, 2012	174,738,124	\$ 168,434	\$ 2,132	\$ 43,632	\$ (42)	\$ 43,590	\$ (81,790) \$ 132,366
Loss and comprehensive loss for the period	-	-	-	-	(13)	(13)	(6,626) (6,639)
Equity offering and issuance costs (Note 9 & 10)	5,000,000	9,107	875	-	-	-	- 9,982
Exercise of options (Note 10)	185,000	148	-	-	-	-	- 148
Fair value transfer on exercised options (Note 10)	-	62	-	(62)	-	(62)	- -
Purchase of wetland credit intangibles (Note 5)	2,788,902	3,375	-	525	-	525	- 3,900
Restricted shares held in trust (Note 10)	450,882	-	-	-	-	-	- -
Land purchase options	87,174	89	-	-	-	-	- 89
Share option modification (Note 10)	-	-	-	795	-	795	- 795
Share-based compensation (Note 10)	-	-	-	1,884	-	1,884	- 1,884
Bonus Share cost amortization (Note 10)	-	-	-	387	-	387	- 387
Balance - January 31, 2013	183,250,082	\$ 181,215	\$ 3,007	\$ 47,161	\$ (55)	\$ 47,106	\$ (88,416) \$ 142,912
Loss and comprehensive loss for the period	-	-	-	-	55	55	(8,132) (8,077)
Rights offering and issuance costs (Note 9 & 10)	91,636,202	58,372	-	-	-	-	- 58,372
Land purchase options	140,123	125	-	-	-	-	- 125
Fair value transfer on restricted share vesting (Note 10)	-	80	-	(80)	-	(80)	- -
Share-based compensation (Note 10)	548,985	538	-	1,773	-	1,773	- 2,311
Bonus Share cost amortization (Note 10)	-	-	-	689	-	689	- 689
Balance - January 31, 2014	275,575,392	\$ 240,330	\$ 3,007	\$ 49,543	\$ -	\$ 49,543	\$ (96,548) \$ 196,332

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Consolidated Statements of Cash Flows

All figures in Thousands of U.S. Dollars

	For the years ended January 31,		
	2014	2013	2012
Operating Activities			
Loss for the year	\$ (8,132)	\$ (6,626)	\$ (3,045)
Items not involving cash			
Amortization	26	38	31
Accretion of environmental rehabilitation provision <i>(Note 6)</i>	1,521	792	350
Share-based compensation <i>(Note 10)</i>	1,697	2,255	625
Income tax recovery	-	-	(657)
Unrealized foreign exchange loss	10	-	-
Loss on sale of investment	48	-	-
Gain on asset held for sale <i>(Note 4)</i>	-	-	(72)
Changes in non-cash working capital			
Amounts receivable	(590)	(390)	(122)
Prepaid expenses	(424)	163	(298)
Accounts payable and accrued liabilities	(2,190)	2,652	233
Net cash used in operating activities	(8,034)	(1,116)	(2,955)
Financing Activities			
Proceeds from share issuance, net of costs <i>(Note 10)</i>	58,372	10,130	30,709
Debenture funding <i>(Note 7 & 8)</i>	20,000	-	4,000
Debenture repayment <i>(Note 7 & 8)</i>	(20,000)	-	(8,500)
Net cash provided by financing activities	58,372	10,130	26,209
Investing Activities			
Purchase of property, plant and equipment <i>(Note 4)</i>	(25,224)	(16,312)	(19,629)
Capitalized interest and fees paid <i>(Note 8)</i>	(326)	-	-
Purchase of Wetland Credit Intangible <i>(Note 5)</i>	(100)	(2,092)	-
Proceeds from sale of investment	24	-	-
Proceeds from sale of asset held for sale <i>(Note 4)</i>	-	-	3,492
Net cash used in investing activities	(25,626)	(18,404)	(16,137)
Net Increase (Decrease) in Cash and Cash Equivalents	24,712	(9,390)	7,117
Effect of foreign exchange on Cash and Cash Equivalents	(10)	-	-
Cash and Cash Equivalents - Beginning of year	8,088	17,478	10,361
Cash and Cash Equivalents - End of year	\$ 32,790	\$ 8,088	\$ 17,478

Supplemental Disclosure with Respect to Statement of Cash Flows *(Note 12)*

- See Accompanying Notes -

Notes to Consolidated Financial Statements

As at January 31, 2014 and 2013 and for the years ended January 31, 2014, 2013, and 2012
Tabular amounts in thousands of U.S. Dollars except for price per share, shares and options

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, when warranted, 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 prepared by Bateman Engineering Pty Ltd and NorthMet moved from the exploration stage to the development stage. An updated Technical Report under NI 43-101 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, 25th 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.

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, 2014, PolyMet had cash of \$32.790 million and working capital deficiency of \$1.872 million. The working capital deficiency relates to the \$31.967 million convertible debenture due to Glencore AG, a wholly owned subsidiary of Glencore Xstrata plc (together "Glencore") becoming a current liability on the basis it was to mature on September 30, 2014. Subsequent to year-end, PolyMet and Glencore agreed on April 25, 2014 to extend the maturity date of the convertible debenture to the earlier of the Early Maturity Event (as defined in Note 9) or September 30, 2015 (see Note 17).

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 25, 2014.

b) Basis of Consolidation and Presentation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets classified as available-for-sale. All dollar amounts presented are in United States ("US") dollars unless otherwise specified. 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.

Notes to Consolidated Financial Statements

As at January 31, 2014 and 2013 and for the years ended January 31, 2014, 2013, and 2012
Tabular amounts in thousands of U.S. Dollars except for price per share, shares and options

2. Summary of Significant Accounting Policies - Continued

c) Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS as issued by IASB 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, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

(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 for its mineral property interest was recorded for the year ended January 31, 2014 or 2013.

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.

Notes to Consolidated Financial Statements

As at January 31, 2014 and 2013 and for the years ended January 31, 2014, 2013, and 2012
Tabular amounts in thousands of U.S. Dollars except for price per share, shares and options

2. Summary of Significant Accounting Policies - Continued

c) Critical Accounting Estimates and Judgments - Continued

(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.

Upon initial recognition of provisions for environmental rehabilitation costs, a corresponding increase to the carrying amount of the related asset is recorded and amortized over the life of the asset. The estimates are based principally on legal and regulatory requirements. Following initial recognition of the environmental rehabilitation provision, the carrying amount of the liability is accreted to its future value over the life of the asset, reduced for actual reclamation payments incurred, adjusted for changes to the current market-based discount rate, and adjusted for changes in the amount and timing of the underlying cash flows needed to settle the obligation.

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.

d) Foreign Currency Translation

The US dollar is the functional currency of the Company and its controlled entities. 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates on the dates of the initial transactions. 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.

Notes to Consolidated Financial Statements

As at January 31, 2014 and 2013 and for the years ended January 31, 2014, 2013, and 2012
Tabular amounts in thousands of U.S. Dollars except for price per share, shares and options

2. Summary of Significant Accounting Policies - Continued

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 exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) 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 16.

g) Mineral Property, Plant and Equipment

Mineral Property

Mineral property costs, aside from mineral property acquisition costs, incurred prior to determination of the Definitive Feasibility Study ("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.

Notes to Consolidated Financial Statements

As at January 31, 2014 and 2013 and for the years ended January 31, 2014, 2013, and 2012
Tabular amounts in thousands of U.S. Dollars except for price per share, shares and options

2. Summary of Significant Accounting Policies - Continued

g) Mineral Property, Plant and Equipment- Continued

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 embodied within the part 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.

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 exactly discounts estimated future cash payments through the expected life of the financial liability. 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. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities. See additional discussion in Note 16.

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2. Summary of Significant Accounting Policies - Continued

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, and is amortised straight-line over the vesting period. Awards issued to non-employees are recognized based on the fair value of the goods or services received and recognized over the vesting period. 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.

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.

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2. Summary of Significant Accounting Policies - Continued

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 includes 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.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

o) Adoption of New or Amended IFRS

On February 1, 2013, the Company adopted the following new or amended accounting standards that were previously issued by the IASB, which did not have a significant impact on the Company's consolidated financial statements.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.

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2. Summary of Significant Accounting Policies - Continued

o) Adoption of New or Amended IFRS - Continued

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 addresses accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current 'stripping activity asset'. The standard also provides guidance for the depreciation or amortization and impairment of such assets. IFRIC 20 is effective for reporting years beginning on or after January 1, 2013, although earlier application is permitted.

IAS 1 – Presentation of Items of Other Comprehensive Income

The amendments of IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to net earnings at a future point in time would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

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2. Summary of Significant Accounting Policies - Continued

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 9 – Financial Instruments - Classification and Measurement

The IASB has suspended the originally planned effective date of January 1, 2015 for IFRS 9. The IASB issued IFRS 9 as the first step in its project to replace IAS 39: Financial Instruments – recognition and measurement. The Company will commence assessing the impact of this new standard upon the announcement of its new effective date.

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. The Company is currently assessing the impact of adopting IFRIC 21 on its consolidated financial statements, including the applicability of early adoption.

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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 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 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 received by the Company. The Company's 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, 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 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. The Company's 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 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 (Note 7).

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4. Mineral Property, Plant and Equipment

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

Net Book Value	NorthMet	Other fixed assets	Total
Balance at February 1, 2012	\$ 170,430	\$ 259	\$ 170,689
Additions	19,438	27	19,465
Changes to environmental rehabilitation provision (Note 6)	30,425	-	30,425
Amortization	-	(150)	(150)
Balance at January 31, 2013	\$ 220,293	\$ 136	\$ 220,429
Additions	27,937	38	27,975
Changes to environmental rehabilitation provision (Note 6)	(2,350)	-	(2,350)
Amortization	-	(26)	(26)
Balance at January 31, 2014	\$ 245,880	\$ 148	\$ 246,028

NorthMet	January 31, 2014	January 31, 2013
Mineral property acquisition and interest costs	\$ 46,334	\$ 44,514
Mine plan and development	38,065	35,688
Environmental	61,866	46,198
Consulting and wages	34,630	29,132
Environmental rehabilitation (Note 6)	49,000	51,350
Site activities	15,036	12,462
Mine equipment	949	949
Total	\$ 245,880	\$ 220,293

Erie Plant, Minnesota, U.S.A.

In October 2003, 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 paid \$0.500 million in cash and issued 1,000,000 common shares (at fair value of \$0.229 million) for this option, which it exercised on November 15, 2005 under the Asset Purchase Agreement with Cliffs ("Cliffs I").

On December 20, 2006, the Company closed a transaction ("Cliffs II") 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 120-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 cost of acquisition of 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.

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Notes to Consolidated Financial Statements

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4. Mineral Property, Plant and Equipment - Continued

The Company assumed certain ongoing site-related environmental and reclamation obligations as a result of the above purchases (Note 6). These environmental and reclamation obligations are presently contracted 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.

During the year ended January 31, 2014, the Company capitalized 100% of borrowing costs on long-term (Note 7), convertible debt (Note 9), and other debentures (Note 8) in the amount of \$2.111 million (January 31, 2013 - \$1.768 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, 2014.

At April 30, 2010, certain equipment was classified as assets held for sale. During the year ended January 31, 2012 the assets were sold for cash of \$3.492 million resulting in a gain of \$0.072 million.

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5. Wetland Credit Intangible

Details of Wetland Credit Intangibles are as follows:

	January 31, 2014	January 31, 2013
Wetland Credit Intangible – Exercised options	\$ 1,579	\$ 1,579
Wetland Credit Intangible – Unexercised options	4,513	4,413
	\$ 6,092	\$ 5,992

On March 9, 2012 the Company acquired a secured interest in land (“AG Land”) owned by AG for Waterfowl, LLP (“AG”) that is permitted for restoration to wetland. AG was subsequently acquired by Environmental Investment Partners (“EIP”) and the Company consented to the assignment of the agreement to EIP on September 7, 2012. EIP will restore the wetlands and, upon completion, wetland credits are to be issued by the proper governmental authorities. The Company plans to use the wetland credits to offset wetlands disturbed during construction and operation of NorthMet. The Company holds a first mortgage on the AG Land, which will be proportionately released as wetland credits are transferred to the Company. The Company has the option to exercise five separate phases of wetland credit development. Any option not exercised by February 28, 2017 will expire and the remaining mortgage, if any, will be released. As at January 31, 2014, the Company had exercised the option on phase 1.

The Company paid initial consideration of \$2.0 million cash and issued 2,788,902 of the Company’s common shares valued at \$3.375 million (of which 371,854 held in escrow pending completion of construction of the first phase) and a warrant to purchase 1,083,333 of the Company’s common shares at \$1.50 per share at any time until December 31, 2015 as consideration for a \$5.9 million mortgage to secure performance by EIP. Since the Company expects to exercise each of the remaining options prior to expiration, the total consideration was allocated to each phase. The exercise price of the exchange warrants and the number of warrants are subject to conventional anti-dilution provisions. Effective July 5, 2013, the Company increased the number of common shares issuable to 1,249,315 and reduced the exercise price to \$1.3007, 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 “Rights Offering”) (Note 10).

In addition to the initial consideration, performance commitments for phase 1 totaling \$0.68 million will be due over the seven years following wetland construction completion for ongoing maintenance by EIP. Performance payments totaling \$1.063 million per phase for completion and maintenance of phase 2 through 5 will only be incurred if and when the Company exercises its option on those phases and will be due over the seven years following completion of each phase. If wetland credits are issued by the proper governmental authorities before the seven-year anniversary, any unpaid amounts are due upon issuance of the wetland credits.

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6. Environmental Rehabilitation Provision

Details of Environmental Rehabilitation Provision are as follows:

	Year ended January 31, 2014	Year ended January 31, 2013
Environmental Rehabilitation Provision – beginning of year	\$ 53,488	\$ 22,836
Change in estimated liability	2,430	31,845
Liabilities discharged	(1,515)	(565)
Accretion expense	1,521	792
Change in risk-free interest rate	(4,780)	(1,420)
Environmental Rehabilitation Provision – end of year	51,144	53,488
Less current portion	(1,504)	(1,808)
Non-current portion	\$ 49,640	\$ 51,680

As part of the consideration for the Cliffs Purchase Agreements (Note 4), the Company indemnified Cliffs for the liability related to final reclamation and closure of the acquired property.

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is contracted to indemnify Cliffs requirement to meet performance standards to minimize environmental impact from operations and to perform site restoration and other closure activities. Once the Company obtains its permit to mine the environmental and reclamation obligations will be direct with the governing bodies. The Company's provisions for future site closure and reclamation costs are based upon existing reclamation requirements. 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 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 \$2.4 million increase to the provision during the year ended January 31, 2014 and a \$31.8 million increase to the provision during the year ended January 31, 2013.

The Company's best estimate of the environmental rehabilitation provision at January 31, 2014 was \$51.1 million (January 31, 2013 - \$53.5 million) based on estimated cash flows required to settle this obligation in present day costs of \$27.3 million (January 31, 2013 - \$24.5 million) for Cliffs I and \$33.1 million (January 31, 2013 - \$33.0 million) for Cliffs II, an annual inflation rate of 2.00% (January 31, 2013 – 2.00%) and a risk-free interest rate of 3.35% (January 31, 2013 – 2.79%). Payments are expected to occur over a period of approximately 34 years.

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7. Long Term Debt

Details of Long Term Debt are as follows:

	Year ended January 31, 2014	Year ended January 31, 2013
Long Term Debt – beginning of year	\$ 3,950	\$ 3,672
Accretion and capitalized interest	326	278
Long Term Debt – end of year	4,276	3,950
Less current portion	-	-
Non-current portion	\$ 4,276	\$ 3,950

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 (not expected to occur within 12 months from January 31, 2014). The Company has issued warrants giving the IRRRB the right to purchase 400,000 shares of its common shares at \$2.50 per share at any time until the earlier of June 30, 2016, the date the land is exchanged with the USFS or an alternative date as determined between the parties as the due date of the loan ("IRRRB Warrants"). Effective July 5, 2013, the Company increased the number of common shares issuable to 461,286 and reduced the exercise price to \$2.1678, 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 (Note 10). All long term debt borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2014.

Pursuant to Cliffs II (Note 4) the Company signed two notes payable to Cliffs totaling \$14.0 million. The first note was paid in quarterly installments equal to \$0.250 million with the first payment on December 31, 2006 for total repayment of \$7.0 million with the balance due upon receipt of production financing. The second note was paid in quarterly installments equal to \$0.250 million commencing on December 31, 2009 for total repayment of \$7.0 million with the balance due on December 31, 2011. Both of these notes were repaid in full in December 2011.

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8. 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. PolyMet previously appointed a senior member of Glencore's technical team to PolyMet's Technical Steering Committee.

The financing agreements comprise \$25.0 million initial principal Series A-D debentures in calendar 2008 drawn in four tranches (Note 9), \$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"), and \$20.960 million purchase of PolyMet common shares in the Rights Offering (the "2013 Agreement"). 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 28.6% of PolyMet's issued shares;
- \$25.0 million initial principal floating rate secured debentures due September 30, 2014 (Note 9). Including capitalized and accrued interest as at January 31, 2014, these debentures are exchangeable at \$1.2920 per share into 24,741,611 common shares of PolyMet upon PolyMet giving Glencore 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 or are repayable on September 30, 2014. Subsequent to January 31, 2014, the Company obtained an extension of the due date to the earlier of (i) PolyMet giving Glencore ten days' notice that PolyMet has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and (ii) September 30, 2015 (see Note 17). 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 Value Weighted Average Price ("VWAP") of PolyMet common shares is equal to or greater than 150% of the exercise price and PolyMet provides notice to Glencore that it has 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.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 109,924,433 common shares of PolyMet, representing 35.8% on a partially diluted basis, that is, if no other options or warrants were exercised or 33.5% on a fully diluted basis.

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8. Glencore Financing - Continued

2011 Agreement

On November 30, 2011, PolyMet and Glencore entered into a definitive agreement to:

- Sell in a private placement to Glencore, 13,333,333 common shares at \$1.50 per share for gross proceeds of \$20.0 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore. Effective July 5, 2013, the Company increased the number of common shares issuable to 2,998,358 and reduced the exercise price to \$1.3007, to reflect the dilutive effect of the 91.6 million common shares that were issued in connection with the Rights Offering (Note 10). Approximately \$7.0 million of the proceeds from the sale of these shares was used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. (Note 7);
- Extend the term of the \$25.0 million initial principal debentures to the earlier of (i) PolyMet giving Glencore ten days' notice that PolyMet has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and (ii) September 30, 2014, 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 would have been exchangeable into common shares of PolyMet at \$1.50 per share. Effective July 5, 2013, the Company reduced the exchange price to \$1.2920, 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 (Note 10). Glencore has the right to exchange some or all of the debentures at any time using the same conversion terms; and
- Amend the terms of the warrants issued to Glencore in the 2010 Agreement to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore. Effective July 5, 2013, the Company increased the number of common shares issuable to 3,459,643 and reduced the exercise price to \$1.3007, to reflect the dilutive effect of the 91.6 million common shares that were issued in connection with the Rights Offering (Note 10).

The transaction closed on December 6, 2011.

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8. Glencore Financing - Continued

2013 Agreement

On April 10, 2013, the Company amended its previous financing arrangement and issued a new 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 (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 and matured on the earlier of (i) closing of the Rights Offering by the Company or (ii) May 1, 2014. The Company provided security by way of a guarantee and by the assets of the Company and its wholly-owned subsidiary. The sale of the 2013 Debenture was consummated on April 11, 2013. The Company 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. The 2013 Debenture was repaid upon the closing of the Rights Offering on July 5, 2013. All debt borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2014.

Glencore purchased PolyMet common shares for \$20.960 million in the Rights Offering (Note 10), which closed on July 5, 2013.

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9. Convertible Debt

Details of Convertible Debt are as follows:

	Year ended January 31, 2014	Year ended January 31, 2013
Convertible Debt – beginning of year	\$ 30,508	\$ 29,018
Accretion and capitalized interest	1,459	1,490
Convertible Debt – end of year	31,967	30,508
Less current portion	31,967	-
Non-current portion	\$ -	\$ 30,508

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%, compounded quarterly. Interest is payable in cash or by increasing the principal amount of the Debentures, at Glencore's option. At January 31, 2014, \$6.967 million (January 31, 2013 - \$5.508 million) of interest had been added 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) PolyMet giving Glencore ten days' notice that PolyMet has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and (ii) September 30, 2014, on which date all principal and interest accrued to such date will be due and payable. Subsequent to January 31, 2014, the Company obtained an extension of the due date to the earlier of (i) PolyMet giving Glencore ten days' notice that PolyMet has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and (ii) September 30, 2015 (see Note 17). Upon occurrence of the Early Maturity Event and at the Company's option, the initial principal and capitalized interest would have been exchangeable into common shares of PolyMet at \$1.50 per share. Effective July 5, 2013, the Company reduced the exchange price to \$1.2920, 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 (Note 10). Glencore has the right to exchange some or all of the debentures at any time under the same conversion terms. All convertible debt borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2014.

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10. Share Capital

a) Share Issuances for Cash

On July 15, 2011, the Company closed the second tranche of the 2010 Agreement with Glencore for 5,000,000 common shares at \$2.00 per share for gross proceeds of \$10.0 million (Note 8). For accounting purposes, the \$0.875 million premium over the market price at the time of the arrangement was debited to share capital and credited to equity reserves. Transaction costs for the financing were \$0.022 million.

On December 6, 2011, the Company closed the 2011 Agreement with Glencore for 13,333,333 common shares at \$1.50 per share for gross proceeds of \$20.0 million (Note 8). Transaction costs for the financing were \$0.171 million.

On October 15, 2012, the Company closed the third tranche of the 2010 Agreement with Glencore for 5,000,000 common shares at \$2.00 per share for gross proceeds of \$10.0 million (Note 8). For accounting purposes, the \$0.875 million premium over the market price at the time of the arrangement was debited to share capital and credited to equity reserves. Transaction costs for the financing were \$0.018 million.

On May 24, 2013, the Company filed the final prospectus for an offering of rights ("Rights") to holders of common shares of the Company to raise up to \$60.480 million in gross proceeds. 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. The Rights expired on July 3, 2013.

Under the terms of a Standby Purchase Agreement, Glencore agreed to purchase any common shares not subscribed for by holders of Rights, subject to certain conditions and limitations guaranteeing a minimum of \$53.0 million in gross proceeds. Because the Rights Offering was oversubscribed, Glencore did not purchase any shares under its standby commitment.

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, 2014 the Company issued no shares (January 31, 2013 – 185,000) pursuant to the exercise of share options for total proceeds of \$nil (January 31, 2013 - \$0.148 million).

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10. Share Capital - Continued

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.

During the year ended January 31, 2014, the Company recorded \$2.311 million for share-based compensation (January 31, 2013 - \$2.679 million) with \$1.697 million expensed to share-based compensation (January 31, 2013 - \$2.255 million) and \$0.614 million capitalized to mineral property, plant and equipment (January 31, 2013 - \$0.424 million). The offsetting entries were to paid-in share capital and to warrants and share-based payment reserve. Total share-based compensation for the year includes \$1.405 million for share options (January 31, 2013 - \$1.644 million), \$0.368 million for restricted shares and restricted share units (January 31, 2013 - \$0.240 million), and \$0.538 million for issuance of 548,985 unrestricted shares (January 31, 2013 - \$nil). The prior year period included \$0.795 million related to the three year term extension as a result of the option modification of 14,420,000 options outstanding at July 10, 2012.

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10. Share Capital - Continued

c) Share Options

Details of share options are as follows:

	Year ended January 31, 2014		Year ended January 31, 2013	
	Options	Weighted Average Exercise Price (US\$)	Options	Weighted Average Exercise Price (US\$)
Outstanding – beginning of period	14,920,000	1.94	11,195,000	1.57
Granted	4,639,000	0.97	4,375,000	0.97
Exercised	-	-	(185,000)	1.12
Expired	(750,000)	2.60	(40,000)	0.94
Forfeited	(150,000)	2.75	-	-
Cancelled	-	-	(425,000)	2.73
Anti-dilution price adjustment	-	(0.26)	-	-
Outstanding – end of period	18,659,000	1.41	14,920,000	1.94

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 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:

	Year ended January 31, 2014	Year ended January 31, 2013
Risk-free interest rate	0.23% to 0.44%	0.27% to 0.50%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	Nil	Nil
Expected volatility	76.04% to 90.43%	96.90% to 125.92%
Expected life in years	1.62 to 2.00	2.25 to 3.00
Weighted average fair value of each option	\$0.28	\$0.43

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.

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10. Share Capital - Continued

c) **Share Options - Continued**

Details of share options outstanding as at January 31, 2014 are as follows:

Expiry Date	Exercise Price (US\$) **	Exercise Price (CDN\$) **	Number of options outstanding
September 19, 2015	1.0551	1.1793 *	1,190,000
October 24, 2015	0.9309	1.0405 *	200,000
December 5, 2015	0.8922	0.9972 *	125,000
March 20, 2016	2.1412	2.3932 *	1,950,000
April 1, 2016	1.0232		250,000
June 19, 2016	2.3041	2.5753 *	325,000
September 1, 2016	2.9635	3.3123 *	300,000
September 25, 2016	1.0000		750,000
January 5, 2017	2.5601	2.8614 *	525,000
February 13, 2017	2.5926		500,000
March 12, 2017	2.5319		250,000
March 23, 2017	2.5059		50,000
September 4, 2017	2.6013		360,000
December 12, 2017	2.6447		205,000
January 11, 2018	2.6273		70,000
January 31, 2018	2.4886		100,000
February 15, 2018	2.3585		500,000
June 2, 2018	3.3990		100,000
July 30, 2018	2.7921		175,000
January 30, 2019	0.7110		585,000
February 17, 2019	0.7110		910,000
October 15, 2019	2.3152		115,000
January 8, 2020	3.0695		60,000
January 25, 2021	1.8816		300,000
March 10, 2021	1.7689		750,000
March 8, 2022	1.0318		1,150,000
April 2, 2022	1.0058		100,000
June 21, 2022	0.7613		2,500,000
July 9, 2022	0.7240		125,000
July 11, 2022	0.8237		150,000
July 25, 2022	0.8671		50,000
January 7, 2023	0.7977		300,000
April 3, 2023	0.9972		100,000
October 2, 2023	0.8200		100,000
December 16, 2023	0.9520		2,100,000
January 9, 2024	0.9300		200,000
January 17, 2024	0.9800		1,139,000
Weighted average exercise price and total number of options outstanding	1.4076		18,659,000

* 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, 2014 of 1.00 US\$ = 1.1177 CDN\$.

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10. Share Capital - Continued

c) **Share Options - Continued**

** 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.

As at January 31, 2014 all share options had vested and were exercisable, with the exception of 2,770,833, which vest upon completion of specific targets (EIS – 160,000; Permits – 1,113,333; Construction – 662,500; Start of Commercial Production – 300,000; Other – 535,000).

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

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

	Year ended January 31, 2014	Year ended January 31, 2013
Outstanding - beginning of period	785,882	327,500
Granted	909,574	458,382
Vested	(91,353)	-
Anti-dilution quantity adjustment	11,407	-
Outstanding - end of period	1,615,510	785,882

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, 2014, the Company granted 909,574 restricted share units to employees which vest upon start of construction or December 31, 2015, whichever comes earlier. The restricted share units had a fair value of \$0.881 million which is being amortized over the vesting periods.

During the year ended January 31, 2013, the Company granted 450,882 restricted shares issued in trust to a third party and 7,500 restricted share units to employees. 275,676 of the restricted shares and restricted share units vest upon issuance of permits or December 31, 2014, whichever comes earlier. 91,353 of the restricted shares vested upon publication of the NorthMet supplemental draft Environmental Impact Statement which occurred in December 2013. 91,353 of the restricted shares vest upon receipt of permits to start construction of NorthMet. The restricted shares and restricted share units had a fair value of \$0.414 million which is being amortized over the vesting periods.

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10. Share Capital - Continued

e) **Bonus Shares**

Details of bonus shares are as follows:

	Year ended January 31, 2014		Year ended January 31, 2013	
	Allocated	Authorized & Unissued	Allocated	Authorized & Unissued
Outstanding – beginning of period	3,140,000	3,640,000	3,140,000	3,640,000
Allocated	400,000	-	-	-
Outstanding – end of period	3,540,000	3,640,000	3,140,000	3,640,000

Our 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 allocated 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. 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 fair value of these unissued bonus shares is being amortized until the estimated date of issuance. During the year ended January 31, 2014, the Company recorded \$0.689 million amortization related to Milestone 4 bonus shares (January 31, 2013 – \$0.387 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, 2014		Year ended January 31, 2013	
	Warrants	Weighted Average Exercise Price (US\$)	Warrants	Weighted Average Exercise Price (US\$)
Outstanding – beginning of period	7,083,333	1.56	6,000,000	1.57
Issued (Note 5)	-	-	1,083,333	1.50
Anti-dilution price adjustment	-	(0.21)	-	-
Anti-dilution quantity adjustment	1,085,269	-	-	-
Outstanding – end of period	8,168,602	1.35	7,083,333	1.56

On March 9, 2012, the Company issued warrants to AG Waterfowl LLP giving them the right to purchase 1,083,333 common shares of the Company at \$1.50 per share at any time until December 31, 2015. See additional discussion in Note 5.

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.

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11. Finance Costs

Details of Finance Income and Costs are as follows:

		Year ended January 31,		
	2014	2013	2012	
Interest and financing costs, net	\$ (56)	\$ 29	\$ 1	
Accretion of environmental rehabilitation provision (Note 6)	1,521	792	350	
Finance costs	\$ 1,465	\$ 821	\$ 351	

12. Supplemental Disclosure With Respect to Statements of Cash Flows

The Company entered into the following non-cash investing and financing activities:

		Year ended January 31,		
	2014	2013	2012	
Accounts payable and accrued liabilities change	\$ 727	\$ 938	\$ 998	
Environmental rehabilitation provision change (Note 6)	(3,865)	29,860	6,767	
Accretion and capitalized interest on debt	1,785	1,768	1,037	
Share-based compensation (Note 10)	614	424	337	
Milestone 4 Bonus Shares amortization (Note 10)	689	387	1,235	
Shares and warrants issued for Wetland Credit Intangible (Note 5) & Long Term Debt (Note 7)	-	3,900	550	
Shares issued for land options	\$ 125	\$ 89	\$ 231	

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13. 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:

	Year ended January 31,		
	2014	2013	2012
Salaries and other short-term benefits	\$ 1,718	\$ 1,468	\$ 950
Other long-term benefits	60	54	32
Termination benefits	-	279	-
Share-based payment ⁽¹⁾	2,366	2,102	738
Commission on sale of used drill	-	-	200
Total	\$ 4,144	\$ 3,903	\$ 1,920

⁽¹⁾ 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.

During the year ended January 31, 2012, PolyMet sold a used drill for \$3.680 million. A company controlled by one of PolyMet's directors received a commission of \$0.200 million related to this sale.

As a result of Glencore's ownership of 28.6% of the Company it is also a related party. Transactions with Glencore are described in Notes 8, 9, and 10.

14. 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:

	Year ended January 31		
	2014	2013	2012
Loss before taxes	\$ (8,132)	\$ (6,626)	\$ (3,045)
Canadian statutory tax rate	26.0%	25.0%	26.5%
Expected tax expense / (recovery)	(2,114)	(1,657)	(807)
Difference in foreign tax rates	(454)	(199)	(118)
Non-deductible items	424	564	166
Change in unrecognized deferred tax and other items	2,144	1,292	102
Income Tax Expense / (Recovery)	\$ -	\$ -	\$ (657)

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14. 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	
	2014	2013
Non-capital loss carry forward assets	\$ 21,883	\$ 15,459
Convertible debt	(560)	-
Mineral properties, development costs, and capital liabilities	(21,314)	(15,451)
Other liabilities	(9)	(8)
Net deferred income tax liabilities	\$ -	\$ -

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

	Year ended January 31	
	2014	2013
Non-capital loss carry forward assets	\$ 19,346	\$ 17,746
Intercompany receivable	2,591	-
Other assets	101	-
Unrecognized deferred income tax assets	\$ 22,038	\$ 17,746

As of January 31, 2014, the Company has Canadian non-capital loss carry forwards of approximately \$16.6 million (January 31, 2013 - \$13.3 million) and US non-capital loss carry forwards of approximately \$89.4 million (January 31, 2013 - \$72.2 million). The non-capital loss carry forwards are available to reduce future income for tax purposes and expire between 2019 and 2034.

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15. Commitments and Contingencies

In addition to items described elsewhere in these financial statements:

- a) On October 31, 2008, the Company entered into agreements with Glencore wherein Glencore will provide marketing services covering concentrates, metal, or intermediate products at prevailing market terms for at least the first five years of production.
- b) As at January 31, 2014, the Company had firm commitments related to the environmental review process, land options, wetland credit intangibles, consultants, and rent of approximately \$3.3 million with the majority due over the next year and the remainder due over seven years.
- c) As at January 31, 2014, the Company had non-binding commitments to maintain its mineral lease rights of \$0.180 million with all due in the next year.
- d) The following table lists the known contractual obligations as at January 31, 2014:

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 3,806	\$ 3,806	\$ -	\$ -	\$ -
Long-term debt (Note 7)	5,110	-	5,110	-	-
Convertible debt (Note 9)	33,019	33,019	-	-	-
Environmental rehabilitation provision (Note 6)	60,448	1,504	28,070	917	29,957
Firm Commitments	3,300	2,506	594	168	32
Total	\$ 105,683	\$ 40,835	\$ 33,774	\$ 1,085	\$ 29,989

Convertible debt extended subsequent to year end. See Note 17 for additional discussion.

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16. Financial Instruments and Risk Management

The Company classifies its financial assets as fair value through profit or loss (“FVTPL”), available-for-sale, held to maturity, or loans and receivables. Financial liabilities are classified as either FVTPL, or other financial liabilities.

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

	FVTPL	Available for sale	Loans and receivables	Held to Maturity	Other financial liabilities	Total carrying value
<i>Financial assets</i>						
Cash and cash equivalents	-	-	32,790	-	-	32,790
Amounts receivable	-	-	1,420	-	-	1,420
<i>Financial liabilities</i>						
Accounts payable and accrued liabilities	-	-	-	-	3,806	3,806
Convertible debt	-	-	-	-	31,967	31,967
Long term debt	-	-	-	-	4,276	4,276

The carrying values of each classification of financial instrument at January 31, 2013 are:

	FVTPL	Available for sale	Loans and receivables	Held to Maturity	Other financial liabilities	Total carrying value
<i>Financial assets</i>						
Cash and cash equivalents	-	-	8,088	-	-	8,088
Amounts receivable	-	-	830	-	-	830
Investment	-	17	-	-	-	17
<i>Financial liabilities</i>						
Accounts payable and accrued liabilities	-	-	-	-	5,269	5,269
Convertible debt	-	-	-	-	30,508	30,508
Long term debt	-	-	-	-	3,950	3,950

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.

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16. 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 long term and 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:

	January 31, 2014	January 31, 2013
Cash and cash equivalents	\$ 77	\$ 71
Investment	-	17
Amounts receivables	12	57
Accounts payable and accrued liabilities	(8)	(268)
	\$ 81	\$ (123)

Based on the above net exposures, as at January 31, 2014, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately \$8,100.

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.

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16. Financial Instruments and Risk Management - Continued

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

	January 31, 2014	January 31, 2013
Cash and cash equivalents	\$ 32,790	\$ 8,088
Convertible debt	31,967	30,508

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 \$34.210 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 long term 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, 2015, 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.
(a development stage company)

Notes to Consolidated Financial Statements

As at January 31, 2014 and 2013 and for the years ended January 31, 2014, 2013, and 2012

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

17. Subsequent Event

On April 25, 2014 PolyMet and Glencore extended the term of the Series A-D Debentures and the expiration date of the associated Exchange Warrants to the earlier of the Early Maturity Event (as defined in Note 9) or September 30, 2015. All other terms of both the debentures and the warrants described in Note 8 are unchanged.