POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2016 and 2015
And for the years ended January 31, 2016, 2015, and 2014

POLYMET MINING CORP.

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, 2016. In making its assessment, management has used the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as at that date.

The effectiveness of the Company's internal control over financial reporting as at January 31, 2016 has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report, which appears herein.

/S/ Jonathan Cherry	*/S/ Douglas Newby*
Jonathan Cherry President and Chief Executive Officer	Douglas Newby Chief Financial Officer

Independent Auditor's Report

To the Shareholders of PolyMet Mining Corp.

We have completed integrated audits of PolyMet Mining Corp.'s January 31, 2016, January 31, 2015 and January 31, 2014 consolidated financial statements and its internal control over financial reporting as at January 31, 2016. 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, 2016 and January 31, 2015 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, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PolyMet Mining Corp. as at January 31, 2016 and January 31, 2015 and its financial performance and its cash flows for each of the three years in the three-year period ended January 31, 2016 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, 2016, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

Auditor's responsibility
Our responsibility is to express an opinion on the PolyMet Mining Corp.'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 PolyMet Mining Corp.'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, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants
Vancouver, British Columbia
April 21, 2016

PolyMet Mining Corp.
Consolidated Balance Sheets
All figures in thousands of U.S. Dollars

		January 31, 2016		January 31, 2015
ASSETS				
Current				
Cash	**$**	**10,256**	$	9,301
Amounts receivable		**429**		381
Prepaid expenses		**1,285**		1,108
		11,970		10,790
Non-Current				
Amounts receivable *(Note 5)*		**2,153**		-
Mineral Property, Plant and Equipment *(Notes 3 and 4)*		**321,649**		296,247
Wetland Credit Intangible *(Note 5)*		**1,888**		6,192
Total Assets	**$**	**337,660**	$	313,229
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**3,348**	$	2,673
Convertible debt *(Notes 7 and 8)*		**-**		33,451
Non-convertible debt *(Notes 7 and 9)*		**4,962**		4,614
Environmental rehabilitation provision *(Note 6)*		**1,498**		1,724
		9,808		42,462
Non-Current				
Convertible debt *(Notes 7 and 8)*		**35,986**		-
Non-convertible debt *(Note 9)*		**43,023**		7,855
Environmental rehabilitation provision *(Note 6)*		**64,186**		70,536
Total Liabilities		**153,003**		120,853
SHAREHOLDERS' EQUITY				
Share Capital *(Note 10)*		**242,917**		241,489
Share Premium		**1,151**		3,007
Equity Reserves		**53,759**		51,704
Deficit		**(113,170)**		(103,824)
Total Shareholders' Equity		**184,657**		192,376
Total Liabilities and Shareholders' Equity	**$**	**337,660**	$	313,229

Nature of Business and Liquidity *(Note 1)*

Commitments and Contingencies *(Note 14)*

Subsequent Event *(Note 16)*

ON BEHALF OF THE BOARD OF DIRECTORS:

/S/ Jonathan Cherry, Director   */S/ William Murray*, Director

- See Accompanying Notes –

PolyMet Mining Corp.
Consolidated Statements of Loss and Comprehensive Loss

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

	For the years ended January 31		
	2016	2015	2014
General and Administrative Expenses			
Salaries and benefits	$ **1,863**	$ 1,422	$ 1,379
Share-based compensation *(Note 10)*	**457**	1,121	1,697
Director fees and expenses	**296**	295	293
Professional fees	**363**	409	426
Filing and regulatory fees	**173**	173	81
Investor and public relations	**1,567**	1,276	2,075
Travel	**295**	323	295
Rent and other office expenses	**260**	247	225
Insurance	**202**	191	157
Amortization	**32**	32	26
	5,508	5,489	6,654
Other Expenses (Income)			
Finance costs - net *(Note 11)*	**2,017**	1,816	1,465
Loss on foreign exchange	**17**	11	18
(Gain) / loss on disposal of available-for-sale financial instrument *(Note 5)*	**(16)**	-	48
Loss on disposal of Wetland Credit Intangible *(Note 5)*	**1,852**	-	-
Rental income	**(32)**	(40)	(53)
	3,838	1,787	1,478
Loss for the year	**9,346**	7,276	8,132
Other Comprehensive Income			
Reclassified gain (loss) on available-for-sale financial instrument *(Note 5)*	**16**	-	(48)
Items that may be subsequently reclassified to profit or loss:			
Unrealized gain on available-for-sale financial instrument *(Note 5)*	**(215)**	-	(7)
Other Comprehensive Income for the Year	**(199)**	-	(55)
Total Comprehensive Loss for the Year – Net of Tax	$ **9,147**	$ 7,276	$ 8,077
Basic and Diluted Loss per Share	$ **(0.03)**	$ (0.03)	$ (0.04)
Weighted Average Number of Shares	**276,812,958**	275,726,953	236,303,304

- See Accompanying Notes -

PolyMet Mining Corp.
Consolidated Statements of Changes in Shareholders’ Equity
All figures in thousands of U.S. Dollars, except for number of shares

	Share Capital (authorized = unlimited)			Equity Reserves				
	Issued Shares	**Paid-in Share Capital**	**Share Premium**	Contributed Surplus	Accumulated Other Comp Inc / (Loss)	**Equity Reserves**	**Deficit**	**Total Shareholders' Equity**
Balance - February 1, 2013	183,250,082	$ 181,215	$ 3,007	$ 47,161	$ (55)	$ 47,106	$ (88,416)	$ 142,912
Total comprehensive loss for the year	-	-	-	-	55	55	(8,132)	(8,077)
Rights offering and issuance costs	91,636,202	58,372	-	-	-	-	-	58,372
Payment of land purchase options	140,123	125	-	-	-	-	-	125
Vesting of restricted shares and RSU’s	-	80	-	(80)	-	(80)	-	-
Share-based compensation	548,985	538	-	1,773	-	1,773	-	2,311
Bonus share cost amortization	-	-	-	689	-	689	-	689
Balance - January 31, 2014	275,575,392	$ 240,330	$ 3,007	$ 49,543	$ -	$ 49,543	$ (96,548)	$ 196,332
Total comprehensive loss for the year	-	-	-	-	-	-	(7,276)	(7,276)
Payment of land purchase options *(Note 10)*	143,130	157	-	-	-	-	-	157
Exercise of share options *(Note 10)*	75,000	161	-	(80)	-	(80)	-	81
Vesting of restricted shares and RSU’s *(Note 10)*	66,750	315	-	(315)	-	(315)	-	-
Share-based compensation *(Note 10)*	491,292	526	-	1,986	-	1,986	-	2,512
Bonus share cost amortization *(Note 10)*	-	-	-	570	-	570	-	570
Balance - January 31, 2015	276,351,374	$ 241,489	$ 3,007	$ 51,704	$ -	$ 51,704	$ (103,824)	$ 192,376
Total comprehensive loss for the year	-	-	-	-	199	199	(9,346)	(9,147)
Refinance of convertible debenture *(Note 7)*	-	-	(1,856)	1,856	-	1,856	-	-
Payment of land purchase options *(Note 10)*	224,038	199	-	-	-	-	-	199
Exercise of share options *(Note 10)*	275,000	434	-	(218)	-	(218)	-	216
Vesting of restricted shares and RSU’s *(Note 10)*	729,670	795	-	(950)	-	(950)	-	(155)
Share-based compensation *(Note 10)*	(23,000)	-	-	835	-	835	-	835
Bonus share cost amortization *(Note 10)*	-	-	-	333	-	333	-	333
Balance - January 31, 2016	**277,557,082**	**$ 242,917**	**$ 1,151**	**$ 53,560**	**$ 199**	**$ 53,759**	**$ (113,170)**	**$ 184,657**

- See Accompanying Notes -

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

	For the years ended January 31 2016	2015	2014
Operating Activities			
Loss for the year	**$ (9,346)**	$ (7,276)	$ (8,132)
Items not involving cash:			
Amortization	**32**	32	26
Environmental rehabilitation provision accretion *(Note 6)*	**1,663**	1,639	1,521
Share-based compensation *(Note 10)*	**457**	1,121	1,697
Unrealized foreign exchange loss	**10**	17	10
Loss on disposal of Wetland Credit Intangible *(Note 5)*	**1,852**	-	-
(Gain) / Loss on disposal of available-for-sale financial instrument *(Note 5)*	**(16)**	-	48
Changes in non-cash working capital:			
Amounts receivable	**316**	1,039	(590)
Prepaid expenses	**(177)**	87	(424)
Accounts payable and accrued liabilities	**387**	(855)	(2,190)
Net cash used in operating activities	**(4,822)**	(4,196)	(8,034)
Financing Activities			
Share issuance proceeds, net of costs *(Note 10)*	**216**	81	58,372
Debenture funding, net of costs *(Notes 7 and 9)*	**32,954**	7,896	19,897
Debenture repayment *(Notes 7 and 9)*	**-**	-	(20,000)
Restricted share unit settlement *(Note 10)*	**(155)**	-	-
Net cash provided by financing activities	**33,015**	7,977	58,269
Investing Activities			
Property, plant and equipment purchases *(Note 4)*	**(27,378)**	(27,153)	(25,224)
Available-for-sale financial instrument disposal proceeds *(Note 5)*	**250**	-	24
Interest and fees paid	**-**	-	(223)
Wetland credit intangible purchases *(Note 5)*	**(100)**	(100)	(100)
Net cash used in investing activities	**(27,228)**	(27,253)	(25,523)
Net Increase (Decrease) in Cash and Cash Equivalents	**965**	(23,472)	24,712
Effect of foreign exchange on Cash and Cash Equivalents	**(10)**	(17)	(10)
Cash and Cash Equivalents - Beginning of year	**9,301**	32,790	8,088
Cash and Cash Equivalents - End of year	**$ 10,256**	$ 9,301	$ 32,790
Reconciliation of Cash and Cash Equivalents			
Cash at bank	**$ 10,256**	$ 9,301	$ 32,765
Short-term deposits	**-**	-	25
Total Cash and Cash Equivalents	**$ 10,256**	$ 9,301	$ 32,790
Supplementary information			
Accounts payable and accrued liabilities related to PP&E	**$ 334**	$ (325)	$ 727
Debt accretion and capitalized interest *(Notes 7, 8, and 9)*	**5,050**	1,827	1,785
Share-based compensation related to PP&E *(Note 10)*	**378**	1,391	614
Bonus share amortization related to PP&E *(Note 10)*	**333**	570	689
Fair value of shares issued for land options	**$ 199**	$ 157	$ 125

- See Accompanying Notes -

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. and changed its name to PolyMet Mining Corp. on June 10, 1998. Through its 100%-owned subsidiary, Poly Met Mining, Inc. ("PolyMet US" and, together with PolyMet Mining Corp., "PolyMet" or the "Company") the Company is engaged in the exploration and development of natural resource properties. The Company's primary mineral property is the NorthMet Project ("NorthMet" or "Project"), a polymetallic project in northeastern Minnesota, USA which comprises the NorthMet copper-nickel-precious metals ore body and the Erie Plant, a 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 obtain permits necessary to construct and operate NorthMet, the ability to obtain financing necessary to complete the exploration and development of NorthMet, and future profitable operations or alternatively, disposal of the investment on an advantageous basis.

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

The corporate address and records office of the Company are located at 100 King Street West, Suite 5700, Toronto, Ontario, Canada M5X 1C7, and 700 West Georgia, 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.

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

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over financial assets due at any point in time. As at January 31, 2016, PolyMet had cash of $10.256 million and working capital of $2.162 million.

Management believes, based upon the underlying value of the NorthMet Project, the advanced stage of permitting (see Note 16), the financing arrangements with Glencore AG, a wholly-owned subsidiary of Glencore plc (see Notes 7 and 9) and the ongoing discussions with numerous investment banks and investors regarding potential financing, that financing will continue to be available allowing the Company to meet its current obligations, as well as fund ongoing development, capital expenditures and administration expenses in accordance with the Company's spending plans for the next twelve months. However, while in the past the Company has been successful in closing financing agreements, there can be no assurance it will be able to do so again. Factors that could affect the availability of financing include the state of debt and equity markets, investor perceptions and expectations, and the metals markets.

2. Summary of Significant Accounting Policies

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The financial statements were approved by the Board of Directors on April 21, 2016.

b) Basis of Consolidation and Presentation

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

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

c) Critical Accounting Estimates and Judgments

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

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

(i) Determination of mineral reserves

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

2. Summary of Significant Accounting Policies - *Continued*

c) Critical Accounting Estimates and Judgments - *Continued*

(ii) Impairment of non-financial assets

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

For its mineral property interest the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral property interests. Internal sources of information the Company considers include indications of economic performance of the asset. No impairment loss on the mineral property interest was recorded for the year ended January 31, 2016 or January 31, 2015.

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

(iii) Provision for Environmental Rehabilitation Costs

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

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

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

2. Summary of Significant Accounting Policies - *Continued*

d) Foreign Currency Translation

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

e) Cash and Cash Equivalents

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

f) Financial Assets

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

2. Summary of Significant Accounting Policies - *Continued*

g) Mineral Property, Plant and Equipment

Mineral Property

Exploration and evaluation costs incurred prior to a DFS are expensed as incurred. Development costs incurred subsequent to a 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 development expenditures related to NorthMet from that date.

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

Plant and Equipment

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

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

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

h) Wetland Credit Intangible

Wetland Credit Intangible costs and related acquisition costs are capitalized until the wetland credits are used, sold, or abandoned. Wetland credits are used to offset and mitigate 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.

2. Summary of Significant Accounting Policies - *Continued*

i) Financial Liabilities

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

j) Borrowing costs

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

k) Share-Based Compensation

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

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

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

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

2. Summary of Significant Accounting Policies - *Continued*

l) Share Purchase Warrants

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

m) Loss Per Share

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

n) Income Taxes and Deferred Taxes

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

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

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

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

2. Summary of Significant Accounting Policies - *Continued*

o) 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

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard replaces parts of *IAS 39 - Financial Instruments: Recognition and Measurement*. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces *IAS 18 - Revenue* and *IAS 11 - Construction Contracts* and provides a five step framework for application to customer contracts: identification of customer contract, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be recognized to the extent that it is highly probable that significant reversal of revenue will not occur. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting IFRS 15 on its consolidated financial statements.

IFRS 16 – Leases

IFRS 16 replaces *IAS 17 - Leases* and eliminates the classification of leases as either operating or finance leases by the lessee. The treatment of leases by the lessee will require capitalization of all leases resulting in accounting treatment similar to finance leases under *IAS 17 - Leases*. Exemptions for leases of very low value or short-term leases will be applicable. The new standard will result in an increase in lease assets and liabilities for the lessee. Under the new standard the treatment of all lease expense is aligned in the statement of earnings with depreciation, and an interest expense component recognized for each lease, in line with finance lease accounting under *IAS 17 - Leases*. The new standard will be effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting IFRS 16 on its consolidated financial statements.

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

3. Mineral Property Agreements

NorthMet, Minnesota, U.S.A.

Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, the Company leases certain property in St. Louis County, Minnesota from RGGS Land & Minerals Ltd., L.P. The initial term of the perpetually renewable lease was 20 years and called for total lease payments of $1.475 million. The Company can, at its option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination date or can indefinitely extend the term by continuing to make $150,000 annual lease payments on each successive anniversary date. All lease payments have been paid to January 31, 2016. The next payment is due in January 2017.

The lease payments are considered advance royalty payments and shall be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company. The Company's recovery of $2.525 million in advance royalty payments is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.

Pursuant to an agreement effective December 1, 2008, the Company leases certain property in St. Louis County, Minnesota from LMC Minerals. The initial term of the renewable lease is 20 years and calls for minimum annual lease payments of $3,000 for the first four years after which the minimum annual lease payment increased to $30,000. The initial term may be extended for up to four additional five-year periods on the same terms. All lease payments have been paid to January 31, 2016. The next payment is due in November 2016.

The lease payments are considered advance royalty payments and will be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company. The Company's recovery of $0.129 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 (see Note 9).

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 January 31, 2014	$	245,880	148	246,028
Additions		29,768	29	29,797
Changes to environmental rehabilitation provision *(Note 6)*		20,454	-	20,454
Amortization		-	(32)	(32)
Balance at January 31, 2015	$	296,102	145	296,247
Additions		32,726	19	32,745
Changes to environmental rehabilitation provision *(Note 6)*		(7,269)	-	(7,269)
Amortization		-	(74)	(74)
Balance at January 31, 2016	**$**	**321,559**	**90**	**321,649**

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

4. Mineral Property, Plant and Equipment - *Continued*

NorthMet		**January 31, 2016**		January 31, 2015
Mineral property acquisition and interest costs	**$**	**53,041**	$	48,051
Mine plan and development		**45,422**		40,451
Environmental		**95,709**		78,866
Consulting and wages		**45,770**		41,247
Reclamation and remediation *(Note 6)*		**62,185**		69,454
Site activities		**18,483**		17,084
Mine equipment		**949**		949
Total	**$**	**321,559**	$	296,102

Erie Plant, Minnesota, U.S.A.

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

In December 2006, the Company acquired from Cliffs property and associated rights sufficient to provide it with a railroad connection linking the mine development site and the Erie Plant. The transaction also included a railcar fleet, locomotive fuelling and maintenance facilities, water rights and pipelines, administrative offices on site and 6,000 acres of land to the east and west of and contiguous to its existing tailings storage facilities.

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

The Company indemnified Cliffs for reclamation and remediation obligations as a result of the above purchases (see Note 6). These obligations are presently contractual in nature under the terms of the purchase agreements with Cliffs. Once the Company obtains its permit to mine and Cliffs is released from its obligations by the State Agencies, the Company's obligations will be direct with the governing bodies.

During the year ended January 31, 2016, the Company capitalized 100% of the borrowing costs on the convertible debt (see Note 8) and non-convertible debt (see Note 9) in the amount of $5.050 million (January 31, 2015 - $1.827 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, 2016.

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

5. Wetland Credit Intangible and EIP Receivable

Details of Wetland Credit Intangibles are as follows:

		Year ended January 31, 2016		Year ended January 31, 2015
Wetland Credit Intangible – beginning of year	$	**6,192**	$	6,092
Additions		**100**		100
Disposals		**(4,404)**		-
Wetland Credit Intangible – end of year	$	**1,888**	$	6,192

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

As part of the initial consideration, AG received warrants to purchase 1,249,315 common shares at $1.3007 per share. These warrants expired on December 31, 2015 (see Note 10f).

On April 6, 2015, the Company entered into a revised agreement with EIP whereby EIP will seek to sell credits that PolyMet does not need to third parties and, over time, reimburse PolyMet for its costs. The financial instrument has been designated as available for sale. Upon closing of the transaction, the Company recognized the receivable at fair value calculated using a 9.25% discount rate and 12 year term resulting in a receivable of $2.552 million and a non-cash loss of $1.852 million. The Company will account for subsequent fair value changes through other comprehensive income or loss. Under the agreement, PolyMet retains the right to purchase up to 300 credits until February 28, 2017 with additional payments due only if PolyMet exercises that right in part or in full.

Details of the EIP receivable are as follows:

		Year ended January 31, 2016		Year ended January 31, 2015
EIP Receivable – beginning of year	$	**-**	$	-
Initial recognition		**2,552**		-
Collections from EIP		**(250)**		-
Accretion		**192**		-
Gain on re-measurement		**23**		-
EIP Receivable – end of year		**2,517**		-
Less current portion		**(364)**		-
Non-current portion	$	**2,153**	$	-

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

6. Environmental Rehabilitation Provision

Details of Environmental Rehabilitation Provision are as follows:

	Year ended January 31, 2016	Year ended January 31, 2015
Environmental Rehabilitation Provision – beginning of year	$ **72,260**	$ 51,144
Change in estimated liability	**(4,230)**	9,867
Liabilities discharged	**(970)**	(977)
Accretion expense	**1,663**	1,639
Change in risk-free interest rate	**(3,039)**	10,587
Environmental Rehabilitation Provision – end of year	**65,684**	72,260
Less current portion	**(1,498)**	(1,724)
Non-current portion	$ **64,186**	$ 70,536

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

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency ("MPCA") relating to alleged violations on the Cliffs Erie Property. This consent decree required both short-term and long-term mitigation. Field study activities were completed in 2010 and 2011 and short-term mitigations were initiated in 2011 as outlined in the plans and approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October 2012 response from the MPCA and subsequent communications to January 31, 2015, amongst the MPCA, Cliffs and the Company provide increasing clarification of the potential liability for the long-term mitigation included in the Company's environmental rehabilitation provision resulting in a $9.9 million increase to the provision during the year ended January 31, 2015. Additional communications amongst the parties during the year ended January 31, 2016 led to further understanding of the water quality requirements and permissible mitigation plans resulting in a $4.2 million decrease to the provision during the year ended January 31, 2016.

The Company's best estimate of the environmental rehabilitation provision at January 31, 2016 was $65.7 million (January 31, 2015 - $72.3 million) based on estimated cash flows required to settle this obligation in present day costs of $69.5 million (January 31, 2015 - $72.6 million), an annual inflation rate of 2.00% (January 31, 2015 – 2.00%) and a risk-free interest rate of 2.36% (January 31, 2015 – 2.04%). Payments are expected to occur over a period of approximately 31 years.

7. Glencore Financing

Since October 2008, the Company and Glencore have entered into a series of financing and other agreements comprising:

- Convertible debt – agreement comprising $25.0 million initial principal secured convertible debentures drawn in four tranches (together the “2008 Debentures”) (see Note 8);
- Equity – four separate agreements comprising $25.0 million placement of PolyMet common shares in calendar 2009 in two tranches; a $30.0 million placement of PolyMet common shares in calendar 2010 in three tranches; a $20.0 million placement of PolyMet common shares in calendar 2011 in one tranche; and a $20.960 million purchase of PolyMet common shares in the 2013 Rights Offering (see 2013 Agreement below and Note 10a);
- Non-convertible debt – two separate agreements comprising $30.0 million initial principal secured debentures in calendar 2015 drawn in four tranches (the “2015 Debentures”) and $11.0 million initial principal secured debenture in calendar 2016 drawn in one tranche (the “2016 Debenture”) (see 2015 Agreements, 2016 Agreement and Note 9b);
- 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; and
- 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 has the right, but not obligation, to nominate 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.

As a result of these financing transactions and the purchase by Glencore of PolyMet common shares previously owned by Cliffs, Glencore's ownership and ownership rights of PolyMet comprises:

- 78,724,821 shares representing 28.4% of PolyMet's issued shares;
- 2008 Debentures exchangeable through the exercise of an Exchange Warrant at $1.2920 per share into 27,853,358 common shares of PolyMet (including capitalized and accrued interest as at January 31, 2016) until the Repayment Date, which is the earlier of March 31, 2017, availability of $80 million of debt or equity financing, or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures, subject to ten days notice during which time Glencore can elect to exercise the Exchange Warrant. The exercise price of the Exchange Warrant is and the number of shares issuable are subject to conventional anti-dilution provisions; and
- Warrants (“Purchase Warrants”) to purchase 6,458,001 million common shares at $0.8231 per share at any time until December 31, 2017, subject to mandatory exercise if the 20-day volume weighted average price (“VWAP”) of PolyMet common shares is equal to or greater than 150% of the exercise price and PolyMet has received permits and construction finance is available (“Early Maturity Event”). The exercise price of the Purchase Warrants and the number of warrants are subject to conventional anti-dilution provisions.

7. Glencore Financing - *Continued*

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 113,036,180 common shares of PolyMet, representing 36.2% on a partially diluted basis, that is, if no other options or warrants were exercised or 34.0% on a fully diluted basis, if all other options and warrants were exercised, whether they are in-the-money or not.

2013 Agreement
On April 10, 2013, the Company issued a Tranche E debenture ("2013 Debenture") with the principal amount of $20.0 million to Glencore and Glencore agreed to a Standby Purchase Agreement ("Standby") related to the $60.480 million Rights Offering by the Company (see Note 10a). 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, was issued on April 11, 2013 and repaid upon closing of the Rights Offering on July 5, 2013. The Company recognized the 2013 Debenture issued initially at fair value and subsequently accounted for the debenture at its amortized cost. Transaction costs for the financing were $0.103 million. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2014.

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

2014 Agreement
On April 25, 2014, the Company extended the term of the 2008 Debentures and the expiration date of the associated Exchange Warrant to the earlier of the Early Maturity Event or September 30, 2015. All other terms of both the debentures and the warrant were unchanged.

2015 Agreements
On January 28, 2015, the Company agreed to issue to Glencore new Tranche F, G, H, and I secured debentures with the total principal amount of $30.0 million. Tranche F in the amount of $8.0 million was issued on January 30, 2015. Tranche G in the amount of $8.0 million was issued on April 15, 2015. Tranche H in the amount of $8.0 million was issued on July 1, 2015. Tranche I in the amount of $6.0 million was issued on October 1, 2015. The interest rate on these debentures was 12-month US dollar LIBOR plus 8.0% per annum payable in cash upon maturity and the maturity was the earlier of (i) the availability of at least $100 million of construction finance or (ii) March 31, 2016. The Company provided security by way of a guarantee and a pledge of the assets of the Company and its wholly-owned subsidiary. The Company recognized these debentures initially at fair value and subsequently accounted for the debentures at amortized cost. Transaction costs for the financing were $0.150 million. See additional details in Note 9b.

On July 30, 2015, the Company extended the term of the 2008 Debentures and the expiration date of the associated Exchange Warrant to the earlier of the Early Maturity Event or March 31, 2016 and the interest rate was increased from 12-month US dollar LIBOR plus 4.0% to 12-month US dollar LIBOR plus 8.0% effective August 1, 2015. The Purchase Warrant expiration date was extended to the earlier of the Early Maturity Event or December 31, 2016 and the exercise price was reduced from $1.3022 per share to $0.9292 per share. The transaction has been accounted for as a modification of the existing convertible debt with the $1.241 million difference in the fair value of the purchase warrants as a result of the extension in term and price reduction being recorded within equity.

7. Glencore Financing - *Continued*

On December 15, 2015, the Company extended the term of the 2008 Debentures and expiration date of the associated Exchange Warrant and extended the term of 2015 Debentures to the Repayment Date, which is the earlier of March 31, 2017, availability of $80 million of debt or equity financing or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures, subject to ten days notice during which time Glencore can elect to exercise the Exchange Warrant. The interest rate was increased from 12-month US dollar LIBOR plus 8.0% to 12-month US dollar LIBOR plus 15.0% effective January 1, 2016. The Purchase Warrant expiration date was extended to December 31, 2017, and the exercise price was reduced from $0.9292 per share to $0.8231 per share. The transactions have been accounted for as a modification of the existing convertible debt with the $0.615 million difference in the fair value of the purchase warrants as a result of the extension in term and price reduction being recorded within equity.

<u>2016 Agreement</u>
On January 27, 2016, the Company issued to Glencore a Tranche J secured debenture with the total principal amount of $11.0 million. The interest rate on this debenture was 12-month US dollar LIBOR plus 15.0% per annum payable in cash upon maturity and the maturity was the Repayment Date, which is the earlier of March 31, 2017, availability of $80 million of debt or equity financing or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures. The Company provided security by way of a guarantee and a pledge of the assets of the Company and its wholly-owned subsidiary. The Company recognized this debenture initially at fair value and subsequently accounted for the debenture at amortized cost. Transaction costs for the financing were $0.050 million. See additional details in Note 9.

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

8. Convertible Debt

Details of the Convertible Debt are as follows:

		Year ended January 31, 2016		Year ended January 31, 2015
Convertible Debt – beginning of year	**$**	**33,451**	**$**	31,967
Accretion and capitalized interest		**2,535**		1,484
Convertible Debt – end of year		**35,986**		33,451
Less current portion		**-**		(33,451)
Non-current portion	**$**	**35,986**	**$**	-

Since October 2008, the Company has issued $25.0 million of secured convertible debentures to Glencore that bear interest at 12-month US dollar LIBOR plus 4.0% through July 31, 2015, 12-month US dollar LIBOR plus 8.0% through December 31, 2015, and 12-month US dollar LIBOR plus 15.0% beginning January 1, 2016. Interest is compounded quarterly and payable in cash or by increasing the principal amount of the debentures, at Glencore's option. At January 31, 2016, $10.986 million (January 31, 2015 - $8.451 million) of interest had been accreted and capitalized to the principal amount of the debenture since inception. The Company has provided security on these 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 these debentures is the earlier of (i) March 31, 2017 or (ii) the availability of at least $80 million of debt or equity financing or (iii) when it is prudent for PolyMet to repay the debt, on which date all principal and interest accrued to such date will be due and payable. Upon receipt of ten days notice of PolyMet's intention to repay the debentures Glencore can exercise the Exchange Warrant and exchange the initial principal and capitalized interest into common shares of PolyMet at $1.2920 per share. Glencore has the right to exchange some or all of the debentures at any time under the same conversion terms. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2016.

9. Non-Convertible Debt

Details of Non-Convertible Debt are as follows:

		January 31, 2016		January 31, 2015
IRRRB *(Note 9a)*	**$**	**4,962**	$	4,614
Glencore *(Note 9b)*		**43,023**		7,855
Total Non-Convertible Debt		**47,985**		12,469
Less current portion		**(4,962)**		(4,614)
Non-current portion	**$**	**43,023**	$	7,855

9. Non-Convertible Debt - *Continued*

a) **IRRRB**

In June 2011, the Company closed a $4.0 million loan from Iron Range Resources & Rehabilitation Board ("IRRRB"). At the same time, the Company exercised its options to acquire two tracts of land as part of the proposed land exchange with the United States 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 on which the related land is exchanged with the USFS. The Company has issued warrants giving the IRRRB the right to purchase 461,286 shares of its common shares at $2.1678 per share at any time until June 30, 2016. During the year ended January 31, 2016, the Company recorded $0.347 million for accretion and capitalized interest on the IRRRB loan (January 31, 2015 - $0.338 million). All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2016.

b) **Glencore**

On January 30, 2015, the Company issued $8.0 million Tranche F secured debentures, on April 15, 2015 it issued $8.0 million Tranche G secured debentures, on July 1, 2015 it issued $8.0 million Tranche H secured debentures, and on October 1, 2015 it issued $6.0 million Tranche I secured debentures to Glencore. Each of the Tranche F-I debentures bore interest at 12-month US dollar LIBOR plus 8.0% through December 31, 2015 and 12-month US dollar LIBOR plus 15.0% beginning January 1, 2016. On December 15, 2015 the maturity date was extended from the earlier of (i) the availability of at least $100 million of finance provided the Company demonstrates repayment is prudent or (ii) March 31, 2016 to the Repayment Date, which is the earlier of March 31, 2017, availability of $80 million of debt or equity financing or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures. The Company has provided security on these debentures covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet's 100% shareholding in PolyMet US.

On January 27, 2016, the Company issued $11.0 million Tranche J secured debentures to Glencore that bears interest at 12-month US dollar LIBOR plus 15.0%. The Company has provided security on these 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 these debentures is the earlier of (i) March 31, 2017 or (ii) the availability of at least $80 million of debt or equity financing or (iii) when it is prudent for PolyMet to repay the debt, on which date all principal and interest accrued to such date will be due and payable.

During the year ended January 31, 2016, the Company recorded $2.168 million for accretion and capitalized interest on the Glencore non-convertible debentures (January 31, 2015 - $0.005 million). All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2016.

10. Share Capital

a) Share Issuances for Cash or Land Acquisition

During the year ended January 31, 2016 the Company issued 275,000 shares (January 31, 2015 – 75,000 shares) pursuant to the exercise of share options for total proceeds of $0.216 million (January 31, 2015 - $0.081 million).

During the year ended January 31, 2016 the Company issued 224,038 shares (January 31, 2015 – 143,130 shares) to maintain land purchase options.

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 15, 2015. 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, 2016, the Company recorded $0.835 million for share-based compensation (January 31, 2015 - $2.512 million) with $0.457 million expensed to share-based compensation (January 31, 2015 - $1.121 million) and $0.378 million capitalized to mineral property, plant and equipment (January 31, 2015 - $1.391 million). The offsetting entries were to equity reserves and share capital. Total share-based compensation for the year comprised $0.146 million for share options (January 31, 2015 - $1.033 million), $0.689 million for restricted shares and restricted share units (January 31, 2015 - $0.953 million), and $nil for issuance of unrestricted shares (January 31, 2015 - $0.526 million). Vesting of restricted share units and exercise of share options and resulted in $1.168 million being transferred from equity reserves to share capital (January 31, 2015 - $0.395 million).

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

10. Share Capital - *Continued*

c) Share Options

Share options granted may not exceed a term of ten years and are forfeited if the grantee ceases to be an eligible person under the Omnibus Plan. Details of share options are as follows:

	Year ended January 31, 2016		Year ended January 31, 2015	
	Number of Options	**Weighted Average Exercise Price [1]**	Number of Options	Weighted Average Exercise Price
Outstanding – beginning of year	**21,085,002**	**1.33**	18,659,000	1.41
Granted	**338,000**	**1.50**	2,701,002	1.17
Exercised	**(275,000)**	**0.79**	(75,000)	1.08
Expired	**(2,173,000)**	**1.59**	(200,000)	1.02
Outstanding – end of year	**18,975,002**	**1.29**	21,085,002	1.33

[1] 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, 2016 of 1.00 US$ = 1.3975 CDN$.

The weighted average share price when share options were exercised during the year ended January 31, 2016 was $1.15.

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, 2016	Year ended January 31, 2015
Risk-free interest rate	0.93%	0.51% to 0.76%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	Nil	Nil
Expected volatility	49.61%	50.97% to 57.08%
Expected life in years	2.50	2.00 to 3.00
Weighted average fair value of each option	$0.32	$0.20 to $0.41

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.

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

10. Share Capital - *Continued*

c) Share Options - *Continued*

Details of share options outstanding as at January 31, 2016 are as follows:

Range of Exercise Prices [1]	Number of options outstanding	Number of options exercisable	Weighted Average Exercise Price [1]	Weighted Average Remaining Life
0.7110 to 0.8671	4,720,000	3,836,667	0.75	5.29
0.9300 to 1.1500	7,682,002	7,682,002	1.02	5.87
1.5000 to 1.8816	4,013,000	4,013,000	1.69	2.12
2.0475 to 2.4886	1,140,000	940,000	2.31	1.60
2.5059 to 3.0695	1,420,000	1,247,500	2.65	1.65
	18,975,002	17,719,169	1.29	4.36

(1) 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, 2016 of 1.00 US$ = 1.3975 CDN$.

As at January 31, 2016 all outstanding share options had vested and were exercisable, with the exception of 1,255,833, which were scheduled to vest upon completion of specific targets (Permits – 908,333; Construction – 87,500; Production – 200,000; Other – 60,000). The outstanding share options have expiry periods between 0.03 and 8.44 years.

d) Restricted Shares and Restricted Share Units

Restricted shares and restricted share units granted are forfeited if the grantee ceases to be an eligible person under the Omnibus Plan. Details of restricted shares and restricted share units are as follows:

	Year ended January 31, 2016	Year ended January 31, 2015
Outstanding - beginning of year	**2,130,286**	1,615,510
Issued	**-**	849,522
Forfeited	**(64,667)**	-
Vested	**(1,075,148)**	(334,746)
Outstanding - end of year	**990,471**	2,130,286

As at January 31, 2016 outstanding restricted shares and restricted share units were scheduled to vest upon completion of specific targets (Permits – 157,391; Production – 157,390; December 2016 – 559,802; Other – 115,888).

During the year ended January 31, 2016, there were 254,125 restricted share units settled with cash upon vesting (January 31, 2015 – nil). The current year period also includes 41,667 restricted share units and 23,000 restricted shares forfeited upon individuals ceasing to be eligible persons under the Plan.

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

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

10. Share Capital - *Continued*

e) Bonus Shares

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

	Year ended January 31, 2016		Year ended January 31, 2015	
	Allocated	**Authorized & Unissued**	Allocated	Authorized & Unissued
Outstanding – beginning of year	**3,150,000**	**3,640,000**	3,540,000	3,640,000
Forfeited	**-**	**-**	(390,000)	-
Outstanding – end of year	**3,150,000**	**3,640,000**	3,150,000	3,640,000

The fair value of these unissued bonus shares is being amortized until the estimated date of issuance. During the year ended January 31, 2016, the Company recorded $0.333 million amortization related to Milestone 4 bonus shares (January 31, 2015 – $0.570 million), which was capitalized to Mineral Property, Plant and Equipment. The prior year period includes forfeiture by individuals upon ceasing to be an eligible person under the Plan.

f) Share Purchase Warrants

Details of share purchase warrants are as follows:

	Year ended January 31, 2016		Year ended January 31, 2015	
	Number of Purchase Warrants	**Weighted Average Exercise Price**	Number of Purchase Warrants	Weighted Average Exercise Price
Outstanding – beginning of year	**8,168,602**	**1.35**	8,168,602	1.35
Expiration *(Note 5)*	**(1,249,315)**	**1.30**	-	-
Glencore Adjustments *(Note 7)*	**-**	**(0.48)**	-	-
Outstanding – end of year	**6,919,287**	**1.01**	8,168,602	1.35

On July 30, 2015, the Company amended its previous financing arrangement with Glencore which included extending the purchase warrant expiration date to the earlier of the Early Maturity Event or December 31, 2016 and reducing the purchase price from $1.3022 per share to $0.9292 per share. On December 15, 2015, the Company amended its previous financing arrangements with Glencore which included extending the purchase warrant expiration date to December 31, 2017 and reducing the purchase price from $0.9292 per share to $0.8231 per share. See Note 7 for further discussion.

The outstanding share purchase warrants have expiry periods between 0.41 and 1.92 years.

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

11. Finance Costs - Net

Details of net finance costs are as follows:

	Year ended January 31					
		2016		2015		2014
Interest expense:						
Convertible debt *(Notes 7 and 8)*	**$**	**2,535**	$	1,484	$	1,459
Non-convertible debt *(Notes 7 and 9)*		**2,515**		343		549
Environmental rehabilitation provision accretion *(Note 6)*		**1,663**		1,639		1,521
Other finance costs		**375**		229		40
Total finance costs	**$**	**7,088**		3,695		3,569
Less: amounts capitalized on qualifying assets		**(5,050)**		(1,827)		(2,008)
Finance costs	**$**	**2,038**		1,868		1,561
Interest income:						
Bank deposits		**(21)**		(52)		(96)
Finance income	**$**	**(21)**		(52)		(96)
Finance costs - net	**$**	**2,017**	$	1,816	$	1,465

12. Related Party Transactions

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

	Year ended January 31					
		2016		2015		2014
Salaries and other short-term benefits	**$**	**1,825**	$	1,509	$	1,718
Other long-term benefits		**36**		49		60
Share-based payment [1]		**-**		1,093		2,366
Total	**$**	**1,861**	$	2,651	$	4,144

[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. 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 their employment.

As a result of Glencore's ownership of 28.4% of the Company it is also a related party. PolyMet has entered into a Technical Services Agreement with Glencore whereby PolyMet reimburses Glencore for costs associated with providing technical support to PolyMet, primarily in detailed project design and mineral processing where PolyMet requests assistance under an agreed scope of work. During the year ended January 31, 2016, the Company paid $3.350 million (January 31, 2015 - $nil) for services under this agreement. Additional transactions with Glencore are described in Notes 7, 8, and 9.

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

13. Income Taxes

a) Effective tax rate

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

	Year ended January 31		
	2016	2015	2014
Loss for the year before taxes	$ **(9,346)**	$ (7,276)	$ (8,132)
Canadian statutory tax rate	**26.0%**	26.0%	26.0%
Expected tax recovery	**(2,430)**	(1,892)	(2,114)
Difference in foreign tax rates	**(771)**	(407)	(454)
Non-deductible items	**119**	291	424
Change in unrecognized deferred tax and other items	**3,082**	2,008	2,144
Income Tax Expense / (Recovery)	$ **-**	$ -	$ -

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	
	2016	2015
Non-capital loss carry forward assets	$ **31,488**	$ 25,952
Mineral property acquisition, exploration and development costs	**(31,488)**	(25,952)
Other	**-**	-
Net deferred income tax liabilities	$ **-**	$ -

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

	Year ended January 31	
	2016	2015
Non-capital loss carry forward assets	$ **22,380**	$ 21,022
Capital loss carry forward assets	**347**	347
Intercompany receivable assets	**2,031**	2,031
Other assets	**1,074**	1,056
Unrecognized deferred income tax assets	$ **25,832**	$ 24,456

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

As of January 31, 2016, the Company has Canadian non-capital loss carry forwards of approximately $24.5 million (January 31, 2015 - $20.4 million) and US non-capital loss carry forwards of approximately $115.1 million (January 31, 2015 - $100.6 million). The non-capital loss carry forwards are available to reduce future income for tax purposes and expire between 2019 and 2036, except for US state non-capital loss carry forwards which expire between 2016 and 2031.

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

14. Commitments and Contingencies

In addition to items described elsewhere in these financial statements:

a) As at January 31, 2016, the Company had firm commitments related to the environmental review process, land options, consultants, and rent of approximately $2.3 million with the majority due over the next year and the remainder due over three years.

b) As at January 31, 2016, the Company had non-binding commitments to maintain its mineral lease rights of $0.180 million with all due in the next year.

c) The following table lists the known contractual obligations as at January 31, 2016:

Contractual Obligations	**Carrying Value**	**Contractual Cash flows**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 3,348	$ 3,348	$ 3,348	$ -	$ -	$ -
Convertible debt *(Note 8)*	35,986	43,292	-	43,292	-	-
Non-convertible debt *(Note 9)*	47,985	56,974	5,111	51,863	-	-
Commitments	-	2,243	2,068	175	-	-
Total	$ 87,319	$ 105,857	$ 10,527	$ 95,330	$ -	$ -

15. Financial Instruments and Risk Management

The Company's financial instruments are classified as loans and receivables, available for sale, and other financial liabilities.

The carrying values of each classification of financial instrument at January 31, 2016 are:

	Loans and receivables	Available for sale	Other financial liabilities	Total carrying value
Financial assets				
Cash	$ 10,256	$ -	$ -	$ 10,256
Amounts receivable	65	2,517	-	2,582
Total financial assets	$ 10,321	$ 2,517	$ -	$ 12,838
Financial liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ 3,348	$ 3,348
Convertible debt	-	-	35,986	35,986
Non-convertible debt	-	-	47,985	47,985
Total financial liabilities	$ -	$ -	$ 87,319	$ 87,319

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

15. Financial Instruments and Risk Management - *Continued*

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

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

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.

The fair values of cash, current amounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature.

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.

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

15. Financial Instruments and Risk Management - *Continued*

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, 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 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, 2016	January 31, 2015
Cash	**$ 134**	$ 90
Amounts receivables	**10**	8
Accounts payable and accrued liabilities	**-**	(8)
Total	**$ 144**	$ 90

Based on the above net exposures, as at January 31, 2016, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately $14,400.

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 to qualifying assets 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.

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

	January 31, 2016	January 31, 2015
Cash	**$ 10,256**	$ 9,301
Convertible debt	**35,986**	33,451
Non-convertible debt	**$ 47,985**	$ 7,855

Credit Risk

Credit risk arises on cash 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 $12.838 million.

The Company's cash is primarily held through a large Canadian financial institution.

15. Financial Instruments and Risk Management - *Continued*

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. See additional discussion in Note 1.

Capital Management

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

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

Although the Company plans to have the resources to carry out its plans and operations through January 31, 2017, it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is 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.

16. Subsequent Event

On March 3, 2016, the Minnesota Department of Natural Resources issued its Record of Decision ("ROD") that the Final Environmental Impact Statement ("EIS") addresses the objectives defined in the EIS scoping review, meets procedural requirements, and responds appropriately to public comments. The 30-day period allowed by law to challenge the state's ROD has passed without any legal challenge being filed.

The state's decision also lays the foundation for permits to construct and operate the NorthMet Project. On April 19, 2016 the MDNR held a Pre-application Public Informational Meeting that included an overview of the NorthMet Project and the permit to mine process together with a summary of other state permits, such as tailings dam safety, water quality, air quality and wetlands. After consultation with the MDNR and the MPCA, PolyMet will begin to submit the various state permit applications that will be required to construct and operate the project.