POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Independent Auditor's Report

To the Shareholders of PolyMet Mining Corp.

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

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Report on internal control over financial reporting

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

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

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

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

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

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

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

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

signed "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
April 21, 2015

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

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

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

Commitments and Contingencies *(Note 14)*

Subsequent Event *(Note 16)*

ON BEHALF OF THE BOARD OF DIRECTORS:

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

- See Accompanying Notes –

PolyMet Mining Corp.
Consolidated Statements of Loss and Comprehensive Loss
All figures in thousands of U.S. Dollars, except for number of shares and loss per share

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

- 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**	Warrants and Share-based Payments	Accumulated Other Comp Loss	**Total Equity Reserves**	**Deficit**	**Total Shareholders' Equity**
Balance - February 1, 2012	174,738,124	$ 168,434	$ 2,132	$ 43,632	$ (42)	$ 43,590	$ (81,790)	$ 132,366
Loss and comprehensive loss for the year	-	-	-	-	(13)	(13)	(6,626)	(6,639)
Equity offering and issuance costs	5,000,000	9,107	875	-	-	-	-	9,982
Purchase of wetland credit intangible	2,788,902	3,375	-	525	-	525	-	3,900
Payment of land purchase options	87,174	89	-	-	-	-	-	89
Exercise of share options	185,000	210	-	(62)	-	(62)	-	148
Modification of share options	-	-	-	795	-	795	-	795
Share-based compensation	450,882	-	-	1,884	-	1,884	-	1,884
Bonus share cost amortization	-	-	-	387	-	387	-	387
Balance - January 31, 2013	183,250,082	$ 181,215	$ 3,007	$ 47,161	$ (55)	$ 47,106	$ (88,416)	$ 142,912
Loss and comprehensive loss for the year	-	-	-	-	55	55	(8,132)	(8,077)
Rights offering and issuance costs *(Note 10)*	91,636,202	58,372	-	-	-	-	-	58,372
Payment of land purchase options	140,123	125	-	-	-	-	-	125
Share-based compensation *(Note 10)*	548,985	618	-	1,693	-	1,693	-	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
Loss and comprehensive loss for the year	-	-	-	-	-	-	(7,276)	(7,276)
Payment of land purchase options	143,130	157	-	-	-	-	-	157
Exercise of share options *(Note10)*	75,000	161	-	(80)	-	(80)	-	81
Share-based compensation *(Note 10)*	557,852	841	-	1,671	-	1,671	-	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**

- See Accompanying Notes -

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

	For the years ended January 31, 2015	2014	2013
Operating Activities			
Loss for the year	**$ (7,276)**	$ (8,132)	$ (6,626)
Items not involving cash			
Amortization	**32**	26	38
Environmental rehabilitation provision accretion *(Note 6)*	**1,639**	1,521	792
Share-based compensation *(Note 10)*	**1,121**	1,697	2,255
Loss on sale of investment	**-**	48	-
Unrealized foreign exchange loss	**17**	10	-
Changes in non-cash working capital			
Amounts receivable	**1,039**	(590)	(390)
Prepaid expenses	**87**	(424)	163
Accounts payable and accrued liabilities	**(855)**	(2,190)	2,652
Net cash used in operating activities	**(4,196)**	(8,034)	(1,116)
Financing Activities			
Share issuance proceeds, net of costs *(Note 10)*	**81**	58,372	10,130
Debenture funding, net of costs *(Notes 7 and 9)*	**7,896**	19,897	-
Debenture repayment *(Notes 7 and 9)*	**-**	(20,000)	-
Net cash provided by financing activities	**7,977**	58,269	10,130
Investing Activities			
Property, plant and equipment purchases *(Note 4)*	**(27,153)**	(25,224)	(16,312)
Investment sale proceeds	**-**	24	-
Interest and fees paid	**-**	(223)	-
Wetland credit intangible purchases *(Note 5)*	**(100)**	(100)	(2,092)
Net cash used in investing activities	**(27,253)**	(25,523)	(18,404)
Net Increase (Decrease) in Cash and Cash Equivalents	**(23,472)**	24,712	(9,390)
Effect of foreign exchange on Cash and Cash Equivalents	**(17)**	(10)	-
Cash and Cash Equivalents - Beginning of year	**32,790**	8,088	17,478
Cash and Cash Equivalents - End of year	**$ 9,301**	$ 32,790	$ 8,088
Reconciliation of Cash and Cash Equivalents:			
Cash at bank	**$ 9,301**	$ 32,765	$ 8,085
Short-term deposits	**-**	25	3
Total Cash and Cash Equivalents	**$ 9,301**	$ 32,790	$ 8,088
Supplementary information:			
Accounts payable and accrued liabilities related to PP&E	**$ (325)**	$ 727	$ 938
Accretion and capitalized interest on debt *(Notes 7, 8, and 9)*	**1,827**	1,785	1,768
Share-based compensation *(Note 10)*	**1,391**	614	424
Milestone 4 Bonus Shares amortization *(Note 10)*	**570**	689	387
Shares and warrants issued for Wetland Credit Intangible *(Note 5)*	**-**	-	3,900
Shares issued for land options	**$ 157**	$ 125	$ 89

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

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

The corporate address and records office of the Company are located at 100 King Street West, Suite 5700, Toronto, Ontario, Canada M5X 1C7, and 700 West Georgia, 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 available financial assets due at any point in time. As at January 31, 2015, PolyMet had cash of $9.301 million and a working capital deficiency of $31.672 million primarily due to the $33.451 million convertible debt due to Glencore AG, a wholly owned subsidiary of Glencore plc (together "Glencore") being classified as a current liability on the basis it matures on September 30, 2015. If Glencore does not exchange the convertible debt for common shares, PolyMet will need to renegotiate the agreement or raise sufficient funds to repay the debt. While in the past the Company has been successful in renegotiating debt and closing financing agreements, there can be no assurance it will be able to do so again.

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

2. Summary of Significant Accounting Policies

a) Statement of Compliance

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

b) Basis of Consolidation and Presentation

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

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

c) Critical Accounting Estimates and Judgments

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

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

(i) <u>Determination of mineral reserves</u>

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, 2015 or January 31, 2014.

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

(iii) Provision for Environmental Rehabilitation Costs

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

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

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

2. Summary of Significant Accounting Policies - *Continued*

d) Foreign Currency Translation

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

e) Cash and Cash Equivalents

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

f) Financial Assets

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

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

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

Plant and Equipment

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

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

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

h) Wetland Credit Intangible

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

2. Summary of Significant Accounting Policies - *Continued*

i) Financial Liabilities

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

j) Borrowing costs

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

k) Share-Based Compensation

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

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

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

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

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) Adoption of New or Amended IFRS

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

IFRIC 21 – Levies

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

p) Future Accounting Changes

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

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 9 – Financial Instruments - Classification and Measurement

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

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 or accrued to January 31, 2015. The next payment is due in January 2016.

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

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

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

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

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

4. Mineral Property, Plant and Equipment

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

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

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

Erie Plant, Minnesota, U.S.A.

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

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

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

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

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

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

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

5. Wetland Credit Intangible

Details of Wetland Credit Intangibles are as follows:

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

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

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

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

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

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

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

7. Glencore Financing

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

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

- 78,724,821 shares representing 28.5% of PolyMet's issued shares;
- $25.0 million initial principal floating rate secured debentures due September 30, 2015 (see Note 8). Including capitalized and accrued interest as at January 31, 2015, these debentures are exchangeable at $1.2920 per share into 25,891,843 common shares of PolyMet upon PolyMet giving Glencore ten days notice that it has received permits necessary to start construction of NorthMet and availability of senior construction finance in a form reasonably acceptable to Glencore ("Early Maturity Event") or are repayable on September 30, 2015. The exercise price of the exchange warrants and the number of warrants are subject to conventional anti-dilution provisions; and
- Glencore holds warrants to purchase 6,458,001 million common shares at $1.3007 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price ("VWAP") of PolyMet common shares is equal to or greater than 150% of the exercise price and occurrence of the Early Maturity Event. The exercise price of the purchase warrants and the number of warrants are subject to conventional anti-dilution provisions.

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

7. Glencore Financing - *Continued*

2013 Agreement

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

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

2014 Agreement

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

2015 Agreement

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

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

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

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

9. Non-Convertible Debt

Details of Non-Convertible Debt are as follows:

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

a) **IRRRB debt**

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

b) **Glencore debt**

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

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

10. Share Capital

a) Share Issuances for Cash

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

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

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

b) Share-Based Compensation

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

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

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

10. Share Capital - *Continued*

c) Share Options

Details of share options are as follows:

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

(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, 2015 of US$1.00 = CDN$1.2660.

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

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

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

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

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

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

10. Share Capital - *Continued*

c) Share Options - *Continued*

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

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	5,045,000	4,161,667	0.75	6.03
0.9300 to 1.1500	8,822,002	8,722,002	1.00	6.06
1.5000 to 1.8904	3,583,000	3,483,000	1.80	3.19
2.0342 to 2.4886	1,565,000	1,215,000	2.26	1.80
2.5059 to 3.3990	2,070,000	1,107,500	2.66	2.24
	21,085,002	18,689,169	1.33	4.88

(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, 2015 of 1.00 US$ = 1.2660 CDN$.

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

d) Restricted Shares and Restricted Share Units

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

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

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

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

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

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

10. Share Capital - *Continued*

e) Bonus Shares

Details of bonus shares are as follows:

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

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

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

f) Share Purchase Warrants

Details of share purchase warrants are as follows:

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

Effective July 5, 2013, the Company increased the number of common shares issuable and reduced the exercise price of all warrants that were outstanding prior to the Rights Offering, to reflect the dilutive effect of the 91.6 million common shares that were issued in connection with the Rights Offering. The adjustment did not impact the financial statements.

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

11. Finance Costs

Details of finance costs are as follows:

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

12. Related Party Transactions

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

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

(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.

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

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,				
		2015		2014		2013
Loss for the year before taxes	$	**(7,276)**	$	(8,132)	$	(6,626)
Canadian statutory tax rate		**26.0%**		26.0%		25.0%
Expected tax recovery		**(1,892)**		(2,114)		(1,657)
Difference in foreign tax rates		**(407)**		(454)		(199)
Non-deductible items		**291**		424		564
Change in unrecognized deferred tax and other items		**2,008**		2,144		1,292
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,		
		2015		2014
Non-capital loss carry forward assets	$	**25,952**	$	21,323
Mineral property acquisition, exploration and development costs		**(25,952)**		(21,314)
Other		**-**		(9)
Net deferred income tax liabilities	$	**-**	$	-

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

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

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

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

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

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, 2015, the Company had firm commitments related to the environmental review process, land options, wetland credit intangibles, consultants, and rent of approximately $3.9 million with the majority due over the next year and the remainder due over seven years.

b) As at January 31, 2015, the Company had non-binding commitments to maintain its mineral lease rights of $0.180 million with all due in the next year.

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

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

15. Financial Instruments and Risk Management

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

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

	Loans and receivables	Other financial liabilities	Total carrying value
Financial assets			
Cash and cash equivalents	$ 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

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, 2014 are:

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

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

Risks Arising from Financial Instruments and Risk Management

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

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

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

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

Interest Rate Risk

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

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

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

Credit Risk

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

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

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 and cash equivalents. See additional discussion in Note 1.

Capital Management

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

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

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

16. Subsequent Event

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