POLYMET
MINING

Financial assurance

Minnesota state law requires non-ferrous mining companies to have bankruptcy-proof financial resources in place to cover possible environmental cleanup costs in case the company is unable to do so, before the state will issue a permit to operate. PolyMet will fully comply with Minnesota law and meet its financial assurance obligations.

What is Financial assurance?

Financial assurance, also referred to as bonding, is required by Minnesota state rules[1] for non-ferrous mining operations. It ensures that if the company were to go bankrupt or otherwise fail to perform, and can't carry out the reclamation plan that's in our mining permit, the state has appropriate financial resources for a third party to properly close, reclaim and perform post-closure maintenance activities under a contingency reclamation plan.

Financial assurance must cover the anticipated costs of closing down and stabilizing the site as well as any monitoring or maintenance that may be necessary to sustain reclamation such as long-term water treatment.

Financial assurance is only a contingency to protect taxpayers from cleanup and reclamation costs in a mining company bankruptcy scenario; it does not reflect normal operations. The funds would be available to the state through a combination of cash in trust, surety bond, irrevocable letter of credit, or some combination of these and other instruments.

Financial assurance instruments must be able to self generate enough annual revenue (in the case of a trust fund) or to renew and adjust (in the case of a letter of credit or surety bond) to cover projected future costs.

Reclamation costs are lower during construction and when mining is in its earliest stages, and greatest when the mine is fully operational. Costs will begin to decrease in the later years of the mine's permitted life after concurrent reclamation activities take place. Financial assurance is estimated on an annual basis between the company and the Minnesota Department of Natural Resources to guarantee coverage of reclamation and closure of the actual development ahead of it occurring.

Under the company's plan, reclamation work is completed, financial assurance is never triggered, and the bonds, trust funds or other financial instruments being held by the state are greatly reduced during operations and eventually released.

Where are the details for financial assurance found for the PolyMet project?

Financial assurance details are found in the company's Permit to Mine application filed with the Minnesota Department of Natural Resources, which is available on its website at www.mn.gov/polymet. Cost projections outlined in the application are estimates and are subject to change as the project progresses through permitting.

The DNR administers the Permit to Mine and determines the appropriate amount of financial assurance and financial instruments during the permitting process.

How do we know that the law and the state's ability to enforce it will protect taxpayers from the possibility of bankruptcy?

[1] Minnesota Administrative Rule 6132.1200

The law requires a reclamation plan and cost estimate that describes closure and post closure maintenance activities that would be necessary if activities cease *within the upcoming calendar year*, and requires that full coverage be in place from *day one* of any activity – whether that be construction or operations.

The important point here is that if PolyMet were not able to perform the work, the money would be available to the state from day one, through the financial instruments determined in the permitting process, such that no taxpayer money would be required.

The amount and type of financial instruments are reviewed annually by the company and the state and adjusted as appropriate. This annual review is beneficial because it allows for adjustments to be made based on actual, recent operating data rather than long-term models or hypotheticals. And it ties financial assurance to reclamation needs that exist or will be created in the coming year – not on obligations that don't yet exist.

How will financial assurance funds be directed in the event of bankruptcy?
The majority of the reclamation costs for PolyMet are for treating water, including legacy water issues created by iron ore mining activities at the site between 1957 and 2001.

Long-term water treatment cost estimates are based on annual operating and maintenance costs as well as replacement costs for equipment. Monitoring costs also are included.

Provisions of the financial assurance package are designed to ensure that sufficient funds are available for the ongoing maintenance of all equipment, as well as replacement of equipment as needed, to maintain active water treatment for as long as necessary. This conservative approach allows active water treatment technology to be funded until water quality standards are met and active (mechanical) water treatment is no longer necessary.

How will PolyMet fund the financial assurance?
The Permit to Mine application includes details of the financial assurance package as proposed to the state. These will be discussed during the permitting process, leading to decisions by the state on final amounts and instruments. Whatever instrument or combination of instruments it selects, it has to be bankruptcy proof, continuously in place and readily available to regulators.

How can PolyMet possibly put enough money aside to cover costs for long-term water treatment?
Think of financial assurance like a university endowing a chair: either enough money is put aside upfront to generate a financial return sufficient to cover the annual salary of a professor and other costs, including inflation and contingencies, or an independent and financially strong third party (such as a benefactor) guarantees to cover the anticipated costs. It's much the same with establishing financial assurance funding for reclamation including long-term water treatment.

Does financial assurance also cover damages in the unlikely event of a catastrophic failure?
Financial contingencies in the event of large-scale, unanticipated events are addressed as part of the financial assurance package. These protections generally take the form of insurance policies that are independent of the financial assurance instrument or instruments, but whose premiums are factored into the financial assurance package. This ensures that the premiums can be paid in the event the company is unable to do so.