POLYMET MINING CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of PolyMet Mining Corp. for the three and six months ended June 30, 2019 have been prepared by and are the responsibility of the management of the Company and have been approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim consolidated financial statements by an entity's auditor.

PolyMet Mining Corp.
Condensed Interim Consolidated Balance Sheets
Unaudited - All figures in thousands of U.S. Dollars

	June 30, 2019	December 31, 2018
ASSETS		
Current		
Cash	**$ 6,165**	$ 13,857
Amounts receivable	**578**	796
Prepaid expenses	**1,167**	1,161
	7,910	15,814
Non-Current		
Restricted deposits *(Note 6)*	**10,693**	10,286
Amounts receivable *(Note 5)*	**1,836**	1,796
Mineral Property, Plant and Equipment *(Notes 3 and 4)*	**464,498**	433,548
Intangible *(Note 5)*	**24,185**	24,185
Total Assets	**509,122**	485,629
LIABILITIES		
Current		
Accounts payable and accruals	**6,533**	3,925
Lease liabilities	**54**	88
Convertible debt *(Notes 7 and 8)*	**-**	56,984
Non-convertible debt *(Notes 7 and 9)*	**-**	178,483
Environmental rehabilitation provision *(Note 6)*	**4,330**	1,693
	10,917	241,173
Non-Current		
Lease liabilities	**605**	-
Environmental rehabilitation provision *(Note 6)*	**62,629**	59,414
Total Liabilities	**74,151**	300,587
SHAREHOLDERS' EQUITY		
Share Capital *(Note 10)*	**525,641**	271,269
Share Premium	**1,151**	1,151
Equity Reserves	**64,396**	62,111
Deficit	**(156,217)**	(149,489)
Total Shareholders' Equity	**434,971**	185,042
Total Liabilities and Shareholders' Equity	**$ 509,122**	$ 485,629

Nature of Business and Liquidity *(Note 1)*

Commitments and Contingencies *(Note 13)*

Subsequent Event *(Note 15)*

ON BEHALF OF THE BOARD OF DIRECTORS:

/s/ Jonathan Cherry, Director   */s/ Dr. David Dreisinger*, Director

- See Accompanying Notes –

PolyMet Mining Corp.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Unaudited - All figures in thousands of U.S. Dollars, except for shares and per share amounts

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
General and Administrative Expenses				
Salaries, directors' fees and related benefits	$ **588**	$ 590	$ **1,225**	$ 1,226
Share-based compensation *(Note 10)*	**109**	276	**1,298**	1,455
Professional fees	**(69)**	84	**214**	341
Regulatory fees	**26**	50	**100**	139
Investor and public relations	**221**	298	**586**	700
Office and administration	**115**	179	**278**	353
Depreciation	**31**	32	**64**	65
Total General and Administration Expenses	**1,021**	1,509	**3,765**	4,279
Other Expenses (Income)				
Finance costs - net *(Note 11)*	**119**	567	**1,242**	1,442
(Gain)/Loss on foreign exchange	**(11)**	1	**7**	1
(Gain)/Loss on debenture modification (*Notes 7, 8 and 9)*	**(10)**	-	**2,004**	4,109
Loss on land exchange	**-**	553	**-**	553
Gain on disposal of assets	**(172)**	-	**(172)**	-
(Gain)/Loss on financial instrument fair value *(Note 5)*	**(26)**	37	**(98)**	75
Other income	**(11)**	(11)	**(20)**	(13)
Total Other Expenses	**(111)**	1,147	**2,963**	6,167
Total Loss and Comprehensive Loss for the Period	**910**	2,656	**6,728**	10,446
Basic and Diluted Loss per Share	$ **(0.00)**	$ (0.01)	$ **(0.02)**	$ (0.03)
Weighted Average Number of Shares – basic and diluted	**344,737,881**	320,425,860	**333,456,972**	320,201,128

- See Accompanying Notes -

PolyMet Mining Corp.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
Unaudited - All figures in thousands of U.S. Dollars, except for shares

	Share Capital (authorized = unlimited)			Equity Reserves				
	Issued Shares	**Share Capital**	**Share Premium**	Contributed Surplus	Accumulated Other Comp Inc / (Loss)	**Equity Reserves**	**Deficit**	**Total Shareholders' Equity**
Balance - December 31, 2017	**319,303,098**	**$ 269,516**	**$ 1,151**	**$ 60,295**	**$ 210**	**$ 60,505**	**$ (132,497)**	**$ 198,675**
Transition to IFRS 9 *(Note 2b)*	-	-	-	-	(210)	(210)	(1,949)	(2,159)
Restated - January 1, 2018	**319,303,098**	**$ 269,516**	**$ 1,151**	**$ 60,295**	**$ -**	**$ 60,295**	**$ (134,446)**	**$ 196,516**
Total comprehensive loss for the period	-	-	-	-	-	-	(10,446)	(10,446)
Debenture refinancing warrants	-	-	-	2,331	-	2,331	-	2,331
Payment of land purchase options *(Note 10)*	76,250	76	-	-	-	-	-	76
Exercise of share options and warrants *(Note 10)*	215,500	240	-	(59)	-	(59)	-	181
Vesting of restricted shares and RSU's *(Note 10)*	843,413	624	-	(624)	-	(624)	-	-
Share-based compensation *(Note 10)*	99,308	105	-	1,512	-	1,512	-	1,617
Bonus share cost amortization	-	-	-	(1,519)	-	(1,519)	-	(1,519)
Balance – June 30, 2018	**320,537,569**	**$ 270,561**	**$ 1,151**	**$ 61,936**	**$ -**	**$ 61,936**	**$ (144,892)**	**$ 188,756**

	Share Capital (authorized = unlimited)					
	Issued Shares	**Share Capital**	**Share Premium**	**Equity Reserves**	**Deficit**	**Total Shareholders' Equity**
Balance – December 31, 2018	**321,190,069**	**$ 271,269**	**$ 1,151**	**$ 62,111**	**$ (149,489)**	**$ 185,042**
Total comprehensive loss for the period	-	-	-	-	(6,728)	(6,728)
Rights offering and issuance costs *(Note 10)*	682,813,838	253,047	-	-	-	253,047
Debenture refinancing warrants *(Note 7)*	-	-	-	1,564	-	1,564
Payment of land purchase options *(Note 10)*	52,500	36	-	-	-	36
Exercise of share options *(Note 10)*	400,171	572	-	(298)	-	274
Vesting of restricted shares and RSU's *(Note 10)*	543,417	633	-	(633)	-	-
Share-based compensation *(Note 10)*	102,921	84	-	1,652	-	1,736
Balance – June 30, 2019	**1,005,102,916**	**$ 525,641**	**$ 1,151**	**$ 64,396**	**$ (156,217)**	**$ 434,971**

- See Accompanying Notes -

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

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Operating Activities				
Loss for the period	$ **(910)**	$ (2,656)	$ **(6,728)**	$ (10,446)
Items not involving cash:				
Depreciation	**31**	32	**64**	65
Environmental rehabilitation provision accretion *(Note 6)*	**418**	449	**856**	871
Share-based compensation *(Note 10)*	**109**	276	**1,298**	1,455
Unrealized (gain)/loss on foreign exchange	**2**	(4)	**1**	(4)
(Gain)/Loss on debenture modification *(Note 7, 8 & 9)*	**(10)**	-	**2,004**	4,109
Loss on land exchange	**-**	553	**-**	553
Gain on disposal of property, plant & equipment	**(172)**	-	**(172)**	-
(Gain)/Loss on financial instrument fair value *(Note 5)*	**(26)**	37	**(98)**	75
Changes in non-cash working capital				
Amounts receivable	**(218)**	7	**275**	5
Prepaid expenses	**(47)**	15	**(6)**	(140)
Accounts payable and accruals	**2,463**	127	**2,249**	(29)
Net cash provided by (used in) operating activities	**1,640**	(1,164)	**(257)**	(3,486)
Financing Activities				
Share issuance proceeds *(Note 10)*	**21,565**	-	**21,839**	181
Share issuance costs *(Note 10)*	**(11,953)**	-	**(11,953)**	-
Debenture funding, net of costs *(Notes 7 and 9)*	**-**	19,723	**-**	24,723
Debenture repayment *(Notes 7, 8, 9, and 10)*	**(6,882)**	-	**(6,882)**	-
Cash settled RSU's *(Note 10)*	**(17)**	-	**(229)**	(377)
Net cash provided by financing activities	**2,713**	19,723	**2,775**	24,527
Investing Activities				
Property, plant and equipment purchases *(Note 4)*	**(5,181)**	(5,808)	**(10,845)**	(10,806)
Property, plant and equipment disposal proceeds	**1,043**	-	**1,043**	-
Restricted deposits	**(350)**	-	**(407)**	-
Land disposal proceeds	**-**	425	**-**	425
Net cash used in investing activities	**(4,488)**	(5,383)	**(10,209)**	(10,381)
Net Increase (Decrease) in Cash	**(135)**	13,176	**(7,691)**	10,660
Effect of foreign exchange on Cash	**(2)**	4	**(1)**	4
Cash - Beginning of period	**6,302**	4,415	**13,857**	6,931
Cash - End of period	$ **6,165**	$ 17,595	$ **6,165**	$ 17,595
Supplemental information – non-cash investing and financing				
Accounts payable and accruals	$ 457	$ 492	$ 1,157	$ 65
Debt accretion and capitalized interest *(Notes 7, 8 and 9)*	7,114	4,805	14,410	8,993
Share-based compensation *(Note 10)*	36	54	436	386
Bonus share amortization	-	-	-	25
Bonus share forfeiture	-	(1,544)	-	(1,544)
Fair value of shares issued for land options (*Note 10)*	$ 16	$ 26	$ 36	$ 76

- See Accompanying Notes -

1. Nature of Business and Liquidity

PolyMet Mining Corp. 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 has a majority shareholder relationship with Glencore AG, a wholly owned subsidiary of Glencore plc (together "Glencore"), as a result of Glencore's ownership of 71.6% of the Company's issued shares.

The Company's primary mineral property is the NorthMet Project ("NorthMet" or "Project"), a polymetallic project in northeastern Minnesota, United States of America, 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 and maintain permits necessary to construct and operate NorthMet, the ability to obtain financing necessary to complete the development of NorthMet, and generate future profitable operations or alternatively, disposal of the investment on an advantageous basis.

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 PolyMet US is located at 444 Cedar Street, Suite 2060, St. Paul, Minnesota, United States of America, 55101.

The condensed interim 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 June 30, 2019, the Company had cash of $6.165 million and a working capital deficiency of $3.007 million. On August 7, 2019, the Company issued to Glencore a promissory note in the amount of $15.0 million with proceeds to be used for general corporate purposes (see Note 15).

Management believes, based upon the underlying value of the NorthMet Project, the receipt of all permits necessary to construct and operate the NorthMet Project, ongoing discussions with potential financiers, and the majority shareholder relationship with Glencore, that financing will continue to be available allowing the Company to complete the development of NorthMet and generate future profitable operations. 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.

2. Summary of Significant Accounting Policies

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and follow the same accounting policies and methods of application as set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2018. These condensed interim consolidated financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018. The financial statements were approved by the Board of Directors on August 14, 2019.

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 mineral property rights in St. Louis County, Minnesota from RGGS Land & Minerals Ltd., L.P. Provided the Company continues to make annual lease payments, the lease period continues until June 12, 2048 with an option to extend the lease for up to five additional ten-year periods on the same terms and further extend as long as there are commercial mining operations. All lease payments have been paid to date with the next annual payment of $0.175 million due in January 2020.

Pursuant to an agreement dated December 1, 2008, the Company leases certain mineral property rights in St. Louis County, Minnesota from LMC Minerals. Provided the Company continues to make annual lease payments, the lease period continues until December 1, 2028 with an option to extend the lease for up to four additional five-year periods on the same terms. All lease payments have been paid to date with the next annual payment of $0.030 million due in November 2019.

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 $3.000 million in advance royalty payments to RGGS Land & Minerals Ltd., L.P. is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year. The Company's recovery of $0.219 million in advance royalty payments to LMC Minerals is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.

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

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 December 31, 2018		433,347		201		433,548
Additions		25,996		646		26,642
Disposals		(871)		-		(871)
Changes to environmental rehabilitation provision (Note 6)		5,270		-		5,270
Amortization and Depreciation		-		(91)		(91)
Balance at June 30, 2019	**$**	**463,742**	**$**	**756**	**$**	**464,498**

NorthMet		June 30, 2019		December 31, 2018
Mineral property acquisition and interest costs	**$**	**126,412**	$	112,002
Mine plan and development		**50,729**		48,383
Environmental		**139,189**		133,638
Consulting and wages		**57,150**		55,076
Reclamation and remediation (Note 6)		**62,081**		56,811
Site activities		**28,103**		26,488
Mine equipment		**78**		949
Total	**$**	**463,742**	$	433,347

Erie Plant, Minnesota, U.S.A.

In November 2005, the Company acquired from Cliffs Erie LLC, a subsidiary of Cleveland Cliffs Inc. (together "Cliffs") large parts of the Erie Plant, a processing facility located approximately six miles from the ore body.

In December 2006, the Company acquired from Cliffs additional 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 fueling and maintenance facilities, water rights and pipelines, administrative offices on site and an additional 6,000 acres of land to the east and west of the 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. As part of the consideration, the Company indemnified Cliffs for reclamation and remediation obligations of the acquired property (see Note 6).

During the six months ended June 30, 2019, 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 $14.410 million (June 30, 2018 - $8.993 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 depreciation or amortization of these assets has been recorded to June 30, 2019.

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

5. Intangible and EIP Receivable

Details of Intangible are as follows:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
Intangible – beginning of period	$ **24,185**	$ 3,130
Purchases	**-**	21,055
Intangible – end of period	$ **24,185**	$ 24,185

In October 2017, the Company entered into an agreement with EIP Credit Co., LLC to reserve wetland bank credits the Company can use for the NorthMet Project for a minimum of five years in exchange for an initial down payment applicable to the purchase price, contractual transfer of certain lands, and annual option payments not applicable to the purchase price. Annual option payments of $0.250 million are expensed as incurred whereas option exercise payments will be recorded to Intangible and transferred to Mineral Property, Plant and Equipment once placed into service. During the twelve months ended December 31, 2018, the Company exercised part of its rights and purchased wetland bank credits, which resulted in a $21.055 million addition to Intangible.

Details of the EIP receivable are as follows:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
EIP Receivable – beginning of period	$ **1,912**	$ 2,883
Gain/(loss) on re-measurement	**98**	(971)
EIP Receivable – end of period	**2,010**	1,912
Less current portion	**(174)**	(116)
Non-current portion	$ **1,836**	$ 1,796

In April 2015, the Company entered into an agreement with EIP Minnesota, LLC (“EIP”) whereby EIP will seek to sell wetland credits the Company is unable to use for the NorthMet Project to third parties and, over time, reimburse the Company for its costs. The timing of EIP’s sale to third parties and reimbursement of the Company is uncertain and volatile. The EIP receivable is recorded at fair value at each reporting period, based on management’s best estimate of cash flows expected from future sales by EIP.

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

6. Environmental Rehabilitation Provision

Details of Environmental Rehabilitation Provision are as follows:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
Environmental Rehabilitation Provision – beginning of period	$ **61,107**	$ 65,402
Change in estimate	**5,270**	(3,478)
Liabilities discharged	**(274)**	(2,613)
Accretion expense	**856**	1,796
Environmental Rehabilitation Provision – end of period	**66,959**	61,107
Less current portion	**(4,330)**	(1,693)
Non-current portion	$ **62,629**	$ 59,414

Federal, state and local laws and regulations concerning environmental protection affect the Company's assets. As part of the consideration for the asset acquisitions from Cliffs (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.

The Company's best estimate of the environmental rehabilitation provision as at June 30, 2019 was $66.959 million (December 31, 2018 - $61.107 million) based on estimated cash flows required to settle this obligation in present day costs of $70.871 million (December 31, 2018 - $71.146 million), a projected inflation rate of 2.00% (December 31, 2018 – 2.00%), a market risk-free interest rate of 2.31% (December 31, 2018 – 2.87%) and expenditures expected to occur over a period of approximately 30 years. The increase during the six months ended June 30, 2019 was due to changes in the market risk-free interest rate. The decrease during the twelve months ended December 31, 2018 was primarily due to revisions to estimated cash flows as a result of changes in the market risk-free interest rate and liabilities discharged for rehabilitation work completed in the processing plant.

On November 1, 2018, the Company received the Permit to Mine for NorthMet and certain other permits from the Minnesota Department of Natural Resources ("MDNR") which included a schedule for financial assurance obligations, including required cash contributions to a trust fund. The Company has satisfied its current financial assurance obligations primarily by establishing and contributing $10.0 million in restricted deposits to a trust fund and providing $65.0 million in surety bonds and letters of credit, with the MDNR as the beneficiary in each case. Financial assurance obligations must be reviewed annually based on the Company's planned reclamation activities, with the total assurance and related financial instruments adjusted accordingly if the underlying estimated reclamation costs are revised. The Company may terminate these financial instruments, partially or in full, only upon meeting site reclamation requirements and securing approval from the MDNR. Future required cash contributions to the trust fund are $2.0 million per year beginning in the first year of mining operations and continue until the eighth year after which annual contributions will be prorated based on the expected reclamation obligation at the end of mining. In addition, the Company provided Cliffs with a $13.4 million letter of credit to satisfy requirements under the asset acquisition agreements and related obligations.

7. Glencore Financing

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

- Equity – five 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; a $20.960 million purchase of PolyMet common shares in the 2013 Rights Offering; a $10.583 million purchase of PolyMet common shares in the 2016 Private Placement; and a $243.435 million purchase of PolyMet common shares in the 2019 Rights Offering (see Note 10);
- Convertible debt ("Glencore Convertible Debt") – agreement comprising $25.0 million initial principal secured convertible debentures drawn in four tranches. The convertible debt balance was fully repaid with proceeds from the Rights Offering (see Note 8); and
- Non-convertible debt ("Glencore Non-Convertible Debt") – five separate agreements comprising $30.0 million initial principal secured debentures in calendar 2015 drawn in four tranches; an $11.0 million initial principal secured debenture in calendar 2016 drawn in one tranche; $14.0 million initial principal secured debentures in calendar 2016 drawn in four tranches; $20.0 million initial principal secured debentures in calendar 2017 drawn two tranches; and $80.0 million initial principal secured debenture in calendar 2018 drawn in four tranches with the fifth tranche in the amount of $15.0 million cancelled. The non-convertible balance was fully repaid with proceeds from the Rights Offering (see Note 9).

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 as at June 30, 2019 comprises:

- 720,084,055 shares representing 71.6% of PolyMet's issued shares (December 31, 2018 - 92,836,072 shares);
- Warrants to purchase 7,453,068 common shares at $0.6384 per share at any time until March 31, 2024, 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 ("Exercise Triggering Event"), and where the exercise price and the number of warrants are subject to conventional anti-dilution provisions triggered upon closing of the Rights Offering on June 28, 2019 (see Note 10). See 2019 Agreement below for additional details;
- Warrants to purchase 8,142,776 common shares at $0.8665 per share at any time until October 28, 2021, subject to acceleration at the Company's option provided all permits necessary to construct NorthMet have been received ("Acceleration Triggering Event"), and where the exercise price and the number of warrants are subject to conventional anti-dilution provisions triggered upon closing of the Rights Offering on June 28, 2019 (see Note 10); and
- Warrants to purchase 721,302 common shares at $0.6756 per share at any time until October 28, 2021, and where the exercise price and the number of warrants are subject to conventional anti-dilution provisions triggered upon closing of the Rights Offering on June 28, 2019 (see Note 10).

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 736,401,201 common shares of PolyMet, representing 72.1% on a partially diluted basis, that is, if no other options or warrants were exercised or 69.1% on a fully diluted basis, if all other options and warrants were exercised.

7. Glencore Financing - *Continued*

2019 Agreement
On March 22, 2019, the Company entered into an extension agreement with Glencore with respect to the secured convertible and non-convertible debt set to mature on March 31, 2019. Glencore agreed to extend the maturity date of the debt to June 30, 2019 to provide the Company time to prepare for and complete a rights offering, fully backstopped by Glencore, to raise sufficient funds to repay all outstanding debt. In connection with the extension agreement, the Company issued 6,458,001 purchase warrants to Glencore with an expiration date of March 31, 2024 and an exercise price of $0.7368 which was approved by the NYSE American and TSX. In addition, the Company agreed to extend the expiration date of the convertible debt exchange warrant to the earlier of March 31, 2020 or the date on which the convertible debt is fully repaid, which occurred on June 28, 2019 (see Notes 8 and 9).

The March 2019 transaction was accounted for as a modification of the existing debentures with a $2.014 million modification loss consisting of the following:

- $0.810 million to increase the convertible debt carrying value to the revised cash flows discounted using the original effective interest rate of 7.3%;
- $0.360 million to reduce the non-convertible debt carrying value to the revised cash flows discounted using the original effective interest rate of 14.3%; and
- $1.564 million to recognize fair value of the purchase warrants issued.

On June 28, 2019, Glencore purchased 430,521,941 shares under its standby commitment under the rights offering in addition to the 196,726,042 shares purchased under its rights (see Note 10). Proceeds of the rights offering were used to repay the convertible debt (see Note 8) and non-convertible debt (see Note 9) resulting in a gain on convertible debt repayment of $0.018 million and loss on non-convertible debt repayment of $0.008 million.

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

8. Convertible Debt

Details of Convertible Debt are as follows:

		Six months ended June 30, 2019		Twelve months ended December 31, 2018
Convertible Debt – beginning of period	$	**56,984**	$	49,067
Transition to IFRS 9 *(Note 2)*		**-**		1,346
Convertible Debt – adjusted beginning of period		**56,984**		50,413
Change due to modification *(Note 7)*		**792**		3,142
Accretion and capitalized interest		**2,105**		3,429
Repayment		**(59,881)**		-
Convertible Debt – end of period		**-**		56,984
Less current portion		**-**		(56,984)
Non-current portion	$	**-**	$	-

Since October 2008, the Company issued $25.0 million of secured convertible debentures to Glencore. The Company provided security on these debentures covering all of the assets of PolyMet.

These debentures beared interest at the twelve month U.S. dollar LIBOR plus 4.0% through July 31, 2015, twelve month U.S. dollar LIBOR plus 8.0% through December 31, 2015, twelve month U.S. dollar LIBOR plus 15.0% beginning January 1, 2016, and twelve month U.S. dollar LIBOR plus 10.0% beginning April 1, 2018. Interest was compounded quarterly and payable in cash or by increasing the principal amount of the debentures, at Glencore's option. Since inception, $34.881 million of interest was capitalized to the principal amount of the debenture. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the six months ended June 30, 2019.

Following the rights offering close on June 28, 2019 (see Note 10), these debentures were fully repaid on June 28, 2019.

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

9. Non-Convertible Debt

Details of Non-Convertible Debt are as follows:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
Non-Convertible Debt – beginning of period	**$ 178,483**	$ 92,268
Transition to IFRS 9 *(Note 2)*	**-**	813
Non-Convertible Debt – adjusted beginning of period	**178,483**	93,081
Change due to modification *(Note 7)*	**(352)**	(1,452)
Accretion and capitalized interest	**12,305**	17,131
Funding, net of costs	**-**	69,723
Repayment	**(190,436)**	-
Total Non-Convertible Debt	**-**	178,483
Less current portion	**-**	(178,483)
Non-current portion	**$ -**	$ -

Since January 2015, the Company issued $140.0 million of secured non-convertible debentures to Glencore. The Company provided security on these debentures covering all of the assets of PolyMet.

These debentures beared interest at twelve month U.S. dollar LIBOR plus 8.0% through December 31, 2015, twelve month U.S. dollar LIBOR plus 15.0% beginning January 1, 2016, and twelve month U.S. dollar LIBOR plus 10.0% beginning April 1, 2018. Interest was compounded quarterly and payable in cash or by increasing the principal amount of the debentures, at Glencore's option. Since inception, $50.436 million of interest was capitalized to the principal amount of the debenture. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the six months ended June 30, 2019.

Following the rights offering close on June 28, 2019 (see Note 10), these debentures were fully repaid on June 28, 2019.

10. Share Capital

a) Issuances for Cash and Land Acquisition

On May 24, 2019, the Company filed a prospectus for an offering of rights ("Right") to holders of common shares of the Company to raise up to $265.0 million in gross proceeds (“Rights Offering”). Every shareholder received one Right for each common share owned on June 3, 2019, the Record Date, and each Right entitled the holder to acquire 2.119069 new common shares of the Company at $0.3881 per share. This offering of Rights expired on June 26, 2019.

Under the terms of a Standby Purchase Agreement, Glencore agreed to purchase any common shares not subscribed for by holders of Rights, subject to certain conditions. Because the Rights Offering was not fully subscribed, Glencore purchased 430,521,941 shares under its standby commitment in addition to the 196,726,042 shares purchased under Glencore’s Rights.

Upon closing of the Rights Offering on June 28, 2019, the Company issued a total of 682,813,838 common shares for gross proceeds of $265.0 million. Expenses and fees relating to the Rights Offering were $11.953 million, including the $7.690 million standby commitment fee paid to Glencore, and reduced the gross proceeds recorded as share capital. Closing of the Rights Offering triggered customary anti-dilution provisions for outstanding warrants, share options, and unissued restricted share units. Proceeds of the Rights Offering were used to repay the convertible debt of $58.881 million owed to Glencore and non-convertible debt of $190.437 million owed to Glencore (see Notes 8 and 9). The Company and Glencore agreed to net settle Glencore’s Rights Offering subscription amount of $243.435 million against the debt amounts owed.

During the six months ended June 30, 2019 the Company issued 400,171 shares (June 30, 2018 – 125,000 shares) pursuant to the exercise of share options for proceeds of $0.274 million (June 30, 2018 - $0.091 million).

During the six months ended June 30, 2019 the Company issued nil shares (June 30, 2018 – 90,500 shares) pursuant to the exercise of warrants for proceeds of $nil (June 30, 2018 - $0.090 million).

During the six months ended June 30, 2019 the Company issued 52,500 shares (June 30, 2018 – 76,250 shares) to maintain land purchase options with the shares valued at $0.036 million (June 30, 2018 - $0.076 million).

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 June 27, 2018. 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 underlying options pursuant to an exemption approved by the Toronto Stock Exchange.

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

10. **Share Capital -** *Continued*

During the six months ended June 30, 2019, the Company recorded $1.734 million for share-based compensation (June 30, 2018 - $1.841 million) with $1.298 million expensed to share-based compensation (June 30, 2018 - $1.455 million) and $0.436 million capitalized to mineral property, plant and equipment (June 30, 2018 - $0.386 million). The offsetting entries were to equity reserves for $1.652 million (June 30, 2018 - $1.512 million), share capital for $0.084 million (June 30, 2018 – $0.105 million) and payables reduction of $0.002 million (June 30, 2018 - $0.224 million increase). Total share-based compensation for the period comprised $1.113 million for share options (June 30, 2018 - $0.729 million), $0.537 million for restricted share units (June 30, 2018 - $1.007 million), and $0.084 million for issuance of unrestricted shares (June 30, 2018 - $0.105 million). Exercise of share options and warrants and vesting of restricted share units during the period resulted in $0.931 million being transferred from equity reserves to share capital (June 30, 2018 - $0.683 million).

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:

	Six months ended June 30, 2019		Twelve months ended December 31, 2018	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding – beginning of period	**22,692,002**	**0.91**	21,659,002	0.98
Granted	**3,625,000**	**0.81**	2,503,000	0.91
Exercised	**(625,000)**	**0.71**	(225,000)	0.67
Expired	**(610,000)**	**0.71**	(1,245,000)	2.06
Anti-dilution price adjustment	**-**	**(0.12)**	-	-
Outstanding – end of period	**25,082,002**	**0.79**	22,692,002	0.91

Effective June 28, 2019, the Company reduced the exercise price of all options that were outstanding prior to the Rights Offering subject to stock exchange approval, to reflect the dilutive effect of the 628.8 million common shares that were issued in connection with the Rights Offering. The adjustment did not impact the financial statements.

The weighted average share price for share options exercised during the six months ended June 30, 2019 was $0.78.

During the six months ended June 30, 2019, there were 240,000 share options net settled with 15,171 shares upon exercise.

The fair value of share options granted were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
Risk-free interest rate	**2.52%**	2.33% to 2.58%
Expected dividend yield	**-**	-
Expected forfeiture rate	**-**	-
Expected volatility	**54.56%**	56.07% to 61.80%
Expected life in years	**2.50**	2.50 to 5.00
Weighted average fair value of each option	**$0.29**	$0.34 to $0.61

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

10. Share Capital - *Continued*

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.

Details of the share options outstanding as at June 30, 2019 are as follows:

Range of Exercise Prices	Number of options outstanding	Number of options exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life
0.52 to 0.69	10,294,000	9,994,000	$ 0.63	2.75
0.70 to 0.86	9,717,000	9,018,000	0.77	4.30
0.87 to 1.30	3,846,002	3,846,002	0.96	2.02
1.31 to 1.63	1,050,000	1,050,000	1.56	1.66
1.64 to 2.66	175,000	115,000	2.23	0.37
	25,082,002	24,023,002	$ 0.79	3.17

As at June 30, 2019 all outstanding share options had vested and were exercisable, with the exception of 1,059,000, which are scheduled to vest upon completion of specific targets or dates (Production – 699,000; Other – 60,000); June 2020 – 300,000). The outstanding share options have expiry periods between 0.29 and 8.68 years and are expected to be settled in shares upon exercise.

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:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
Outstanding - beginning of period	**3,347,907**	3,281,030
Issued	**1,632,119**	1,227,004
Vested	**(941,534)**	(1,160,127)
Anti-dilution quantity adjustment	**624,452**	-
Outstanding - end of period	**4,662,944**	3,347,907

Effective June 28, 2019, the Company increased the number of common shares issuable for all restricted share units outstanding prior to the Rights Offering subject to stock exchange approval, to reflect the dilutive effect of the 628.8 million common shares that were issued in connection with the Rights Offering. The adjustment did not impact the financial statements.

During the six months ended June 30, 2019, the Company issued 1,632,119 restricted share units, which had a fair value of $1.325 million to be expensed and capitalized over the vesting periods.

During the six months ended June 30, 2019, there were 302,617 restricted share units settled upon vesting with $0.229 million in cash.

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

10. Share Capital - *Continued*

As at June 30, 2019, outstanding restricted shares and restricted share units are scheduled to vest upon completion of specific targets or dates (Construction Finance – 865,575; Production – 459,272; June 2020 – 126,130; March 2020 – 707,649; January 2021 – 1,545,837; Other – 16,841). The remaining 941,640 outstanding restricted shares and restricted share units have vested but share delivery is deferred until retirement, termination, or death. The Company expects 935,076 outstanding restricted share units will be settled in cash and the remainder will be settled in shares as allowed under the Omnibus Plan.

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 in May 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 in June 2008, the disinterested shareholders approved issuance of these shares upon achievement of Milestone 4. Regulatory approval is also required prior to issuance of these shares. Details of the bonus shares are as follows:

	Six months ended June 30, 2019		Twelve months ended December 31, 2018	
	Allocated	**Authorized & Unissued**	Allocated	Authorized & Unissued
Outstanding – beginning of period	**2,700,000**	**3,640,000**	3,150,000	3,640,000
Forfeited	**-**	**-**	(450,000)	-
Outstanding – end of period	**2,700,000**	**3,640,000**	2,700,000	3,640,000

The fair value of these unissued bonus shares was being amortized until the estimated date of issuance and has now been fully amortized. During the six months ended June 30, 2019, the Company recorded $nil amortization related to Milestone 4 bonus shares (June 30, 2018 – $0.025 million), which was capitalized to Mineral Property, Plant and Equipment.

f) Share Purchase Warrants

Details of share purchase warrants are as follows:

	Six months ended June 30, 2019		Twelve months ended December 31, 2018	
	Number of Purchase Warrants	**Weighted Average Exercise Price**	Number of Purchase Warrants	Weighted Average Exercise Price
Outstanding – beginning of period	**27,189,713**	**$ 0.95**	21,322,212	$ 0.99
Issued	**6,458,001**	**0.74**	6,458,001	0.82
Anti-dilution price adjustment	**-**	**(0.12)**	-	-
Anti-dilution quantity adjustment	**4,189,466**	**-**	-	-
Exercised	**-**	**-**	(590,500)	1.00
Expiration	**(6,458,001)**	**0.82**	-	-
Outstanding – end of period	**31,379,179**	**$ 0.80**	27,189,713	$ 0.95

The outstanding share purchase warrants have expiry periods between 2.30 years and 4.76 years, subject to acceleration in certain circumstances.

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

10. Share Capital - *Continued*

Effective June 28, 2019, 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 subject to stock exchange approval, to reflect the dilutive effect of the 682.8 million common shares that were issued in connection with the Rights Offering. The adjustment did not impact the financial statements.

Issuances and expirations during the six months ended June 30, 2019 relate to Glencore financing (see Note 7).

The fair value of share purchase warrants granted were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	Six months ended June 30, 2019	Twelve months ended December 31, 2018
Risk-free interest rate	**2.18%**	2.05%
Expected dividend yield	**-**	-
Expected forfeiture rate	**-**	-
Expected volatility	**52.59%**	54.54%
Expected life in years	**3.00**	1.02
Weighted average fair value of each warrant	**$0.24**	$0.36

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

11. Finance Costs - Net

Details of net finance costs are as follows:

	Six months ended **June 30, 2019**	Six months ended June 30, 2018
Debt accretion and capitalized interest:		
Convertible debt *(Note 8)*	**$ 2,105**	$ 1,485
Non-convertible debt *(Note 9)*	**12,305**	7,508
Environmental rehabilitation provision accretion *(Note 6)*	**856**	871
Other finance costs	**888**	661
Less: amounts capitalized on qualifying assets	**(14,410)**	(8,993)
Finance costs	**1,744**	1,532
Income on cash and restricted deposits	**(502)**	(90)
Finance income	**(502)**	(90)
Finance costs - net	**$ 1,242**	$ 1,442

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

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:

	Six months ended	
	June 30, 2019	June 30, 2018
Salaries and other short-term benefits	**$ 1,589**	$ 1,291
Other long-term benefits	**29**	28
Share-based payment [1]	**1,509**	1,373
Total	**$ 3,127**	$ 2,692

[1] Share-based payment represents the amount capitalized or expensed during the period (see Note 10).

There are agreements with key employees, including the President and Chief Executive Officer, containing severance provisions for termination without cause or in the event of a change in control. No other PolyMet director has an agreement providing for benefits upon termination.

As a result of Glencore's 71.6% ownership and majority shareholder relationship Glencore is also a related party. In addition to the transactions described in Notes 7, 8, 9, 10 and 15, the Company has entered into a Technical Services Agreement with Glencore whereby the Company reimburses Glencore for NorthMet technical support costs requested under an agreed scope of work, primarily in detailed project design and mineral processing. During the six months ended June 30, 2019, the Company recorded $0.100 million (June 30, 2018 - $nil) for services under this agreement.

13. Commitments and Contingencies

In addition to items described elsewhere in these financial statements, as at June 30, 2019, the Company had firm commitments related to financial assurance obligations (see Note 6), compliance, and land options of approximately $16.609 million with approximately $0.237 million due over the next year and the majority due over a period of three to ten years.

14. Financial Instruments and Risk Management

The carrying values of each classification of financial instrument at June 30, 2019 are:

	Amortized Cost	Fair value through profit or loss	Total carrying value
Financial assets			
Cash	$ 6,165	$ -	$ 6,165
Restricted deposits	596	10,097	10,693
Amounts receivable	404	2,010	2,414
Total financial assets	7,165	12,107	19,272
Financial liabilities			
Accounts payable and accruals	6,131	402	6,533
Lease liabilities	659	-	659
Total financial liabilities	$ 6,790	$ 402	$ 7,192

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

14. Financial Instruments and Risk Management - *Continued*

The carrying values of each classification of financial instrument at December 31, 2018 are:

	Amortized Cost	Fair value through profit or loss	Total carrying value
Financial assets			
Cash	$ 13,857	$ -	$ 13,857
Restricted deposits	10,286	-	10,286
Amounts receivable	680	1,912	2,592
Total financial assets	24,823	1,912	26,735
Financial liabilities			
Accounts payable and accruals	3,554	371	3,925
Lease liabilities	88	-	88
Convertible debt	56,984	-	56,984
Non-convertible debt	178,483	-	178,483
Total financial liabilities	$ 239,109	$ 371	$ 239,480

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.

Financial instruments measured at fair value subsequent to recognition include the restricted deposits (see Note 6) which are measured at fair value through profit or loss using Level 1 inputs resulting in a carrying value of $10.097 million (December 31, 2018 - $nil), the receivable from EIP (see Note 5) which is measured at fair value through profit or loss using Level 3 inputs resulting in a carrying value of $2.010 million (December 31, 2018 - $1.912 million) and accruals representing expected payments to settle restricted share units measured at fair value through profit or loss using Level 2 inputs resulting in a carrying value of $0.402 million (December 31, 2018 - $0.371 million).

The fair values of cash, restricted deposits, other current amounts receivable, accounts payable and accruals approximate their carrying amounts due to their short-term nature.

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.

15. Subsequent Events

On August 7, 2019, the Company issued to Glencore a promissory note in the amount of $15.0 million with proceeds to be used for general corporate purposes. The promissory note bears interest at three month U.S. dollar LIBOR plus 6.0% and is payable on the earlier of (i) December 31, 2021 or (ii) the availability of at least $100 million of debt or equity financing, on which date all principal and interest accrued to such date will be due and payable.