POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

31 JANUARY 2005

U.S. Funds

Report of Independent Registered Public Accounting Firm

To the Shareholders of PolyMet Mining Corp.:

We have audited the accompanying consolidated balance sheets of PolyMet Mining Corp. (the "Company") as at 31 January 2005 and 2004 and the related consolidated statements of shareholders' equity, loss and cash flows for the years ended 31 January 2005, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at 31 January 2005 and 2004, and the results of its operations and its cash flows for the years ended 31 January 2005, 2004 and 2003, in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.
18 March 2005

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

Comments By Auditors For U.S. Readers On Canada - U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when financial statements are affected by future events, the outcome of which is indeterminable. As discussed in Note 1, the Company's continued existence as a going concern is dependent upon the future economic success of its exploration and development activities, the Company's ability to continue to secure adequate financing and the Company achieving a positive cash flow and profitable operations. Our report to the shareholders dated 18 March 2005, is expressed in accordance with Canadian reporting standards, which do not require a reference to such going concern considerations in the auditors' report when the situation is adequately disclosed in the financial statements.

Vancouver, B.C.
18 March 2005

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

PolyMet Mining Corp. Statement 1

Consolidated Balance Sheet

As at 31 January

U.S. Funds

ASSETS		2005		2004
Current				
Cash and restricted cash	**$**	**510,871**	$	495,551
Term deposit		**807,200**		-
Miscellaneous receivables		**45,005**		21,881
Prepaid expenses		**241,596**		5,466
		1,604,672		522,898
Investments *(Note 4)*		**253**		253
Other Assets *(Note 5 b)*		**729,320**		500,000
Property, Plant and Equipment *(Note 6)*		**15,919**		1,786
	$	**2,350,164**	$	1,024,937

LIABILITIES				
Current				
Accounts payable	**$**	**331,012**	$	99,372
Continued Operations *(Note 1)*				
Contingent Liabilities and Commitments *(Note 13)*				

SHAREHOLDERS' EQUITY				
Share Capital - *Statement 2 (Note 7)*		**18,388,194**		15,231,768
Share Subscriptions Received - *Statement 2 (Note 12a)*		**762,804**		-
Contributed Surplus - *Statement 2 (Note 7e)*		**1,005,742**		55,048
Deficit - *Statement 2*		**(18,137,588)**		(14,361,251)
		2,019,152		925,565
	$	**2,350,164**	$	1,024,937

ON BEHALF OF THE BOARD:

"William Murray", Director

"David Dreisinger", Director

- See Accompanying Notes -

PolyMet Mining Corp.

Statement 2

Consolidated Statement of Shareholders' Equity

U.S. Funds

	Common Shares						
	Authorized Shares	Shares	Amount	Share Subscriptions Received	Contributed Surplus	Deficit	Total
Balance - 31 January 2003	1,000,000,000	32,657,526	$ 14,183,450	$ -	$ -	$ (14,214,451)	$ (31,001)
Loss for the year - *Statement 3*	-	-	-	-	-	(146,800)	(146,800)
Shares issued for cash:							
Private placements	-	11,648,318	1,035,071	-	-	-	1,035,071
Share issuance costs	-	-	(42,946)	-	-	-	(42,946)
Exercise of warrants	-	486,610	40,808	-	-	-	40,808
Exercise of options	-	89,600	5,210	-	-	-	5,210
Shares issued to settle debt	-	50,000	3,634	-	-	-	3,634
Shares issued for finders' fee	-	60,000	6,541	-	-	-	6,541
Stock-based compensation	-	-	-	-	55,048	-	55,048
Balance - 31 January 2004	1,000,000,000	44,992,054	15,231,768	-	55,048	(14,361,251)	925,565
Loss for the year - *Statement 3*	-	-	-	-	-	(3,776,337)	(3,776,337)
Shares issued for cash:							
Private placements	-	2,800,000	1,733,984	-	-	-	1,733,984
Share subscriptions received *(Note 12a)*	-	-	-	762,804	-	-	762,804
Share issuance costs	-	-	(115,127)	-	-	-	(115,127)
Exercise of warrants	-	5,277,573	828,554	-	-	-	828,554
Exercise of options	-	1,088,400	81,383	-	-	-	81,383
Shares issued for finders' fee (Note 7b)	-	155,626	96,375	-	-	-	96,375
Shares issued for property *(Note 5b)*	-	1,000,000	229,320	-	-	-	229,320
Stock-based compensation *(Note 7d)*	-	-	-	-	992,658	-	992,658
Fair value of stock options exercised	-	-	41,964	-	(41,964)	-	-
Balance – 31 January 2005 - Shares issued	Unlimited	55,313,653	18,128,221	762,804	1,005,742	(18,137,588)	1,759,179
Shares allotted for exercise of warrants *(Note 7f)*	-	224,925	26,117	-	-	-	26,117
Shares allotted for bonus *(Note 13a)*	-	1,590,000	233,856	-	-	-	233,856
Balance – 31 January 2005 - Shares issued and allotted	Unlimited	57,128,578	$ 18,388,194	$ 762,804	$ 1,005,742	$ (18,137,588)	$ 2,019,152

See Accompanying Notes -

PolyMet Mining Corp. Statement 3

Consolidated Statement of Loss

For the Years Ended 31 January

U.S. Funds

	2005	2004	2003
General and Administrative			
Stock-based compensation expense *(Note 7d)*	**$ 992,658**	$ 55,048	$ -
Consulting fees	**370,815**	21,278	27,267
Travel and automotive	**220,530**	25,278	10,074
Management fees	**141,270**	52,388	-
Administration fees and wages	**105,449**	32,120	143,146
Professional fees	**98,624**	58,806	27,358
Investor relations and financing	**95,669**	-	955
Rent	**58,713**	8,767	26,158
Office and telephone	**47,175**	9,106	51,942
Shareholders' information	**35,277**	5,032	14,880
Insurance	**31,199**	-	-
Transfer agent and filing fees	**24,765**	20,221	7,205
Amortization	**1,705**	275	5,606
Licenses, dues and taxes	**-**	-	1,882
Interest expense (income), *net*	**(2,221)**	380	589
Loss Before the Undernoted	**2,221,628**	288,699	317,062
Other Expenses (Income)			
Pre-feasibility costs - *Schedule 1*	**1,622,983**	91,616	112,318
Loss (gain) on disposal of investments	**-**	-	5,717
Loss (gain) on foreign exchange conversion	**(68,274)**	(22,230)	14,824
Loss (gain) on sale of resource properties	**-**	(219,925)	-
Loss (gain) on sale of property, plant and equipment	**-**	8,640	21,758
	1,554,709	(141,899)	154,617
Loss for the Year	**$ 3,776,337**	$ 146,800	$ 471,679
Loss per Share	**$ (0.07)**	$ (0.00)	$ (0.01)
Weighted Average Number of Shares	**51,946,290**	35,452,260	32,657,526

- See Accompanying Notes -

PolyMet Mining Corp. Statement 4

Consolidated Statement of Cash Flows

For the Years Ended 31 January

U.S. Funds

	2005	2004	2003
Operating Activities			
Loss for the year	**$ (3,776,337)**	$ (146,800)	$ (471,679)
Adjustments to reconcile loss to net cash			
Consulting - bonus shares	**233,856**	-	-
Amortization	**1,705**	275	6,321
Stock-based compensation expense	**992,658**	55,048	-
Loss (gain) on disposal of investments	**-**	-	5,717
Loss (gain) on sale of resource properties	**-**	(219,925)	-
Loss (gain) on sale of property, plant and equipment	**-**	8,640	21,758
Changes in current assets and liabilities			
Term deposit	**(807,200)**	-	-
Miscellaneous receivables	**(23,124)**	(15,665)	16,021
Prepaid expenses	**(236,130)**	(5,466)	18,649
Accounts payable	**231,640**	20,378	19,583
Net cash used in operating activities	**(3,382,932)**	(303,515)	(383,630)
Investing Activities			
Option payment for resource property	**-**	(500,000)	
Purchase of property, plant and equipment	**(15,838)**	(2,061)	-
Proceeds on disposal of property, plant and equipment	**-**	33,331	48,301
Proceeds on disposal of investments	**-**	-	15,908
Proceeds on sale of resource property	**-**	219,925	-
Net cash provided by (used in) investing activities	**(15,838)**	(248,805)	64,209
Financing Activities			
Share capital - for cash	**2,651,286**	1,044,684	-
Share subscriptions received	**762,804**	-	-
Net cash provided by financing activities	**3,414,090**	1,044,684	-
Net Increase (Decrease) in Cash Position	**15,320**	492,364	(319,421)
Cash Position - Beginning of year	**495,551**	3,187	322,608
Cash Position - End of Year	**$ 510,871**	$ 495,551	$ 3,187

	2005	2004	2003
Cash Position Consists of :			
Cash on deposit	**$ -**	$ 495,551	$ 3,187
Bank overdraft covered by term deposit	**(251,933)**	-	-
Restricted cash from share subscriptions received	**762,804**	-	-
	$ 510,871	$ 495,551	$ 3,187

	2005	2004	2003
Schedule of Non-Cash Investing and Financing Activities			
Shares issued for debt settlement	**$ -**	$ 3,634	$ -
Shares issued for an option on property, plant and equipment	**$ 229,320**	$ -	$ -
Fair value of stock options exercised transferred to share capital	**$ 41,964**	$ -	$ -
Shares issued for finders' fee	**$ 96,375**	**$** 6,541	**$** -
Bonus shares allotted for consulting services	**$ 233,856**	$ -	$ -

- See Accompanying Notes -

PolyMet Mining Corp. <u>Schedule 1</u>

Consolidated Schedule of Pre-Feasibility Costs

For the Years Ended 31 January

U.S. Funds

	2005	2004	2003
Direct			
Amortization	**$ -**	$ -	$ 715
Camp and general	**5,337**	4,750	6,745
Consulting fees	**336,770**	-	-
Cost recovery	**-**	-	-
Drilling	**441**	-	20,726
Engineering	**220,729**	-	-
Environmental	**406,524**	-	-
Field transportation	**-**	-	3,963
Geological and geophysical	**172,675**	-	-
Land lease, taxes and licenses	**1,940**	1,154	1,851
Metallurgical	**66,984**	10,712	1,545
Mine planning	**48,769**	-	-
Permitting	**181,751**	-	-
Scoping study	**104,398**	-	-
Periodic cash option payments	**76,665**	75,000	76,773
Total Costs for the Year	**$ 1,622,983**	$ 91,616	$ 112,318

1. Continued Operations

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has incurred significant operating losses over the past several fiscal years, has an accumulated deficit of $18,137,588, has significant expenditure requirements to continue its exploration and development activities on the NorthMet property and has significant cash requirements to complete its option agreement on the Cleveland Cliffs property, plant and equipment.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate because management believes that the actions already taken or planned, will mitigate the adverse conditions and events which raise doubts about the validity of the going concern assumption used in preparing these consolidated financial statements.

If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

2. Significant Accounting Policies

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, PolyMet Mining, Inc. and Fleck Minerals, Inc. The purchase method of accounting is used to consolidate these subsidiaries.

PolyMet Mining, Inc. was incorporated in Minnesota, U.S.A. to hold the NorthMet Lease *(Note 5a).* Fleck Minerals, Inc. and is currently inactive.

b) Mineral Operations

The Company is in the pre-feasibility stage of developing its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Exploration expenses incurred prior to determination of the feasibility of mining operation, periodic option payments and administrative expenses are expended as incurred. Mineral property acquisition costs and exploration and development expenditures incurred subsequent to the determination of the feasibility of mining operation are deferred until the property is placed into production, sold, allowed to lapse or abandoned. Acquisition costs include cash and fair market value of common shares. These capitalized costs will be amortized over the estimated life of the property following commencement of commercial production or written off if the property is sold, allowed to lapse or abandoned or when an impairment of values has occurred.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, ownership of its interests are in good standing.

2. Significant Accounting Policies - *Continued*

c) **Amortization**

The Company provides for amortization of its property, plant and equipment as follows:

Furniture and equipment - Straight-line over 10 years
Computers - Straight-line over 5 years

d) **Investments**

The Company carries its long-term portfolio investments at cost. Investments are written down to net realizable value when there has been a loss in value of the investment, which is other than a temporary decline.

e) **Loss Per Share**

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

f) **Conversion of Foreign Currency**

The accounts of the Company are prepared in U.S. funds and the company's Canadian operations are translated into U.S. dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

g) **Environmental Expenditures**

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 vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

2. Significant Accounting Policies - *Continued*

h) **Management's Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

i) **Share Capital**

i) The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company.

ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

j) **Income Taxes**

Income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets. The benefits of losses available for carry-forward to future years for tax purposes are recognized to the extent that realization of such benefits is more likely than not.

k) **Stock-Based Compensation**

The Company adopted the recommendations of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, effective for all awards granted on or after 1 February 2002. This established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

As encouraged by CICA Handbook Section 3870, the Company early adopted on a prospective basis, the fair value based method of accounting for awards issued to employees for the fiscal year beginning 1 February 2003.

The standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method. In prior years, stock-based compensation expense was only recognized when stock-based compensation awards were made to non-employees, while pro-forma disclosure was acceptable for awards made to employees.

2. Significant Accounting Policies - *Continued*

l) **Cash and Cash Equivalents**

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with remaining maturities at point of purchase of three months or less. The Company places its cash and cash investments with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

m) **Asset Retirement Obligations**

The recommendations of CICA Handbook Section 3110, *Asset Retirement Obligations* ("CICA 3110"), became effective on 1 February 2004. This section requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

No liability has been recorded as the Company is in the pre-feasibility stage on its properties and the fair value of the liability cannot be reasonably estimated at this stage. There is no effect on prior years as a result of adopting this new recommendation.

3. Fair Value of Financial Instruments

The carrying value of cash and restricted cash, miscellaneous receivable, investments *(Note 4)* and accounts payable approximates the fair value of these financial instruments due to their short-term maturity or capacity of prompt liquidation.

4. Investments

Details are as follows:

	Market Value	**2005**	2004
American Platinum Inc.	$ -	**$ 1**	$ 1
Aloak Corp.	25	**252**	252
	$ 25	**$ 253**	$ 253

These investments represent minority interests of less than 10% in the respective companies.

5. Resource Property Agreements

The Company's material resource property agreements are as follows:

a) **NorthMet, Minnesota, U.S.A. - Lease**

By an agreement dated 4 January 1989 and a subsequent amendment, the Company entered into a lease agreement with United States Steel Corporation ("USS") on certain lands in St. Louis County, Minnesota. The term of the lease is 20 years and calls for total annual lease payments of $1,475,000. All lease payments have been paid or accrued to 31 January 2005. The agreement requires future annual lease payments of $150,000 from 4 January 2006 to 2009.

The Company can, at its option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination date or can indefinitely extend the 20-year term by continuing to make $150,000 annual lease payments on each successive anniversary date.

The lease payments are considered advance royalty payments and shall be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return received by the Company. The Company's recovery of the 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.

During the year ended 31 January 2005, USS assigned the lease to RGGS Land & Minerals Ltd., L.P.

b) **Cleveland Cliffs Option, Minnesota, U.S.A.**

By a Memorandum of Understanding dated 5 December 2003 and an option agreement dated14 February 2004, the Company has obtained an option to acquire certain property, plant and equipment from Cleveland Cliffs of Cleveland, Ohio ("Cliffs") located near the Company's NorthMet project. Under the terms of the agreement, Cliffs will maintain available designated elements of the facility while the Company develops its feasibility study on the NorthMet project (Note 5a).

As consideration for the exclusive option, during 2004 the Company paid $500,000 and during 2005 the Company issued to Cliffs 1,000,000 common shares valued at $229,320 to maintain the exclusive rights until 30 June 2006.

Within six months of completion of a bankable feasibility study for the NorthMet project the Company shall complete the acquisition by paying $5,000,000.

In due course, the Company will assume all environmental liabilities and obligations relating to those facilities and lands, with a view to Cliffs being released therefrom by the State of Minnesota.

Either party may terminate the agreement if the property transfers have not occurred by 30 June 2006 unless a written extension has been agreed upon. Such extension may not be unreasonably refused.

6. Property, Plant and Equipment

Details are as follows:

		Cost		Accumulated Amortization		**2005 Net Book Value**		2004 Net Book Value
Furniture and equipment	$	1,888	$	172	**$**	**1,716**	$	1,786
Computers		15,908		1,705		**14,203**		-
	$	17,796	$	1,877	**$**	**15,919**	$	1,786

7. Share Capital

During the year, the Company increased its authorized share capital from 1,000,000,000 common shares to an unlimited number of common shares.

a) The share issuances during 2005 included two private placements for a total of 2,800,000 shares at CDN $0.80 per share for gross proceeds of CDN $2,240,000 ($1,733,894). Each of the private placements included share purchase warrants *(Note 7f)*. Cash share issuance costs in the amount of $18,752 were incurred in respect of these private placements.

   The share issuances during 2004 included three private placements for a total of 11,648,318 shares at prices ranging from CDN $0.0525 to CDN $0.15 per share for proceeds of $1,035,071. Each of the private placements included share purchase warrants *(Note 7f)*. Cash share issuance costs in the amount of $42,946 were incurred in respect of these private placements.

b) In addition to cash share issuance costs disclosed above, the Company issued 155,625 shares for finders' fees on the two private placements. These shares were valued at CDN $0.80 per share, for a total value of CDN $124,500 ($96,375). During 2004, the Company issued 60,000 shares for finders' fees valued at $6,541.

c) The Company has a stock option plan that covers its employees, directors, officers and consultants. The options are granted for varying terms ranging from two to five years. During the year, the Company granted 2,545,000 (2004 - 2,591,500) options. The maximum number of common shares under the stock option plan is 10% of the outstanding common shares of the Company at the time of granting of the options.

7. Share Capital - *Continued*

c) *- Continued*

Details of stock option activity is as follows:

	2005 Options	2004 Options
Outstanding - Beginning of year	**3,542,952**	1,851,052
Granted	**2,545,000**	2,591,500
Re-priced and extended expiry	**-**	541,052
Cancelled options for re-pricing and extension	**-**	(541,052)
Forfeited or expired	**-**	(810,000)
Exercised	**(1,088,400)**	(89,600)
Outstanding - End of year	**4,999,552**	3,542,952

As at 31 January 2005, the following director, former director and employee share purchase options were outstanding:

Expiry Date	Exercise Price (CDN)	Number
17 March 2007	$ 0.10	241,052
17 March 2007	$ 0.10	100,000
18 July 2008	$ 0.10	1,313,500
3 October 2008	$ 0.13	800,000
12 February 2006	$ 0.21	500,000
9 March 2009	$ 0.40	620,000
28 April 2009	$ 0.75	200,000
5 July 2009	$ 0.66	1,175,000
18 October 2009	$ 0.79	50,000
		4,999,552

As at 31 January 2005 all options had vested and were exercisable.

d) **Stock-Based Compensation**

i) During the year ended 31 January 2005, the Company issued 2,545,000 options to directors, officers, consultants and employees with exercise prices ranging from CDN$0.21 - CDN$0.79 per option. The fair value of stock-based compensation in the amount of $992,658 has been recorded in the accounts of the Company as an expense with the offsetting entry to contributed surplus. This amount includes the expense for the 950,000 options at CDN$0.13, granted on 3 October 2003, which were approved by the Company's shareholders on May 24, 2004. The weighted average grant-date fair value of the options granted is CDN$0.55. This value is estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	3.25%
Expected dividend yield	Nil
Expected stock price volatility	143%
Expected option life in years	4.78

7. Share Capital - *Continued*

d) **Stock-Based Compensation** - ***Continued***

ii) During the year ended 31 January 2004, the Company re-priced 541,052 options to CDN $0.10 and issued 1,641,500 options to directors, officers, and employees with an exercise price of CDN $0.10 per option. The fair value of stock option compensation is $55,048, which has been recorded in the accounts of the Company. The weighted average grant-date fair value of options granted is CDN $0.05. This value is estimated at the date of the grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	2.68%
Expected dividend yield	Nil
Expected stock price volatility	103%
Expected option life in years	4 to 5

e) **Contributed Surplus**

Contributed surplus represents accumulated stock-based compensation expense, reduced by the fair value of the stock options exercised.

Details are as follows:

	2005	2004
Balance – Beginning of year	**$ 55,048**	$ -
Current year fair value of stock-based compensation	**992,658**	55,048
Fair value of stock options exercised during the year and transferred to share capital	**(41,964)**	-
Balance – End of year	**$ 1,005,742**	$ 55,048

f) **Share Purchase Warrants**

Details of stock purchase warrant activity is as follows:

	2005 Warrants	2004 Warrants
Outstanding - Beginning of year	**9,718,853**	3,428,923
Issued	**1,400,000**	6,776,540
Exercised	**(5,277,575)**	(486,610)
Outstanding - End of year	**5,841,278**	9,718,853

7. Share Capital - *Continued*

f) Share Purchase Warrants - *Continued*

As at 31 January 2005, the following share purchase warrants were outstanding:

Expiry Date		Per Common Share Exercise Price (CDN)	Warrants Outstanding	Common Share Entitlement
16 November 2006	$	0.20	3,428,923	3,428,923
24 September 2005 (i)	$	0.17	1,012,355	1,012,355
17 December 2005 (ii)	$	1.20	775,000	775,000
1 March 2006(iii)	$	1.20	625,000	625,000
			5,841,278	5,841,278

(i) During the year ended 31 January 2005, the Company received proceeds of $26,117 on the exercise of 224,925 share purchase warrants. The shares were allotted at 31 January 2005 and issued subsequent to year-end.

(ii) Effective 17 June 2004 the Company completed a non-brokered private placement for a total of 1,550,000 Units (the "Units"), each Unit is comprised of one common share and one-half of one non-transferable share purchase warrant, in the capital stock of the Company at $0.80 per unit. One full share purchase warrant entitles the investors to purchase one additional common share of the Company for a period of 18 months from the closing at $1.20 per share, 17 December 2005.

(iii) Effective 1 September 2004 the Company completed a non-brokered private placement for a total of 1,250,000 Units (the "Units"), each Unit is comprised of one common share and one-half of one non-transferable share purchase warrant, in the capital stock of the Company at $0.80 per unit. One full share purchase warrant entitles the investors to purchase one additional common share of the Company for a period of 18 months from the closing at $1.20 per share, 1 March 2006.

g) Shareholder Rights Plan

Effective 4 December 2003, the Company adopted a Shareholder Rights Plan (“Rights Plan”), which was approved by the Company’s shareholders’ on 27 May 2004. Under the Rights Plan, the Company has issued one right for no consideration in respect of each outstanding common share of the Company to all holders of record of common shares on 4 December 2003. All common shares issued by the Company during the term of the Rights Plan will have one right represented by the certificates representing the common shares of the Company. The term of the Rights Plan is 10 years, unless the rights are earlier redeemed or exchanged. The Rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of the Company's common shares without complying with the Rights Plan or without the approval of the Board of Directors of the Company.

Each Right entitles the registered holder thereof to purchase from the Company on the occurrence of certain events, one common share of the Company at the price of CDN$50 per share, subject to adjustment (the “Exercise Price”). However, if a Flip-in Event (as defined in the Rights Plan) occurs, each Right would then entitle the registered holder to receive, upon payment of the Exercise Price, that number of common shares that have a market value at the date of that occurrence equal to twice the Exercise Price. The Rights are not exercisable until the Separation Time as defined in the Rights Plan.

8. Related Party Transactions

In addition to transactions disclosed elsewhere in these financial statements, the Company has conducted transactions with officers, directors and persons or companies related to directors as follows:

a) Paid or accrued amounts as follows:

	2005	2004	2003
Management fees and wages	**$ 141,270**	$ 52,388	$ 103,288
Consulting fees	**336,448**	-	-
Legal fees	**59,700**	-	-
Office facilities	**23,070**	-	-
	$ 560,488	$ 52,388	$ 103,288

b) Issued nil (2,143,906 – 2004) shares and nil (1,881,476 – 2004) warrants to directors and officers on private placements during the year ended 31 January 2005 for cash in the amount of $nil ($99,925 – 2004).

9. Income Taxes

a) The Company has approximately CDN $1,000,800 of resource related expenditures in Canada that may be carried forward indefinitely and used to reduce prescribed taxable income in future years. The Company's U.S. subsidiary has approximately $7,268,000 of resource related expenditures, which may be used to reduce prescribed taxable income in future years. The benefit of these expenditures has not been recorded in the accounts.

b) The Company and its U.S. subsidiary also have tax losses carried forward available to reduce future taxable income. The benefit of these losses has not been recorded in the accounts and expires as follows:

Year	Parent Company Amount (CDN)	U.S. Subsidiary Amount
2006	$ -	$ 14,500
2007	729,000	17,300
2008	481,000	20,100
2009	436,000	23,100
2010	252,000	26,500
2011	311,000	27,900
2012	983,000	30,000
2018	-	217,600
2019	-	392,500
2020	-	496,700
2021	-	414,400
2022	-	367,400
2023	-	247,400
2024	-	124,500
2025	-	231,700
	$ 3,192,000	$ 2,651,600

10. Differences Between Canadian and United States Generally Accepted Accounting Principles

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The U.S. Securities and Exchange Commission requires that financial statements of foreign companies contain a reconciliation presenting the statements on the basis of accounting principles generally accepted in the U.S. Any differences in accounting principles as they pertain to the accompanying consolidated financial statements are not material except as follows:

a) Under Canadian generally accepted accounting principles, long-term portfolio investments may be reported at a cost that is in excess of market value where it is reasonable to assume that the decline in market value may be of a temporary nature. Under U.S. generally accepted accounting principles, the investments are carried at market value on an individual basis and the adjustment is credited or charged to comprehensive income.

b) Under Canadian generally accepted accounting principles, mineral properties may be carried at cost and written-off or written-down if the properties are abandoned, sold or if management decides not to pursue the properties. Under U.S. generally accepted accounting principles, the Company would periodically review and obtain independent reports in determining adjustments to the mineral properties and records properties at net realizable value. The Company has not yet obtained an independent report and accordingly for U.S. purposes, the properties have been written off. In the past the Company followed the method described above. During 2003, the Company changed the accounting policy *(Note 2)*, therefore there are no differences between Canadian and United States generally accepted accounting principles.

The effects of the differences in accounting principles on investments, net loss and comprehensive loss are as follows:

Investments:		**2005**		2004		2003
Investments – Canadian GAAP basis	**$**	**253**	$	253	$	253
Adjustment to market		**(228)**		(228)		(228)
Investments – U.S. GAAP basis	**$**	**25**	$	25	$	25
Accumulated Comprehensive Loss:						
Contra-equity account for unrealized gains (losses) on investments - Canadian GAAP basis	**$**	**-**	$	**-**	$	-
Unrealized holding gain (loss) on investments - Prior years		**(228)**		**(228)**		(2,545)
- Current year		**-**		**-**		2,317
Contra-equity account for unrealized gains (losses) on investments - U.S. GAAP basis	**$**	**(228)**	$	**(228)**	$	(228)
Net Loss and Comprehensive Loss:						
Net loss - Canadian and U.S. GAAP basis	**$**	**3,776,337**	$	**146,800**	$	471,679
Adjustment of portfolio investments to market		**-**		**-**		(2,317)
Net loss and comprehensive loss - U.S. GAAP basis	**$**	**3,776,337**	$	**146,800**	$	469,362
Weighted average number of shares computed under U.S. GAAP		**53,784,877**		**38,452,260**		32,657,526
Loss per share following U.S. GAAP	**$**	**(0.07)**	$	**(0.00)**	$	(0.01)

10. Differences Between Canadian and United States Generally Accepted Accounting Principles

c) Recent U.S. Accounting Pronouncements, which relate to the Company's current operations are summarized as follows:

In May 2003, the FASB issued SFAS 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"*. SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The adoption of SFAS 150 did not have a material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123R, *"Share Based Payment"*. SFAS 123R is a revision of SFAS No. 123 *"Accounting for Stock-Based Compensation"*, and supersedes APB Opinion No. 25, *"Accounting for Stock Issued to Employees"* and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Public entities that file as small business issuers will be required to apply SFAS 123R in the first interim or annual reporting period that begins after December 15, 2005. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In December 2004, FASB issued SFAS No. 153, *"Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29"*. The guidance in APB Opinion No. 29, *"Accounting for Non-monetary Transactions"*, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The provisions of SFAS No. 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

11. Segmented Information

The Company is in the pre-feasibility stage of developing its mineral properties in the U.S. and provides for its financing and administrative functions at the head office located in Canada. Segmented information on a geographic basis is as follows:

2005	Canada	U.S.	Consolidated
Segment operating loss	$ 1,920,706	$ 1,855,631	$ 3,776,337
Identifiable assets	$ 1,364,099	$ 986,065	$ 2,350,164
2004			
Segment operating loss	$ 22,327	$ 124,473	$ 146,800
Identifiable assets	$ 519,437	$ 505,500	$ 1,024,937

12. Subsequent Events

In addition to items disclosed elsewhere in these financial statements, the Company conducted the following transactions after 31 January 2005:

a) The Company completed a private placement for 9,000,000 units at a price of CDN$0.55 per unit. Each unit consisted of one common share and one half of one share purchase warrant. One full Warrant entitles the holders, on exercise, to purchase one additional common share of the Company at a price of $0.70 per Warrant Share at any time until the close of business on the day which is 24 months from the date of Closing, provided that if the closing price of the Issuer's shares as traded on the Exchange is over $1.00 per share for 30 consecutive days, the Warrants will terminate 30 days thereafter. Part of the proceeds from the private placement, being CDN$945,000 (US$762,804), were received prior to 31 January 2005.

b) The Company granted 765,000 stock options exercisable at a price of $0.65 per share, expiring 3 March 2008, to employees and officers.

13. Contingent Liabilities and Commitments

a) The Company has instituted a share bonus plan as part of its employment, management and consulting contracts for key management and project personnel. This bonus plan adds incentive for key personnel to reach certain prescribed milestones required to reach commercial production at the NorthMet property. As at 31 January 2005, the Company had 2,890,000 shares approved by the regulatory authorities and shareholders for Milestones 1 and 2 of the share bonus plan. The terms and numbers of bonus shares for Milestones 3 and 4 are subject to shareholder and regulatory approvals. The bonus shares issued or allotted for Milestone 1, are valued using the Company's closing trading price on 5 November 2003 of CDN $0.19 per share, the date of the approval of the bonus plan by the board of directors.

The summary of the share bonus plan is as follows:

	Bonus Shares	
Milestone 1	1,590,000	(i) allotted – *Statement 2*
Milestone 2	1,300,000	(ii)
Milestone 3	2,400,000	(iii)
Milestone 4	3,240,000	(iv)

(i) Milestone 1 –Completion of an agreement with Cliffs-Erie LLC for the option to purchase of Cliffs-Erie facility to be used as a part of mining and processing operations for the NorthMet property. This milestone was achieved on 16 February 2004 and therefore, during the year the Company accrued a CDN$302,100 (US$233,856) bonus as consulting fees and allotted 1,590,000 shares. These shares were issued subsequent to year-end.

(ii) Milestone 2 – Negotiation and completion of an off-take agreement with a senior metals producer for the purchase raw materials to be produced from the NorthMet property.

(iii) Milestone 3 –Completion of a "bankable feasibility study" which indicates that commercial production from the NorthMet property is viable.

(iv) Milestone 4 – Commencement of commercial production at the NorthMet property at a time when the company has not less than 50% ownership interest.

13. Contingent Liabilities and Commitments - *Continued*

b) As a part of certain employment and management contracts, the Company has agreed to severance allowances for key employees and management in the event of a take-over bid. These allowances are based upon the Company's implied market capitalization at the time of the take-over bid, calculated by multiplying the number of shares outstanding on a fully diluted basis by the take-over bid price per share. The severance payments would be as follows:

Market Capitalization	Total Severance Payments Required	
Less than CDN $50 million	CDN	$ NIL
Between CDN $50 and CDN $75 million	CDN	$ 200,000
Between CDN $75 and CDN $100 million	CDN	$ 400,000

Thereafter severance payments increase by $600,000 for every additional $25 million of implied market capitalization, with no maximum.

c) Pursuant to the Company's option agreement with Cliffs *(Note 5 b)*, for as long as Cliffs owns 1% or more of the Company's issued shares, the Company has committed to allow Cliffs to participate in any future Company financings to maintain a 2.17% equity interest in the Company.

14. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.