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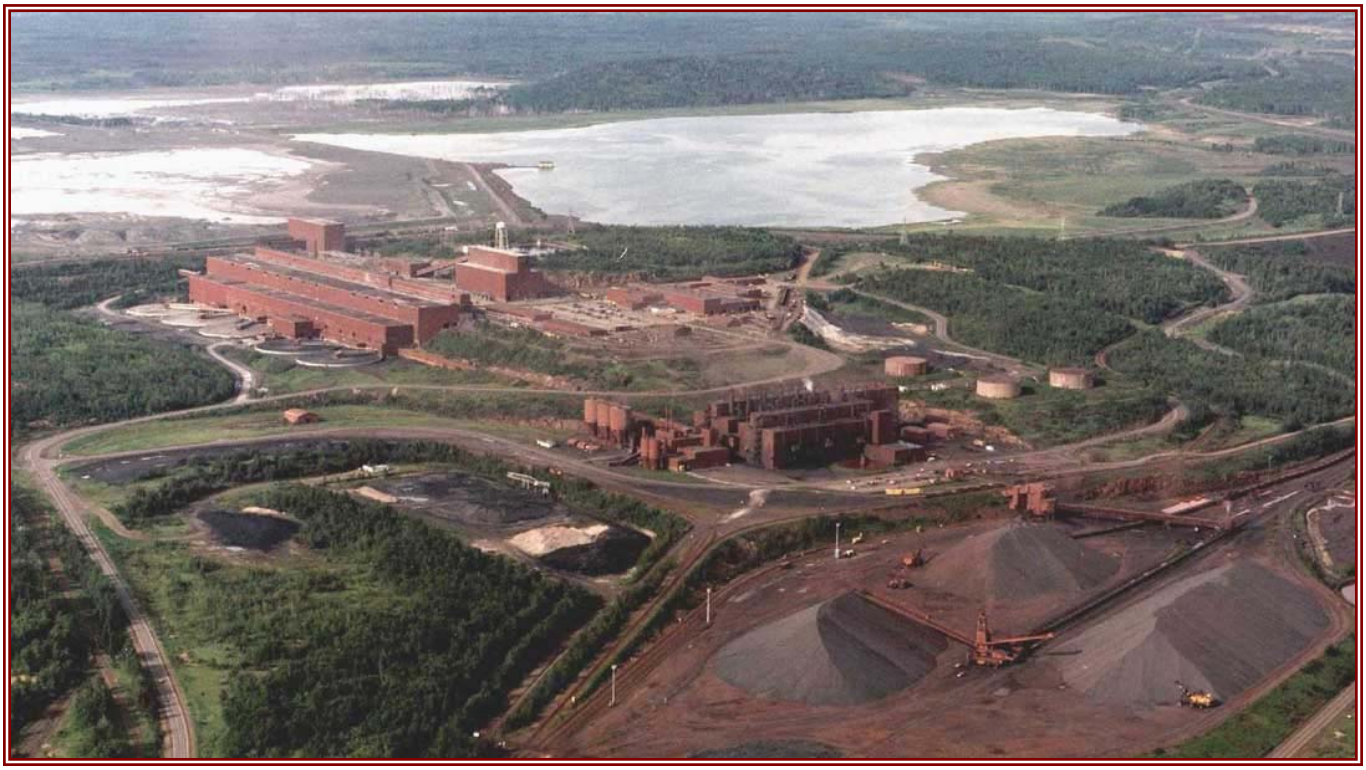
capital corp

## INFORMATION MEMORANDUM

# POLYMET MINING CORPORATION



**SEPTEMBER 2005**

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This report was prepared by Proteus Capital Corp. ("Proteus") and published in September 2005. Subsequently, in November 2005, PolyMet Mining Corporation ("PolyMet") hired Mr. Douglas Newby, President and founder of Proteus, as its Chief Financial Officer. As such, Mr. Newby is now an insider of PolyMet. The opinions expressed in the report were made while Mr. Newby and Proteus were independent. It should be noted that the report was published as part of an advisory assignment between Proteus and PolyMet under which Proteus was paid by PolyMet and received stock options.

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## CONVERSION TABLE

| One unit | = | | unit |
|---|---|---|---|
| acre | = | 0.40469 | hecatare |
| acre | = | 0.00156 | sq miles |
| hecatare | = | 2.47105 | acres |
| sq miles | = | 640.0 | acres |
| sq miles | = | 259.0 | hectares |
| kilometres | = | 0.62137 | miles |
| mile | = | 1.60934 | miles |
| metre | = | 3.28084 | feet |
| foot | = | 0.30480 | metres |
| inch | = | 0.02540 | metres |
| centimeter | = | 0.03937 | inches |

| One unit | = | | unit |
|---|---|---|---|
| gramme | = | 0.03215 | tr. Ounces |
| ounce | = | 0.91146 | tr. Ounces |
| tr ounce | = | 1.09714 | ounces |
| tr ounce | = | 31.1040 | grammes |
| tonne | = | 2,204.59 | pounds |
| tonne | = | 1.10229 | s. tons |
| tonne | = | 0.98419 | l. tons |
| s. ton | = | 2,000 | pounds |
| l. ton | = | 2,240 | |
| g/mt | = | 0.02917 | oz/t |
| oz/t | = | 34.2857 | g/mt |

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## STOCK PRICE IN CANADIAN DOLLARS

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## KEY STATISTICS

| | | | | | |
|---|---|---|---|---|---|
| Exchange | | TSX-V | Shares out. (proforma 4/30/05) | (millions) | 83.081 |
| Symbol | | POM | Insider ownership | (%) | 29% |
| Price (9.13.05) | (C$) | 1.63 | Options & warrants (in the money) | (millions) | 24.648 |
| 52 week: high (9.13.05) | (C$) | 1.63 | Average exercise price | (C$) | 0.76 |
| low (2.09.05) | (C$) | 0.51 | Cash (proforma) | (US$ mm) | 13.923 |
| Average daily trading volume | | 79,100 | Cash on option/warrant exercise | (US$ mm) | 15.978 |

# POLYMET MINING CORPORATION (TSX-V: POM) – OVERVIEW

**There are three differentiating attributes of PolyMet Mining Corporation. Firstly, its 100%-owned NorthMet deposit in northern Minnesota is one of the largest undeveloped non-ferrous metal deposits in the world. Secondly, the project has been transformed through the acquisition of a world-class crushing and milling facility for a fraction of the cost of building a new plant. Finally, this mix is combined with an excellent, highly experienced management team that owns nearly 30% of the Company.**

**We believe that this combination alone would be sufficiently powerful to make PolyMet highly attractive. In addition, with a US-based asset, PolyMet is exceptionally well positioned to benefit from secular strength in metals markets, driven by global economic growth and dollar weakness.**

- NorthMet has a global resource of approximately 900 million tonnes grading 0.32% copper, 0.085% nickel, 0.006% cobalt, 0.43 grams per tonne platinum group metals, and 0.045 grams per tonne gold.
- A Canadian National Instrument 43-101-standard report published in July 2005 reviewed a plan to mine approximately 250 million tonnes over a 29-year mine life, representing just 28% of the total resource.
- There are several valuation criteria: we believe the net present value of future cash flows is the most meaningful. Using three-year average metal prices, we estimate the pre-tax $PV_{10}$ of the project to be approximately US$230 million and the project IRR before tax to be 25.8%. By the time the project is in full production in 2008, the $PV_{10}$ increases to more than US$520 million, using those same three-year average metal prices.
- If metal prices were to average 20% above the average of the past three years, which would put copper at US$1.25 per pound and nickel at US$6.30, compared with US$1.74 and US$6.85 respectively recently, those $PV_{10}$ valuations increase to US$450 million and nearly US$800 million.
- The July 2005 plans are not optimized – we expect the numbers in the definitive feasibility study scheduled for early 2006 to be even more compelling.
- The copper exploration market uses a valuation rule of thumb of US$0.015 per pound of resource. PolyMet has in excess of six billion pounds of copper, which would support a valuation of approximately US$95 million for the copper alone. With approximately US$13 million cash, the copper alone equates to US$1.30, which basically covers the closing share price of US$1.39 – all the other metals and assets are in for free.
- Copper represents approximately 39% of projected revenues, to which must be added nickel and precious metals. This implies a valuation of US$244 million on a copper-equivalent basis. Furthermore, the Company's acquisition of the Cliffs-Erie crushing and processing plant cuts capital development costs – that are implicitly included in the rule of thumb valuation of US$0.015 per pound of copper valuation – by approximately US$197 million.

**It has often been said that mines are built not found. In other words, it takes more than a good mineral deposit to create a successful mine. Strong management can make an average ore body into a great mine. PolyMet combines a good ore body with an excellent management team that has already consummated a transaction that is worth many times the Company's current market valuation. We believe that the market has largely overlooked the underlying asset value.**

## SUMMARY

PolyMet is a Canadian mining corporation listed on the TSX-Venture exchange under the ticker symbol POM. The Company was formed in 1981 as Fleck Resources and changed its name to PolyMet in 1998 (we will use the name PolyMet throughout to avoid confusion.)

PolyMet's sole asset is the 100%-owned NorthMet project located in the iron range of northern Minnesota, which is the largest mining district in North America in terms of tons of rock mined and processed. NorthMet, discovered by US Steel in the late 1960s, is the largest known, undeveloped base metal deposit in North America and one of the largest in the world.

PolyMet acquired a twenty-year renewable lease from US Steel Corporation in 1989. In the 1960s, US Steel initially targeted a high grade copper-nickel core and then came to view NorthMet as a large, shallow, low grade copper-nickel deposit. In 1980, work conducted at the Minnesota Department of Natural Resources identified precious metal potential that transformed the economics of the project. It was this potential that attracted PolyMet and subsequently supported joint ventures with NERCO, Argosy Mining and North, a major Australian mining company that was subsequently acquired in 2001 by Rio Tinto, one of the world's largest mining companies.

### RECENT DEVELOPMENTS

Recognition of the precious metal content at NorthMet was the first breakthrough in progress towards commercial production. The second breakthrough came with the commercialization of hydrometallurgical processes such as pressure oxidation which, although not yet entirely conventional, have been successfully deployed in numerous plants around the world.

There are two other transforming events that are critical to future success:

- A new management team led by Ian Forrest, Chairman, and Bill Murray, President & CEO, took over in 2003. The company is run by mine builders and operators who are focused on fast-tracking the project into production.
- This new management team has acquired a large crushing, grinding and flotation plant plus associated infrastructure strategically located near the project that will result in an enormous reduction in the capital expenditures at NorthMet.

The team has also reworked the mine plan, which will lower operating costs. A 2004 plan re-sized the project but kept the same basic mine layout as the 2001 prefeasibility study, mining 176 million tonnes of ore in two separate pits that involved mining some 544 million tonnes of waste.

The latest mine plan described in the 2005 Technical Report combines the pits and increases ore tonnage to 250 million tonnes while simultaneously reducing waste to 278 million tonnes, which reduces operating costs significantly.

In addition, the Company has recently completed a US$12 million equity financing that provides sufficient funds to exercise the acquisition of the plant and to complete the definitive feasibility study.

**RISK ASSESSMENT**

We perceive two development risks. Firstly, while hydrometallurgical processes have been successfully deployed even in remote parts of the world, such processes are not yet standard practice.

Furthermore, while each part of the flow-sheet at NorthMet has been used commercially elsewhere, the combination has only been tried in a pilot plant (beta-test.) These risks are expected to be mitigated by a process guarantee from lead engineer, Bateman Engineering.

The second risk is permitting. The existing plant and tailings ponds have operated for nearly half a century, so that restarting operations should not be difficult. The metal recovery circuit does need new operating permits, as does the actual mine. However, the mine is located in the center of a very active mining district and the permitting process is well established.

The metals circuit will be built to the latest standards and will create much less environmental impact than the old iron-ore pellet plant. Nonetheless, securing operating permits represents the longest lead time in the drive towards production.

Countering these risks, there are several key operating areas that present much less risk than is typical for a development stage minerals project:

- The crushing, grinding and flotation circuit is already built and has a long operating history.
- There is tremendous infrastructure in place both at the site and in the district.
- PolyMet is largely immune to rising construction costs because so much of the plant and infrastructure is already in place.
- With nearly forty years of exploration on the property, the geological risk is minimal.
- With three metal product streams, the project benefits from diversification of revenues and customers.

**POTENTIAL ENHANCEMENTS**

The July 2005 mine plan still only represents 28% of the total resource tonnage. There is scope for further expansion of the production rate and the total mine plan.

Furthermore, NorthMet is only one of several known polymetallic ore bodies in the area. Since current plans would only utilize 25% of the crushing and grinding plant capacity, NorthMet has the potential to both expand its own production and process ore from other mines in the area.

Finally, our evaluation assumes trailing three-year average metal prices projected forward for the life of the operation. We believe the combination of strong metal demand and dollar weakness could support higher metal prices.

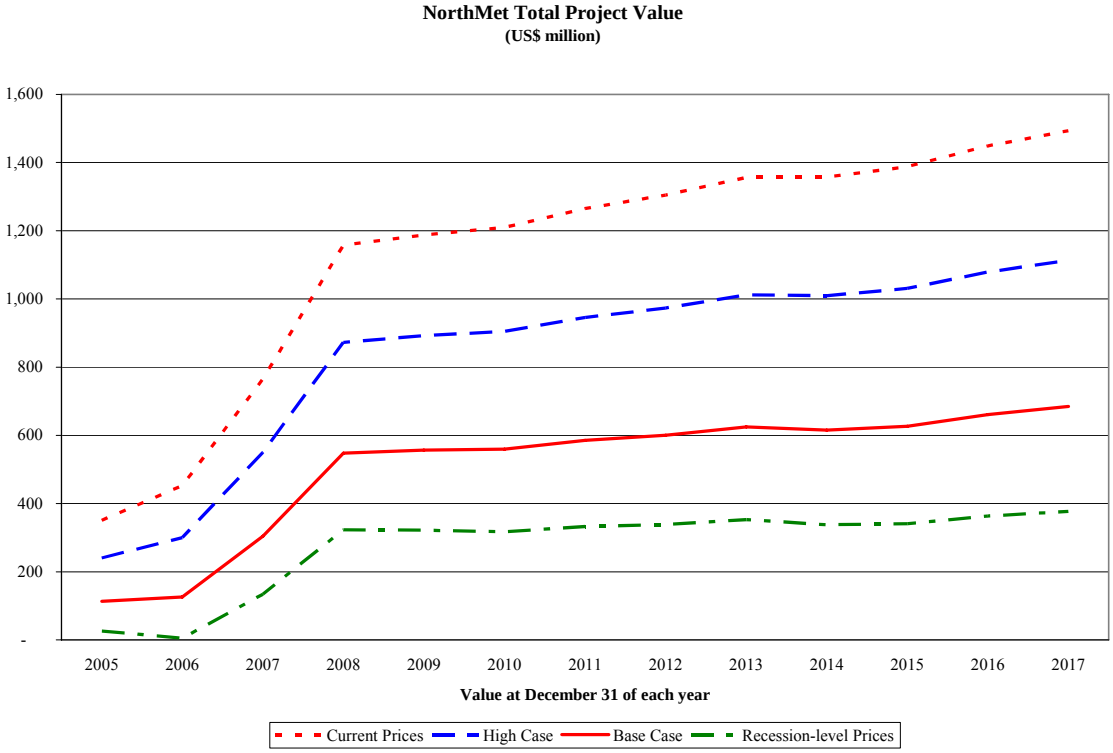
## VALUATION

After the latest financings, PolyMet has 83.1 million shares in issue at approximately US$1.40 – the market capitalization is US$115 million. The Company has approximately US$13 million in cash, so the enterprise value (market capitalization adjusted for net cash/debt) is US$102 million.

We believe that the fundamental value of a mining project is best defined by the present value of the future cash flow, discounted at an appropriate rate to reflect development risk. Since the development risk changes as the project advances, we reduce the discount rate in future years.

In addition, we take into account balance sheet items as the project advances through construction and then starts to generate positive cash flow to repay debt.

The chart below shows the total project value on our base case metal price assumptions (solid red line) increasing steadily from US$113 million, using a 15% discount rate at the end of 2005, to nearly US$550 million using a 7.5% discount rate once the project is in production at the end of 2008.




If metal prices average 20% higher than the trailing three-year average (long-dash blue) the equivalent valuations increase to US$240 million at the end of 2005 and some US$870 million at the end of 2008. If current prices were to be sustained, the values increase to US$350 million at the end of this year and US$1.16 billion at the end of 2008 (short-dash red.) Finally, using ten-year historic averages, which we consider to be a recession-level pricing, the valuation still ramps to more than US$320 million at the end of 2008 (variable-dash green.)

Each of the factors discussed under **potential enhancements** on Page 3 could increase these values further – indicating that PolyMet has the potential to become a billion dollar-plus base metal company over the next three years.

**ANTICIPATED VALUE DRIVERS**

- Exercise of the Cliffs option. The recent announcement that the Company has exercised the option early and expects to close the acquisition of the plant before the end of 2005 removes any uncertainty regarding the status of the plant ownership.
- Completion of pilot-plant (beta-test) program – the final pre-production test report is scheduled for the third quarter of 2005.
- Completion of definitive feasibility study – the study is scheduled for completion in early 2006 and will provide the market with a detailed development plan and economics.
- Receipt of operating permits – targeted for early 2007, the permits will remove one of the uncertainties regarding the development schedule.
- Construction and start-up – clearly the drive to production will enable the market to fully evaluate the project and the company and is typically a period of value recognition for the market.
- Metal prices – we anticipate that metal prices will remain stronger than is the conventional wisdom on Wall Street, driven by a weakening dollar and continued strong demand internationally. If so, there are likely to be continued upward revisions to forecast metal prices and consequent increases in Wall Street's targets for metals stocks.
- Dollar weakness – with a US-asset, PolyMet stands to gain the full benefit of the current effect of lower dollar and higher metal prices, while many other competitors may find the gains from higher metal prices offset by higher costs.
- Value recognition – we believe that PolyMet has been overlooked by the market. The Company is largely unknown. As the potential becomes known and the management team continues to deliver on its promises in a timely fashion, we believe the market will begin to catch-up.

We believe the value drivers described above are of particular importance because each threshold will enhance the Company's recently-launched investor relations program.

## CORPORATE AND PROJECT REVIEW

### NORTHMET PROJECT LOCATION


NorthMet is located in northeastern Minnesota between Lake Superior to the south and the Canadian border to the north. The region is generally flat lying with low rolling hills and poor drainage with numerous shallow lakes and extensive wetlands. The climate is continental – cold winters and warm summers with moderate precipitation primarily in the summer.

The area has been mined for hematite since the 1860s and for taconite since the 1950s. There is excellent transportation and communications infrastructure including a well maintained system of road and rail transportation. NorthMet is close to various communities that support the mining industry – the nearby town of Hoyt Lakes was built specifically for the Cliffs-Erie operation.

### HISTORY

PolyMet is a Canadian mining corporation formed in 1981 as Fleck Resources, renamed PolyMet Mining Corporation in 1998. Its sole asset is the 100%-owned NorthMet project in the iron range of northern Minnesota.

Prospectors first discovered copper and nickel some 20 miles north of NorthMet in the 1940s. Bear Creek Mining (now Rio Tinto/Kennecott) conducted a regional program that discovered the Babbitt (or Minnamax) deposit within the same geologic and structural setting as, and to the northeast of, NorthMet which, in turn, was discovered during regional exploration by US Steel in the late 1960s. US Steel originally thought it had found a high grade underground copper-nickel resource. Additional drilling through the 1970s demonstrated a large, shallow, moderate grade deposit.

However, in the 1960s, US Steel only assayed for base metals and did not recognize the significant precious metal content. During the 1980s, the Minnesota Department of Natural Resources reassayed the core and discovered substantial quantities of platinum group metals and gold. In 1989, PolyMet acquired an initial 20-year renewable lease from US Steel and commenced a thorough re-evaluation of the project.

PolyMet's early success attracted joint ventures from NERCO and Argosy Mining. In July 2000, PolyMet entered into a joint venture agreement with North Limited, a major Australian mining company, whereby North could earn up to 87.5% by completing a bankable feasibility study and providing all the development funding.

In July 2001, Rio Tinto, one of the world's largest mining companies, completed a hostile acquisition of North. PolyMet backed out of the joint venture under a change of control provision.

The new management team, led by Chairman Ian Forrest and President/CEO Bill Murray, took over the company in March 2003. In addition to securing an exclusive option to acquire the Cliffs Erie plant, which has recently been exercised, the new management has completely re-thought the development plans.

## GEOLOGY

Northern Minnesota comprises mainly ancient Precambrian rocks. The eastern side of the State is dominated by the Midcontinent Rift System that extends in a serpent-like arc from Kansas in the southwest through Lake Superior. The Rift comprises thick lava flows, intrusives, and overlying sediments. The largest intrusive – the Duluth Complex – is located to the northwest of the Rift and lies at the intersection of several regional structures.

### Regional Geology

The Duluth Complex is a large, well-known arc-like geologic feature that appears to have been emplaced along a system of northeast-trending faults where magma was intruded as sheet-like bodies along the contact between sedimentary rocks and basaltic lava flows.

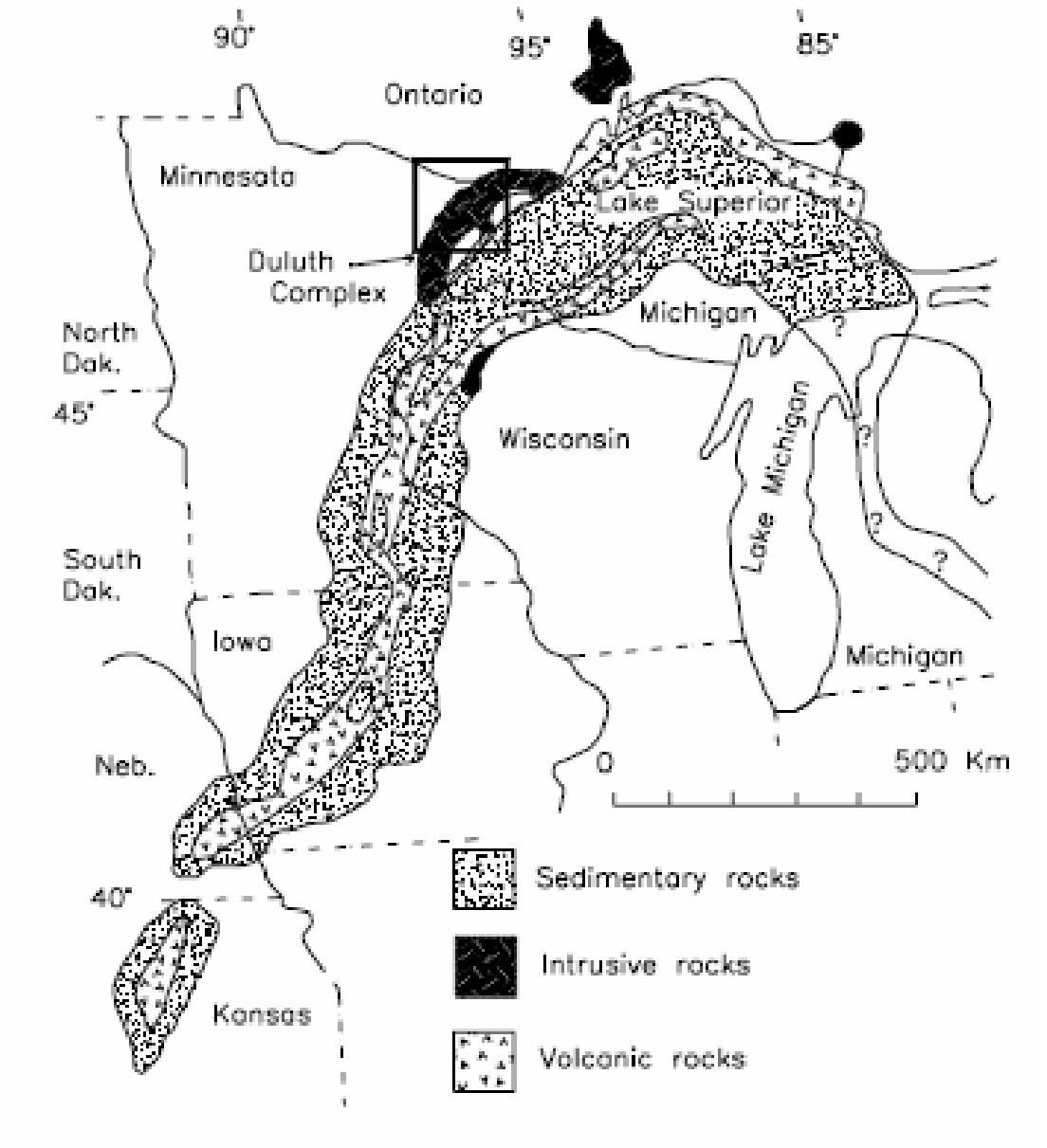
NorthMet is located on the northwestern margin of the Duluth Complex. Immediately to the north, the Biwabik Iron Formation hosts the largest taconite (iron ore) mines in North America. Along the margin of the Complex there are several known copper-nickel deposits similar to NorthMet and comparable to Norilsk in Russia.

In the NorthMet area, the Duluth Complex comprises the Partidge River Intrusion which, in turn, has been sub-divided into 7 distinct lithologies known as Units 1 through 7. The Intrusion is underlain by the Virginia Formation, which consists of argillite with interbeds of greywacke, siltstone and minor silicate. This formation is underlain by the Biwabic Iron Formation, which outcrops to the northwest of NorthMet.

Rocks in the NorthMet area generally strike east-northeast and dip to the southwest at between 15° and 25°. There are two major east-northeast trending normal faults that dip steeply to the southeast with a third, more northerly-striking fault in the western portion of the deposit area.

The Midcontinental Rift System comprises two types of mineralization: hydrothermal and magmatic. The former includes native copper in basalts and sedimentary interbeds (Keewenaw Peninsula), sediment-hosted copper sulfide and native copper (White Pine, Michigan), and copper sulfide and polymetallic veins in volcanics.

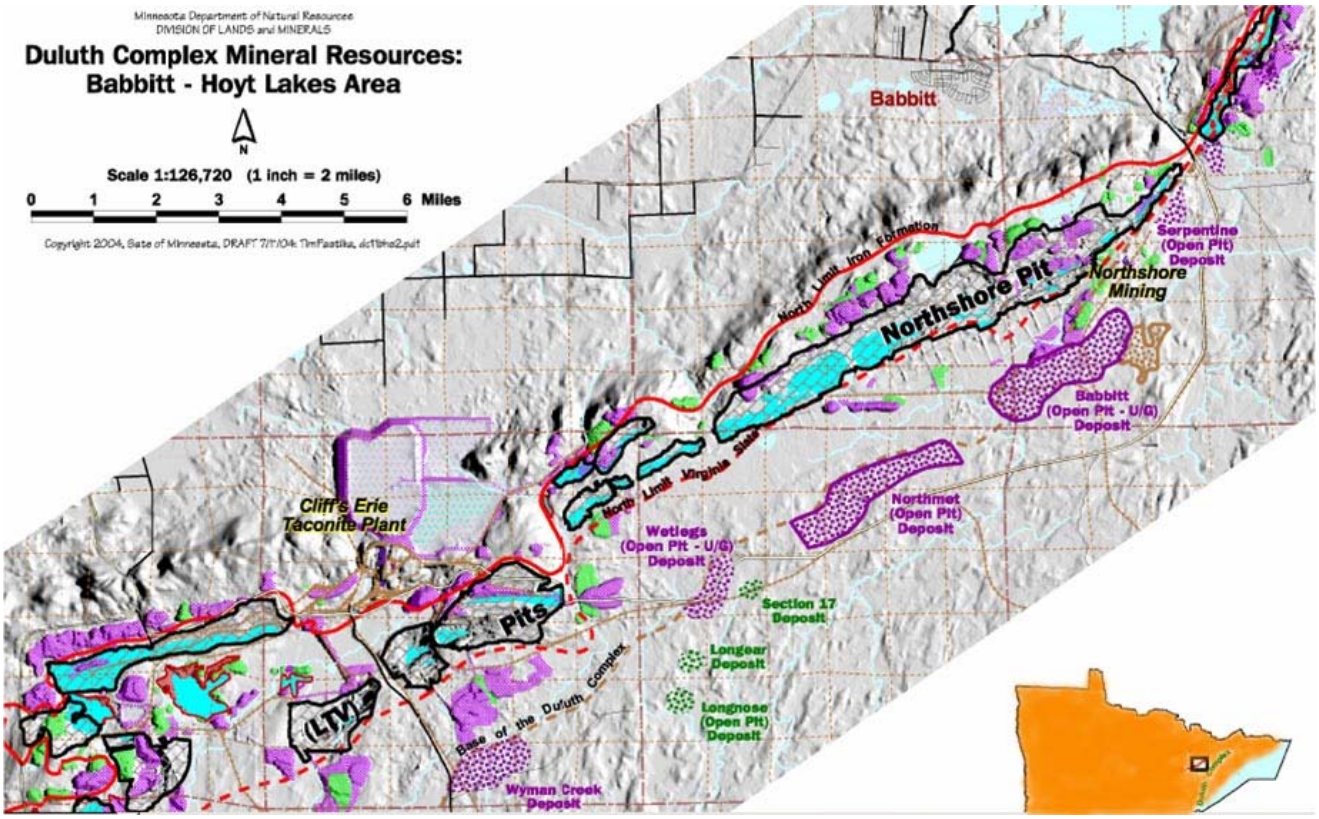
**Sketch Map of Mincontinental Rift System**
**With Duluth Complex**



The magmatic deposits include copper-nickel-precious metals and titanium-iron mineralization in the Duluth Complex with uranium, rare earths in carbonates and copper-molybdenum in breccia pipes.

NorthMet is a magmatic deposit located on the northwestern contact of the Duluth Complex and the underlying sediments. The majority of rock at NorthMet is unaltered, with minor alteration along fractures.

**Duluth Complex**

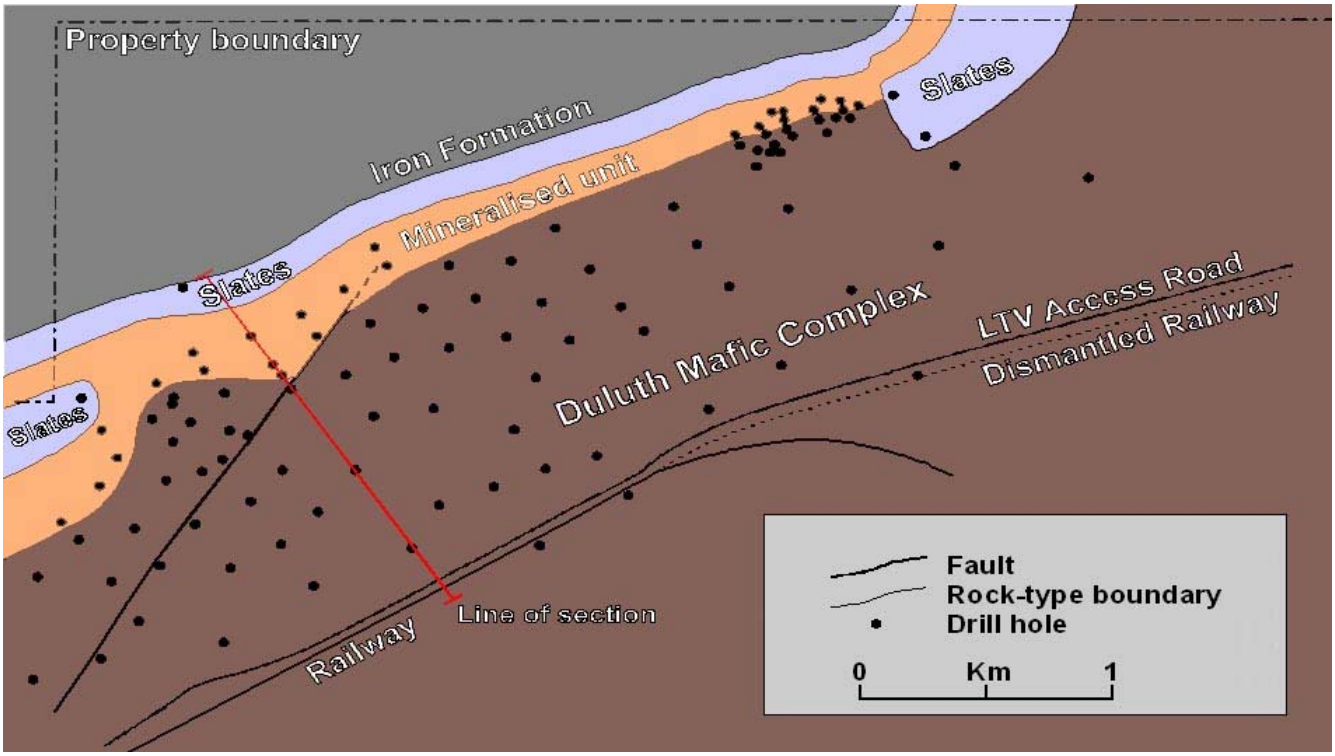


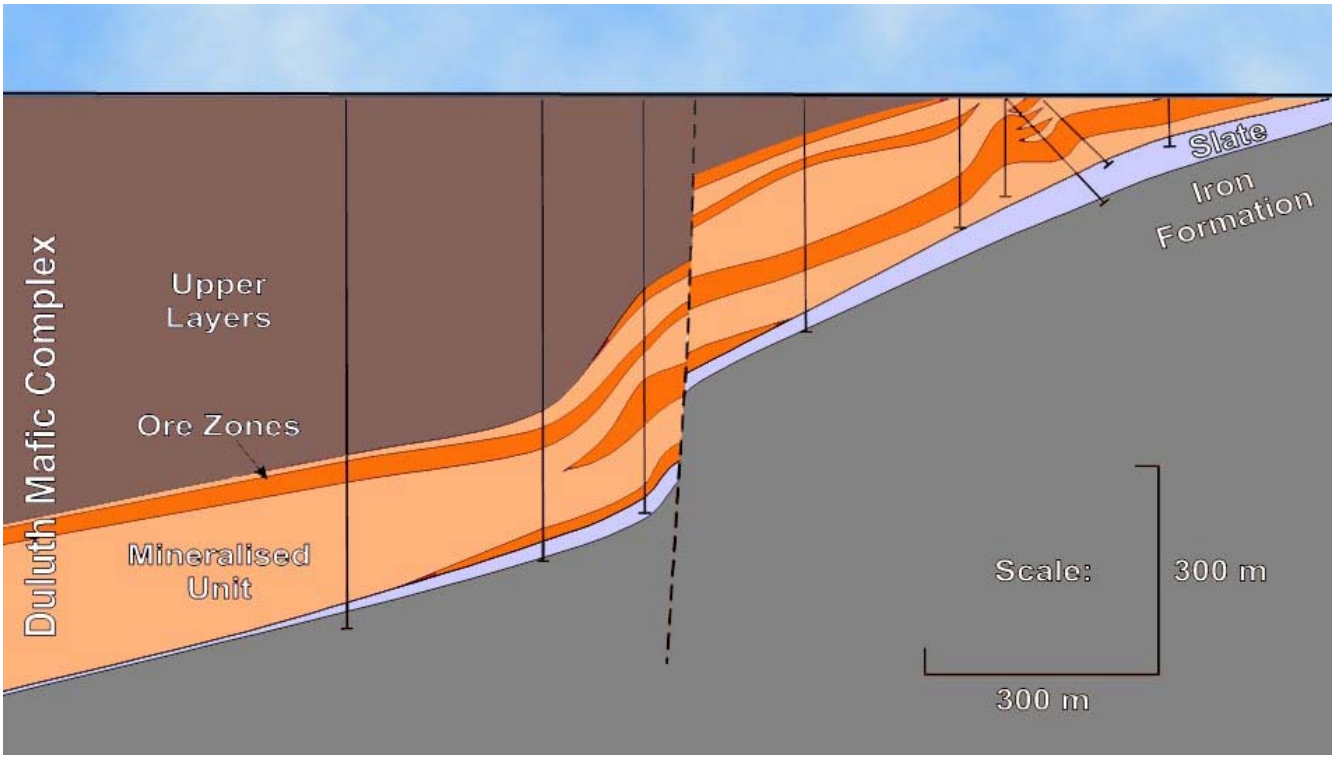

## MINERALIZATION

Mineralization occurs in four horizons – three in the deepest Unit 1 of the seven units of the Partridge River Intrusion, and one, enriched with platinum group metals, in the younger, shallower Unit 6. Unit 1 comprises fine- to course-grained troctolite with abundant biotite hornfels inclusions and local ultamafic layers. This Unit, which is the main sulfide bearing zone, is believed to be the result of multiple pulses of magmatic injection. The three mineralized horizons within Unit 1 vary in thickness from a few feet up to 200 feet, and in some areas the horizons merge.

Sulfide mineralization comprising chalcopyrite and pyrrhotite with minor bornite, pyrite, sphalerite and galena occurs mainly as blebs and within grains, interwoven with silicates, and as fine veinlets. Sulfides range from trace to about 5%. Precious metals are associated with the sulfides.

**Plan View and Typical Cross-Section Looking Southwest**

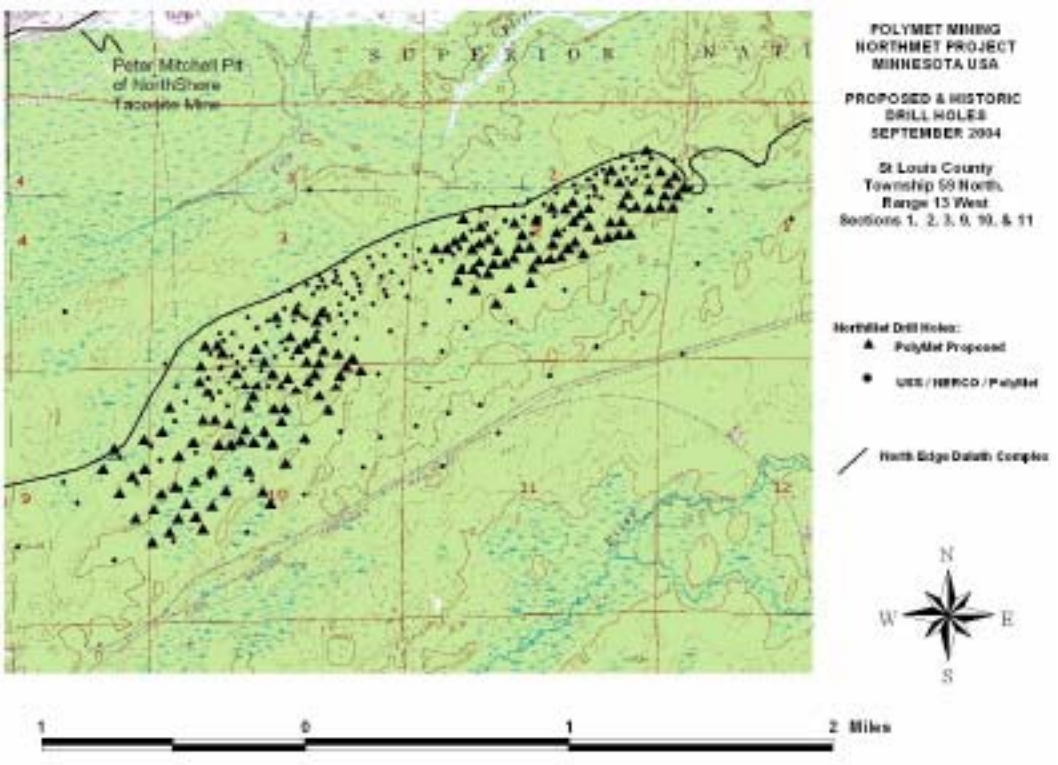


## EXPLORATION AND DRILLING

Prior to the latest drilling program, there were 188 drill holes totaling 175,000 feet (53,000 meters) to an average depth of 930 feet (280 meters.) Of these, 112 holes averaging 1,200 feet (360 meters) were drilled by US Steel targeting high grade underground copper-nickel potential. Subsequent drilling by PolyMet has averaged 550 feet (165 meters.) The majority – 133 holes – are core, with most of the balance reverse circulation and 3 mixed.

**Existing and Proposed Exploration Drill Holes**



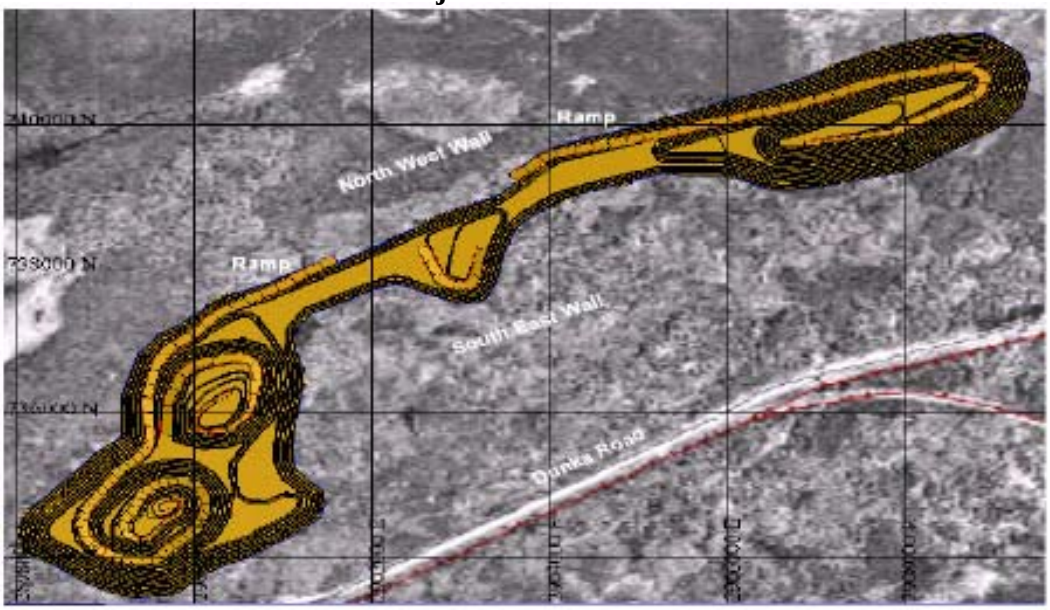

## MINING

The mine plan is currently being optimized. The original plan in 2001 called for processing 50,000 tonnes per day, or approximately 18 million tonnes of ore a year. This rate was scaled back in the 2004 reports, which recognized the potential for expansion during the life of the project. However, the initial 2004 plan was primarily rescheduling of the 2001 plan. Since then, PolyMet has been optimizing the pit plan to reduce waste and thus further improve the economics. The Company is currently focused on maximizing the angle of the interim high-wall in order to minimize the strip ratio.

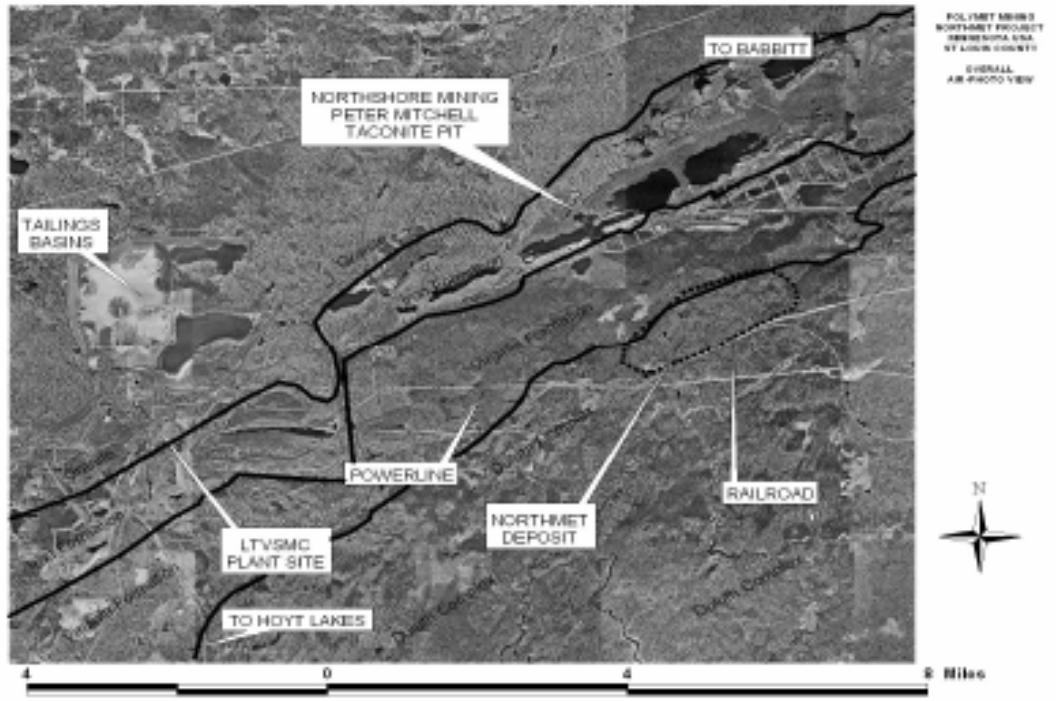
The optimization work is still in progress. The latest plans indicate significantly lower mining costs owing to mining much less waste rock, with a reduction in the strip (waste:ore) ratio from 3.1:1 to 1.1:1. This is achieved by taking advantage of the geometry of the mineralization, placing the haul roads along the shallow-dipping northwestern footwall and leaving a much steeper high wall to the southeast.

This plan is shown in the schematic below and can be envisaged by looking at the cross section on Page 10 – the new plan places the haul roads on the shallow-dipping footwall above the slate horizon shown. The current plan calls for mining 25,000 tonnes per day with an average strip (waste:ore) ratio of 1.1:1.

**Latest Projected Ultimate Pit Plan**




**Aerial View of Project Area**



The major mining fleet will consist of nine 185-tonne trucks, two shovels, two loaders and two blasthole drills supported by the usual equipment. Ore will be trucked to railcars that will then deliver the ore to the primary crusher at the Cliffs Erie plant. While this method is unique to Minnesota, it has been well tried and tested in the taconite industry.

**PROCESSING**

There are two aspects to the processing plant – the crushing, grinding and flotation circuit and the backend metal recovery circuit. The former does not generally warrant any great discussion, although it is typically a very substantial part of the capital cost, especially in today's steel price environment. However, because of the option with Cleveland Cliffs to acquire a fully-established grinding and processing plant for a few cents on the dollar, the crushing, grinding and flotation circuit at NorthMet deserves a lot of focus.

***The Cliffs-Erie Plant***

The Cliffs-Erie plant was built by LTV Corporation in the early 1950s to support taconite mining operations in the area. 100,000 tons per day of taconite was transported to the plant in rail cars, processed at the plant before the resulting iron ore was pelletized for shipping to customers.

**The Cliffs-Erie Processing Plant**

The whole plant is reported to have cost approximately US$350 million in the 1950s. It can best be described as being 1950s American engineering at its best. The photograph above on Page 13 shows an aerial view of the plant – the ore cars arrive at the primary crusher to the right of the photograph. Crushed ore is then fed up the conveyor (center) and then feeds a bank of some 34 mill circuits in the long building that stretches across the picture.

That building is some 1,440 feet (435 meters) long – the length of four football fields. The photograph below was taken from the center of the mill and represents one half of the total capacity.

**View of the one half of Cliffs-Erie Grinding Circuits**

Not only is the scale impressive, but the quality and logistics are remarkable. Every major piece of equipment can be pulled out of line with massive overhead cranes so that repairs and maintenance can be carried out without disrupting production. Key items such as the primary crushers and loading system are duplicated. People ask what it would cost to replicate – the simple answer is that today no-one would even contemplate replicating the plant, but estimates range upward of US$2 billion.

PolyMet plans to utilize approximately one-quarter of the plant in its initial operations. Given the parallel circuits, operating below capacity will be efficient. The excess capacity will facilitate project expansion or processing of material from other deposits in the area.

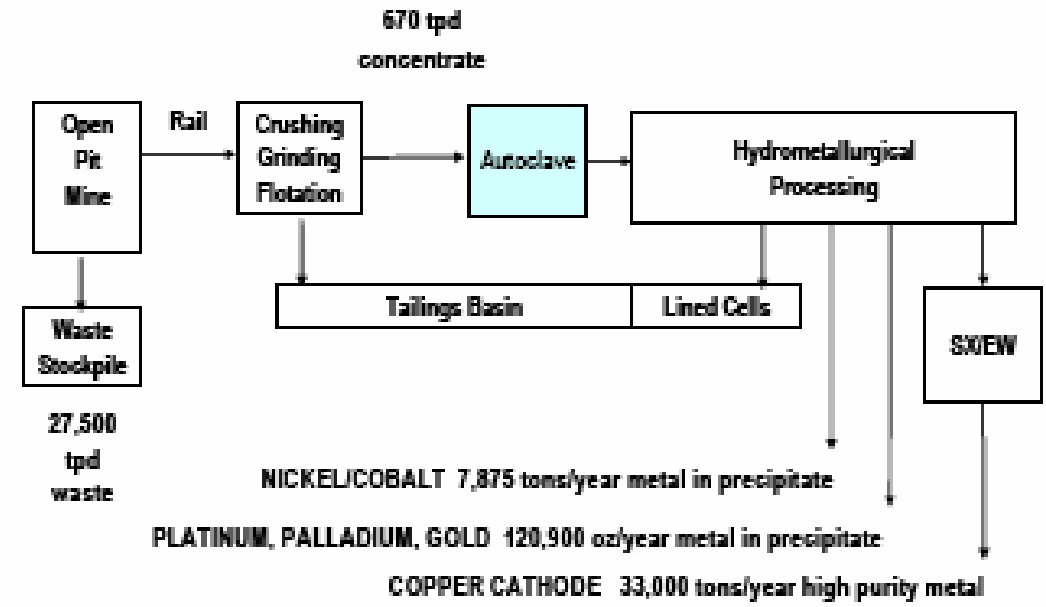
Run of mine ore will be delivered by rail to the Cliffs-Erie plant where it will pass initially through one of two 60-inch gyratory crushers that will crush to minus 6 inches and then through two 36-inch gyratory crushers that will crush to minus 2 inches. From there ore will pass to two 7-foot cone crushers and finally to a separate building housing four short-head and standard cone crushers. The minus ⅜-inch discharge will be fed to the fine ore bin.

Ore will then go to one of eight rod-and-ball-mill circuits that will produce a flotation feed of 30% solids, with 80% less than 200 microns. The flotation circuit will produce a metal-rich concentrate on approximately a 40:1 concentrate ratio, reducing 25,000 tonnes to approximately 670 tonnes per day. Flotation tails will be sent to the existing tailings impoundment and the concentrate will be delivered to the metal recovery circuit.

**Metal Recovery**

The flotation concentrate will be processed in a pressure leaching (or autoclave) plant that will comprise two parallel units of a standard size and configuration. Pressure leaching has become a widely-used process during the past decade or so and in essence comprises a high-temperature, oxygen-rich environment in which sulfides are broken down enabling individual metals to be recovered. The process in effect accelerates what nature does over perhaps millions of years into a few hours.

**NorthMet Operational Flow Sheet**




Metals emerge from the autoclave in a pregnant leach solution as copper sulfate, nickel sulfate and unstable, complex precious metals salts. Precious metals will be precipitated first into a rich sludge that can be sold to precious metals refineries.

The remaining copper-nickel-cobalt leach solution will be neutralized and thickened and then enter a conventional copper solvent-extraction/electro-winning (SX/EW) circuit used extensively in the copper industry. The product will be merchant-quality copper cathode that will be sold directly to consumers or on the terminal markets.

The remaining solution will then pass through various stages such as iron removal and will be thickened before the nickel and cobalt are precipitated into a concentrate that can be shipped to a refinery for ultimate metal recovery.

**LAND OWNERSHIP AND PERMITTING**

Underlying mineral rights are owned by RGGS, a Houston-based resource company that acquired much of US Steel Corp's real estate holdings and which holds a 3% royalty on production from the property. Most of the surface land is controlled by the U.S. Forest Service and rights are held through PolyMet's 100%-owned US subsidiary, PolyMet Mining Inc. under a 20-year renewable lease from RGGS.

As previously stated, the area is not new to mining. There are numerous currently and recently active large-scale mines in the area. There have also been extensive baseline environmental studies completed that have not identified any issues that would be likely to be impediments to mining. The permitting process will involve a full environmental impact study (EIS) which is being prepared. State and Federal authorities have agreed to a joint EIS.

Other major permits required will include a mining and reclamation plan approved by the Minnesota Department of Natural Resources (DNR), air emission permits issued by the Pollution Control Agency of Minnesota (PCA), State wetlands and mine operating permits, and water permits issued by the PCA. It is encouraging that most of the permitting process is handled at the State level. Northern Minnesota is mining-friendly and the local communities are supportive of new businesses that could help the local economy recover.

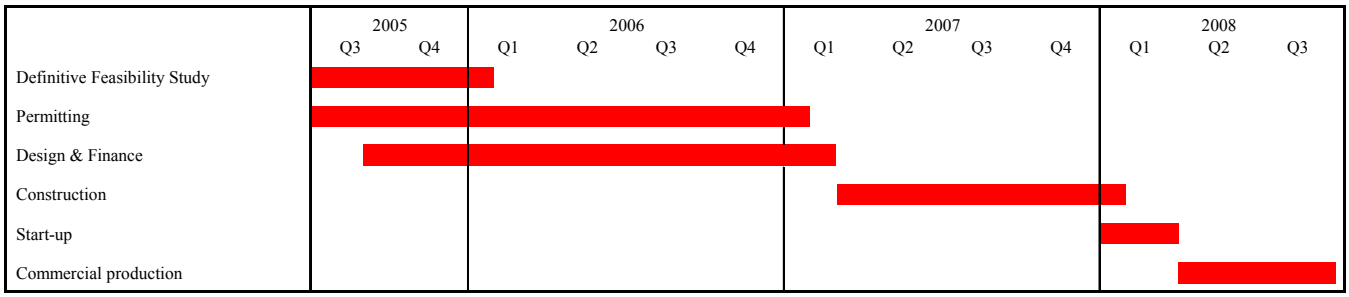
The Cliffs-Erie plant addresses many of the permitting issues – other than the actual mining, this will be viewed as a plant reactivation and not a new plant. The existing permitted facilities include the tailing impoundment, which is sometimes one of the more challenging items to permit.

## PROJECT DEVELOPMENT

Bateman Engineering is the coordinating consultant and is currently completing a definitive, or bankable, feasibility study that will include detailed engineering and operational planning. That is scheduled for completion in the first quarter of 2006. This will enable the Company to file its plan of operations with the regulatory authorities and commence the final phase of permitting, targeted completion in the first quarter of 2007. In parallel with that process, final engineering design will be completed along with financing, subject to receipt of appropriate permits.

Once the permits have been received and financing is secured, formal construction is scheduled to commence early 2007 and continue through that year. Project start-up is slated for early 2008, with full commercial production before mid-year.

**Development Schedule**




PolyMet plans to use contract mining in order to save on initial capital – the financial projections take the additional operating costs into account. The capital costs are set out in the table below and show a saving of more than US$197 million compared with the 2001 study. While some of those savings reflect the smaller size of operations (25,000 tonnes per day versus 50,000 tonnes per day) the biggest savings come from utilizing the Cliffs Erie plant combined with contract mining.

**Capital Costs through Startup**

| Capital | | | | | |
|---|---|---|---|---|---|
| | | 2006 | 2007 | 2008 | 2006 - 2036 |
| **Capital Expenditures** | | | | | |
| Mining | $mm | | 5.760 | - | 5.760 |
| Total direct costs | $mm | - | 88.500 | 42.165 | 130.665 |
| Total indirect costs | $mm | 10.560 | 34.106 | 28.463 | 73.130 |
| **Total direct and indirect costs** | $mm | 10.560 | 122.606 | 70.628 | 203.795 |
| Total other costs | $mm | 2.000 | 4.250 | 6.750 | 13.000 |
| Total (excl. working capital) | $mm | 12.560 | 126.856 | 77.378 | 216.795 |

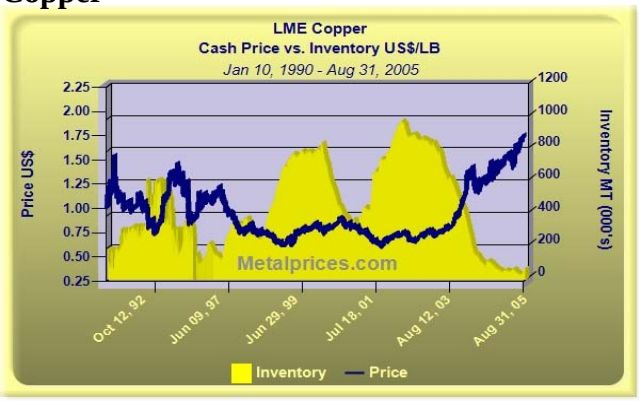
Total capital through start-up is estimated to be US$217 million, excluding working capital, of which US$130 million is direct costs, US$40 million in engineering and construction management and start-up related expenses, with a contingency factor of US$33 million. The July 2004 Technical Report included $5 million to exercise the option to acquire the Cliffs Erie plant that will be funded from the latest financing and $12.5 million in working capital that we have excluded in analysis set out in the table on the previous page.

## METALS MARKETS

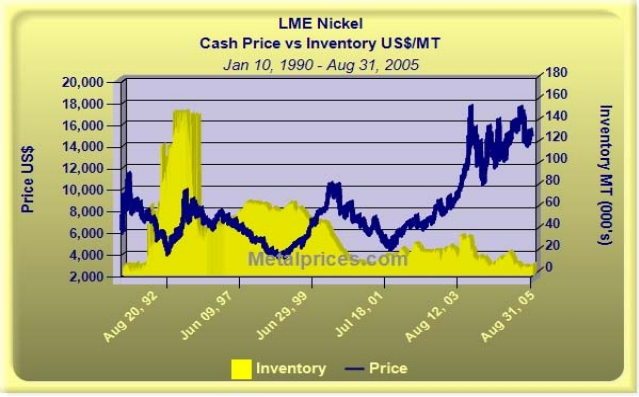
Industrial metal prices have generally been strong during the past two years, driven by demand growth, capacity constraints and the fact that consumption is global, tending to drive dollar-denominated prices up during periods of dollar weakness.

The biggest single factor behind demand growth has been the rapid growth in China and, to a lesser extent, India. These markets have been particularly influential in copper and nickel which, combined, represent approximately 80% of PolyMet's projected revenues – and we expect this trend to continue. Both metals are used heavily in the construction industries – copper demand per person also increases with affluence as people buy more electronic goods and other copper-intensive items. While there are likely to be ups and downs on the way, we believe that the world is facing a secular increase in many commodity prices, especially when denominated in US dollars.

**Copper**




**Nickel**




**Palladium**


**Platinum**

## FINANCIAL ANALYSIS

PolyMet's sole asset is the NorthMet project. Thus, our analysis focuses on that project and the implications for the shareholders of PolyMet.

### CAPITAL STRUCTURE & BALANCE SHEET

PolyMet's capital structure is very straight forward. The Company has no debt and only one class of common stock. The fiscal year ends on January 31.

As of April 30, 2005 (the end of the last quarter) there were 66.9 million shares. The Company recently completed private placements of 15.9 million units at C$0.90, each unit comprising one share plus one half warrant, a full warrant exercisable at C$1.25 with forced conversion when the share prices trades over C$2.50 for twenty trading days.

It has also agreed to issue 6.2 million shares to Cleveland Cliffs as part of the consideration for exercise of the option to acquire the Cliffs-Erie plant.

Including the financing, the pro forma capitalization is 83.1 million shares with an additional 5.4 million options at an average exercise price of C$0.38 and 19.2 million warrants with an average exercise price of C$0.87. On a fully diluted basis there are 107.7 million shares and the Company would have an additional US$16 million in cash from exercise of those options and warrants.

**Consolidated Balance Sheet**

*As at April 30 (actual and pro forma for latest financings) and at January 31, 2005 – U.S. Funds*

| ASSETS | | proforma | | April 30, 2005 | | January 31, 2005 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Cash | **$** | **12,294,410** | $ | 738,498 | $ | 510,871 |
| Term deposits | | **1,589,600** | | 1,589,600 | | 807,200 |
| Receivables & prepaid expenses | | **38,497** | | 38,497 | | 286,601 |
| | | **13,922,507** | | 2,366,595 | | 1,604,672 |
| **Investments** | | **253** | | 253 | | 253 |
| **Other assets** | | **729,320** | | 729,320 | | 729,320 |
| **Property, plant & equipment** | | **14,974** | | 14,974 | | 15,919 |
| | **$** | **14,667,054** | $ | 3,111,142 | $ | 2,350,164 |
| **LIABILITIES** | | | | | | |
| **Current** | | | | | | |
| Accounts payable | **$** | **45,371** | $ | 45,371 | $ | 331,012 |
| | | **45,371** | | 45,371 | | 331,012 |
| **SHAREHOLDERS' EQUITY** | | | | | | |
| **Share capital & contributed surplus** | | **35,046,343** | | 23,490,431 | | 20,106,740 |
| **Surplus** | | **(20,424,660)** | | (20,424,660) | | (18,137,588) |
| | | **14,621,683** | | **3,065,771** | | **1,969,152** |
| **Total liabilities and shareholders' equity** | | **14,667,054** | | **3,111,142** | | **2,300,164** |

### KEY AGREEMENTS

PolyMet has two key agreements in connection with the NorthMet property. The first is the property lease with US Steel Corporation dated January 4, 1989, subsequently transferred to RGGS. The initial term of the renewable lease is 20 years. The Company makes annual advance royalty payments of US$75,000 on each anniversary of the agreement and all payments due have been made. These advance royalties will be deducted from the 3% royalty payable from production. The lease can be renewed automatically on the same terms.

The other key agreement is with Cleveland Cliffs. In the original option dated February 14, 2004, the Company had exclusive rights to acquire parts of the Cliffs-Erie plant at any time until June 30, 2006, for which PolyMet paid US$500,000 and issued one million shares of common stock. On September 14, 2005 PolyMet and Cleveland Cliffs announced that the parties had expanded the scope of the acquisition and agreed payment of US$3.4 million in cash and $4.6 million in stock valued at C$0.90 per share, with closing pending regulatory approval.

### FINANCING

The current estimated capital expenditure to bring NorthMet into production is US$216.8 million before working capital and excluding exercise of the Cliffs-Erie option that will be funded from the latest financing. In addition, we have assumed sustaining capital of $2.5 million a year. We have further assumed that 70% of the total capital will be financed under a conventional project loan facility. We have further assumed an interest rate of 8% and a ten-year repayment schedule with a 50% cash flow sweep – that is, half the cash flow after scheduled debt repayment will be used for mandatory prepayments.

On our base case, this equates to a total drawdown of US$164 million that is repaid in six years (because of the mandatory prepayments.) This amount falls well within typical loan covenants covering total mineral reserves and cash flow over the term of the loan – indeed, total debt service would be approximately 54% of after tax free cash flow from the operation during the scheduled debt term.

This would leave a total equity requirement of approximately US$75 million, including covering corporate overhead, startup costs and financing fees that we estimate to be US$10 million.

We have assumed an equity financing of US$15 million during 2006 and production equity financing of US$65 million in 2007, providing a cushion of US$5 million. We believe this will be funded through a combination of up-front payments under off take contracts and straight equity in the company.

### METAL PRICE ASSUMPTIONS

The table on the following page below summarizes our metal price assumptions and sets out some key parameters for the project for these different cases. Our base case metal price assumption is the three-year average to the end of June 2005. We have also run the models using ten-year averages, +/- 20% from the three-year average, and at prices prevailing at the end of July 2005.

| | (3-yr mean) | (10-yr mean) | (Base-20%) | (Base+20%) | (8/24/05) |
|---|---|---|---|---|---|
| Copper | 1.05 | 0.93 | 0.85 | 1.25 | 1.74 |
| Nickel | 5.25 | 2.72 | 4.20 | 6.30 | 6.85 |
| Cobalt | 15.00 | 14.06 | 12.00 | 18.00 | 16.20 |
| Palladium | 230.00 | 390.00 | 185.00 | 275.00 | 183.50 |
| Platinum | 750.00 | 630.00 | 600.00 | 900.00 | 896.00 |
| Gold | 380.00 | 334.00 | 300.00 | 455.00 | 438.85 |

**OPERATING COSTS/BREAKEVEN**

Our projections assume costs as set out in the 2004 study. Miners watch costs per tonne of rock – which indicates how efficiently a company actually mines – and the cost per tonne of ore – which, together with the grade of the ore and metallurgical recoveries determines the cost of producing a unit of metal. Of course, that final cost is what really matters.

NorthMet is projected to have mining costs of US$0.64 per tonne, which is in line with other large scale operations using contract mining equipment. This equates to US$1.36 per tonne of ore based on a strip ratio of 1.1:1.

Processing costs are currently estimated to be approximately US$6.59 per tonne of ore processed – the largest costs being consumables (37%), power (28%), and labor (18%.).

Many polymetallic operations take the most important contributor to revenues and then apply revenues from other products against the costs of producing the single metal – the so-called by-product method. In our opinion, this is misleading and we prefer the co-product method where costs are allocated against each metal according to that metal's contribution to revenue.

Using this approach, we estimate the average cost of producing a pound of copper to be US$0.56 on a cash basis or US$0.62 per pound including capital. The full costs are little more than half of our base case assumptions and are below the bottom of the last cycle which we believe was skewed by the strength of the dollar at that time.

Using the by-product method, where by-product revenues are taken as a deduction against costs, the cost of producing copper averages approximately zero over the life of the project – in other words, the nickel, platinum group and other metals cover all the operating costs.

We anticipate improvements to the economics as the final mine plan is developed in the coming months.

**PROJECT VALUATION**

We believe that the most important valuation tools for assets such as mines that have little or no terminal value are rates of return on invested capital and the discounted future cash flow. We believe that the discount rate should be relatively high during the early stages of the project development, declining as the development risks are eliminated and the project moves towards production.

Looked at the other way around, the expected rate of return will decline as the project advances towards production. In reality, the market makes this assessment every day, balancing risk and reward – absent other changes, stock prices change to reflect the gradual evolution of the ratio between risk and reward.

The chart on Page 4 sets out our fundamental valuation projections on a range of metal prices. This reflects the present value of the future cash flow adjusted for balance sheet items projected year-by-year. Depending on metal price assumptions, our current valuation ranges from a low of US$113 million (reflecting three-year average metal prices) to US$240 million, based on prices 20% above the trailing three-year average. Even for the low, recession case, the valuation increases to more than US$320 million over the next three years – the higher cases project values approximating US$1.2 billion within three years.

PolyMet's current market capitalization, adjusted for cash and debt, is approximately US$102 million. Our base case valuation is more than six times that in three years, and our more optimistic valuations are in excess of ten times the current market capitalization.

As we discussed on Page 3, there are numerous factors that could further enhance the fundamental value of the property.

**Valuation Summary**

| Case: | Base (3-yr mean) | Long-term (10-yr mean) | Low (Base-20%) | High (Base+20%) | Current (8/24/05) |
|---|---|---|---|---|---|
| **Contribution to revenue** | | | | | |
| Copper | 37% | 40% | 38% | 37% | 45% |
| Nickel & cobalt | 42% | 28% | 41% | 42% | 39% |
| Precious metals | 21% | 32% | 21% | 21% | 16% |
| **Rates of return at 1/1/06** | | | | | |
| Project -- before tax | 25.8% | 17.0% | 12.6% | 37.9% | 47.8% |
| Project -- after tax | 18.6% | 12.6% | 9.7% | 26.9% | 33.7% |
| Equity -- before tax | 40.4% | 22.7% | 13.6% | 62.9% | 80.0% |
| Equity -- after tax | 23.9% | 13.1% | 8.1% | 38.5% | 50.0% |
| **Present values at 1/1/06** | | | | | |
| PV10: project before tax | 230.3 | 95.7 | 35.7 | 424.7 | 595.1 |
| PV10: project after tax | 116.0 | 33.0 | (3.9) | 236.8 | 343.4 |
| PV10: equity -- before tax | 207.6 | 80.8 | 24.4 | 391.8 | 553.9 |
| PV10: equity -- after tax | 107.5 | 23.1 | (14.3) | 231.5 | 341.5 |
| Free cash from operations | 1,257.8 | 759.1 | 555.3 | 1,959.2 | 2,588.4 |
| Total cash-on-cash | 526% | 317% | 232% | 819% | 1082% |

Another valuation approach is to consider what the market will pay for copper exploration – a widely-accepted rule of thumb is US$0.015 per pound of copper resource. NorthMet is estimated to contain some 6.35 billion pounds of copper, which would be worth US$95 million. However, copper represents just 39% of the recoverable metal value – indicating a total value of approximately US$243 million.

We estimate that PolyMet will earn approximately US$36 million in net income in 2009. The current adjusted market capitalization is 2.3 times projected net income; if the shares were to sell at a modest ten times earnings in 2010, the market capitalization would have to increase by a factor of more than four.

## Operations & Revenues

| | Year | 2006 -2 | 2007 -1 | 2008 0 | 2009 1 | 2010 2 | 2011 3 | 2012 4 | 2013 5 | 2014 6 | 2015 7 | 2016 8 | 2017 9 | 2018 10 | 2006 - 2036 Total: -2 to 28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Mining & processing** | | | | | | | | | | | | | | | |
| Actual operating days | days | | | 184 | 348 | 340 | 344 | 364 | 364 | 356 | 316 | 340 | 364 | 360 | 10,008 |
| Tonnes of ore per day | '000t | | | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 |
| Rock mined | '000t | | - | 10,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 17,800 | 21,000 | 528,300 |
| Waste mined | '000t | | - | 5,400 | 6,300 | 6,500 | 6,400 | 5,900 | 5,900 | 6,100 | 7,100 | 6,500 | 8,700 | 12,000 | 278,100 |
| Ore mined | '000t | | - | 4,600 | 8,700 | 8,500 | 8,600 | 9,100 | 9,100 | 8,900 | 7,900 | 8,500 | 9,100 | 9,000 | 250,200 |
| Strip ratio | : | | - | 1.17 | 0.72 | 0.76 | 0.74 | 0.65 | 0.65 | 0.69 | 0.90 | 0.76 | 0.96 | 1.33 | 1.11 |
| **Contained metal** | | | | | | | | | | | | | | | |
| Copper | mmlb | | | 34.480 | 63.294 | 58.091 | 51.190 | 60.185 | 60.185 | 66.711 | 48.765 | 46.847 | 58.179 | 63.492 | 1,594 |
| Nickel | mmlb | | | 10.141 | 17.262 | 16.865 | 15.168 | 16.049 | 16.049 | 17.659 | 13.933 | 11.243 | 14.043 | 15.873 | 430 |
| Cobalt | mmlb | | | 0.702 | 1.225 | 1.307 | 1.282 | 1.298 | 1.291 | 1.342 | 1.115 | 1.023 | 1.164 | 1.234 | 35 |
| Palladium | oz | | | 56,199 | 123,071 | 101,112 | 88,477 | 99,473 | 93,621 | 100,148 | 71,116 | 71,052 | 93,621 | 92,593 | 2,409,369 |
| Platinum | oz | | | 13,310 | 25,174 | 24,595 | 22,119 | 26,331 | 26,331 | 28,614 | 20,319 | 24,595 | 26,331 | 26,042 | 673,708 |
| Gold | oz | | | 5,916 | 13,985 | 16,397 | 13,825 | 14,628 | 14,628 | 14,307 | 10,159 | 13,664 | 14,628 | 14,468 | 355,774 |
| **Metal recovered** | | | | | | | | | | | | | | | |
| Copper | mmlb | | | 31.728 | 58.242 | 53.454 | 47.105 | 55.382 | 55.382 | 61.386 | 44.873 | 43.108 | 53.536 | 58.425 | 1,466.395 |
| Nickel | mmlb | | | 6.782 | 11.544 | 11.279 | 10.143 | 10.733 | 10.733 | 11.809 | 9.318 | 7.519 | 9.392 | 10.615 | 287.674 |
| Cobalt | mmlb | | | 0.271 | 0.474 | 0.505 | 0.496 | 0.502 | 0.499 | 0.519 | 0.431 | 0.396 | 0.450 | 0.477 | 13.633 |
| Palladium | oz | | | 41,895 | 91,748 | 75,378 | 65,959 | 74,156 | 69,793 | 74,659 | 53,016 | 52,968 | 69,793 | 69,026 | 1,796,150 |
| Platinum | oz | | | 9,728 | 18,398 | 17,975 | 16,166 | 19,244 | 19,244 | 20,913 | 14,850 | 17,975 | 19,244 | 19,033 | 492,384 |
| Gold | oz | | | 3,963 | 9,370 | 10,986 | 9,262 | 9,801 | 9,801 | 9,585 | 6,807 | 9,155 | 9,801 | 9,693 | 238,365 |
| **Revenues** | | | | | | | | | | | | | | | |
| **Gross revenue contribution** | | | | | | | | | | | | | | | |
| Copper | $mm | | | 33.314 | 61.154 | 56.127 | 49.460 | 58.151 | 58.151 | 64.456 | 47.117 | 45.264 | 56.212 | 61.346 | 1,539.715 |
| Nickel | $mm | | | 35.605 | 60.607 | 59.213 | 53.253 | 56.349 | 56.349 | 62.000 | 48.919 | 39.476 | 49.306 | 55.730 | 1,510.287 |
| Cobalt | $mm | | | 4.071 | 7.107 | 7.581 | 7.435 | 7.531 | 7.485 | 7.786 | 6.468 | 5.935 | 6.753 | 7.158 | 204.493 |
| Palladium | $mm | | | 9.636 | 21.102 | 17.337 | 15.170 | 17.056 | 16.052 | 17.172 | 12.194 | 12.183 | 16.052 | 15.876 | 413.115 |
| Platinum | $mm | | | 7.296 | 13.799 | 13.482 | 12.125 | 14.433 | 14.433 | 15.684 | 11.138 | 13.482 | 14.433 | 14.275 | 369.288 |
| Gold | $mm | | | 1.506 | 3.561 | 4.175 | 3.520 | 3.724 | 3.724 | 3.642 | 2.587 | 3.479 | 3.724 | 3.683 | 90.579 |
| | $mm | | | 91.428 | 167.329 | 157.914 | 140.963 | 157.244 | 156.195 | 170.740 | 128.422 | 119.818 | 146.481 | 158.068 | 4,127.477 |
| **Smelting & refining** | | | | | | | | | | | | | | | |
| Copper | $mm | | | - | - | - | - | - | - | - | - | - | - | - | - |
| Nickel | $mm | | | 8.901 | 15.152 | 14.803 | 13.313 | 14.087 | 14.087 | 15.500 | 12.230 | 9.869 | 12.326 | 13.933 | 377.572 |
| Cobalt | $mm | | | 1.018 | 1.777 | 1.895 | 1.859 | 1.883 | 1.871 | 1.947 | 1.617 | 1.484 | 1.688 | 1.789 | 51.123 |
| Palladium | $mm | | | 0.628 | 1.376 | 1.131 | 0.989 | 1.112 | 1.047 | 1.120 | 0.795 | 0.795 | 1.047 | 1.035 | 26.942 |
| Platinum | $mm | | | 0.156 | 0.294 | 0.288 | 0.259 | 0.308 | 0.308 | 0.335 | 0.238 | 0.288 | 0.308 | 0.305 | 7.878 |
| Gold | $mm | | | 0.036 | 0.084 | 0.099 | 0.083 | 0.088 | 0.088 | 0.086 | 0.061 | 0.082 | 0.088 | 0.087 | 2.145 |
| Total | $mm | | | 10.739 | 18.683 | 18.216 | 16.503 | 17.478 | 17.402 | 18.987 | 14.941 | 12.517 | 15.458 | 17.149 | 465.661 |
| **Net smelter revenue** | | | | 80.689 | 148.646 | 139.699 | 124.459 | 139.766 | 138.794 | 151.753 | 113.481 | 107.300 | 131.024 | 140.919 | 3,661.816 |
| US Steel royalty | $mm | | | 2.421 | 4.459 | 4.191 | 3.734 | 4.193 | 4.164 | 4.553 | 3.404 | 3.219 | 3.931 | 4.228 | 109.854 |
| **Net revenue** | $mm | | | 78.269 | 144.187 | 135.508 | 120.726 | 135.573 | 134.630 | 147.200 | 110.076 | 104.081 | 127.093 | 136.691 | 3,551.962 |

## Operating Costs

| | Year | 2006 -2 | 2007 -1 | 2008 0 | 2009 1 | 2010 2 | 2011 3 | 2012 4 | 2013 5 | 2014 6 | 2015 7 | 2016 8 | 2017 9 | 2018 10 | 2006 - 2036 Total: -2 to 28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Costs** | | | | | | | | | | | | | | | |
| **Mining costs** | | | | | | | | | | | | | | | |
| Drilling | $mm | | - | 0.370 | 0.555 | 0.555 | 0.555 | 0.555 | 0.555 | 0.555 | 0.555 | 0.555 | 0.659 | 0.777 | 19.547 |
| Blasting | $mm | | - | 0.380 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.676 | 0.798 | 20.075 |
| Loading | $mm | | - | 0.650 | 0.975 | 0.975 | 0.975 | 0.975 | 0.975 | 0.975 | 0.975 | 0.975 | 1.157 | 1.365 | 34.340 |
| Hauling | $mm | | - | 3.290 | 4.935 | 4.935 | 4.935 | 4.935 | 4.935 | 4.935 | 4.935 | 4.935 | 5.856 | 6.909 | 173.811 |
| Auxiliary | $mm | | - | 0.540 | 0.810 | 0.810 | 0.810 | 0.810 | 0.810 | 0.810 | 0.810 | 0.810 | 0.961 | 1.134 | 28.528 |
| General -- mine | $mm | | - | 0.240 | 0.360 | 0.360 | 0.360 | 0.360 | 0.360 | 0.360 | 0.360 | 0.360 | 0.427 | 0.504 | 12.679 |
| General -- maintenance | $mm | | - | 0.280 | 0.420 | 0.420 | 0.420 | 0.420 | 0.420 | 0.420 | 0.420 | 0.420 | 0.498 | 0.588 | 14.792 |
| Administrative | $mm | | - | 0.380 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.570 | 0.676 | 0.798 | 20.075 |
| Continency | $mm | | - | 0.307 | 0.460 | 0.460 | 0.460 | 0.460 | 0.460 | 0.460 | 0.460 | 0.460 | 0.546 | 0.644 | 16.192 |
| Total | $mm | | - | 6.437 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 11.457 | 13.517 | 340.040 |
| Mining cost per tonne of rock | $/t | | | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 |
| Mining cost per tonne of ore | $/t | | | 1.40 | 1.11 | 1.14 | 1.12 | 1.06 | 1.06 | 1.08 | 1.22 | 1.14 | 1.26 | 1.50 | 1.36 |
| **Processing** | | | | | | | | | | | | | | | |
| Consumables | $mm | | - | 11.178 | 21.141 | 20.655 | 20.898 | 22.113 | 22.113 | 21.627 | 19.197 | 20.655 | 22.113 | 21.870 | 607.986 |
| Labor | $mm | | - | 5.520 | 10.440 | 10.200 | 10.320 | 10.920 | 10.920 | 10.680 | 9.480 | 10.200 | 10.920 | 10.800 | 300.240 |
| Power | $mm | | - | 8.464 | 16.008 | 15.640 | 15.824 | 16.744 | 16.744 | 16.376 | 14.536 | 15.640 | 16.744 | 16.560 | 460.368 |
| Operating supplies | $mm | | - | 0.184 | 0.348 | 0.340 | 0.344 | 0.364 | 0.364 | 0.356 | 0.316 | 0.340 | 0.364 | 0.360 | 10.008 |
| Maintenance supplies | $mm | | - | 0.966 | 1.827 | 1.785 | 1.806 | 1.911 | 1.911 | 1.869 | 1.659 | 1.785 | 1.911 | 1.890 | 52.542 |
| Environmental | $mm | | - | 0.138 | 0.261 | 0.255 | 0.258 | 0.273 | 0.273 | 0.267 | 0.237 | 0.255 | 0.273 | 0.270 | 7.506 |
| General & administrative | $mm | | - | 2.438 | 4.611 | 4.505 | 4.558 | 4.823 | 4.823 | 4.717 | 4.187 | 4.505 | 4.823 | 4.770 | 132.606 |
| Contingency | $mm | | - | 1.444 | 2.732 | 2.669 | 2.700 | 2.857 | 2.857 | 2.795 | 2.481 | 2.669 | 2.857 | 2.826 | 78.563 |
| Total | $mm | | - | 30.332 | 57.368 | 56.049 | 56.708 | 60.005 | 60.005 | 58.687 | 52.093 | 56.049 | 60.005 | 59.346 | 1,649.819 |
| Processing cost per tonne of ore | $/t | | | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 |
| **Marketing & transportation** | | | | | | | | | | | | | | | |
| Copper | $mm | | | 0.476 | 0.874 | 0.802 | 0.707 | 0.831 | 0.831 | 0.921 | 0.673 | 0.647 | 0.803 | 0.876 | 21.996 |
| Nickel | $mm | | | 0.102 | 0.173 | 0.169 | 0.152 | 0.161 | 0.161 | 0.177 | 0.140 | 0.113 | 0.141 | 0.159 | 4.315 |
| Cobalt | $mm | | | - | - | - | - | - | - | - | - | - | - | - | - |
| Palladium | $mm | | | 0.002 | 0.004 | 0.003 | 0.003 | 0.003 | 0.003 | 0.003 | 0.002 | 0.002 | 0.003 | 0.003 | 0.075 |
| Platinum | $mm | | | 0.019 | 0.037 | 0.036 | 0.032 | 0.038 | 0.038 | 0.042 | 0.030 | 0.036 | 0.038 | 0.038 | 0.985 |
| Gold | $mm | | | 0.002 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.003 | 0.005 | 0.005 | 0.005 | 0.119 |
| Total | $mm | - | - | 0.601 | 1.092 | 1.016 | 0.898 | 1.038 | 1.038 | 1.148 | 0.848 | 0.802 | 0.990 | 1.081 | 27.490 |
| **Other** | | | | | | | | | | | | | | | |
| General & administrative | $mm | - | - | 0.750 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 42.750 |
| Other -- fees | $mm | - | 10.000 | - | - | - | - | - | - | - | - | - | - | - | 10.000 |
| Total | $mm | - | 10.000 | 0.750 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 52.750 |
| Total costs | $mm | - | 10.000 | 38.120 | 69.615 | 68.219 | 68.762 | 72.198 | 72.198 | 70.989 | 64.096 | 68.006 | 73.953 | 75.444 | 2,070.100 |
| **Copper costs** | | | | | | | | | | | | | | | |
| Co-product cash cost | | | | 0.47 | 0.46 | 0.48 | 0.55 | 0.51 | 0.51 | 0.46 | 0.56 | 0.62 | 0.56 | 0.53 | 0.56 |
| Co-product full cost | | | | 0.52 | 0.51 | 0.53 | 0.60 | 0.57 | 0.57 | 0.52 | 0.62 | 0.70 | 0.62 | 0.59 | 0.62 |
| By-product cash cost | | | | (0.26) | (0.28) | (0.26) | (0.10) | (0.14) | (0.12) | (0.23) | (0.02) | 0.17 | 0.02 | (0.04) | (0.00) |

## Income, Cash Flow and Finance

| | Year | 2006<br>-2 | 2007<br>-1 | 2008<br>0 | 2009<br>1 | 2010<br>2 | 2011<br>3 | 2012<br>4 | 2013<br>5 | 2014<br>6 | 2015<br>7 | 2016<br>8 | 2017<br>9 | 2018<br>10 | 2006 - 2036<br>Total: -2 to 28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Simplified income statement** | | | | | | | | | | | | | 12.0% | 1,374 | |
| Net smelter revenue | $mm | - | - | 78.269 | 144.187 | 135.508 | 120.726 | 135.573 | 134.630 | 147.200 | 110.076 | 104.081 | 127.093 | 136.691 | 3,551.962 |
| Mining cost | $mm | - | - | 6.437 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 9.655 | 11.457 | 13.517 | 340.040 |
| Processing cost | $mm | - | - | 30.332 | 57.368 | 56.049 | 56.708 | 60.005 | 60.005 | 58.687 | 52.093 | 56.049 | 60.005 | 59.346 | 1,649.819 |
| Selling & transportation | $mm | - | - | 0.601 | 1.092 | 1.016 | 0.898 | 1.038 | 1.038 | 1.148 | 0.848 | 0.802 | 0.990 | 1.081 | 27.490 |
| Other costs | $mm | - | 10.000 | 0.750 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 52.750 |
| **EBITDA** | $mm | - | (10.000) | 40.149 | 74.572 | 67.288 | 51.964 | 63.374 | 62.432 | 76.211 | 45.981 | 36.076 | 53.140 | 61.247 | 1,481.862 |
| Depreciation, depletion & amortization | $mm | - | - | 3.986 | 7.538 | 7.450 | 7.624 | 8.158 | 8.249 | 8.156 | 7.319 | 7.960 | 8.612 | 8.608 | 220.161 |
| **EBIT** | $mm | - | (10.000) | 36.163 | 67.033 | 59.838 | 44.340 | 55.216 | 54.183 | 68.055 | 38.662 | 28.116 | 44.528 | 52.639 | 1,261.701 |
| Interest | $mm | - | 3.904 | 10.480 | 12.786 | 10.498 | 8.418 | 6.695 | 4.634 | 2.520 | - | - | - | - | 59.935 |
| **EBT** | $mm | - | (13.904) | 25.683 | 54.248 | 49.340 | 35.923 | 48.521 | 49.549 | 65.534 | 38.662 | 28.116 | 44.528 | 52.639 | 1,201.766 |
| Taxation | $mm | - | - | 4.005 | 18.444 | 16.776 | 12.214 | 16.497 | 16.847 | 22.282 | 13.145 | 9.559 | 15.139 | 17.897 | 408.601 |
| **Net income** | $mm | - | (13.904) | 21.678 | 35.804 | 32.564 | 23.709 | 32.024 | 32.703 | 43.253 | 25.517 | 18.556 | 29.388 | 34.742 | 793.166 |
| **Cash flow** | | | | | | | | | | | | | | | |
| Cash from operations | $mm | - | - | 40.899 | 76.072 | 68.788 | 53.464 | 64.874 | 63.932 | 77.711 | 47.481 | 37.576 | 54.640 | 62.747 | 1,534.612 |
| Capex | $mm | 12.560 | 126.856 | 77.378 | - | 2.500 | 2.500 | 2.500 | 2.500 | 2.500 | 2.500 | 2.500 | 2.500 | 2.500 | 276.795 |
| Working capital requirement | $mm | - | - | 12.500 | 4.904 | (0.349) | 0.136 | 0.859 | (0.000) | (0.302) | (1.723) | 0.978 | 1.487 | 0.373 | - |
| Free cash from operations | $mm | (12.560) | (126.856) | (48.979) | 71.168 | 66.637 | 50.828 | 61.515 | 61.432 | 75.514 | 46.704 | 34.098 | 50.654 | 59.874 | 1,257.817 |
| Free cash from operations after tax | $mm | (12.560) | (126.856) | (52.984) | 52.724 | 49.861 | 38.615 | 45.018 | 44.585 | 53.232 | 33.559 | 24.539 | 35.514 | 41.977 | 849.217 |
| **Finance** | | | | | | | | | | | | | | | |
| **Debt** | | | | | | | | | | | | | | | |
| Initial balance | | - | - | 97.600 | 159.819 | 131.227 | 105.219 | 83.691 | 57.921 | 31.506 | - | - | - | - | |
| Draw | | - | 97.600 | 66.800 | - | - | - | - | - | - | - | - | - | - | 164.400 |
| Repay | | - | - | - | 16.440 | 16.440 | 16.440 | 16.440 | 16.440 | 16.440 | - | - | - | - | 98.640 |
| Interest (paid at start of following period) | | - | - | 3.904 | 10.480 | 12.786 | 10.498 | 8.418 | 6.695 | 4.634 | 2.520 | - | - | - | 59.935 |
| Cash flow sweep | | - | - | 4.581 | 12.152 | 9.568 | 5.088 | 9.330 | 9.975 | 15.066 | - | - | - | - | 65.760 |
| Final balance after cash flow sweep | | - | 97.600 | 159.819 | 131.227 | 105.219 | 83.691 | 57.921 | 31.506 | - | - | - | - | - | 666.983 |
| Cash to finance | | - | (97.600) | (58.315) | 39.072 | 38.793 | 32.026 | 34.188 | 33.110 | 36.140 | 2.520 | - | - | - | 59.935 |
| **Equity** | | | | | | | | | | | | | | | |
| Net income | | - | (13.904) | 21.678 | 35.804 | 32.564 | 23.709 | 32.024 | 32.703 | 43.253 | 25.517 | 18.556 | 29.388 | 34.742 | 793.166 |
| Reported net interest | | - | 3.904 | 10.480 | 12.786 | 10.498 | 8.418 | 6.695 | 4.634 | 2.520 | - | - | - | - | 59.935 |
| D, D & A | | - | - | 3.986 | 7.538 | 7.450 | 7.624 | 8.158 | 8.249 | 8.156 | 7.319 | 7.960 | 8.612 | 8.608 | 220.161 |
| Capex | | (12.560) | (126.856) | (77.378) | - | (2.500) | (2.500) | (2.500) | (2.500) | (2.500) | (2.500) | (2.500) | (2.500) | (2.500) | (276.795) |
| Working capital requirement | | - | - | (12.500) | (4.904) | 0.349 | (0.136) | (0.859) | 0.000 | 0.302 | 1.723 | (0.978) | (1.487) | (0.373) | - |
| Financing | | - | 97.600 | 58.315 | (39.072) | (38.793) | (32.026) | (34.188) | (33.110) | (36.140) | (2.520) | - | - | - | (59.935) |
| Cash to equity | | (12.560) | (39.256) | 4.581 | 12.152 | 9.568 | 5.088 | 9.330 | 9.975 | 15.592 | 29.539 | 23.039 | 34.014 | 40.477 | 736.532 |
| Total equity requirement | | (12.560) | (51.816) | (47.235) | (35.083) | (25.516) | (20.427) | (11.097) | (1.122) | 14.470 | 44.009 | 67.047 | 101.061 | 141.538 | |
| Cash to equity before tax | | (12.560) | (39.256) | 8.586 | 30.596 | 26.344 | 17.302 | 25.827 | 26.822 | 37.874 | 42.684 | 32.598 | 49.154 | 58.374 | 1,145.133 |
| Taxation | | - | - | 4.005 | 18.444 | 16.776 | 12.214 | 16.497 | 16.847 | 22.282 | 13.145 | 9.559 | 15.139 | 17.897 | |
| Free cash to equity | | (12.560) | (39.256) | 4.581 | 12.152 | 9.568 | 5.088 | 9.330 | 9.975 | 15.592 | 29.539 | 23.039 | 34.014 | 40.477 | |
| Equity financing | | 15.000 | 65.000 | - | | | | | | | | | | | |
| Equity cash end of period | | 2.440 | 28.184 | 32.765 | 44.917 | 54.484 | 59.573 | 68.903 | 78.878 | 94.470 | 124.009 | 147.047 | 181.061 | 221.538 | |

## MANAGEMENT

PolyMet has built a strong senior management team that we believe is well able to execute the business plan. The team includes businessmen, mine geologists, mine builders, and mine operators.

**WILLIAM MURRAY, P.ENG.; PRESIDENT, CEO & DIRECTOR.**
Mr. Murray is a mining engineer with more than 30 years of experience in construction management and project evaluation in North America and Africa. As a principal of Optimum Project Services Ltd., he originally led the technical improvements and large capital cost reductions on the NorthMet Project.

Mr. Murray has been involved in numerous successful projects while working at Fluor Daniel (a large US Engineering & Construction contractor), Denison Mines (construction of the US$1.2 billion Quintette Coal project), Optimum Project Services and Anglo American Corp in South Africa.

**W. IAN L. FORREST, CA; CHAIRMAN AND DIRECTOR.**
Mr. Forrest has 30 years experience with public companies in the resource sector having dealt with promotion, financing, exploration, production and company management. Notable projects include Gulfstream's North Dome gas discovery, Qatar, Reunion Mining's Scorpion zinc mine in Namibia (which was subsequently developed by Anglo American) and Ocean Diamond Mining, which pioneered the independent diamond dredging industry off the west coast of southern Africa.

He is currently a director of several resource companies in the oil & gas and mining sectors. Having played an important role in the revival of PolyMet Mining Corporation in 2003, he was appointed Chairman in May 2004.

**DAVID DREISINGER, PHD., P.ENG.; DIRECTOR.**
Dr. Dreisinger is Professor and Chair of the Industrial Research Chair in Hydrometallurgy at the University of British Columbia. Dr. Dreisinger has published numerous papers and has been extensively involved as a process consultant in industrial research programs with metallurgical companies, and has participated in 11 U.S. patents. He will work closely with the feasibility consultant to design and complete all aspects of the testwork.

**GEORGE MOLYVIATIS; DIRECTOR.**
Mr. Molyviatis worked as a private banker in Geneva and ran two investment funds. He specializes in resource sector projects and owns large forestry and timber processing facilities in Georgia and Russia.

**JAMES SWEARINGEN; DIRECTOR.**
Mr. Swearingen formerly managed the largest mining operation in North America, US Steel's Minntac mine and plant along Minnesota's Mesabi Iron Range, serving as General Manager of Minnesota Ore Operations. He currently serves as co-chair the Governor's Committee on Minnesota's Mining Future.

Mr. Swearingen is also active with other groups to bring new technology to northeastern Minnesota to develop non-ferrous mines and new, value added projects in steel making. He is also an active advisor to the University of Minnesota's Natural Resources Research Institute based in Duluth, Minnesota.

**WARREN HUDLESON; EXECUTIVE VICE PRESIDENT – DEVELOPMENT AND DIRECTOR OF U.S. SUBSIDIARY.**
A graduate of the University of Minnesota-Minneapolis, Mr. Hudelson has been a corporate communications and public affairs practitioner for more than 30 years. He has considerable experience in Minnesota and other US States in the development and operation of large, complex industrial projects such as power plants, electric transmission lines, paper mills and mining projects. This skill set includes development of corporate policy, investor relations, governmental affairs, market research and advertising. Mr. Hudelson managed corporate communications for a major NYSE-traded company (Allete-Minnesota Power) for more than 20 years.

As senior company representative in Minnesota, Mr. Hudelson will coordinate PolyMet's development program between the project team and all interested parties. He is principal spokesperson for PolyMet and has an intimate working knowledge of news media at all levels.

**GASTON REYMENANTS; VICE PRESIDENT MARKETING**.
Mr. Reymenants graduated from the Universities of Brussels, Leuven and Antwerp in Economics, Industrial Marketing, International Law, and Foreign Languages. He has twenty years experience with a major mining company as a metals trader and twelve years experience as an independent with specific expertise in the nickel and cobalt markets. His role will be to lead negotiations with off-take companies for the LME Grade copper cathodes from PolyMet and the nickel and platinum group metals concentrates.

He is an active member of the Cobalt Development Institute, the Minor Metals Trade Association (Arbitration Committee), and several other professional associations.

**TERESE J. GIESELMAN; CHIEF FINANCIAL OFFICER**.
Terese J. Gieselman has extensive experience with junior mining companies in role of corporate secretary, compliance, regulatory filings and financings.

**DON HUNTER, C.ENG.; PROJECT MANAGER**.
During Mr. Hunter's 30-year career in the mining industry he has been involved in all aspects of mine development ranging from feasibility and mine engineering studies, through mine production supervision at both mine site and corporate levels, mine general management, senior technical support roles and as a consulting engineer. His experience covers both open pit and underground mining and a variety of commodities including copper, gold, nickel, various other base metals, bauxite, coal and industrial minerals.

Prior to joining PolyMet Mining Corp., Mr. Hunter worked for Hatch Associates as their Regional Director for mining and mineral processing. Before that, he worked with SRK Consulting as Principal Mining Engineer, for MIM Holdings Ltd as Group Mining Engineer and as General Manager Mining – Mt Isa Mines and as General Manager for a Chilean gold mining company. Prior to that Mr. Hunter worked for 17 years with Shell's mining subsidiary, Billiton International Metals BV in a variety of international and head office roles.

**JIM SCOTT; ASSISTANT PROJECT MANAGER**.
Mr. Scott is an engineer in the mining industry with 33 years of mining experience in engineering, maintenance, information technology/process automation, research, environmental affairs and management at Cleveland Cliffs Inc. (Cliffs). Mr. Scott is based near the PolyMet project site at Hoyt Lakes, Minnesota and is intimately familiar with the environmental regulations and the personnel in the respective agencies.

Before joining PolyMet's Project Development Team, Mr. Scott worked as a Manager at Cliffs-Erie, designing and managing mine closure and remediation programs. Cliffs-Erie is the site of the NorthMet project processing plant. His career at Cleveland Cliffs included many positions culminating as Manager -- Technical Services (engineering, process development and environmental). Mr. Scott's previous corporate positions included manager of corporate operations, manager of the information technology and process automation group, and manager of a major research lab. These positions supported five major North American mines.

**RICHARD PATELKE, M.SC.; NORTHMET PROJECT GEOLOGIST**.
Mr. Patelke is a registered Professional Geologist with an M.Sc. from the University of Minnesota. He spent 14 years working on the geology and economic mineralization of the Duluth Complex, which hosts the NorthMet deposit. He is highly regarded in the Minnesota mining industry for his broad knowledge of the geology of the Iron Range, the Duluth Complex, and the surrounding region. His practical and direct involvement in a number of development projects in the region will be invaluable in streamlining PolyMet's development of the NorthMet deposit. Mr. Patelke also has practical mining experience, having worked as a Mine Geologist at Meridian Gold's Beartrack Mine in Idaho.

**GRAHAM SCOTT; CORPORATE SECRETARY**.
Graham Scott is PolyMet's lawyer, specializing in securities law principally in the mining sector. Mr. Scott represents many Canadian public companies which are listed on the TSX and TSX Venture Exchanges, in addition to clients in the corporate finance business. Mr. Scott has presented papers on securities law and mining law matters and has chaired many legal and industry conferences.