

POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

30 APRIL 2005

U.S. Funds

Suite 2350 – 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2K3

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Consolidated Balance Sheet

As at April 30 and January 31

U.S. Funds

Un-audited prepared by management

ASSETS	2005	2005
Current		
Cash	\$ 738,498	\$ 510,871
Term deposit	1,589,600	807,200
Miscellaneous receivables	33,866	45,005
Prepaid expenses	4,631	241,596
		1,604,672
Investments (Note 4)	253	253
Other Assets (Note 5 b)	729,320	729,320
Property, Plant and Equipment (Note 6)	14,974	15,919
	\$ 3,111,142	\$ 2,350,164

LIABILITIES

Current		
Accounts payable	\$ 45,371	\$ 331,012

Contingent Liabilities and Commitments (Note 10)

SHAREHOLDERS' EQUITY

Share Capital - Statement 2 (Note 7)	22,297,815	18,338,194
Share Subscriptions Received - Statement 2 (Note 7a(i))	—	762,804
Contributed Surplus - Statement 2 (Note 7e)	1,192,617	1,005,742
Deficit - Statement 2	(20,424,660)	(18,137,588)
	3,065,771	2,019,152
	\$ 3,111,142	\$ 2,350,164

ON BEHALF OF THE BOARD:

 "William Murray", Director

 "David Dreisinger", Director

PolyMet Mining Corp.

Statement 2

Consolidated Statement of Shareholders' Equity

U.S. Funds

Un-audited prepared by management

	Common Shares						
	Authorized Shares	Shares	Amount	Share Subscriptions Received	Contributed Surplus	Deficit	Total
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	-	-	-	-	-	(3,776,337)	(3,776,337)
Shares issued for cash:							
Private placements	-	2,800,000	1,733,984	-	-	-	1,733,984
Share subscriptions received	-	-	-	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	-	155,626	96,375	-	-	-	96,375
Shares issued for property	-	1,000,000	229,320	-	-	-	229,320
Stock-based compensation	-	-	-	-	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	-	224,925	26,117	-	-	-	26,117
Shares allotted for bonus	-	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
Loss for the period	-	-	-	-	-	-(2,286,826)	(2,286,826)
Shares issued for cash:							
Private placements (Note 7a(i))		9,000,000	3,996,579	(762,804)	186,875	-	3,420,650
Share issuance costs			308,571	-	-	-	(308,571)
Exercise of options (Note 7c)		341,052	27,107	-	-	-	27,107
Shares issued for finders' fee (Note 7b)		444,950	194,506	-	-	-	194,506
Reverse shares allotted for exercise of warrants		(224,925)	(26,117)	-	-	-	(26,117)
Reverse shares allotted for bonus		(1,590,000)	(233,856)	-	-	-	(233,856)
Issuance of shares for exercise of warrants (Note 7f (ii))		224,925	26,117	-	-	-	26,117
Issuance of shares for bonus (Note 7a(ii))		1,590,000	233,856	-	-	-	233,856
Balance – 30 April 2005 – Shares issued	Unlimited	66,914,580	22,297,815	\$ -	1,192,617	\$ (20,424,660)	\$ 3,065,772

See Accompanying Notes -

Consolidated Statement of Loss

For the Periods Ended 30 April

U.S. Funds

Un-audited prepared by management

	2005	2004
General and Administrative		
Stock-based compensation expense (Note 7d)	\$ 186,876	\$ —
Consulting fees	20,241	27,049
Travel and automotive	32,882	48,053
Management fees	26,855	—
Administration fees and wages	43,155	61,787
Professional fees	7,204	33,461
Investor relations and financing	25,106	18,674
Rent	16,572	4,269
Office and telephone	11,585	4,043
Shareholders' information	(1,744)	3,960
Insurance	1,500	—
Transfer agent and filing fees	5,132	11,712
Amortization	878	154
Licenses, dues and taxes	—	—
Interest expense (income), net	(13,182)	161
Loss Before the Undernoted	363,060	213,323
Other Expenses (Income)		
Pre-feasibility costs - Schedule 1	1,907,726	40,184
Loss (gain) on foreign exchange conversion	16,040	27,747
	1,923,766	67,931
Loss for the Period	\$ 2,286,826	\$ 281,254
Loss per share	\$ (0.04)	\$ (0.01)
Weighted Average Number of Shares	61,736,437	48,881,049

- See Accompanying Notes -

Consolidated Statement of Cash Flows

For the Periods Ended 30 April

U.S. Funds

Un-audited prepared by management

	2005	2004
Operating Activities		
Loss for the period	\$ (2,286,826)	\$ (281,254)
Adjustments to reconcile loss to net cash		
Amortization	878	154
Stock-based compensation expense	186,876	—
Changes in current assets and liabilities		
Miscellaneous receivables	11,139	(79)
Prepaid expenses	236,965	4,343
Accounts payable	(285,641)	(70,282)
Net cash used in operating activities	<u>(2,136,608)</u>	<u>347,117</u>
Financing Activities		
Share capital - for cash	<u>3,953,835</u>	708,450
Net cash provided by financing activities	<u>3,953,835</u>	<u>708,450</u>
Net Increase (Decrease) in Cash Position	1,817,227	361,331
Cash Position - Beginning of period	<u>510,871</u>	<u>495,551</u>
Cash Position - End of Period	\$ 2,328,098	\$ 856,882
Schedule of Non-Cash Investing and Financing Activities		
Shares issued for an option on property, plant and equipment	\$ —	\$ 54,830
Shares issued for finders' fee	<u>\$ 194,506</u>	<u>\$ —</u>

- See Accompanying Notes -

PolyMet Mining Corp.

Schedule 1

Consolidated Schedule of Pre-Feasibility Costs

For the Periods Ended 30 April

U.S. Funds

Un-audited prepared by management

	2005	2004
Direct		
Camp and general	\$ 6,900	—
Consulting fees	85,300	—
Drilling	1,551,270	—
Engineering	23,620	—
Environmental	201,853	—
Geological and geophysical	13,200	—
Land lease, taxes and licenses	100	—
Metallurgical	2,779	40,184
Mine planning	22,704	—
Total Costs for the Period	\$ 1,907,726	\$ 40,184

- See Accompanying Notes -

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

1. Basis Of Presentation

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") based on accounting policies and practices consistent with those used in the preparation of the annual audited consolidated financial statements. The interim consolidated financial statements do not include all information and note disclosures require by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended January 31, 2005.

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. 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 expensed 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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

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

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

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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

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) 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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

2. Significant Accounting Policies - Continued

k) 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.

l) 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	April 30 2005	January 31 2005
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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

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 current term of the renewable 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 RGGGS 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 dated 14 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.

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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

6. Property, Plant and Equipment

Details are as follows:

	Cost	Accumulated Amortization	April 30 2005 Net Book Value	January 31 2005 Net Book Value
Furniture and equipment	\$ 1,888	\$ 263	\$ 1,625	\$ 1,716
Computers	15,908	2559	13,349	14,203
	\$ 17,796	\$ 2,822	\$ 14,974	\$ 15,919

7. Share Capital

a) Share issuances

- (i) The share issuances during the three month period ended included one private placements for a total of 9,000,000 shares at CDN \$0.55 per share for gross proceeds of CDN \$4,950,000 (\$3,945,978). As at January 31, 2005 the Company had received share subscriptions of CDN\$945,000 (\$762,804) accordingly upon closing the private placement shares were issued and the funds have been included in the total private placement proceeds as noted. The private placements included share purchase warrants (*Note 7f (i)*).
 - (ii) As January 31, 2005 the 1,590,000 bonus shares had been allotted for Milestone 1, and during the quarter had been issued accordingly on March 15, 2005 (see Note 10)
- b) In addition to cash share issuance costs disclosed above, the Company issued 444,950 shares for finders' fees on the private placements. These shares were valued at CDN \$0.55 per share, for a total value of CDN \$244,723 (\$194,506).
- 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 period, the Company granted 745,000 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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

7. Share Capital - Continued

c) - Continued

Details of stock option activity is as follows:

	April 30 2005 Options	January 31 2005 Options
Outstanding - Beginning of year	4,999,552	3,542,952
Granted	745,000	2,545,000
Exercised	(341,052)	(1,088,400)
Outstanding - End of year	5,403,500	4,999,552

During the quarter ended April 30, 2005, 341,052 stock options were exercised at a price of CDN\$0.10.

As at 30 April 2005, the following director, former director and employee stock options were outstanding:

Expiry Date	Exercise Price (CDN)	Number
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
30 March 2005	\$0.65	745,000
		5,403,500

As at 30 April 2005 all options had vested and were exercisable.

d) Stock-Based Compensation

During the period ended 30 April 2005, the Company issued 745,000 options to directors, officers, consultants and employees with an exercise price of CDN\$0.65 per option. The fair value of stock-based compensation in the amount of \$186,876 has been recorded in the accounts of the Company as an expense with the offsetting entry to contributed surplus. 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	48.77%
Expected option life in years	5

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

7. Share Capital - Continued

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:

	April 30 2005		January 31 2005
Balance – Beginning of period	\$ 1,005,742	\$	55,048
Current period fair value of stock-based compensation	186,875		992,658
Fair value of stock options exercised during the period and transferred to share capital	—		(41,964)
Balance – End of period	\$ 1,192,617	\$	1,005,742

f) Share Purchase Warrants

Details of stock purchase warrant activity is as follows:

	April 30 2005		January 31 2005
	Warrants		Warrants
Outstanding - Beginning of period	5,841,278		9,718,853
Issued	4,500,000		1,400,000
Exercised	—		(5,277,575)
Outstanding - End of period	10,341,278		5,841,278

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

7. Share Capital - Continued

f) Share Purchase Warrants - Continued

As at 30 April 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	\$ 0.17	1,012,355	1,012,355
17 December 2005	\$ 1.20	775,000	775,000
1 March 2006	\$ 1.20	625,000	625,000
7 March 2007 (i)	\$ 0.70	4,500,000	4,500,000
		10,341,278	10,241,278

(i) 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 at or exceed \$1.00 per share for 30 consecutive trading days, the Warrants will terminate 30 days thereafter.

(ii) 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 were issued during the quarter ended April 30, 2005.

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. 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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

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:

		April 30 2005		April 30 2004
Management fees and wages	\$	48,000	\$	37,005
Consulting fees		12,515		6,901
Legal fees		5,132		41,617
	\$	65,647	\$	85,523

9. Subsequent Events

In addition to items disclosed elsewhere in these financial statements, the Company conducted the following transactions after 30 April 2005:

- a) The Company issued 50,000 common shares pursuant to the exercise of options at a price of CDN\$0.40 per share;
 - b) The Company issued 299,930 common shares pursuant to the exercise of options at a price of CDN\$0.17 per share;
 - c) The Company granted 350,000 options to a consultant at a price of CDN\$0.85 per share for a period of two years.
-

10. 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 30 April 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.

PolyMet Mining Corp.

Notes to Consolidated Financial Statements

For the three month period ended 30 April 2005

U.S. Funds

Un-audited prepared by management

10. Contingent Liabilities and Commitments - Continued

The summary of the share bonus plan is as follows:

	<u>Bonus Shares</u>	
Milestone 1	1,590,000	(i) issued – <i>Statement 2</i>
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.

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:

<u>Market Capitalization</u>	<u>Total Severance Payments Required</u>	
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.

11. Comparative Figures

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