POLYMET
MINING

Financial Assurance

Minnesota state law requires non-ferrous mining companies to have bankruptcy-proof financial resources in place to cover possible environmental cleanup costs before it will issue a permit to operate. PolyMet will fully comply with Minnesota law and meet its reclamation obligations.

What is Financial Assurance?

- Minnesota state law[1] requires companies that mine non-ferrous metals such as copper and nickel to provide a financial guarantee at the time of permitting that protects the state and its taxpayers if the company is unable to pay for:
  - planned reclamation activities including closure and post-closure maintenance;
  - corrective actions, which may become necessary if the company fails to comply with its permit to mine.
- Because mine closure is part of every reclamation plan, financial assurance must cover the anticipated costs of closing down and stabilizing the site as well as any monitoring or maintenance that may be necessary to sustain reclamation such as water treatment.
- Financial assurance must be in place from day one of operations to cover reclamation costs in the event the mine stops operating anytime during its permitted life.
- Reclamation costs are lower when mining is in its earliest and latest stages, and greatest when the mine is fully operational. Annual adjustments required by Minnesota rules ensure that the financial assurance package (reflecting the types of instruments, as well as the amounts) is sufficient to cover reclamation costs in each of these scenarios and to ensure the financial assurance package remains up to date.

Why are there not full details about financial assurance in the supplemental draft Environmental Impact Statement?

- Financial assurance is a function of Minnesota's permitting process, specifically the Permit to Mine, and not the EIS process. It is not typical for financial assurance to be included in an EIS. However, at the request of federal agencies, a brief overview of financial assurance is included in the supplemental draft EIS.
- The Minnesota Department of Natural Resources, which administers the Permit to Mine, determines the appropriate type and amount of financial assurance during the permitting process. It also oversees much of the reclamation work.
- The type of financial instrument, amount and full scope of financial need is determined during permitting. That process has not yet been initiated.

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

- Financial assurance laws are commonly used in federal and state permitting programs to account for uncertainty in long-term care obligations. Instruments of financial assurance are established to be able to self generate enough annual revenue (in the case of a trust fund) or to renew automatically and adjust (in the case of a letter of credit) to cover projected future costs on an annual basis.
- While there may be uncertainty associated with how *long* treatment will be required in financial assurance estimates, the annual care or treatment costs for PolyMet will be determined during permitting and in accordance with state law. Ongoing scientific studies

[1] Minnesota Administrative Rule 6132.1200

and the results from a successful pilot water treatment plant will be used in making these determinations.

- Minnesota's rules for financial assurance for non-ferrous mining were established in the early 1990s after many years of study and with input from numerous agencies and groups, including environmental groups. The law and the funds are administered by the DNR.
- One of the provisions of Minnesota's law, which sets it apart from other states' financial assurance laws, is that it requires detailed review of all of the costs of reclamation annually, and adjusts the financial requirements of the company accordingly.
- The state has the authority to deny or revoke the permit if the company does not comply. It also can assess civil penalties for non-compliance.

How will financial assurance funds be directed?

- The majority of the reclamation costs for PolyMet will be for treating water, and much of that for legacy water issues from steel mining activities at the site between the 1950s and 2000.
- Long-term water treatment cost estimates are based on annual operating and maintenance costs as well as replacement costs for equipment. Monitoring costs also are included.
- In addition to water treatment, funds will be spent over time on a wide range of work including reclaiming the open pit, in this case backfilling some of it with waste rock; reclaiming and sealing the tailings basin; removing buildings and equipment that will no longer be used; and re-vegetating, restoring, reclaiming or replacing wetlands.
- Provisions of the financial assurance package, which will be part of PolyMet's Permit to Mine, will be designed to ensure that sufficient funds are available for the ongoing maintenance of all equipment, as well as replacement of equipment as needed, to maintain active water treatment for as long as necessary. This conservative approach allows active water treatment technology to be funded until water quality standards are met and active water treatment is no longer necessary.

How will PolyMet fund the financial assurance?

- The state will determine the most appropriate type of funding during the permitting process. It could select from any number of possibilities including trust funds or escrow accounts, surety bonds, letters of credit, certificates of deposit or insurance policies. Whatever instrument, or combination of instruments, it selects, it has to be bankruptcy proof, continuously in place and readily available to regulators.

How can PolyMet possibly put enough money aside to cover costs for long-term treatment?

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