

POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2012, January 31, 2011 and February 1, 2010

U.S. Funds

Suite 390 – 3600 Lysander Place, Richmond, British Columbia, Canada, V7B 1C3

E-MAIL: info@polymetminning.com OR VISIT OUR WEBSITE AT: www.polymetminning.com



POLYMET MINING CORP.

Management Report

Management's Responsibility for Consolidated Financial Statements

The accompanying Consolidated Financial Statements of PolyMet Mining Corp. (the "Company") are the responsibility of management. The Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and include certain estimates that reflect management's best judgments.

The Company's Board of Directors has approved the information contained in the Consolidated Financial Statements. The Board of Directors fulfills its responsibilities regarding the Consolidated Financial Statements mainly through its Audit Committee, which has a written mandate that complies with current requirements of Canadian securities legislation and the United States Sarbanes-Oxley Act of 2002. The Audit Committee meets at least on a quarterly basis.

Management's Annual Report on Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements for external reporting purposes in accordance with IFRS.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at January 31, 2012. In making its assessment, management has used the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as at that date.

The effectiveness of the Company's internal control over financial reporting as at January 31, 2012 has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report which appears herein.

"Joseph Scipioni" (signed)

Joseph Scipioni
President and Chief Executive Officer

"Douglas Newby" (signed)

Douglas Newby
Chief Financial Officer

PolyMet Mining Corp.
(a development stage company)
Consolidated Balance Sheets

All figures in Thousands of U.S. Dollars

	January 31, 2012	January 31, 2011	February 1, 2010
ASSETS			
Current			
Cash and equivalents	\$ 17,478	\$ 10,361	\$ 21,282
Trade and other receivables	440	318	88
Investment (Note 17)	30	66	140
Prepaid expenses	934	636	512
Assets held for sale (Notes 6 and 16c)	-	3,420	-
	18,882	14,801	22,022
Deferred Financing Costs	-	-	1,794
Mineral Property, Plant and Equipment (Notes 5 and 6)	170,689	141,935	125,876
	\$ 189,571	\$ 156,736	\$ 149,692
LIABILITIES			
Current			
Trade payables and accrued liabilities	\$ 1,679	\$ 2,444	\$ 2,953
Current portion of long term debt (Note 7)	-	6,750	2,000
Current portion of environmental rehabilitation provision (Note 8)	828	1,408	756
	2,507	10,602	5,709
Long term			
Long term debt (Note 7)	3,672	1,775	8,529
Convertible debt (Note 9)	29,018	27,631	24,866
Environmental rehabilitation provision (Note 8)	22,008	14,311	12,943
Total Liabilities	57,205	54,319	52,047
SHAREHOLDERS' EQUITY			
Share Capital - (Note 10)	168,434	142,373	132,066
Share Premium - (Note 10)	2,132	875	-
Equity Reserves	43,590	37,914	37,662
Deficit	(81,790)	(78,745)	(72,083)
	132,366	102,417	97,645
Total Liabilities and Shareholders' Equity	\$ 189,571	\$ 156,736	\$ 149,692

General Information (Note 1)

Commitments and Contingencies (Notes 6, 8, 10, 16 and 19)

Subsequent events (Note 10b) and 19)

ON BEHALF OF THE BOARD:

"William Murray", Director

"David Dreisinger", Director

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Consolidated Statements of Loss and
Comprehensive Loss

For the years ended January 31

All figures in Thousands of U.S. Dollars, except per share amounts

	January 31, 2012	January 31, 2011
General and Administrative		
Amortization	\$ 31	\$ 31
Consulting fees	31	36
Directors' fees and expenses	248	-
Exploration	-	193
Investor relations	17	118
Office and corporate wages	984	1,196
Professional fees	740	365
Shareholders' information	368	330
Share-based compensation <i>(Notes 10b) and c)</i>	625	(119)
Transfer agent and filing fees	99	99
Travel	226	267
	3,369	2,516
Other Expenses (Income)		
Financing costs write-off	-	1,830
Finance income and costs <i>(Note 11)</i>	351	499
Loss (gain) on foreign exchange	104	(46)
Loss (gain) on asset held for sale	(72)	520
Loss on refinancing of convertible debt <i>(Note 9)</i>	-	2,931
Rental income	(50)	(198)
	333	5,536
Loss for the year before tax	3,702	8,052
Deferred income tax recovery <i>(Note 10e)</i>	(657)	(1,390)
Loss for the year	3,045	6,662
Other Comprehensive Loss		
Unrealized gain (loss) on investment	(36)	(77)
Total Comprehensive Loss for the year	3,081	6,739
Basic and Diluted Loss per Share	\$ (0.02)	\$ (0.04)
Weighted Average Number of Shares	160,358,498	149,444,955

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Consolidated Statements of Changes in Shareholder Equity

For the years ended January 31

All figures in Thousands of U.S. Dollars, except for Shares

	Share Capital (Notes 9 & 10)					Equity Reserves					
	Authorized Shares	Issued Shares	Paid-in Share Capital	Share Premium	Total	Warrants and Share-based Payment	Accumulated		Total Equity Reserves	Deficit	Total
							Other Comprehensive Loss				
Balance at January 31, 2011	Unlimited	154,825,791	\$ 142,373	\$ 875	\$ 143,248	\$ 37,920	\$ (6)	\$ 37,914	\$ (78,745)	\$ 102,417	
Loss and comprehensive loss for the year	-	-	-	-	-	-	(36)	(36)	(3,045)	(3,081)	
Shares and warrants issued:											
Equity offering and issuance costs (Notes 9 and 10a)	-	13,333,333	15,162	4,667	19,829	-	-	-	-	19,829	
Equity offering and issuance costs (Notes 9 and 10a)	-	5,000,000	9,103	875	9,978	-	-	-	-	9,978	
Exercise of options	-	1,185,000	902	-	902	-	-	-	-	902	
Fair value of share options exercised	-	-	663	-	663	(663)	-	(663)	-	-	
Restricted share units in trust (Note 10c)	-	259,000	-	-	-	-	-	-	-	-	
For options on land purchases	-	135,000	231	-	231	-	-	-	-	231	
Refinancing of convertible debt (Note 9)	-	-	-	(4,285)	(4,285)	4,285	-	4,285	-	-	
Long-term debt - warrants (Note 7)	-	-	-	-	-	550	-	550	-	550	
Milestone 4 Bonus Share cost amortization (Note 16)	-	-	-	-	-	1,235	-	1,235	-	1,235	
Deferred income tax recovery (Note 10e)	-	-	-	-	-	(657)	-	(657)	-	(657)	
Share-based compensation (Note 10c)	-	-	-	-	-	962	-	962	-	962	
Balance - January 31, 2012	Unlimited	174,738,124	\$ 168,434	\$ 2,132	\$ 170,566	\$ 43,632	\$ (42)	\$ 43,590	\$ (81,790)	\$ 132,366	

	Share Capital (Notes 9 & 10)					Equity Reserves					
	Authorized Shares	Issued Shares	Paid-in Share Capital	Share Premium	Total	Warrants and Share-based Payment	Accumulated		Total Equity Reserves	Deficit	Total
							Other Comprehensive Loss				
Balance at January 31, 2010	Unlimited	148,980,791	\$ 132,066	\$ -	\$ 132,066	\$ 37,591	\$ 71	\$ 37,662	\$ (72,083)	\$ 97,645	
Loss and comprehensive loss for the year	-	-	-	-	-	-	(77)	(77)	(6,662)	(6,739)	
Shares and warrants issued:											
Equity offering and issuance costs (Notes 9 and 10a)	-	5,000,000	9,019	875	9,894	-	-	-	-	9,894	
Exercise of options	-	845,000	808	-	808	-	-	-	-	808	
Fair value of share options exercised	-	-	480	-	480	(480)	-	(480)	-	-	
Refinancing of convertible debt (Note 9)	-	-	-	-	-	2,225	-	2,225	-	2,225	
Milestone 4 Bonus Share cost amortization (Note 16)	-	-	-	-	-	(89)	-	(89)	-	(89)	
Deferred income tax recovery (Note 10e)	-	-	-	-	-	(1,390)	-	(1,390)	-	(1,390)	
Share-based compensation (Note 10c)	-	-	-	-	-	63	-	63	-	63	
Balance - January 31, 2011	Unlimited	154,825,791	\$ 142,373	\$ 875	\$ 143,248	\$ 37,920	\$ (6)	\$ 37,914	\$ (78,745)	\$ 102,417	

Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Consolidated Statements of Cash Flows
For the years ended January 31
All figures in Thousands of U.S. Dollars

	2012	2011
Operating Activities		
Loss for the year	\$ (3,045)	\$ (6,662)
Items not involving cash		
Amortization	31	31
Finance costs (Note 11)	350	480
Financing costs write-off	-	1,830
Deferred income tax recovery (Note 10e))	(657)	(1,390)
Loss (gain) on asset held for sale	(72)	520
Loss on refinancing of convertible debt (Note 9)	-	2,931
Share-based compensation	625	(119)
Changes in non-cash working capital items		
Trade and other receivables	(122)	(230)
Prepaid expenses	(298)	(124)
Trade payables and accrued liabilities	233	(335)
Net cash used in operating activities	<u>(2,955)</u>	<u>(3,068)</u>
Financing Activities		
Share capital - for cash (Note 10a))	30,709	10,702
Deferred financing costs	-	(36)
Long-term debt funding (Note 7)	4,000	-
Long-term debt repayment (Note 7)	(8,500)	(2,000)
Net cash provided by financing activities	<u>26,209</u>	<u>8,666</u>
Investing Activities		
Purchase of mineral property, plant and equipment	(19,629)	(16,519)
Sale of asset held for sale	3,942	-
Net cash used in investing activities	<u>(16,137)</u>	<u>(16,519)</u>
Net Increase (decrease) in Cash and Cash Equivalents	7,117	(10,921)
Cash and Cash Equivalents - Beginning of year	10,361	21,282
Cash and Cash Equivalents - End of year	<u>\$ 17,478</u>	<u>\$ 10,361</u>

Supplemental Disclosure with Respect to Statement of Cash Flows – Note 12

- See Accompanying Notes -

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

1. General Information

PolyMet Mining Corp. (the "Company") was incorporated in British Columbia, Canada on March 4, 1981 under the name Fleck Resources Ltd. The Company changed its name from Fleck Resources to PolyMet Mining Corp. on June 10, 1998. The Company is engaged in the exploration and development, when warranted, of natural resource properties. The Company's primary mineral property is the NorthMet Project, a polymetallic project in northeastern Minnesota, USA. The realization of the Company's investment in the NorthMet Project and other assets is dependent upon various factors, including the existence of economically recoverable mineral reserves, the ability to obtain the necessary financing to complete the exploration and development of the NorthMet Project, future profitable operations, or alternatively upon disposal of the investment on an advantageous basis.

On September 25, 2006, the Company received the results of a Definitive Feasibility Study prepared by Bateman Engineering (Pty) Ltd. ("Bateman") that confirmed the economic and technical viability of the NorthMet Project (the "Project") and, as such, the Project moved from the exploration stage to the development stage.

The head office of the Company is located at 6500 County Road 666, Hoyt Lakes, Minnesota, United States of America, 55750, The principal address and records office of the Company are located at Suite 390 – 3600 Lysander Place, Richmond, British Columbia, Canada, V7B 1C3 and 700 West Georgia, 25th Floor, Vancouver, B.C., Canada, V7Y 1B3, respectively.

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements of PolyMet Mining Corp. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* have been applied.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 18. Comparative figures have been restated to reflect these adjustments.

The policies applied in these consolidated financial statements use the IFRS standards and interpretations effective as of January 31, 2012. The financial statements were approved by the Board of Directors on April 30, 2012.

Basis of Consolidation and Presentation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale and fair value through profit or loss financial assets. All dollar amounts presented are in United States ("U.S.") dollar unless otherwise specified.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Poly Met Mining, Inc. ("PolyMet US"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Inter-company balances and transactions have been eliminated on consolidation.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

3. Summary of Significant Accounting Policies

Foreign Currency Translation

The U.S. dollar is the functional currency of the Company and its controlled entities. Amounts in these consolidated financial statements are expressed in United States (“U.S.”) dollars unless otherwise stated. Transactions in foreign currencies are translated into the functional currency at the exchange rates at the date of the transactions. Monetary assets and liabilities of the Company’s operations denominated in a currency other than the U.S. dollar are translated using exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates on the dates of the initial transactions. Revenue and expense items are translated at the exchange rates in effect at the date of the underlying transaction, except for amortization related to non-monetary assets, which are translated at historical exchange rates. Exchange differences are recognized in net loss in the year in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset until such time as the asset is substantially complete and ready for its intended use or sale. Where funds have been borrowed specifically to finance an asset, the amount capitalized is the actual borrowing costs incurred. Where the funds used to finance an asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. Other borrowing costs not directly attributable to a qualifying asset are expensed in the year incurred.

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These critical accounting estimates require management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, expected economic lives of plant and equipment, anticipated costs of environmental rehabilitations including the reclamation of mine site, valuation of options, convertible debt and share purchase warrants, and the assessment of impairment in value of long lived assets. Actual results could differ from these estimates. The following discusses some of the most significant accounting estimates and judgements that the Company has made in the preparation of these consolidated financial statements:

(i) **Determination of mineral reserves**

Reserves are estimates of the amount of product that can be economically and legally extracted from the Company’s property. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. As a result, management will form a view of forecast sales prices, based on current and long-term historical average price trends. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

3. Summary of Significant Accounting Policies - Continued

(ii) Asset values and impairment charges

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss. Management's determination of recoverable amounts include estimates of sales volumes and prices, costs to sell, recoverable reserves, operating costs and capital costs, which are subject to certain risks and uncertainties that may affect the recoverability of an asset's costs. Although management has made its best estimate of these factors, it is possible that changes could occur that could adversely affect management's estimate of the net cash flow to be generated from its assets or cash-generating unit.

For its mining property interest the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining property interests. Internal sources of information the Company considers include indications of economic performance of the asset. In determining the recoverable amounts of the Company's mining property interest, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's property, costs to sell the mining property and the appropriate discount rate. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansory capital expenditures, reductions in the amount of recoverable reserves and resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mining interest.

(iii) Estimated Reclamation and Closure Costs

The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company. Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of the related mining property. Adjustments to the carrying amounts of the related mining property can result in a change to future depletion expense.

Cash and Cash Equivalents

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.

Mineral Property, Plant and Equipment

Mineral Property

Mineral property costs, aside from mineral property acquisition costs, incurred prior to determination of the Definitive Feasibility Study ("DFS") are expensed as incurred and expenditures incurred subsequent to the DFS and mineral property acquisition costs are capitalized until the property is placed into production, sold, allowed to lapse or abandoned. Acquisition costs include cash, debt and fair market value of common shares.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

3. Summary of Significant Accounting Policies - Continued

Upon commencement of production, mineral properties and acquisition costs relating to mines are amortized on a unit of production basis over the estimated proven and probable mineral reserves not to exceed the assets' useful lives.

As a result of the DFS on the NorthMet Project, the Project entered the development stage effective October 1, 2006. The Company has capitalized mineral property development expenditures related to the NorthMet Project from that date.

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.

Plant and Equipment

Plant and equipment are recorded at historical cost less accumulated depreciation and if applicable, accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the statement of loss and comprehensive loss during the year in which they are incurred. Plant and equipment is depreciated over the estimated life of the related assets calculated on a unit of production or straight-line basis, as appropriate.

Depreciation of plant and equipment is calculated using the cost of the asset, less its residual value, on a straight-line basis over the estimated useful life of the asset. Estimated useful lives are as follows:

Leasehold improvements	Straight-line over the term of the lease
Furniture and equipment	Straight-line over 10 years
Computers	Straight-line over 5 years
Computer software	Straight-line over 1 year

Assets Held for Sale

Assets are classified as held for sale in the period in which certain criteria are met. Assets held for sale are measured at the lower of carrying amount or fair value less cost to sell and are not depreciated as long as they remain classified as held for sale.

Loss Per Share

Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Basic and diluted losses per share are the same for the periods reported, as the effect of potential issuances of shares under warrant or share option agreements would, in total, be anti-dilutive.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

3. Summary of Significant Accounting Policies - Continued

Share-Based Payments and Share Purchase Warrants

All share-based payment awards made to directors, employees and non-employees are measured and recognized using a fair value based method. For directors and employees, or those providing services similar to employees, the fair value of the award is measured at the date of the grant and recognized over the tranche's vesting period in earnings or capitalized as appropriate based on the number of options expected to vest. Share options issued to non-employees are recognized based on the fair value of the goods or services received.

For directors, employees and non-employees, the fair value of the award is accrued and charged either to operations or mineral property plant and equipment, with the offsetting credit to warrants and share-based payment reserve, on a graded method over the vesting period. If and when share options are ultimately exercised or performance share units and restricted share units vest, the applicable amounts from the warrants and share-based payment reserve are transferred to share capital.

The Company issues share purchase warrants in connection with certain equity transactions. The fair value of the warrants, as determined using the Black-Scholes option pricing model, is credited to the warrants and share-based payment reserve. The recorded value of share purchase warrants is transferred to share capital upon exercise.

The Company issues restricted stock units to employees. The fair value of the restricted stock units is calculated using the intrinsic value of the shares at issuance, and is amortised straight-line over the vesting period. Certain restricted stock units vest upon achievement of a specified performance condition. On a quarterly basis, management, using the best available information, the probability of achieving those performance conditions, estimates the appropriate vesting period. The recorded value of the restricted stock units is transferred to share capital upon vesting.

When the Company amends the terms of either share options or share purchase warrants, the incremental change in the fair value of the options or warrants due to the amendment is booked to warrant or option amendment expense and the warrants and share-based payment reserve.

Provisions

Provisions for environmental rehabilitation associated with mineral property, plant and equipment, are recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recorded as finance income and costs expense.

Upon initial recognition of provisions for environmental rehabilitation, a corresponding increase to the carrying amount of the related asset is recorded and amortized over the life of the asset. The estimates are based principally on legal and regulatory requirements. Following initial recognition of the environmental rehabilitation provision, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, or changes in the amount and timing of the underlying cash flows needed to settle the obligation.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

3. Summary of Significant Accounting Policies - Continued

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. 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 may vary greatly and are not predictable.

Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets, including mineral property, plant and equipment, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss previously recorded is reversed if there has been a change in the estimates used to determine the recoverable amount.

Financial Assets

All financial assets are initially recorded at fair value and designated upon inception as one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except when there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive loss shall be reclassified from equity to profit or loss as a reclassification adjustment. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial Liabilities and Equity Instruments

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities at amortized cost include trade payables and long term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

3. Summary of Significant Accounting Policies - Continued

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

4. Recent Accounting Pronouncements

The IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, *Financial instruments - Classification and Measurement*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* IFRS 12, *Disclosure of Interests in Other Entities*, IAS 27, *Separate Financial Statements*, IFRS 13, *Fair Value Measurement* and amended IAS 28, *Investments in Associates and Joint Ventures*. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, except for IFRS 9 which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of these new standards:

IFRS 9 – Financial instruments - classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

4. Recent Accounting Pronouncements - Continued

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

5. Resource Property Agreements

NorthMet, Minnesota, U.S.A. - Lease

Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, the Company leases certain lands in St. Louis County, Minnesota from RGGGS Land & Minerals Ltd., L.P. The original term of the renewable lease was 20 years and called for total lease payments of \$1,475,000. The Company can and has renewed the lease by making annual payments of \$150,000 on or before each anniversary through January 2012.

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.

Pursuant to the leases, PolyMet holds mineral rights and the right to mine. PolyMet intends to acquire surface rights through a land exchange with the United States Forest Service, which costs have been included in the capital cost estimate of the Project.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

6. Mineral Property, Plant and Equipment

Details are as follows:

Net Book Value	NorthMet Project	Other fixed assets	Total
Balance at February 1, 2010	\$ 125,664	\$ 212	\$ 125,876
Additions	17,488	192	17,680
Disposals	-	-	-
Changes to environmental rehabilitation (Note 8)	1,997	-	1,997
Transfer to assets held for sale	(3,420)	-	(3,420)
Amortization	-	(198)	(198)
Balance at January 31, 2011	141,729	206	141,935
Additions	20,807	412	21,219
Disposals	-	-	-
Changes to environmental rehabilitation (Note 8)	7,894	-	7,894
Amortization	-	(359)	(359)
Balance at January 31, 2012	\$ 170,430	\$ 259	\$ 170,689

NorthMet Project	January 31, 2012	January 31, 2011	February 1, 2010
Mineral property acquisition and interest costs	\$ 42,895	\$ 41,220	\$ 38,838
Mine plan and development	34,941	29,305	25,470
Environmental	33,843	25,994	19,537
Consulting and wages	25,921	21,756	18,788
Environmental rehabilitation	20,925	13,143	11,600
Site activities	10,956	9,362	7,641
Mine equipment	949	949	3,790
Net book value	\$ 170,430	\$ 141,729	\$ 125,664

Erie Plant, Minnesota, U.S.A.

In October 2003, the Company entered into an option with Cliffs Natural Resources Inc. to purchase 100% ownership of large parts of the former LTV Steel Mining Company ore processing plant in north eastern Minnesota. The Company paid \$500,000 in cash and issued 1,000,000 common shares (at fair value of \$229,320) for this option, which it exercised on November 15, 2005 under the Asset Purchase Agreement with Cliffs Natural Resources Inc. Consideration for the purchase was \$1 million in cash, \$2.4 million in notes payable (paid in full in June 2008) and the issuance of 6,200,547 common shares (at fair market value of \$7,564,000) in the capital shares of the Company.

On December 20, 2006, the Company closed a transaction (the "Asset Purchase Agreement II") in which it acquired, from Cliffs, property and associated rights sufficient to provide it with a railroad connection linking the mine development site and the Erie Plant. The transaction also included a 120-railcar fleet, locomotive fuelling and maintenance facilities, water rights and pipelines, large administrative offices on site and an additional 6,000 acres to the east and west of and contiguous to its existing tailing facilities.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

6. Mineral Property, Plant and Equipment - Continued

The purchase price totalling 2 million shares and \$15 million in cash and debt (Note 7) was in four tranches:

- 2 million shares of PolyMet with a fair value of \$6.160 million, paid at closing;
- \$1 million in cash, paid at closing;
- \$7 million in cash, payable in quarterly instalments of \$250,000 commencing December 31, 2006 with the balance payable upon receipt of production financing (remaining balance paid in full in December 2011). Interest was payable quarterly at the *Wall Street Journal* Prime Rate, and
- \$7 million in cash, payable in quarterly instalments of \$250,000 commencing on December 31, 2009 with a balloon payment of any unpaid balance due on December 31, 2011 (balance paid in full in December 2011). No interest was payable until December 31, 2009 after which it was payable quarterly at the *Wall Street Journal* Prime Rate, accordingly the debt was fair valued, for balance sheet purposes, by discounting it at 8.25%.

The Company has assumed certain ongoing site-related environmental and reclamation obligations as a result of the above purchases. These environmental and reclamation obligations are presently contracted under the terms of the purchase agreements with Cliffs. Once the Company obtains its permit to mine and Cliffs is released from its obligations by the State agencies, the environmental and reclamation obligations will be direct with the governing bodies. The present value of the environmental rehabilitation provision in the amount of \$22,836,000 (Note 8) net of accretion and amounts spent has been recorded as an increase in the carrying amount of the NorthMet Project assets and will be amortized over the life of the asset.

Interest and loan accretion on the long-term (Note 7) and convertible debt (Note 9) to January 31, 2012 in the amount of \$9,213,000 (January 31, 2011 - \$7,196,000, February 1, 2010 - \$4,833,000) have been capitalized as part of the cost of the NorthMet Project assets.

As the above assets are not in use, no amortization of these assets has been recorded to January 31, 2012.

At April 30, 2010, certain equipment was classified as assets held for sale. During the year-ended January 31, 2011, these assets were written down to fair value less estimated cost to sell, resulting in a loss of \$520,000. During the quarter ended January 31, 2012 the assets were sold for a gain of \$72,000.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

7. Long Term Debt

Pursuant to Asset Purchase Agreement II (Note 6) the Company's wholly owned subsidiary PolyMet US signed two notes payable to Cliffs in the amounts of \$7,000,000 and \$7,000,000, respectively.

The first note was interest bearing at the Wall Street Journal Prime Rate and was being paid in quarterly instalments equal to \$250,000 with the first payment on December 31, 2006, with the balance repayable upon receipt of commercial financing, for total repayment of \$7,000,000.

The second note was interest bearing at the Wall Street Journal Prime Rate and was being paid in quarterly instalments equal to \$250,000 commencing on December 31, 2009 for total repayment of \$7,000,000 with final payment due on December 31, 2011. No interest was payable on the second note until December 31, 2009. Accordingly it was fair valued, for balance sheet purposes, by discounting it at 8.25%, the rate of interest on the first note when it was entered.

If PolyMet were to default on individual elements of the transactions with Cliffs, the assets associated with the default could revert to Cliffs' control.

Both of these notes were repaid in full in December 2011.

On June 30, 2011 PolyMet closed a \$4,000,000 loan from Iron Range Resources & Rehabilitation Board ("IRRRB"), a development agency created by the State of Minnesota to stabilize and enhance the economy of northeastern Minnesota. At the same time, the Company exercised its options to acquire two tracts of land as part of a proposed land exchange with the U.S. Forest Service ("USFS"). The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS. PolyMet has issued warrants giving the IRRRB the right to purchase 400,000 shares of its common shares at \$2.50 per share at any time until the earlier of June 30, 2016, the date the land is exchanged with the USFS and an alternate date as determined between the parties as the due date of the loan.

The Company has accounted for the IRRRB loan and the 400,000 common share warrants by allocating the \$4,000,000 between the debt and the warrants by fair valuing the debt using a discount rate of 8% and allocating the residual of \$550,124 to the warrants.

As at January 31, 2012, the outstanding long term debt was as follows:

	January 31, 2012	January 31, 2011	February 1, 2010
Note payable	\$ 3,450	\$ 8,500	\$ 10,499
Accrued interest and accretion	222	25	30
Total Debt	3,672	8,525	10,529
Less current portion	-	(6,750)	(2,000)
Long term debt	\$ 3,672	\$ 1,775	\$ 8,529

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

8. Environmental Rehabilitation Provision

As part of the consideration for the Cliffs Purchase Agreements (Note 6), the Company indemnified Cliffs for the liability for final reclamation and closure of the acquired property.

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is contracted to indemnify Cliffs requirement to meet performance standards to minimize environmental impact from operations and to perform site restoration and other closure activities. The Company's provisions for future site closure and reclamation costs are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments. The Company's estimate of the present value of the obligation to reclaim the NorthMet Project is based upon existing reclamation standards at January 31, 2012 and under IFRS. Once the Company obtains its permit to mine the environmental and reclamation obligations will be direct with the governing bodies.

The Company's best estimate of the environmental rehabilitation provision at January 31, 2012 was \$22,836,000 (January 31, 2011 - \$15,719,000, February 1, 2010 - \$13,699,000). This best estimate was based upon an January 31, 2012 undiscounted future cost of \$23.9 million (January 31, 2011 - \$24.4 million, February 1, 2010 - \$21.6 million) for the first Cliffs transaction and \$2.0 million (January 31, 2011 - \$2.1 million, February 1, 2010 - \$2.0 million) for Cliffs II, an annual inflation rate of 2.00%, risk-free interest rate of 2.55%, a mine life of 20 years and a reclamation period of 9 years. The revision in estimated cash flow balance during the period of \$7,894,000 is mostly due to the decrease in the risk-free interest rate from 4.33% to 2.55% during the period.

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency ("MPCA") relating to alleged violations on the Cliffs Erie Property. This consent decree required submission of Field Study Plan Outlines and Short Term Mitigation Plans, which have been approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval, such approval remains outstanding to date. As part of its prior transactions with Cliffs (Note 6), PolyMet has agreed to indemnify Cliffs for certain on-going site environmental liabilities.

There is substantial uncertainty related to the cost of implementation of the Long Term Mitigation Plan related to uncertainty about applicable water quality standards, the engineering scope and cost of mitigation required to meet those standards, and responsibility for the financial liability. As such, the Company is unable to estimate the liability for the Long Term Mitigation Plan at January 31, 2012. Outcomes that are unfavorable to us could result in material additional liability. The Company has included its best estimate of the liabilities related to this consent decree in its environmental rehabilitation provision for the year ended January 31, 2012.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

8. Environmental Rehabilitation Provision - Continued

Adjustments to the provision were as follows:

	Year ended January 31, 2012	Year ended January 31, 2011
Balance – beginning of year	\$ 15,719	\$ 13,699
Liabilities incurred	-	-
Liabilities discharged	(1,127)	(457)
Accretion expense	350	480
Revisions in estimated cash flows	7,894	1,997
Total environmental rehabilitation provision	22,836	15,719
Less current portion	(828)	(1,408)
Balance – end of year	\$ 22,008	\$ 14,311

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

9. Glencore Financing

Details of fair value of the Glencore convertible debentures, as amended, were as follows:

	Year ended January 31, 2012	Year ended January 31, 2011
Balance – beginning of year	\$ 27,631	\$ 24,866
Fair value adjustment on refinancing	-	706
Accretion and accrued interest	1,387	2,059
Balance – end of year	\$ 29,018	\$ 27,631

Since October 31, 2008 the Company and Glencore have entered into a series of financing agreements and a marketing agreement whereby Glencore committed to purchase all of our production of concentrates, metal, or intermediate products on market terms at the time of delivery, for at least the first five years of production. PolyMet agreed to propose to shareholders the election of Stephen Rowland, a senior executive of Glencore, as a director and also appointed a senior member of Glencore's technical team to PolyMet's Technical Steering Committee. As a result of the series of financing transactions and the purchase by Glencore of PolyMet common shares previously owned by Cliffs, Glencore's current ownership of PolyMet comprises:

- 41,967,842 shares representing 23.6% of PolyMet's issued shares
- \$25 million initial principal floating rate secured debentures due September 30, 2014. Including capitalized interest as of March 31, 2012, these debentures are exchangeable at \$1.50 per share into 19,510,196 common shares of PolyMet upon PolyMet giving Glencore notice that it has received permits necessary to start construction of the NorthMet project and availability of senior construction finance in a form reasonably acceptable to Glencore.
- Glencore has subscribed to 5 million common shares at \$2.00 per share no later than October 15, 2012.
- Glencore holds warrants to purchase 5.6 million common shares at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ("VWAP") of PolyMet common shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 72,078,038 common shares of PolyMet, representing 34.7% on a partially diluted basis.

2008 Agreement

On October 31, 2008, the Company entered into a financing with Glencore for an aggregate of \$50 million floating rate secured debentures which were due on September 30, 2011 (the "Debentures") to be issued by PolyMet US, and guaranteed by the Company. The Debentures bear interest at 12-month US dollar LIBOR plus 4%, compounded quarterly. Interest is payable in cash or by increasing the principal amount of the Debentures, at PolyMet's option, for payments on or before September 30, 2009, and at Glencore's option thereafter. At January 31, 2012, \$4,018,000 of interest had been added to the principal amount of the debt since inception. The Company has provided security on the

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

9. Glencore Financing - Continued

Debentures covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet's 100% shareholding in PolyMet US. The due date of the Debentures was extended under the 2010 and 2011 Agreements.

The Debentures were exchangeable into common shares of PolyMet, at Glencore's option, at \$4.00 per share. The Issuer could, at its option, prepay the Debentures if PolyMet's shares trade at a 20-day volume weighted average price ("VWAP") equal to or exceeding \$6.00, at which time, and at Glencore's option, Glencore could exchange the Debentures for common shares of PolyMet within 30 days in lieu of payment. Repayment between October 1, 2009 and September 30, 2010 would have been at 105% of the then outstanding principal of the Debentures, repayment between October 1, 2010 and September 30, 2011 would have been at 102.5% of the outstanding principal. The terms of exchange were amended under the 2011 Agreement.

\$7.5 million of the Debentures were issued on October 31, 2008, an additional \$7.5 million on December 22, 2008, \$5 million on June 18, 2009 and \$5 million on August 31, 2009.

Glencore's commitment to purchase, and the Company's commitment to issue, the final \$25 million of Debentures was cancelled under the 2010 Agreement described below.

On October 31, 2008, PolyMet issued to Glencore warrants ("Glencore Warrants") to purchase 6.25 million common shares of PolyMet at \$5.00 if exercised before the NorthMet Project entered into commercial production, or \$6.00 thereafter. The Glencore Warrants were amended under the 2009 Agreement and cancelled under the 2010 Agreement described below.

The Company accounted for the initial \$7.5 million of the Debentures and the Glencore Warrants by allocating the \$7.5 million to the warrants and debt based on their fair values, with the residual attributed to the exchangeable feature of the debt. The debt was fair valued using the difference between 9% and the 12 month LIBOR rate at October 31, 2008 plus 4% (7.2075%). Costs related to the financing of \$652,000 were recorded against the convertible debt.

The Company accounted for the second, third and fourth advances of \$7.5 million, \$5 million and \$5 million, respectively, of the Debentures by allocating the principal amounts to the debt based on its fair value and the residual to the exchangeable feature of the debt. The debt was fair valued using the difference between 9% and the 12 month LIBOR rate at October 31, 2008 plus 4% (7.2075%). Costs related to the financings of \$43,000, \$16,000 and \$12,000, respectively, were recorded against the convertible debt.

2009 Agreement

On November 17, 2009, the Company agreed to modify certain terms of the above transaction. Under the new terms the Glencore Warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at \$3.00 at any time on or before September 30, 2011. The incremental \$158,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to the warrants and share-based payment reserve. These warrants were cancelled as part of the November 2010 agreements described below.

On November 17, 2009, PolyMet agreed to modify the terms of the final \$25 million Tranche E of the \$50 million Debenture with Glencore such that Tranche E, if drawn, could be exchanged at \$2.65 per

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

share. The first four tranches totalling \$25 million (excluding capitalized interest) that had already been drawn would continue to be exchangeable at \$4.00 per share.

On November 17, 2009 PolyMet agreed to sell 9,433,962 common shares of the Company to Glencore at \$2.65 per share for gross proceeds of \$25 million. Closing and funding occurred in two transactions. On November 24, 2009, the Company closed the first tranche of 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. On January 26, 2010, the Company closed the second tranche of 5,660,377 common shares at \$2.65 per common share for gross proceeds of \$15 million. Transactions costs for these two financings totalled \$499,000.

2010 Agreement

On November 12, 2010, the Company renegotiated its debenture financing from Glencore. The agreed amendments to the debenture financing were as follows:

- The maturity date of the \$25 million in outstanding debentures, plus interest, was extended from September 30, 2011 to September 30, 2012. The Issued Debentures continued to be exchangeable into common shares of PolyMet at \$4.00 per share, as agreed to in 2008.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

9. Glencore Financing - Continued

- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, \$25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact Statement, receipt of a term sheet for construction financing, and other customary conditions.
- Cancellation of warrants to purchase 6.25 million common shares of PolyMet at \$3.00 per share at any time until September 30, 2011 issued to Glencore in connection with the Debentures, and
- Issuance of warrants (the "2010 Warrants") to purchase 3 million common shares of PolyMet at \$2.00 per share at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above. The terms of these warrants were amended under the 2011 Agreement.

On November 12, 2010, the Company entered into a definitive agreement with Glencore to sell to Glencore in a private placement 15 million common shares at \$2.00 per share for gross proceeds of \$30 million, before deducting estimated offering expenses. Completion of the sale of these shares and funding occurred or are expected to occur in the following three tranches subject, in each case, to certain closing conditions:

- Tranche 1 of \$10 million (closed on January 17, 2011);
- Tranche 2 of \$10 million (closed on July 15, 2011), and
- Tranche 3 of \$10 million will close on the earlier of (i) the date of the Company's funding requirement as set forth in a budget agreed between PolyMet and Glencore, ii) within ten business days following receipt by PolyMet of key permits, in a form reasonably acceptable to Glencore, that will enable the start of construction of the Project, and iii) October 15, 2012.

Glencore was also granted a right of first refusal to provide all material financings, subject to regulatory approval as long as it owns 10% or more of the issued and outstanding shares of PolyMet. As long as Glencore owns more than 5% of the issued and outstanding shares of PolyMet, it has the right to participate in any equity-related financing to maintain its partially diluted ownership interest (currently 23.6% of issued and 34.7% on a partially diluted basis).

In accordance with IFRS, the November 12, 2010 transaction has been accounted for as an extinguishment of the existing convertible debt at that date with a book value of \$26.546 million and reissuance of new convertible debt. Therefore all of the costs associated with the transaction have been recorded as a non-cash expense in the statement of loss and comprehensive loss of \$2.931 million, comprising:

- The change in fair value of the conversion feature resulting from its term being extended from September 30, 2011 to September 30, 2012 of \$1.633 million;
- The difference in fair value between the warrants to purchase 6.25 million common shares at \$3.00 per share exercisable until September 30, 2011 and the warrants to purchase 3 million common shares at \$2.00 per share exercisable until December 31, 2015 of \$3.217 million;
- The amounts of discount and deferred costs remaining to be accreted and amortized over the life of the debt of \$706,000, less

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

9. Glencore Financing - Continued

- The premium of \$2.625 million resulting from the price of the common shares sold or to be sold to Glencore compared with the market price at the time of the arrangement.

The \$875,000 of premium attributable to the first tranche of the financing was debited to share capital and credited to equity reserves – share premium in fiscal 2011 and the \$875,000 of premium attributable to the second tranche of the financing was debited to share capital and credited to equity reserves – share premium in fiscal 2012.

2011 Agreement

On November 30, 2011, PolyMet and Glencore entered into a definitive agreement to:

- Sell in a private placement to Glencore, 13,333,333 common shares at \$1.50 per share for gross proceeds of \$20 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ("VWAP") of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2011 Warrants, the 2011 Warrants will expire. Approximately \$7.0 million of the proceeds from the sale of these shares were used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. (Note 7);
- Extend the term of the \$25 million initial principal debentures from September 30, 2012 to the earlier of i) PolyMet giving Glencore ten days notice that PolyMet has received permits necessary to start construction of the NorthMet project and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and ii) September 30, 2014, on which date all principal and interest accrued to such date will be due and payable. Glencore has the right to exchange some or all of the debentures at any time. Upon occurrence of the Early Maturity Event, the initial principal and capitalized interest will be exchanged into common shares of PolyMet at \$1.50 per share, and
- Amend the terms of the warrants issued to Glencore in 2010 (the "2010 Warrants") to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2010 Warrants, the 2010 Warrants will expire.

The transactions closed on December 6, 2011.

The December 6, 2011 transaction has been accounted for as a modification of the existing convertible debt at that date with a book value of \$28.779 million. Therefore all of the costs associated with the transaction have been recorded within Share Capital, comprising:

- The change in fair value of the conversion feature resulting from its term being extended from September 30, 2012 to September 30, 2014 of \$2.400 million;

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

9. Glencore Financing - Continued

- The difference in fair value between the warrants to purchase 3 million common shares at \$2.00 per share exercisable until December 31, 2015 and the warrants to purchase 3 million common shares at \$1.50 per share exercisable until December 31, 2015 of \$177,000;
- The fair value of the warrants to purchase 2.6 million common shares at \$1.50 per exercisable until December 31, 2015 of \$1.708 million, less
- The premium of \$4.667 million results from the agreed upon price of the common shares of \$1.50 per share, compared with the market price at the time of the arrangement.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital

a) Share Issuances for Cash

On July 15, 2011, the Company closed the second tranche of its equity financing with Glencore for 5,000,000 common shares at \$2.00 per share for gross proceeds of \$10 million (Note 9). Transaction costs for the financing were \$22,000. For accounting purposes, the \$875,000 was allocated to equity reserves to reflect the premium per share received over the regulatory approved minimum price protection per share.

On December 6, 2011, the Company closed an equity financing with Glencore for 13,333,333 common shares at \$1.50 per share for gross proceeds of \$20 million (Note 9). Transaction costs for the financing were \$171,000.

During the year ended January 31 2012, the Company issued 1,185,000 shares (January 31, 2011 – 845,000) pursuant to the exercise of share options for total proceeds of \$902,000 (January 31, 2011 - \$808,000).

b) Share Options and Restricted Shares

Effective May 25, 2007, the Company adopted an Omnibus Share Compensation Plan (“Share Option Plan”), which was approved by the Company’s shareholders’ on June 27, 2007. The Share Option Plan covers the Company’s employees, directors, officers and consultants. The options are granted for varying terms ranging from two to seven years. The maximum number of common shares under the share option plan shall not exceed (i) 10% of the outstanding common shares of the Company at the time of granting of the options and (ii) 18,592,888 common shares of the Company, of which 3,967,500 common shares are reserved for issuance as awards other than options including the bonus shares (Note 16a)) and the restricted shares noted below.

Details of share option activity were as follows:

	January 31, 2012	January 31, 2011
Outstanding - Beginning of period	11,630,000	13,075,000
Granted	750,000	300,000
Forfeited	-	(900,000)
Exercised	(1,185,000)	(845,000)
Outstanding - End of period	11,195,000	11,630,000

The weighted average share price on the dates the above options were exercised was \$1.78 in the current year (prior year - \$1.74).

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital - Continued

b) Share Options and Restricted Shares - Continued

As at January 31, 2012, the following director, officer, consultant and employee share options were outstanding:

Expiry Date	Exercise Price (US\$)	Exercise Price (CDN\$)	Number of options outstanding
March 30, 2012	0.65*	0.65	50,000
May 1, 2012	0.85*	0.85	135,000
June 15, 2012	0.94*	0.94	40,000
September 19, 2012	1.35*	1.36	1,240,000
October 24, 2012	1.20*	1.20	200,000
December 5, 2012	1.15*	1.15	125,000
March 20, 2013	2.75*	2.76	2,400,000
June 19, 2013	2.96*	2.97	325,000
September 1, 2013	3.81*	3.82	300,000
September 22, 2013	3.50*	3.51	75,000
January 5, 2014	3.29*	3.30	525,000
February 13, 2014	2.99		1,250,000
March 12, 2014	2.92		250,000
March 23, 2014	2.89		50,000
September 4, 2014	3.00		360,000
December 12, 2014	3.05		205,000
January 11, 2015	3.03		70,000
January 31, 2015	2.87		100,000
February 15, 2015	2.72		500,000
June 2, 2015	3.92		100,000
July 30, 2015	3.22		175,000
January 30, 2016	0.82		585,000
February 17, 2016	0.82		910,000
October 15, 2016	2.67		115,000
January 8, 2017	3.54		60,000
January 25, 2018	2.17		300,000
March 10, 2018	2.04		750,000
Weighted average exercise price and total number of options outstanding	2.32		11,195,000

* For information purposes, those options issued in Canadian dollars have been translated to the Company's reporting currency using the exchange rate as at January 31, 2012.

As at January 31, 2012 all options had vested and were exercisable, with the exception of 1,812,500, which vest upon completion of specific targets.

Subsequent to year end, on March 8, 2012, the Company granted 1,150,000 options to certain independent directors and management with an average exercise price of USD\$1.19 per option.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital - Continued

c) Share-Based Compensation

During the year ended January 31, 2012, the Company granted 750,000 options to directors with an average exercise price of \$2.04 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	1.71%
Expected dividend yield	Nil
Expected forfeiture rate	Nil
Expected share price volatility	75.18%
Expected option life in years	1.40

The expected forfeiture rate reflects the Company's expectations that its key staff and directors who have received incentive options will continue to work for the Company. The Company has no current plans to reduced staffing levels and anticipates that the likelihood of resignations will diminish as the permitting process proceeds.

The weighted fair value of options granted during the period was \$0.68. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

During the year ended January 31, 2012, the Company recorded \$962,000 for share-based compensation in its accounts as an expense of \$625,000 and as a debit to mineral property, plant and equipment of \$337,000, with the offsetting entries to warrants and share-based payment reserve.

During the year ended January 31, 2012, the Company granted bonuses comprising 327,500 restricted shares for U.S. employees and consultants and restricted share units for Canadian employees and consultants. 50% of each award to be issued upon receipt of permits and the balance to be issued upon the start of production. The restricted shares had a fair value of \$668,000 which is being amortized over the vesting periods. During the current year, the Company recorded \$274,000 for share-based compensation relating to these units in its accounts as an expense of \$95,000 and as a debit to mineral property, plant and equipment of \$179,000, with the offsetting entries to warrants and share-based payment reserve. These amounts are included in the totals in the preceding paragraph. 259,000 shares of the restricted shares were issued in trust to a third party.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital - Continued

c) Share Based Compensation - Continued

During the year ended 31 January 2011, the Company granted 300,000 options to directors, officers, consultants and employees with an average exercise price of USD\$2.20 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	1.68%
Expected dividend yield	Nil
Expected share price volatility	64.79%
Expected option life in years	1.50

The weighted fair value of options granted during the period was \$0.73. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

During the year ended 31 January 2011, the Company recorded \$275,000 for share based compensation in its accounts as an expense of \$93,000 and a debit to mineral property, plant and equipment of \$182,000, with the offsetting entries going to contributed surplus. During the year ended 31 January 2011, the Company also recorded a debit to contributed surplus and a credit to share based compensation expense of \$212,000 to reverse prior accounting for share options which had yet to vest and were forfeited in the period.

During the year ended 31 January 2010, the Company granted 1,585,000 options to directors, officers, consultants and employees with an average exercise price of USD\$1.14 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	1.30% to 1.69%
Expected dividend yield	Nil
Expected share price volatility	81.97% to 107.32%
Expected option life in years	2.33

The weighted fair value of options granted during the period was \$0.56. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

During the year ended 31 January 2010, the Company recorded \$1,240,000 for share based compensation in its accounts as an expense of \$915,000 and a debit to mineral property, plant and equipment of \$325,000, with the offsetting entries going to contributed surplus. The total for the year included the amortization of the fair value cost of existing share options and the impact of the two year extension of the term of all options outstanding at 24 June 2009 (\$339,000).

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

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

d) **Warrants and Share-Based Payment Reserve**

The warrants and share-based payment reserve represents accumulated share-based compensation expense and warrants issued, reduced by the fair value of the share options and warrants exercised.

Details were as follows:

	Year ended January 31, 2012	Year ended January 31, 2011
Balance – Beginning of year	\$ 37,920	\$ 37,591
Fair value of share-based compensation	962	63
Refinancing of convertible debt (<i>Note 9</i>)	4,285	2,225
Bonus Shares for Milestones 4 cost amortization (<i>Note 16a</i>)	1,235	1,593
Forfeiture of Bonus Shares for Milestone 4 (<i>Note 16a</i>)	-	(1,682)
Deferred income tax charge (<i>Note 10e</i>)	(657)	(1,390)
Long-term debt – warrants to IRRRB (<i>Note 10e</i>)	550	-
Fair value of share options and warrants exercised	(663)	(480)
Balance – End of year	\$ 43,632	\$ 37,920

e) **Share Purchase Warrants**

Details of share purchase warrant activity were as follows:

	January 31, 2012		January 31, 2011	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding - beginning of year	7,010,000	4.00	15,202,046	3.74
Expired (<i>Note 10e</i>)	(4,010,000)	5.00	(4,942,046)	3.23
Cancelled (<i>Note 9</i>)	-	-	(6,250,000)	3.00
Amended (<i>Note 9</i>)	(3,000,000)	2.00	-	-
Amended (<i>Note 9</i>)	3,000,000	1.50	-	-
Issued (<i>Notes 7 and 9</i>)	3,000,000	1.63	3,000,000	2.00
Warrants outstanding – end of year	6,000,000	1.57	7,010,000	4.00

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital - continued

e) Share Purchase Warrants

On April 17, 2007, the Company issued 7,500,000 warrants in connection with a non-brokered private placement financing of 15 million units at \$2.75 per unit, with each unit comprising one common share and one-half of one warrant. Each whole warrant was exercisable into a common share at a price of \$4.00 at any time until October 13, 2008. In connection with the private placement, the Company has paid finders' fees including an additional 520,000 broker warrants having the same terms as the warrants described above.

On October 10, 2008, the Company announced that it received the consent from the holders of more than two-thirds of the 8,020,000 warrants issued as part of the April 2007 private placement to exchange those warrants into:

- 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common shares at \$3.00 per share at any time until October 13, 2009, and
- 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common shares at \$5.00 if exercised before the NorthMet Project commenced commercial production, or \$6.00 thereafter and prior to August 31, 2011.

The incremental \$544,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to the warrants and share-based payment reserve in the year ended January 31, 2009.

In October and November 2009, the Company received the consent from holders of more than two-thirds of the above warrants to, in two steps, exchange the 4,010,000 warrants due to expire on October 13, 2009 for 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common shares at \$3.00 per share at any time until December 31, 2010, with certain provisions for acceleration. The incremental \$4,762,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to the warrants and share-based payment reserve.

Warrants to purchase 167,954 common shares of PolyMet were exercised in the year ended January 31, 2010. On December 31, 2010, the unexercised warrants, to purchase 3,842,046 common shares of PolyMet at \$3.00 per share, expired. The Company recorded a deferred income tax charge as the expiration of the warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$1,219,000.

On August 31, 2011, the unexercised warrants, to purchase 4,010,000 common shares of PolyMet at \$5.00 per share if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or \$6.00 thereafter, expired. The Company recorded a deferred income tax charge as the expiration of the warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$657,000.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital - continued

e) Share Purchase Warrants - continued

On October 31, 2008, the Company issued 6,250,000 warrants ("Purchase Warrants") to Glencore as partial consideration under the financing agreement described in Note 9. The warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at \$5.00 if exercised before the NorthMet project has produced a total of 20,000 metric tonnes of concentrate, or \$6.00 thereafter. The warrants would have expired on September 30, 2011.

On November 17, 2009, the Company amended the terms such that the Purchase Warrants entitled Glencore to purchase 6,250,000 common shares of PolyMet at \$3.00 and expire on September 30, 2011.

On November 12, 2010, the Company cancelled warrants giving Glencore the right to purchase 6,250,000 common shares of PolyMet at \$3.00 at any time until September 30, 2011 and issued warrants giving Glencore the right to purchase 3,000,000 common shares of PolyMet at \$2.00 at any time until December 31, 2015, in consideration of the amendments to the debenture agreements.

On December 6, 2011, PolyMet issued to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2011 Warrants, the 2011 Warrants will expire. On that same date, the Company agreed to amend the terms of the warrants issued to Glencore in 2010 (the "2010 Warrants") to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2010 Warrants, the 2010 Warrants will expire. Note 9 - 2011 Agreement.

On June 30, 2011 PolyMet closed a \$4,000,000 loan (Note 7 – also includes use of proceeds) from Iron Range Resources & Rehabilitation Board ("IRRRB"). In consideration for making of the loan to the Company, PolyMet has issued warrants giving the IRRRB the right to purchase 400,000 common share of the Company at \$2.50 per share at any time until the earlier of June 30, 2016 or one year after permits are received.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

10. Share Capital - continued

e) **Share Purchase Warrants - continued**

On October 31, 2006, the Company issued 600,000 warrants to BNP Paribas Loan Services as partial consideration under the agreement described in Note 16b). These warrants had an exercise price of \$4.00 per share and expired on October 30, 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of \$4.00 per share at any time prior to October 30, 2010 would have vested. All of these warrants expired on October, 30 2010. The Company recorded a deferred income tax recovery as the expiration of the warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$171,000.

11. Finance Income and Costs

Finance income and costs for the years ended January 31, 2012 and 2011 were comprised of:

	2012	2011
Interest (income) expense	\$ 1	\$ 19
Accretion of environmental rehabilitation provision	350	480
Finance income and costs	\$ 351	\$ 499

12. Supplemental Disclosure With Respect to Statements of Cash Flows

During the years ended January 31, 2012 and 2011 the Company entered into the following non-cash investing and financing activities:

	2012	2011
Changes in trade payables and accrued liabilities related to investing activities	\$ 998	\$ 176
Accretion and accrued interest	\$ 1,387	\$ 2,059
Deferred income tax recovery	\$ (657)	\$ (1,390)
Share-based compensation	\$ 962	\$ 63
Milestone 4 Bonus Share cost amortization	\$ 1,235	\$ (98)

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

13. Related Party Transactions

The Company conducted transactions with key management personnel, comprising of certain members of senior management, officers, directors and persons or companies related to these individuals, and paid or accrued amounts during the years ended January 31, 2012 and 2011, as follows:

	2012	2011
Wages and other short-term benefits	\$ 950	\$ 825
Termination benefits	-	-
Other long-term benefits	32	21
Commission on sale of used drill	200	
Share-based compensation	738	-
Total	\$ 1,920	\$ 846

The amounts charged to the Company for the services provided have been determined by negotiation among the parties.

Included in key management compensation were consulting fees of \$nil paid during the year ended January 31, 2012 (January 31, 2011 - \$59,000) to Dr. Dreisinger, a director of the Company, primarily in connection with activities related to the processing / technical side of the NorthMet project and related expenses (the latter were supported by invoices and receipts). The consulting fees were based on a monthly fee of Canadian \$5,500 plus general sales tax. Throughout the term of his engagement, Dr. Dreisinger conducted in-person and telephonic meetings with Mr. William Murray, then the Company's Executive Chairman, and other members of management at which he provided both verbal and written updates on the status of test work and made recommendations for future activities. These meetings occurred approximately every two to three weeks for the past six years.

The agreement with Dr. Dreisinger was entered into at a time when the Company's current business plans were being formulated and were month to month and oral in nature. The agreement was approved by Mr. William Murray. It was discussed with the Company's board of directors who did not consider that a formal approval and written contract was necessary at that time. The Company believes that the contract was at terms at least as good as could be obtained from third parties. The agreement with Dr. Dreisinger was terminated effective January 31, 2011.

During the quarter ended January 31, 2012, PolyMet sold a used drill for \$3.69 million. A company controlled by a Director of PolyMet received a commission of \$200,000 related to this sale.

As a result of Glencore's ownership of 23.6% of the Company it is also a related party. Transactions with Glencore are described in notes 9 and 16d.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

14. Income Taxes

a) Income tax expense

The provision for income taxes reported differs from the amount computed by applying cumulative Canadian federal and provincial income tax rates to the loss before the tax provision due to the following:

	2012	2011
Net loss	\$ (3,045)	\$ (6,692)
Statutory tax rate	26.5%	28.5%
Recovery of income taxes computed at statutory rates	(807)	(1,907)
Difference in foreign tax rates	(118)	(320)
Non-deductible loss on refinancing with Glencore		835
Other non-deductible items and other	268	2
Deferred income tax recovery	\$ (657)	\$ (1,390)

b) Deferred tax assets have not been recognized in respect of the following items:

	2012	2011
Non-capital losses and other future tax deductions	\$ 20,307	\$ 16,278
Mineral properties, deferred development and capital assets	(3,263)	(3,556)
Other assets	157	112
Unrecognized deferred income assets	\$ 17,201	\$ 12,834

As at December 31, 2012, the Company had deductible temporary differences for which deferred tax assets have not been recognized because it is not probable that future profit will be available against which the Company can utilize the benefits.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

14. Income Taxes - Continued

As of January 31, 2012, the Company has Canadian loss carry forwards of approximately \$7.7 million (2011 - \$10.3 million) and US loss carry forwards of approximately \$48.4 million (2011 - \$39.9 million) available to reduce future years' income for tax purposes. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The tax loss carry forwards expire as follows:

Expiry of Tax Losses	Amount
January 31, 2019	\$ 835
January 31, 2020	693
January 31, 2021	827
January 31, 2022	937
January 31, 2023	859
January 31, 2024	655
January 31, 2025	945
January 31, 2026	3,277
January 31, 2027	7,606
January 31, 2028	6,445
January 31, 2029	6,180
January 31, 2030	8,195
January 31, 2031	10,170
January 31, 2032	8,446
	<u>\$ 56,070</u>

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

15. Segmented Information

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

January 31, 2012	Canada		U.S.		Consolidated	
Cash and equivalents	\$	15,850	\$	1,628	\$	17,478
Mineral Property, Plant and Equipment	\$	19	\$	170,670	\$	170,689
Identifiable assets	\$	16,235	\$	173,336	\$	189,571
Total Liabilities	\$	29,333	\$	27,872	\$	57,205
Deferred income tax recovery	\$	(657)	\$	-	\$	(657)
Segment operating loss	\$	2,020	\$	1,025	\$	3,045

January 31, 2011	Canada		U.S.		Consolidated	
Cash and equivalents	\$	10,023	\$	338	\$	10,361
Asset held for sale	\$	-	\$	3,420	\$	3,420
Mineral Property, Plant and Equipment	\$	39	\$	141,896	\$	141,935
Identifiable assets	\$	9,010	\$	147,726	\$	156,736
Total liabilities	\$	27,905	\$	26,414	\$	54,319
Financing cost write-off	\$	1,830	\$	-	\$	1,830
Loss (gain) on asset held for sale	\$	-	\$	520	\$	520
Deferred income tax recovery	\$	(1,390)	\$	-	\$	(1,390)
Segment operating loss	\$	5,031	\$	1,631	\$	6,662

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

16. Commitments and Contingencies

- a) The Company has instituted a share bonus plan as part of its employment, management and consulting contracts for key directors, 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 Project. As at January 31, 2012, the Company had received shareholder approval of the Bonus Shares for Milestones 1 to 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval. To January 31, 2012, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3.

The summary of the share bonus plan is as follows:

	Bonus Shares	
Milestone 1	1,590,000	issued
Milestone 2	1,300,000	issued
Milestone 3	2,350,000	issued
Milestone 4	3,640,000	(i) and (ii)

- (i) Milestone 4 – Commencement of commercial production at the NorthMet Project at a time when the Company has not less than 50% ownership interest.
- (ii) At the Annual General Meeting of shareholders of the Company, held on June 17, 2008, the disinterested shareholders approved the bonus shares for Milestone 4. The bonus shares allocated to Milestone 4 are valued at \$3.80, the Company's closing trading price on June 17, 2008.

During the year ended January 31, 2012, the Company recorded \$1,235,000 related to Milestone 4 (January 31, 2011 – \$(89,000)), these amounts were capitalized to Mineral Property, Plant and Equipment. The fair value of these unissued bonus shares is being amortized, over its expected life, until the estimated date of issuance. The prior year period reversal includes \$1,682,000 representing the forfeiture of entitlement to bonus shares by individuals upon resignation or not continuing to stand as Directors of the Company.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

16. Commitments and Contingencies - Continued

- b) On October 31, 2006 the Company entered into an agreement with BNP Paribas Loan Services (“BNPP”) whereby BNPP agreed to advise and assist PolyMet in all aspects of preparation for construction finance. As part of this agreement, BNPP was issued warrants to purchase 600,000 of the Company’s common shares at a price of \$4.00 per share at any time prior to October 30, 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of \$4.00 per share at any time prior to October 30, 2010 would vest. As part of the agreement, PolyMet would also pay BNPP a monthly fee for its advice and assistance and pay the costs for BNPP’s independent engineers. The Company decided to review alternatives for construction financing and decided not to renew its agreement with BNPP which expired on July 31, 2010. As such, the \$1,830,000, \$1,197,000 of which was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset was written off to the consolidated statement of loss and comprehensive loss in the year ended January 31, 2011.
- c) On October 13, 2008, the Company entered into a collateral pledge agreement wherein it pledged a used drill rig which it owned against amounts due to a supplier for rebuilding the drill rig. The drill rig was reclassified as held for sale and was sold in January 2012 and PolyMet was released from the collateral pledge agreement.
- d) On October 31, 2008, the Company entered into agreements with Glencore wherein Glencore will provide marketing services covering concentrates, metal, or intermediate products at prevailing market terms for at least the first five years of production.
- e) On January 31, 2012, the Company had outstanding commitments related to equipment, rent, consultants and the environmental review process of approximately \$2.2 million almost all of which is due over the next year.
- f) At January 31, 2012 the Company had non-binding commitments of \$381,000, all due in the current year, to pay options to maintain its right to acquire certain lands that it will need at permitting. These lands include land that the Company expects to exchange with the USFS for surface rights at the mine site and land for wetland credits.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

16. Commitments and Contingencies - Continued

g) The following table lists the known accounts payable and debt at January 31, 2012:

<i>Contractual Obligations</i>	<i>Payments due by period (US\$000's)</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 3 years</i>	<i>3 – 5 years</i>	<i>More than 5 years</i>
Trade payables and accrued liabilities	\$1,679	\$1,679	\$-	\$-	\$-
Long-term debt obligations	38,146	-	33,132	5,014	-
Environmental rehabilitation provision	25,828	828	582	538	23,880
Firm Commitments	2,200	2,145	55	-	-
Total	\$67,853	\$4,652	\$33,769	\$5,552	\$23,880

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

17. Financial Instruments and Risk Management

The carrying values of the Company's financial instruments are classified into the following categories:

	January 31, 2012	January 31, 2011
	\$	
Loans and Receivables ⁽¹⁾	17,478	\$ 10,361
Available-for-sale	30	66
Other loans and receivables	440	318
Other financial liabilities ⁽²⁾	34,369	38,600

(1) Includes cash and equivalents.

(2) Includes trade payables and accrued liabilities, convertible debt and long term debt.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies.

Risks Arising from Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including currency), credit risk, liquidity risk, interest rate risk and investment risk. Reflecting the current stage of development of the Company's NorthMet Project, PolyMet's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on PolyMet's ability to execute its business plan.

Risk management is the responsibility of executive management. Material risks are identified and monitored and are discussed with the audit committee and the board of directors.

Currency Risk

The Company incurs expenditures in Canada and in the United States. The functional and reporting currency of the Company and its subsidiary is the United States dollar. Foreign exchange risk arises because the amount of Canadian dollar cash and equivalents, trade and other receivables, investment or trade payables and accrued liabilities will vary in United States dollar terms due to changes in exchange rates.

As the majority of the Company's expenditures are in United States dollars, the Company has kept a significant portion of its cash and equivalents in United States dollars. The Company has not hedged its exposure to currency fluctuations.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

17. Financial Instruments and Risk Management - Continued

As at January 31, 2012, the Company was exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	January 31, 2012	January 31, 2011
Loans and receivables ⁽¹⁾	\$ 305	\$ 554
Available-for-sale	30	66
Other loans and receivables	95	102
Other financial liabilities ⁽²⁾	(239)	(192)
	\$ 191	\$ 530

(1) Includes cash and equivalents.

(2) Includes trade payables and accrued liabilities.

Based on the above net exposures, as at January 31, 2012, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by \$19,000.

Credit Risk

Credit risk arises on cash and equivalents held with banks and financial institutions, as well as credit exposure on outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets of \$17,918,000.

The Company's cash and equivalents are held through a large Canadian financial institution.

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and equivalents.

Interest Rate Risk

Interest rate risk arises on cash and equivalents and long term debt and fluctuations in the related interest rates. The Company has not hedged any of its interest rate risk.

As at January 31, 2012, the Company was exposed to interest rate risk through the following assets and liabilities:

	January 31, 2012	January 31, 2011
Loans and receivables ⁽¹⁾	\$ 17,478	\$ 10,361
Other financial liabilities ⁽²⁾	32,690	36,156

(1) Includes cash and equivalents.

(2) Represents long term debt (Note 7) and convertible debt (Note 9).

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

17. Financial Instruments and Risk Management - *Continued*

Investment Risk

The Company's investment in the common shares of a publicly traded Canadian mining company bears investment risk. The maximum exposure to investment risk is equal to the carrying value of the investment.

The Company's investment in the NorthMet Project (Note 6) is also at risk since the NorthMet Project is pledged in part as security to Cliffs and otherwise is pledged wholly as security to Glencore.

As at January 31, 2012, the Company was exposed to investment risk through the following assets:

	31 January 2012	31 January 2011
Available-for-sale ⁽¹⁾	\$ 30	\$ 66

(1) Includes investment.

Fair Value Measurements

PolyMet's financial assets and liabilities are measured or disclosed at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Investments in marketable securities are valued using quoted market prices in active markets, obtained from securities exchanges. Accordingly, these items are included in Level 1 of the fair value hierarchy.

Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable (supported by little or no market activity) prices.

Loans and receivables are recorded at face value. Trade and other receivables are short-term in nature and represent the initial price of the good or service. Long term and convertible debt have been fair valued using assumptions with respect to interest rates relevant to similar debt taking into account the collateral involved.

The fair values of the Company's financial assets, loans and receivables and trade and other receivables approximate their carrying amounts. The Company's investment is valued using quoted market prices in active markets, obtained from securities exchanges and accordingly is Level 1 in the fair value hierarchy.

The fair value of the Company's trade payables and accrued liabilities, long term debt and convertible debt approximate their carrying amounts.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

17. Financial Instruments and Risk Management - Continued

Capital Management

Similar to other companies in the development stage, the Company is in discussions with certain parties to provide funding which will enable the Company to execute its business plan. With the completion of the DFS and taking into account the current permitting process the Company is in, PolyMet will require additional funds through Project construction. Funding for the Project could come from a number of sources and include internal cash flows (for the second stage of the construction), bank project financing and capital market financing. During the upcoming fiscal year, the Company's objective is to identify the source or sources from which it will obtain the capital required to complete the Project.

The Company has no externally imposed capital requirements. In the management of capital, the Company includes the components of shareholders' equity, convertible debt and long-term debt. The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to assist in management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors. The budgets are approved by the Company's Board of Directors.

Although the Company plans to have the resources to carry out its plans and operations through January 31, 2013, it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is currently in discussions to arrange sufficient capital to meet these requirements.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

18. Transition to IFRS

These are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended January 31, 2012, the comparative information presented in these financial statements for the year ended January 31, 2011 and in the preparation of an opening IFRS balance sheet at February 1, 2010, the Company's date of transition.

For its opening IFRS balance sheet, the Company has adjusted amounts previously reported in financial statements prepared using Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is provided in the following footnotes and tables.

a) Initial Elections Upon Adoption

Set out below are the applicable IFRS 1 exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options

Business Combinations

IFRS 1 provides the option to apply IFRS 3 *Business Combinations*, prospectively from the transition date or from a specific date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date. The Company elected to apply IFRS 3 prospectively to business combinations occurring after February 1, 2010, its transition date. Business combinations occurring prior to the transition date have not been restated.

Decommissioning, Restoration and Similar Liabilities

The Company has elected not to apply IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes related to the environmental rehabilitation provision that occurred prior to February 1, 2010. As such, the Company calculated its environmental rehabilitation provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* at February 1, 2010. The provision was then discounted to the date the obligation first arose using a historical discount rate and added to the cost of the related asset in mineral property, plant and equipment.

Share-Based Compensation

The Company has elected to apply IFRS 2 *Share-based Payment* only to equity instruments granted after November 7, 2002 that remained unvested at February 1, 2010, the date of transition to IFRS.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

18. Transition to IFRS - Continued

IFRS Mandatory Exceptions

In accordance with the mandatory exception in IFRS 1 for estimates, the estimates used as at February 1, 2010 are consistent with the estimates as at the same date made in conformity with Canadian GAAP.

The other compulsory exceptions of IFRS 1 have not been applied as they are not relevant to the Company.

b) Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The following tables represent the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and total comprehensive income.

Reconciliation of equity between Canadian GAAP and IFRS as at February 1, 2010:

	Note	Share Capital	Contributed Surplus ¹	AOCL ²	Deficit	Total Equity
As reported under Canadian GAAP		\$ 132,066	\$ 36,979	\$ 71	\$ (71,549)	\$ 97,567
Change to initial fair value of convertible debt conversion factor and warrants	(i)	-	612	-	-	612
Adjustment to fair value of environmental rehabilitation provision	(ii)	-	-	-	(534)	(534)
As reported under IFRS		\$ 132,066	\$ 37,591	\$ 71	\$ (72,083)	\$ 97,645

¹ Contributed surplus was reclassified to warrants and share-based payment equity reserve under IFRS

² Accumulated other comprehensive loss ("AOCL") was reclassified to available for sale revaluation equity reserve under IFRS

PolyMet Mining Corp.
(a development stage company)
Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

18. Transition to IFRS - Continued

Reconciliation of equity between Canadian GAAP and IFRS as at January 31, 2011:

	Note	Share Capital	Share Premium	Contributed Surplus ¹	AOCL ²	Deficit	Total Equity
As reported under Canadian GAAP		\$ 142,373	\$ -	\$ 39,083	\$ -	\$ (78,832)	\$102,618
Change to initial fair value of convertible debt conversion factor and warrants	(i)	-	-	612	-	-	612
Reclassify share premium	(iii)	-	875	(875)	-	-	-
Adjustment to fair value of environmental rehabilitation provision	(ii)	-	-	-	-	(534)	(534)
Change in loss on refinancing of convertible debt	(i)	-	-	(900)	-	716	(184)
Change in accretion of environmental rehabilitation provision	(ii)	-	-	-	-	(95)	(95)
As reported under IFRS		\$ 142,373	\$ 875	\$ 37,920	\$ -	\$ (78,745)	\$102,417

¹ Contributed surplus was reclassified to warrants and share-based payment equity reserve under IFRS

² Accumulated other comprehensive loss ("AOCL") was reclassified to available for sale revaluation equity reserve under IFRS

Reconciliation of total comprehensive loss between Canadian GAAP and IFRS the year ended January 31, 2011:

	Note	Year ended January 31, 2011
Total comprehensive loss - under Canadian GAAP		\$ 7,360
Change in loss on refinancing of convertible debt	(i)	(716)
Change in accretion of environmental rehabilitation provision	(ii)	95
Total comprehensive loss – as reported under IFRS		\$ 6,739

c) Explanations of Reconciliations of Canadian GAAP to IFRS

The transition from Canadian GAAP to IFRS has had no effect on the net cash flows reported by the Company. The changes made to the statements of consolidated earnings and consolidated balance sheets have resulted in reclassification of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been prepared.

i) Convertible Debt – Glencore Financing

Under IFRS, the value attributable to the conversion factor of convertible debt is the residual of the overall instrument's fair value, after the fair value of the debt is determined. As was permitted under Canadian GAAP for the Glencore financing, the Company had allocated values to the debt, the conversion factor and warrants on a fair value pro-rata basis.

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

18. Transition to IFRS - Continued

The transition to IFRS resulted in a decrease in the initial fair value of debt of \$612,000, resulting in a fair value of \$23,380,170 and an increase in the fair value of the conversion factor and fair value of warrants of \$612,000.

Interest and accretion associated with the debt is capitalized to mineral property, plant and equipment. The change in the initial fair value of the debt resulted in an increase capitalized interest and accretion costs of \$225,000 at February 1, 2010 and \$426,000 at January 31, 2011.

The convertible debt was renegotiated in November 2010, resulting in a loss on extinguishment of the existing debt. Under IFRS, the loss on refinancing of convertible debt was \$2,931,000, a decrease of \$716,000 as calculated under Canadian GAAP. The components of the loss on refinancing of convertible debt are disclosed in Note 9.

ii) Environmental Rehabilitation Provision

The Company elected to apply the IFRS 1 optional exemption for its decommissioning liabilities. The fair value of the environmental rehabilitation provision was calculated as at February 1, 2010 and then discounted to the date the obligation first arose using a historical discount rate and added to the cost of the related asset in mineral property, plant and equipment.

The transition from Canadian GAAP to IFRS resulted in an environmental rehabilitation provision of \$13,699,000 as at February 1, 2010, an increase of \$10,353,000, and a provision of \$15,719,000 as at January 31, 2011, an increase of \$11,907,000. The change in accretion of the environmental rehabilitation provision resulted in a \$534,000 increase to deficit as at the transition date, February 1, 2010. Accretion for the provision under IFRS was \$480,000 for the year ended January 31, 2011, an increase of \$95,000. The transition from Canadian GAAP to IFRS resulted in an asset as part of mineral property, plant and equipment associated with environmental rehabilitation of \$11,600,000 as at February 1, 2010, an increase of \$9,819,000, and an asset of \$13,143,000 as at January 31, 2011, an increase of \$11,278,000. As the associated assets are not in use, amortization of these assets has not been recorded to January 31, 2012.

The most significant factor in the measurement difference of the environmental rehabilitation provision under IFRS and asset retirement obligation under Canadian GAAP was the applied discount rate. Under IFRS, a liability specific risk-free rate was used to discount future cash flows, whereas Canadian GAAP required a credit-adjusted risk-free rate. IFRS also requires changes in the liability to be recorded each period based on changes in discount rates, in addition to changes in estimated timing or amount of future cash flows.

iii) Assets Held for Sale

As a result of the transition to IFRS, non-current assets held for sale have been reclassified to current assets from their classification as non-current assets under Canadian GAAP.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended January 31, 2012 and 2011

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

19. Subsequent Event

On March 9, 2012 PolyMet acquired control of land that it plans to restore to wetlands through an agreement with AG for Waterfowl, LLP ("AG"). PolyMet paid AG \$2.0 million cash and issued 2,788,902 of its common shares and a warrant to purchase 1,083,333 of its common shares at US\$1.50 per share at any time until December 31, 2015 as consideration for purchase of a \$5.9 million face value five year zero interest rate mortgage over land currently in agricultural use that AG will restore to wetlands in order to create wetland credits. The mortgage will be partially released as part of the lands are fully restored to approved wetland status, at which time PolyMet will receive formal wetland credits. Any lands that PolyMet has not requested be restored to wetland will revert to AG and the remaining mortgage, if any, will be released on February 28, 2017. PolyMet is committed to pay AG an additional \$680,000 over seven years as compensation for the work AG is continuing to undertake.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

General

The following information, prepared as at April 30, 2012, should be read in conjunction with the audited consolidated financial statements of PolyMet Mining Corp. (the "Company" or "PolyMet") for the year ended January 31, 2012 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in United States dollars unless otherwise indicated.

The Audit Committee of the Board of Directors of the Company, consisting of four independent directors, has reviewed this document pursuant to its mandate and charter.

Forward Looking Statements

This Management Discussion and Analysis ("MD&A") contains certain forward-looking statements concerning anticipated developments in PolyMet's operations in the future. These forward-looking statements appear in a number of different places in this MD&A and can frequently, but not always, be identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", "projects", "plans" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved or their negatives or other comparable words. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause PolyMet's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Forward-looking statements include statements regarding the outlook for the Company's future operations, plans and timing for PolyMet's exploration and development programs, statements about future market conditions, supply and demand conditions, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The Company's actual results may differ materially from those in the forward-looking statements due to risks facing PolyMet or due to actual facts differing from the assumptions underlying the Company's predictions. Some of these risks and assumptions include: general economic and business conditions, including changes in interest rates; prices of natural resources, costs associated with mineral exploration and development, and other economic conditions; natural phenomena; actions by governments and authorities including changes in government regulation; uncertainties associated with legal proceedings; changes in the resource market; future decisions by management in response to changing conditions; future decisions by management in response to changing conditions; the Company's ability to execute prospective business plans, and misjudgments in the course of preparing forward-looking statements.

The Company advises you that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to PolyMet or persons acting on its behalf. The Company expressly disclaims any obligation to update publicly, or otherwise, these statements, whether as a result of new information, future events or otherwise except to the extent required by law. Readers should carefully review the cautionary statements and risk factors contained in this and all other documents that the Company files from time to time with regulatory authorities.

Cautionary note to U.S. investors: the terms "measured and indicated mineral resource", "mineral resource", and "inferred mineral resource" used in this Management Discussion and Analysis are Canadian geological and mining terms as defined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves. U.S. investors are advised that while such terms are recognized and required under Canadian regulations, the SEC does not recognize these terms. Mineral Resources do not have demonstrated economic viability. It cannot be assumed that all or any part of a Mineral Resource will ever be upgraded to Mineral Reserves. Under Canadian rules, estimates of inferred mineral resources may not form the basis of or be included in feasibility or other studies. U.S. investors are cautioned not to assume that any part of an inferred mineral resource exists, or is economically or legally mineable.

Specific reference is made to PolyMet's most recent Form 20-F/Annual Information Form on file with the SEC and Canadian securities authorities for a discussion of some of the factors underlying forward-looking statements.

POLYMET MINING CORP.

(a development stage company)

MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Description of Business and Summary of Recent Events

PolyMet is a Toronto Stock Exchange and NYSE Amex listed Issuer engaged in the exploration and development, when warranted, of natural resource properties. The Company's primary mineral property and principal focus is the commercial development of its NorthMet Project, a polymetallic project in northeastern Minnesota, USA which hosts copper, nickel, cobalt and platinum group metal mineralization.

Asset Acquisitions

On November 15, 2005 the Company, through its Minnesota subsidiary (Poly Met Mining, Inc.), completed the early exercise of PolyMet's option with Cliffs Natural Resources, Inc. (formerly Cleveland Cliffs, Inc.) (NYSE:CLF) ("Cliffs") to acquire the Erie Plant, which is located 10 kilometers (6 miles) west of PolyMet's NorthMet deposit. The plant was operated by Cliffs for many years and was acquired by Cliffs in early 2001 from LTV Steel Mining Company after that company's bankruptcy at which time the plant was placed on care-and-maintenance with a view to a potential restart. With minor modification, the crushing and milling circuits can be used for the NorthMet ore. The plant assets now owned by PolyMet include crushing and milling equipment, comprehensive spare parts, plant site buildings, real estate, tailings impoundments and mine workshops, as well as access to extensive mining infrastructure including roads, rail, water, and power.

PolyMet plans to refurbish and reactivate the crushing, concentrating and tailings facilities at the Erie Plant to produce concentrates containing copper, nickel, cobalt and precious metals. The Company plans to sell separate copper and nickel concentrates prior to completion of construction and commissioning of the new hydrometallurgical metal recovery processing facilities. Once completed, the new hydrometallurgical plant will upgrade the nickel concentrates to produce a nickel-cobalt hydroxide and a precious metals precipitate.

On December 20, 2006 the Company acquired from Cliffs, property and associated rights sufficient to provide it with a railroad connection linking the mine development site and the Erie Plant. This transaction also included 120 railcars, locomotive fueling and maintenance facilities, water rights and pipelines, large administrative offices on site and an additional 6,000 acres of land to the east and west of and contiguous to its existing tailing facilities.

PolyMet has indemnified Cliffs for ongoing reclamation and remediation associated with the property under both transactions.

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency ("MPCA") relating to alleged violations on the Cliffs Erie Property. This consent decree required submission of Field Study Plan Outlines and Short Term Mitigation Plans, which have been approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval, such approval remains outstanding to date. As part of its prior transactions with Cliffs (Note 6), PolyMet has agreed to indemnify Cliffs for certain ongoing site environmental liabilities.

There is substantial uncertainty related to the cost of implementation of the Long Term Mitigation Plan related to uncertainty about applicable water quality standards, the engineering scope and cost of mitigation required to meet those standards, and responsibility for the financial liability. Outcomes that are unfavorable to us could result in material additional liability. The Company has included its best estimate of the liabilities related to this consent decree in its environmental rehabilitation provision for the year ended January 31, 2012.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Feasibility Study, Mineral Resources and Mineral Reserves

With publication of the Definitive Feasibility Study ("DFS") in September 2006, summarized in a Technical Report under National Instrument 43-101 ("NI 43-101"), PolyMet established SEC-standard mineral reserves. Proven and probable mineral reserves were estimated at 181.7 million short tons grading 0.31% copper, 0.09% nickel and 0.01 ounces per ton ("opt") of precious metals. In September 2007, PolyMet reported an expansion in these proven and probable mineral reserves to 274.7 million short tons grading 0.28% copper, 0.08% nickel and 0.01 opt of precious metals (palladium, platinum and gold).

These reserves are based on copper at \$1.25 per pound, nickel at \$5.60 per pound, and precious metal prices of \$210, \$800, and \$400 per ounce respectively for palladium, platinum and gold.

The reserves lie within measured and indicated mineral resources that were expanded to 638.2 million tons grading 0.27% copper, 0.08% nickel and 0.01 opt of precious metals (palladium, platinum and gold). In addition, inferred mineral resources total 251.6 million tons grading 0.28% copper, 0.08% nickel and 0.01 opt of precious metals.

DFS Update

On May 20, 2008 PolyMet reported revised plans and cost estimates for construction and operating costs. The revised plans include:

- the sale of concentrate during the construction and commissioning of new metallurgical facilities resulting in a shorter pre-production construction period (12-15 months) and reduced capital costs prior to first revenues (\$312 million versus \$380 million);
- the new metallurgical facilities to be constructed during initial production and sales of concentrate. PolyMet anticipates that much of the additional \$290 million of capital costs (for total project capital of \$602 million) will be funded from cash flow from initial operations;
- mine plans (based on copper at \$1.25 per pound) reflect the increase in reserves and decrease in stripping ratio reported on 26 September 2007, the use of 240-ton trucks, and owner versus contract mine operations, and
- \$77 million of mining equipment, which was assumed to be provided by a mining contractor in the DFS, has been incorporated as an operating lease in updated operating costs.

Project Improvements

On February 2, 2011 the Company announced that it had simplified the proposed metallurgical process and now plans to build the project in two phases:

- Phase I: produce and market concentrates containing copper, nickel, cobalt and precious metals, and
- Phase II: process the nickel concentrate through a single autoclave, resulting in production and sale of high grade copper concentrate, value added nickel-cobalt hydroxide, and precious metals precipitate products.

Previous plans included a second autoclave and a copper solvent extraction/electro-winning ("SX-EW") circuit to produce copper metal along with value added nickel-cobalt hydroxide and precious metals precipitate products. The changes reflect continued metallurgical process and other project improvements as well as improved environmental controls that are being incorporated into the environmental review process. The advantages, compared with the earlier plan, include a better return on capital investment, reduced financial risk, lower energy

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

consumption, and reduced waste disposal and emissions at site. Approximately \$127 million of the total \$602 million capital costs estimated in the May 2008 DFS Update will not be incurred in this revised plan.

Environmental Review

In October 2005, the Minnesota Department of Natural Resources ("MDNR") published its Environmental Assessment Worksheet Decision Document establishing the MDNR as the lead state agency and the US Army Corps of Engineers ("USACE") as the lead federal agency (together the "Lead Agencies") for preparation of an Environmental Impact Statement ("EIS") for the project. In 2006 these Lead Agencies selected an independent environmental contractor ("the EIS Contractor") to prepare the EIS. The EIS Contractor is Environmental Resources Management, a leading global provider of environmental, health and safety, risk, and social consulting services. The EIS Contractor team included members with expertise and experience in mining sulfidic ores. Several other government agencies (including the US Forest Service, the Bois Forte Band of Chippewa and the Fond Du Lac Band of Lake Superior Chippewa) joined the EIS preparation team as Cooperating Agencies, which brought their special expertise to the process.

Under state and federal guidelines and regulations, a Draft EIS identifies the environmental impact of a proposed project as well as evaluating alternatives and ways to mitigate potential impacts. PolyMet was involved in the process of alternative/mitigation development and had input into the technical and economical feasibility of potential alternatives and mitigations. The EIS Contractor prepared a series of preliminary versions of the Draft EIS that were reviewed and commented on by the Lead Agencies, other governmental agencies, and PolyMet.

In November 2009, the Lead Agencies published the PolyMet Draft EIS with formal notification of publication in the Minnesota Environmental Quality Board ("EQB") Monitor and the Federal Register on November 2 and November 6, 2009, respectively. The formal notification of publication started a 90-day period for public review and comment, which ended on February 3, 2010. During this period, the lead Agencies held two public meetings – one in the town of Aurora, MN near the project location and one in Blaine, MN in the metropolitan Minneapolis-St. Paul area.

The Lead Agencies received more than 3,700 submissions containing approximately 22,000 separate comments, including an extensive comment letter from the US Environmental Protection Agency ("EPA") in its role as reviewer of projects that could impact the environment.

On June 25, 2010 the Lead Agencies announced that they intend to complete the EIS process by preparing a Supplemental Draft EIS that incorporates the proposed US Forest Service ("USFS") land exchange and expands government agency cooperation. The USFS joined the USACE as a federal co-lead agency through the completion of the EIS process. In addition, the EPA will join the effort as a cooperating agency. The MDNR remains the state co-lead agency.

On October 13, 2010 the USACE and the USFS published a Notice of Intent to complete the Supplemental Draft EIS, which will:

- Supplement and supersede the Draft EIS and respond to concerns identified by the EPA and other comments on the Draft EIS.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

- Incorporate potential effects from the proposed land exchange between the USFS Superior National Forest and PolyMet.

Public review of the scope of the land exchange ended on November 29, 2010.

The Notice of Intent stated that the proposed land exchange would eliminate conflicts between the United States and private mineral ownership and consolidate land ownership to improve Superior National Forest management effectiveness and public access to federal lands. The proposed exchange is in accordance with Forest Service Strategic Plan Goals to provide and sustain long-term socioeconomic benefits to the American people, conserve open space, and sustain and enhance outdoor recreation activities.

The NorthMet mine site encompasses approximately 2,840 of the 6,650 acres of land proposed for exchange to private ownership; the remaining federal property would improve intermingled and inefficient ownership patterns and eliminate conflicts if minerals development were to expand in the future.

The lands that would be received by the Superior National Forest consist of forest and wetland habitat as well as lake frontage. These lands would enhance public recreation opportunities and complement existing federal ownership by eliminating or reducing private holdings surrounded by Superior National Forest land.

Once the Supplemental Draft EIS ("SDEIS") is completed, it will be made available for public review prior to preparation of the final EIS. Completion of the final EIS and a subsequent Adequacy Decision by the DNR and Record of Decision by the federal agencies are necessary before the land exchange can occur and various permits required to construct and operate the project can be issued.

Prior to receipt of the permits, the Company intends to secure construction financing that would be available upon receipt of key permits, with construction slated to start upon availability of construction finance.

Construction of NorthMet is expected to be made up of four major components:

1. Implementation of environmental safeguards;
2. Construction of the mine and reactivation of some existing mine infrastructure;
3. Refurbishment of the existing Erie Plant facilities and construction of new flotation facilities, and
4. Construction of a new hydrometallurgical plant.

Key Developments

On March 10, 2011 PolyMet appointed Alan R. (Al) Hodnik and Michael M. (Mike) Sill to its Board of Directors.

On April 15, 2011 the Board of the Iron Range Resources and Rehabilitation Board ("IRRRB") reapproved a secured loan to Poly Met Mining, Inc. of up to \$4 million. The loan was originally approved on December 16, 2010 but did not proceed until a legal challenge as to whether the IRRRB was authorized to make such a loan was withdrawn following passage of state legislation that clarified that the IRRRB is an economic development agency with no regulatory oversight for mine permitting activities.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

The loan was approved by the Governor of State of Minnesota on May 3, 2011 and closed on June 28, 2011. The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually if not paid, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS. PolyMet issued warrants giving the IRRRB the right to purchase up to 400,000 shares of PolyMet common shares at \$2.50 per share at any time until the earlier of June 30, 2016 and one year after permits are received.

On July 15, 2011 the Company sold to Glencore 5 million common shares of PolyMet at \$2.00 per share pursuant to the November 2010 private placement agreement. In a separate transaction, Glencore acquired 9.2 million of PolyMet's common shares from Cliffs, representing that company's entire holding of PolyMet's common shares.

On December 6, 2011 the Company sold to Glencore 13,333,333 common shares of PolyMet at \$1.50 per share and issued warrants giving Glencore the right to purchase 2,600,000 common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Approximately \$7.0 million was used to repay all outstanding notes payable to Cliffs.

On December 6, 2011 the Company and Glencore also agreed amendments to some of the existing financing agreements comprising:

- Extending the maturity date of the Tranche A-D Debentures (collectively, the "Issued Debentures") from September 30, 2012 to the earlier of i) PolyMet giving Glencore ten days notice that PolyMet has received permits necessary to start construction of the NorthMet project and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and ii) September 30, 2014.
- Upon occurrence of the Early Maturity Event, the initial principal and capitalized interest will be exchanged into common shares of PolyMet at \$1.50 per share. The Issued Debentures were issued in four tranches (Tranches A-D) between October 2008 and September 2009.
- The warrants issued to Glencore in November 2010 (the "2010 Warrants") have been amended such that Glencore has the right to purchase 3 million common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore.

The final tranche of the 2010 private placement, comprising the sale of 5 million common shares at \$2.00 per share no later than October 15, 2012 is unaffected by the amendments to the financing agreements, as are the off take and marketing agreements whereby Glencore will market all of PolyMet's products for a minimum of five years from the start of commercial production at NorthMet.

On February 1, 2012 PolyMet reported on the status of the NorthMet environmental review. ERM, the Lead Agencies' environmental consultant, has completed a significant amount of work on the SDEIS, which will comprise nine chapters. The first four chapters, comprising over 400 pages and including more than 100 figures, have been drafted and are being reviewed by the Lead Agencies.

POLYMET MINING CORP.

(a development stage company)

MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Other important milestones already achieved include:

- Approval of air emission estimates.
- Approval of cumulative visibility, acid deposition, and fiber impact evaluation reports.
- Completion of geotechnical stability modeling with results now under review.
- Completion of direct wetland impact evaluation and wetland mitigation plans, which are now under review.
- Completion of hazardous materials assessment; threatened, endangered and sensitive species analysis; assessments of wildlife and heritage resources; and wetland/floodplain analysis reports for the lands involved in the land exchange, which have been delivered to the USFS for review.
- Delivery by PolyMet of updated project documents including the detailed project description, mine plan, reclamation and waste disposal plans, and extensive data packages.

Since February 1, 2012 the Lead Agencies have completed their review of the initial chapters of the SDEIS, which are now being reviewed by the Cooperating Agencies. Completion of detailed environmental modeling, including quality assurance plans as well as generation, verification, review, and documentation of modeling data is underway.

On March 9, 2012 PolyMet acquired control of land that it plans to restore to wetlands through an agreement with AG for Waterfowl, LLP ("AG"). PolyMet paid AG \$2.0 million cash and issued 2,788,902 of its common shares and a warrant to purchase 1,083,333 of its common shares at US\$1.50 per share at any time until December 31, 2015 as consideration for purchase of a \$5.9 million face value five year zero interest rate mortgage over land currently in agricultural use that AG will restore to wetlands in order to create wetland credits. The mortgage will be partially released as part of the lands are fully restored to approved wetland status, at which time PolyMet will receive formal wetland credits. Any lands that PolyMet has not requested be restored to wetland will revert to AG and the remaining mortgage, if any, will be released on February 28, 2017. PolyMet is committed to pay AG an additional \$680,000 over seven years as compensation for the work AG is continuing to undertake.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

SELECTED ANNUAL FINANCIAL INFORMATION

	Year Ended 31 January		
	2012	2011	2010 ⁽³⁾
Revenue	-	-	-
Loss for the Year	3,045 ⁽¹⁾	6,662 ⁽²⁾	9,023 ⁽³⁾
Loss per Share	(0.02)	(0.04)	(0.06)
Total Assets	189,571 ⁽⁴⁾	156,736 ⁽⁵⁾	149,692
Long Term Debt ⁽⁶⁾	32,690	29,406	33,395
Total Shareholders' Equity	132,366	102,417	97,645

- (1) Includes share-based compensation of \$625 and a future income tax recovery of \$657.
- (2) Includes share-based compensation recovery of \$119, a write-off of financing costs of \$1,830, a loss on asset held for sale of \$520, a non-cash loss on refinancing of convertible debt of \$2,931 and a future income tax recovery of \$1,390.
- (3) 2010 income statement information is presented in accordance with Canadian GAAP and may not be appropriate as a comparative basis. Includes share-based compensation expense of \$915 and warrant amendment expense of \$4,920.
- (4) Increase compared to 31 January 2011 primarily due to cash proceeds from equity financing and increases in mineral property, plant and equipment as a result of amounts capitalized in the year and changes in the environmental rehabilitation assets due to decreases in the discount rate.
- (5) Increase compared to 31 January 2010 primarily due to cash proceeds from equity financing and increases in mineral property, plant and equipment as a result of amounts capitalized in the year.
- (6) Debt represents the unpaid cash portion of the consideration for the Cliffs transactions for years ending 2011 and 2010 and the fair value of the IRRRB loan for 2012 and convertible debt obtained from Glencore AG, net of associated costs.

This financial information has been reported in accordance with International Financial Reporting Standards, except for income statement information for 2010 which is presented under Canadian GAAP.

Results of Operations

Comparison of the years ending January 31, 2012 and January 31, 2011

a) Loss for the Year:

During the year ended January 31, 2012, the Company incurred a loss of \$3.045 million (\$0.02 loss per share) compared to a loss of \$6.662 million (\$0.04 loss per share) in 2011. The decrease in the net loss for the current year was primarily attributable to:

- a \$2.931 million non-cash loss on refinancing of convertible debt during the prior year;
- the Company's decision, in the prior year, to review alternatives for construction financing and not to renew its agreement with BNP Paribas Loan Services (which was to advise and assist PolyMet in all aspects of preparation for construction finance) which expired on July 31, 2010. As such, \$1.830 million, \$1.197 million of which was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset was written off to the consolidated statement of loss in the prior year, and
- a gain of \$72,000 on an asset held for sales in the current year (January 31, 2011 – loss of \$520,000).

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

These items were partially offset by:

- an increase in share based compensation in the current year period to \$625,000 compared to a recovery in the prior year period of recovery of \$119,000 including \$212,000 (January 31, 2012 – \$nil) relating to board and other management changes;
- director's fees and expenses of \$248,000 (January 31, 2011 - \$nil);
- a non-cash future income tax recovery related to expiration of share purchase warrants previously issued of \$657,000 (January 31, 2011 – \$1,390,000), and
- an increase in professional fees to \$740,000 (prior year period - \$365,000) primarily due to transition to IFRS.

b) Cash Flows:

Cash used in operating activities in the year ended January 31, 2012 was \$2.955 million compared to cash used in the prior year of \$3.068 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted operating variances.

Cash provided by financing activities for the year ended January 31, 2012 was \$26.209 million (prior year - \$8.666 million). The current year activity was primarily due to the Glencore financings and the IRRRB loan and the issuance of share capital on the exercise of share options for \$902,000 (prior year - \$808,000), partially offset by the repayment of \$8.500 million of debt (prior year - \$2.000 million).

Cash used in investing activities for the year ended January 31, 2012 was \$16.137 million compared with \$16.519 million in the year ended January 31, 2011, with the decrease being primarily due the sale of the used drill, partially offset by purchasing land for the USFS land exchange with funds received from the loan from the IRRRB.

Total cash for the year ended January 31, 2012 increased by \$7.117 million for a balance of \$17.478 million compared to the year ended January 31, 2011 where cash decreased \$10.921 million to a balance of \$10.361 million.

c) Capital Expenditures:

During the year ended January 31, 2012 the Company capitalized \$28.701 million (2011 - \$16.059 million) of costs primarily directly related to an increase of \$7.782 million in the environmental rehabilitation asset due to decreases in the discount rate during the year from 4.33% to 2.55%, the above noted land purchase, site activity and the supplementary draft EIS permitting.

Comparison of the years ending January 31, 2011 and January 31, 2010

2010 income statement information is presented in accordance with Canadian GAAP and may not be appropriate as a comparative basis.

a) Loss for the Year:

During the year ended 31 January 2011, the Company incurred a loss of \$6.662 million (\$0.04 loss per share) compared to a loss of \$9.023 million (\$0.06 loss per share) in 2010. The decrease in the net loss for the period was primarily attributable to:

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

- A non-cash future income tax recovery related to expiration of share purchase warrants previously issued of \$1.390 million (31 January 2010 – \$nil);
- A non-cash reversal of previously recorded share-based compensation costs relating to board and other management changes resulting in a credit of \$119,000 in the current year (31 January 2010 – expense of \$915,000);
- A non-cash charge of \$4.920 million for the amendment of share warrants in the prior year period (current year period - \$nil), and
- Investor relations and financing expenses of \$420,000 due to the filing of an F-3 registration statement during the prior year period (current year period - \$118,000).

These items were partially offset by a \$2.931 million non-cash loss on refinancing of convertible debt during the current year. During the 2011 year the Company's decision to review alternatives for construction financing and not to renew its agreement with BNP Paribas Loan Services, to advise and assist PolyMet in all aspects of preparation for construction finance, which expired on 31 July 2010. As such, the \$1.830 million, \$1.197 million of which was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset was written off to the consolidated statement of loss in the current year. In addition, the Company recorded a loss of \$520,000 in the 2011 year period as a result of its decision to reclassify an asset as held for sale and write-down its carrying value to fair value less cost to sell.

b) Cash Flows:

Cash used in operating activities in the year ended 31 January 2011 was \$3.068 million compared to cash used in the prior year of \$2.429 million. The variance is primarily due to the cash based operating activity differences described above, \$193,000 of exploration expenses in the current year (prior year - \$nil) and changes in working capital balances.

Cash provided by financing activities for the year ended 31 January 2011 was \$8.666 million compared with \$34.111 million in the prior year. The activity in the current year was primarily due to net proceeds of \$9.894 million from a Glencore equity offering (prior year period \$24.501 million), the net funding from issuance of exchangeable secured debentures of \$nil (prior year period - \$9.994 million), the scheduled repayment of \$2.000 million of debt (prior year period - \$1.250 million). During the 2011 year, the Company received \$808,000 from the issuance of common shares on exercise of share options (prior year period - \$477,000) and \$nil from the issuance of common shares on the exercise of share warrants (prior year period - \$494,000).

Cash used in investing activities for the year ended January 31, 2011 was \$16.519 million compared with \$17.754 million in the preceding year, with the decrease being primarily the result of lower engineering, project and environmental / permitting costs in the current year period as the Company continued to scale back detailed engineering and design work that is not needed for permitting.

Total cash for the year ended January 31, 2011 decreased by \$10.921 million for a balance of \$10.361 million compared to the year ended January 31, 2010 when cash increased by \$13.928 million to a balance of \$21.282 million.

c) Capital Expenditures:

During the year ended January 31, 2011 the Company capitalized \$16.065 million (2010 - \$33.966 million) of costs primarily directly related to site activity, definition drilling, the draft EIS and permitting as well as engineering and project planning costs. The change to IFRS from

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Canadian GAAP resulted in an increase in the environmental rehabilitation asset of \$10.353 million in 2010 as a result of the decrease in discount rate mandated by IFRS.

Summary of Quarterly Results

(All figures in Thousands of U.S. dollars except Loss per share)

Three Months Ended	Jan. 31 2012	Oct. 31 2011	July 31 2011	Apr 30 2011	Jan. 31 2011	Oct. 31 2010	July 31 2010	Apr 30 2010
	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenues	-	-	-	-	-	-	-	-
General and Administrative	(706)	(520)	(962)	(1,181)	(746)	(281)	(638)	(851)
Other Income (Expenses)	213	474	(225)	(138)	(2,277)	48	(1,880)	(37)
Net Loss	(493)	(46)	(1,187)	(1,319)	(2,133)	(233)	(2,518)	(888)
Loss per share	(0.00)	(0.00)	(0.01)	(0.01)	(0.02)	(0.00)	(0.02)	(0.01)

Results for all of the above periods have been prepared in accordance with International Financial Reporting Standards.

Significant items to report for the quarterly results are as follows:

A non-cash loss of \$2.931 million on refinancing of convertible debt in the quarter ended January 31, 2011. There were no similar losses recorded in other quarters.

A recovery of previously expensed share-based compensation costs of \$212,000 due to the forfeiture of unvested share options was recorded in the quarter ended October 31, 2010. There were no similar share-based compensation recoveries recorded in the other quarters.

The Company recorded deferred income tax recoveries as the expiration of warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$657,000, \$1,219,000 and \$171,000 in the quarters ended October 31, 2011, January 31, 2011, and October 31, 2010, respectively. There were no similar tax recoveries recorded in the other quarters.

A financing cost write-off of \$1.830 million was recorded in the quarter ended July 31, 2010. There were no similar financing cost write-offs recorded in the other quarters.

A loss on asset held for sale of \$520,000 was recorded in the quarter ended January 31, 2011.

Exploration expense of \$193,000 was recorded in the quarter ended April 30, 2010. There were no exploration expenses recorded in the other quarters.

The net loss included share-based compensation expense (recovery) for the quarters ended:

1. January 31, 2012 - \$28,000
2. October 31, 2011 - \$29,000
3. July 31, 2011 - \$32,000
4. April 30, 2011 - \$536,000
5. January 31, 2011 - \$50,000
6. October 31, 2010 - \$(203,000)
7. July 31, 2010 - \$24,000
8. April 30, 2010 - \$10,000

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Financing Activities

On December 6, 2011 the Company closed an equity financing with Glencore for 13,333,333 common shares at \$1.50 per share for gross proceeds of \$20 million. Approximately \$7.0 million was used to repay all outstanding notes payable to Cliffs. Simultaneously, the Company and Glencore also agreed amendments to some of the existing financing agreements comprising:

- The maturity date of the Issued Debentures was extended from September 30, 2012 to the earlier of i) the Early Maturity Event, defined as PolyMet giving Glencore ten days notice that PolyMet has received permits necessary to start construction of the NorthMet project and availability of senior construction finance, in a form reasonably acceptable to Glencore, and ii) September 30, 2014.
- Upon occurrence of the Early Maturity Event, the initial principal and capitalized interest will be exchanged into common shares of PolyMet at \$1.50 per share.
- The warrants issued to Glencore in November 2010 (the "2010 Warrants") have been amended such that Glencore has the right to purchase 3 million common shares of PolyMet at \$1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore.
- PolyMet issued to Glencore warrants to purchase 2.6 million common shares of PolyMet on the same terms as the amended 2010 Warrants.

Transaction costs for the financing were \$171,000.

In accordance with IFRS, the December 6, 2011 transaction has been accounted for as a modification of the existing convertible debt at that date with a book value of \$28.779 million.

Therefore all of the costs associated with the transaction have been recorded within Share Capital, comprising:

- The change in fair value of the conversion feature resulting from its term being extended from September 30, 2012 to September 30, 2014 of \$2.399 million;
- The difference in fair value between the warrants to purchase 3 million common shares at \$2.00 per share exercisable until December 31, 2015 and the warrants to purchase 3 million common shares at \$1.50 per share exercisable until December 31, 2015 of \$1.885 million;
- The fair value of the warrants to purchase 2.6 million common shares at \$1.50 per exercisable until December 31, 2015, less
- The premium of \$4.667 resulting from the price of the common shares sold or to be sold to Glencore compared with the market price at the time of the arrangement .

On November 12, 2010, the Company announced that it had entered into a definitive agreement with Glencore to sell in a private placement 15 million common shares at \$2.00 per share for gross proceeds of \$30 million, before deducting estimated offering expenses. Completion of the sale of these shares and funding occurred or are expected to occur in the following three tranches subject, to certain closing conditions:

- Tranche 1 of \$10 million (closed on January 17, 2011);

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

- Tranche 2 of \$10 million (closed July 15, 2011), and
- Tranche 3 of \$10 million will close no later than October 15, 2012. The terms of this final tranche are unaffected by the December 2011 amendments

Glencore was also granted a right of first refusal to provide all material financings, subject to regulatory approval as long as it owns 10% or more of the issued and outstanding shares of PolyMet. As long as Glencore owns more than 5% of the issued and outstanding shares of PolyMet, it has the right to participate in any equity-related financing to maintain its partially diluted ownership interest (23.6% of issued and 34.7% on a partially diluted basis as at April 24, 2012).

On each of August 31, 2009 and June 18, 2009 the Company received \$5 million under Tranche C and D of the Issued Debentures. These two transactions were part of the financing agreement that the Company entered into on October 31, 2008 with Glencore for an aggregate of \$50 million exchangeable secured debentures due on September 30, 2011 to be issued by PolyMet US and guaranteed by the Company. The Debentures bear interest at 12-month US dollar LIBOR plus 4% and interest is payable in cash or by increasing the principal amount of the Debentures, at PolyMet's option, for payments on or before September 30, 2009, and at Glencore's option thereafter. To date, all interest has been capitalized. The Debentures are secured by the assets of PolyMet and PolyMet US, including PolyMet's 100% shareholding in PolyMet US.

When issued, the Issued Debentures were exchangeable into common shares of PolyMet at Glencore's option at \$4.00 per share. \$7.5 million of the Issued Debentures were issued on October 31, 2008 and \$7.5 million were issued on December 22, 2008.

On October 2008, PolyMet issued to Glencore warrants to purchase 6.25 million common shares of PolyMet at \$5.00 if exercised before the NorthMet Project has produced a total of 20,000 metric tonnes of concentrate, or \$6.00 thereafter. The warrants were to expire on September 30, 2011.

On November 17, 2009 the Company announced that it agreed to modify certain terms of the above transaction. Under the new terms the Glencore Warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at \$3.00 and expire on September 30, 2011, subject to acceleration of the expiration under certain circumstance. The \$158,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

On November 12, 2010 the Company announced that it had further renegotiated its 2008 debenture financing from Glencore. as follows:

- The maturity date and, therefore accounting for accretion, of the Issued Debentures was extended from September 30, 2011 to September 30, 2012. The Issued Debentures continued to be exchangeable into common shares of PolyMet at \$4.00 per share, as agreed to in 2008.
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, \$25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact Statement, receipt of a term sheet for construction financing, and other customary conditions.
- Cancellation of warrants to purchase 6.25 million common shares of PolyMet at \$3.00 at any time until September 30, 2011 issued to Glencore in connection with the Issued Debentures.
- Issuance of warrants to purchase 3 million common shares of PolyMet at \$2.00 at any time until December 31, 2015.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

In accordance with IFRS, the November 12, 2010 transaction has been accounted for as an extinguishment of the existing convertible debt at that date with a book value of \$26.546 million and reissuance of new convertible debt. Therefore all of the costs associated with the transaction have been recorded as a non-cash expense in the statement of loss and comprehensive loss of \$2.931 million, comprising:

- The change in fair value of the exchange warrants resulting from their exercisable life being extended from September 30, 2011 to September 30, 2012 of \$2.533 million;
- The change in fair value between the warrants to purchase 6.25 million common shares at \$3.00 per share exercisable until September 30, 2011 and the warrants to purchase 3 million common shares at \$2.00 per share exercisable until December 31, 2015 of \$3.217 million;
- The amounts of discount and deferred costs remaining to be accreted and amortized over the life of the debt of \$706,000, and
- Less the premium at which the common shares were priced compared with the market price, represented by the 5-day volume weighted average price on the date of the agreement of \$2.625 million. The \$875,000 of premium attributable to the first tranche of the financing was debited to share capital and credited to share premium in fiscal 2011.

On June 30, 2011 PolyMet closed a \$4.000 million loan from the IRRRB. At the same time, the Company exercised its options to acquire two tracts of land totaling approximately 5,300 acres of forests, wetlands, and lakes with high recreational value that are included as part of the proposed land exchange with the USFS. The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually if not paid, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS. PolyMet has issued warrants giving the IRRRB the right to purchase 400,000 shares of its common shares at \$2.50 per share at any time until the earlier of June 30, 2016 or one year after permits are received.

During the year ended January 31, 2012 the Company issued 1,185,000 shares (prior year–845,000) upon exercise of options for proceeds of \$902,000 (prior year - \$808,000). During the year ended January 31, 2012, PolyMet also issued 135,000 shares (prior year– nil) as partial payment for options to purchase land.

On December 31, 2010 unexercised warrants to purchase 3,842,046 shares of PolyMet common shares at \$3.00 per share expired. These warrants, as amended, were originally issued as part of a \$43 million financing in April 2007. The Company recorded a future income tax recovery as the expiration of the warrants triggered a capital gain for tax purposes, which was offset by the application of tax losses carried forward resulting in a credit of \$1,218,000.

On August 31, 2011 unexercised warrants to purchase 4,010,000 shares of PolyMet common shares at \$5.00 per share expired. These warrants, as amended, were originally issued as part of a \$43 million financing in April 2007. The Company recorded a future income tax recovery as the expiration of the warrants triggered a capital gain for tax purposes, which was offset by the application of tax losses carried forward resulting in a credit of \$657,000.

On August 27, 2009 the Company announced that it had filed a universal shelf registration on Form F-3 with the U.S. Securities and Exchange Commission (“SEC”). This universal shelf registration allows PolyMet to have the option to offer and sell, from time to time in one or more offerings, up to \$500 million of its debt securities, common shares, warrants and units.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Liquidity and Capital Resources

As at January 31, 2012 the Company had working capital of \$16.375 million compared with working capital of \$4.199 million at January 31, 2011 consisting primarily of cash of \$17.478 million (January 31, 2011 - \$10.361 million), trade and other receivables of \$440,000 (January 31, 2011 - \$318,000), prepaid expenses of \$934,000 (January 31, 2011 - \$636,000), asset held for sale of \$nil (January 31, 2011 - \$3.420 million); accounts payable and accrued liabilities of \$1.679 million (January 31, 2011 - \$2.444 million), the current portion of the notes to Cliffs of \$nil (January 31, 2011 - \$6.750 million) and the current portion of asset retirement obligations of \$828,000 (January 31, 2011 - \$1.408 million). The Company expects to pay the \$4 million IRRRB loan plus capitalized interest and the convertible debt principal balance of \$25 million plus capitalized interest from working capital, additional financing and funds from operations once commercial production has commenced. The Company's cash is primarily held in deposits and bearer deposits of a major Canadian bank and does not include any exposure to asset-backed commercial paper.

The following table lists as of January 31, 2012 information with respect to the Company's known contractual obligations:

<i>Contractual Obligations</i>	<i>Total</i>	<i>Payments due by period</i>			
		<i>Less than 1 year</i>	<i>1 – 3 years</i>	<i>3 – 5 years</i>	<i>More than 5 years</i>
Trade payables and accrued liabilities	\$1,679	\$1,679	\$-	\$-	\$-
Long-term debt obligations	38,146	-	33,132	5,014	-
Environmental rehabilitation provision	25,828	828	582	538	23,880
Firm Commitments	2,200	2,145	55	-	-
Total	\$67,853	\$4,652	\$33,769	\$5,552	\$23,880

Long-term debt obligations (including the current portion) are comprised of long-term and convertible debt balances, are set out in this table on an undiscounted basis and include anticipated interest. Asset retirement obligation represents the undiscounted obligation at January 31, 2012.

At January 31, 2012 the Company had non-binding commitments in 2012 of \$381,000 to pay options to maintain its right to acquire certain lands that it will need at permitting. These lands include land that the Company expects to exchange with the USFS for surface rights at the mine site and land for wetland credits.

As at January 31, 2012 the Company, in addition to its obligation to the IRRRB and Glencore as described herein, has obligations to issue shares under the Company's Bonus Share Plan. The Company has received shareholder approval for the Bonus Shares of Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval. To January 31, 2012, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3. The bonus shares allocated for Milestones 1 through 3 are valued using the Company's closing trading price on May 28, 2004 of CDN\$0.75 per share, the date of the approval of the bonus plan by the disinterested shareholders. The bonus shares allocated for Milestone 4 are valued using the Company's closing trading price on June 17, 2008 of \$3.80 per share, the date of the approval of the bonus plan by the disinterested shareholders. As at April 24, 2012, the Company has outstanding firm commitments of approximately \$2 million, the majority of which relates to completion of the SDEIS process.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

In May 2009, the Company determined that Milestone 2 of its Bonus Share Plan, the negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity investment in the Company by such a producer or producers, had been achieved. As a result, the Company issued the related 1,300,000 common shares to certain directors and insiders.

The consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities in the normal course of operations.

Should the Company wish to continue to further advance the NorthMet Project to commercial production PolyMet will require additional funds. As the Company has no operating revenues, the only source of liquidity consists primarily of cash from proceeds of project debt, other debt and equity financing.

Shareholder Rights Plan

Effective May 25, 2007, the Company adopted an updated Shareholder Rights Plan ("Rights Plan"), which was approved by the Company's shareholders on June 27, 2007, and modified by the Company's shareholders on June 17, 2008, and reapproved by the Company's shareholders on July 13, 2011. Under the Rights Plan, the Company has issued one right for no consideration in respect of each outstanding common share of the Company to all holders of record of common shares on December 4, 2003. All common shares subsequently issued by the Company during the term of the Rights Plan will have one right represented for each common share held by the shareholder 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\$50.00 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.

On November 30, 2011 the Board of Directors of the Company waived the Shareholder Rights Plan in connection with shares that Glencore owns or has the right to acquire through the existing agreements, including: Tranche 3 of the November 2010 private placement, exchange of the 2008 Debentures into common shares, exercise of the 2010 Warrants issued to Glencore in November 2010, the November 2011 private placement, and exercise of the 2011 Warrants issued to Glencore in 2011. Shares that could be acquired by Glencore pursuant to its right of first refusal to, or right to participate in, future financings are also covered by the waiver, but issue of such shares would be subject to regulatory approval. This waiver does not apply to any additional purchases of PolyMet common shares by Glencore on market or from third parties.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Related Party Transactions

During the year ended January 31, 2012 the Company paid \$nil (January 31, 2011 - \$59,000) to Dr. Dreisinger, a director of the Company, primarily in connection with activities related to the processing / technical side of the NorthMet project and related expenses (the latter were supported by invoices and receipts). The consulting fees were based on a monthly fee of Canadian \$5,500 plus general sales tax. Throughout the term of his engagement, Dr. Dreisinger conducted in-person and telephonic meetings with Mr. William Murray, then the Company's Executive Chairman, and other members of management at which he provided both verbal and written updates on the status of test work and made recommendations for future activities. These meetings occurred approximately every two to three weeks for the past six years.

The agreement with Dr. Dreisinger was entered into at a time when the Company's current business plans were being formulated and were month to month and oral in nature. The agreement was approved by Mr. William Murray. It was discussed with the Company's board of directors who did not consider that a formal approval and written contract was necessary at that time. The Company believes that the contract was at terms at least as good as could be obtained from third parties. The agreement with Dr. Dreisinger was terminated effective January 31, 2011.

During the quarter ended January 31, 2012, PolyMet sold a used drill for \$3.68 million. A company controlled by a Director of PolyMet received a commission of \$200,000 related to this sale.

As a result of Glencore's January 31, 2012 ownership of 24.1% of the Company it is also a related party. Financing transactions with Glencore are described in the Liquidity and Capital Resources section of this document. On October 31, 2008, the Company entered into agreements with Glencore wherein Glencore will provide marketing services covering concentrates, metal, or intermediate products at prevailing market terms for at least the first five years of production.

Proposed Transactions

There are no proposed transactions that will materially affect the performance of the Company.

POLYMET MINING CORP.

(a development stage company)

MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Subsequent Events

On March 8, 2012 PolyMet issued options to acquire a total of 1,150,000 of its common shares at \$1.19 per share to certain directors and executives.

On March 9, 2012 PolyMet acquired control of land that it plans to restore to wetlands through an agreement with AG for Waterfowl, LLP ("AG"). PolyMet paid AG \$2.0 million cash and issued 2,788,902 of its common shares and a warrant to purchase 1,083,333 of its common shares at US\$1.50 per share at any time until December 31, 2015 as consideration for purchase of a \$5.9 million face value five year zero interest rate mortgage over land currently in agricultural use that AG will restore to wetlands in order to create wetland credits. The mortgage will be partially released as part of the lands are fully restored to approved wetland status, at which time PolyMet will receive formal wetland credits. Any lands that PolyMet has not requested be restored to wetland will revert to AG and the remaining mortgage, if any, will be released on February 28, 2017. PolyMet is committed to pay AG an additional \$680,000 over seven years as compensation for the work AG is continuing to undertake.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board required all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first filing under IFRS is the filing for the three months ended April 30, 2011 which contains IFRS compliant financial statements on a comparative basis. The Company's January 31, 2012 consolidated financial statements are its first annual filing under IFRS which contains IFRS compliant financial statements on a comparative basis as well as details (Notes 3 and 18 to the financial statements) of the changes in accounting policies as a result of the adoption of IFRS. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences in accounting policies.

IFRS Transition

The Company developed a conversion implementation plan that included scoping and planning; design, build, and implement; and a review phase. The Company has completed the scoping, planning; design, build, and implement phases. The review phase will continue in future periods.

The following summarizes the Company's progress and expectations with respect to its IFRS transition plan:

Initial scoping and analysis of key areas for which changes to accounting policies may be required	Completed
Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 "First-time adoption of International Financial Reporting Standards".	Completed
Final determination of accounting policies and the quantitative impact of adopting IFRS on key line items in the Company's financial statements.	Completed in conjunction with the April 30, 2011 financial statements
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements.	Completed in conjunction with the April 30, 2011 financial statements

The Company's staff and advisers involved in the preparation of financial statements have been appropriately trained on the relevant aspects of IFRS affecting the Company and the changes to accounting policies. The Board of Directors and Audit Committee have been regularly updated on the progress of the IFRS conversion plan, and are aware of the key aspects of IFRS affecting the Company.

Note 18 to the January 31, 2012 financial statements includes additional detail on the key Canadian GAAP to IFRS differences, accounting policy decisions and IFRS, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on the Company's financial statements on transition to IFRS or may have an impact in future periods.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS resulted in some changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements.

The transition from Canadian GAAP to IFRS has had no effect on the net cash flows reported by the Company. The changes made to the statements of consolidated earnings and consolidated balance sheets have resulted in reclassification of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been prepared.

i) Convertible Debt – Glencore Financing

Under IFRS, the value attributable to the conversion factor of convertible debt is the residual of the overall instrument's fair value, after the fair value of the debt is determined. As was permitted under Canadian GAAP for the Glencore financing, the Company had allocated values to the debt, the conversion factor and warrants on a fair value pro-rata basis.

The transition to IFRS resulted in a decrease in the initial fair value of debt of \$612,000, resulting in a fair value of \$23.380 million and an increase in the fair value of the conversion factor and fair value of warrants of \$612,000.

Interest and accretion associated with the debt is capitalized to mineral property, plant and equipment. The change in the initial fair value of the debt resulted in an increase capitalized interest and accretion costs of \$225,000 at February 1, 2010 and \$426,000 at January 31, 2011.

The convertible debt was renegotiated in November 2010, resulting in a loss on extinguishment of the existing debt. Under IFRS, the loss on refinancing of convertible debt was \$2.931 million, a decrease of \$716,000 as calculated under Canadian GAAP. The components of the loss on refinancing of convertible debt are disclosed in Note 9.

ii) Environmental Rehabilitation Provision

The Company elected to apply the IFRS 1 optional exemption for its decommissioning liabilities. The fair value of the environmental rehabilitation provision was calculated as at February 1, 2010 and then discounted to the date the obligation first arose using a historical discount rate and added to the cost of the related asset in mineral property, plant and equipment.

The transition from Canadian GAAP to IFRS resulted in an environmental rehabilitation provision of \$13,699,000 as at February 1, 2010, an increase of \$10,353,000, and a provision of \$15,719,000 as at January 31, 2011, an increase of \$11,907,000. The change in accretion of the environmental rehabilitation provision resulted in a \$534,000 increase to deficit as at the transition date, February 1, 2010. Accretion for the provision under IFRS was \$480,000 for the year ended January 31, 2011, an increase of \$95,000. The transition from Canadian GAAP to IFRS resulted in an asset as part of mineral property, plant and equipment associated with environmental rehabilitation of \$11,600,000 as at February 1, 2010, an increase of \$9,819,000, and an asset of \$13,143,000 as at January 31, 2011, an increase of \$11,278,000. As the associated assets are not in use, amortization of these assets has not been recorded to January 31, 2012.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

The most significant factor in the measurement difference of the environmental rehabilitation provision under IFRS and asset retirement obligation under Canadian GAAP was the applied discount rate. Under IFRS, a liability specific risk-free rate was used to discount future cash flows, whereas Canadian GAAP required a credit-adjusted risk-free rate. IFRS also requires changes in the liability to be recorded each period based on changes in discount rates, in addition to changes in estimated timing or amount of future cash flows.

iii) **Assets Held for Sale**

As a result of the transition to IFRS, non-current assets held for sale have been reclassified to current assets from their classification as non-current assets under Canadian GAAP.

Changes in Accounting Policy and Disclosures

The IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, *Financial instruments - Classification and Measurement*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* IFRS 12, *Disclosure of Interests in Other Entities*, IAS 27, *Separate Financial Statements*, IFRS 13, *Fair Value Measurement* and amended IAS 28, *Investments in Associates and Joint Ventures*. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, except for IFRS 9 which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of these new standards:

IFRS 9 – Financial instruments - classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Other MD&A Requirements

Outstanding Share Data

Authorized Capital: Unlimited common shares without par value.

Issued and outstanding: As at April 24, 2012, 177,597,026 common shares were issued and outstanding.

Outstanding options, warrants and convertible securities as at April 24, 2012:

Type of Security	Number	Exercise Price (US\$)	Expiry Date
Share options	135,000	0.84	May 1, 2012
Share options	40,000	0.95	June 15, 2012
Share options	1,240,000	1.37	September 19, 2012
Share options	200,000	1.21	October 24, 2012
Share options	125,000	1.16	December 5, 2012
Share options	2,400,000	2.78	March 20, 2013
Share options	325,000	2.99	June 19, 2013
Share options	300,000	3.84	September 1, 2013
Share options	75,000	3.51	September 22, 2013
Share options	525,000	3.32	January 5, 2014
Share options	1,250,000	2.99	February 13, 2014
Share options	250,000	2.92	March 12, 2014
Share options	50,000	2.89	March 23, 2014
Share options	360,000	3.00	September 4, 2014
Share options	205,000	3.05	December 12, 2014
Share options	70,000	3.03	January 11, 2015
Share options	100,000	2.87	January 31, 2015
Share options	500,000	2.72	February 15, 2015
Share options	100,000	3.92	June 2, 2015
Share options	175,000	3.22	July 30, 2015
Common share warrants	5,600,000	(Note 1) 1.50	December 31, 2015
Share options	585,000	0.82	January 30, 2016
Common share warrants	400,000	2.50	(Note 2) June 20, 2016
Share options	910,000	0.82	February 17, 2016
Share options	115,000	2.67	October 15, 2016
Share options	60,000	3.54	January 8, 2017
Share options	300,000	2.17	January 25, 2018
Share options	750,000	2.04	March 10, 2018
Share options	1,150,000	1.19	March 8, 2019
Share options	100,000	1.16	April 2, 2019

POLYMET MINING CORP.

(a development stage company)

MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Note 1: Each warrant entitles the holder to purchase one common share of PolyMet at \$1.50 and expires on December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price ("VWAP") of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise these warrants, the warrants will expire.

Note 2: Each warrant entitles the holder to purchase one common share of PolyMet at \$2.50 and expires on the earlier of June 20, 2016 and one year after the Company receives its permits for the NorthMet Project.

At the Annual and Special Meeting of the shareholders of PolyMet on 24 June 2009, the disinterested shareholders of the Company approved an extension of the expiry date by two years of all share options outstanding as at June 24, 2009.

Effective May 25, 2007, the Company adopted an Omnibus Share Compensation Plan ("Share Option Plan"), which was approved by the Company's shareholders' on June 27, 2007, modified by the Company's shareholders on June 17, 2008 and ratified and confirmed by the Company's shareholders on July 13, 2011. The Share Option Plan covers the Company's employees, directors, officers and consultants. The options are granted for varying terms ranging from two to seven years. The maximum number of common shares under the share option plan shall not exceed (i) 10% of the outstanding common shares of the Company at the time of granting of the options and (ii) 18,592,888 common shares of the Company, of which 3,967,500 common shares are reserved for issuance as awards other than options.

POLYMET MINING CORP.
(a development stage company)
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Risks and Uncertainties

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described in PolyMet's Form 20-F/Annual Information Form for the year ended January 31, 2012 on file with the SEC and Canadian securities regulators and other information filed with the Canadian and United States securities regulators before investing in the Company's common shares. The risks described in PolyMet's Form 20-F/Annual Information Form are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of the risks described in PolyMet's Form 20-F/Annual Information Form for the year ended January 31, 2012 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

Disclosure controls and internal control over financial reporting

Disclosure controls and procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted by the Company under U.S. and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules, including providing reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to permit timely decisions regarding public disclosure. Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the US Exchange Act and the rules of Canadian Securities Administration, as at January 31, 2012. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the U.S. Exchange Act and National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim filings. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management has used the Committee of Sponsoring Organizations of the Treadway Commission framework to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that as at January 31, 2012, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, which has expressed its opinion in its report included with the Company's annual consolidated financial statements.

Additional Information

POLYMET MINING CORP.

(a development stage company)

MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the year ended January 31, 2012

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

Additional information related to the Company is available for view on SEDAR and EDGAR, respectively, at www.sedar.com and at www.sec.gov, and at the Company's website www.polymetmining.com.

Form 52-109F1
Certification of Annual Filings
Full Certificate

I, Joseph Scipioni, President and Chief Executive Officer of PolyMet Mining Corp., certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of PolyMet Mining Corp. (the “issuer”) for the financial year ended January 31, 2012.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the financial year end
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 **Control framework:** The control framework the issuer’s other certifying officer(s) and I used to design the issuer’s ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 N/A

5.3 N/A

6. **Evaluation:** The issuer's other certifying officer(s) and I have
- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
 - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A
 - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
 - (ii) for each material weakness relating to operation existing at the financial year end
 - (A) a description of the material weakness;
 - (B) the impact of the material weakness on the issuer's financial reporting and its ICFR; and
 - (C) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.
7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on November 1, 2011 and ended on January 31, 2012 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.
8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: May 1, 2012

Joseph Scipioni
President and Chief Executive Officer

Form 52-109F1
Certification of Annual Filings
Full Certificate

I, Douglas Newby, Chief Financial Officer of PolyMet Mining Corp., certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of PolyMet Mining Corp. (the “issuer”) for the financial year ended January 31, 2012.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the financial year end
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 **Control framework:** The control framework the issuer’s other certifying officer(s) and I used to design the issuer’s ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 N/A

5.3 N/A

6. **Evaluation:** The issuer's other certifying officer(s) and I have
- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
 - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A
 - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
 - (ii) for each material weakness relating to operation existing at the financial year end
 - (A) a description of the material weakness;
 - (B) the impact of the material weakness on the issuer's financial reporting and its ICFR; and
 - (C) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.
7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on November 1, 2011 and ended on January 31, 2012 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.
8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: May 1, 2012

Douglas Newby
Chief Financial Officer