POLYMET MINING CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
FORM 51-102F1

For the Years Ended January 31, 2013 and 2012

General

The following information, prepared as at April 22, 2013 should be read in conjunction with the audited consolidated financial statements of PolyMet Mining Corp. (“PolyMet” or the “Company”) as at January 31, 2013 and 2012 and each of the years in the three year period ended January 31, 2013 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 (“US”) 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 statements that constitute "forward-looking statements" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). These 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.

The forward-looking statements contained in this MD&A are based on assumptions which include, but are not limited to:

- Completion of environmental review on the expected timeframe;
- Obtaining permits on a timely basis;
- Execution of prospective business plans;
- Effectively managing currency market fluctuations; and
- Complying with applicable governmental regulations and standards.

Such forward-looking statements are subject to risks, uncertainties and other factors, including those listed or incorporated by reference under “Risk Factors” in the Form 20-F. These risks, uncertainties and other factors include, but are not limited to:

- Risks related to changes in 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;
- Risks related to changes in the resource market including prices of natural resources, costs associated with mineral exploration and development, and other economic conditions;
- Natural phenomena;
- Risk related to actions by governments and authorities including changes in government regulation;
- Uncertainties associated with legal proceedings; and
- Other factors, many of which are beyond our control.

All forward-looking statements included in this MD&A are based on information available to us on the date of this MD&A. 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, rule or regulation. Readers should not place undue reliance on forward-looking statements. 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 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.

Description of Business and Summary of Recent Events

PolyMet is a Toronto Stock Exchange and NYSE MKT 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 ("NorthMet" or "Project"), a polymetallic project in northeastern Minnesota, USA which hosts copper, nickel, cobalt and platinum group metal mineralization.

The NorthMet Project covers a total of approximately 16,700 acres or 25.9 square miles comprising two areas: the NorthMet mine site totaling approximately 4,300 acres or 6.5 square miles of leased mineral rights and the Erie Plant site totaling approximately 12,400 acres or 19.4 square miles of freehold land located approximately six miles west of the mine site. The property is located in St. Louis County in the Mesabi Iron Range mining district about 60 miles north of Duluth, Minnesota. The NorthMet Project is easily accessible via state and county roads. The surfaced County Highway 666 links the plant to the town of Hoyt Lakes, itself approximately 25 miles east of Virginia, Minnesota which is located on State Highway 53. The mine site is accessible by an all-season gravel road from the plant site and a private railroad crosses the property immediately south of the deposit and runs to the plant site. The plant site is serviced by commercial railroad which connects into the US national and Trans-Canadian railroad systems, as well as a private railroad providing access to port facilities located on Lake Superior. High-voltage power lines owned by Minnesota Power supply the plant site and there is ready access to industrial electric power at the mine site.

Asset Acquisitions

On November 15, 2005 the Company, through its Minnesota subsidiary Poly Met Mining, Inc. ("PolyMet US"), completed the early exercise of PolyMet's option with Cliffs Natural Resources, Inc. ("Cliffs") to acquire the Erie Plant, which is located approximately 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 its bankruptcy at which time the plant was shut down 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 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. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October response from the MPCA provides sufficient guidance to allow the Company to make a reliable estimate of the liability for the Long Term Mitigation Plan. 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, 2013 in the amount of $31.8 million.

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. PolyMet filed an updated Technical Report under NI 43-101 on the NorthMet Project on January 23, 2013 which summarized the September 2006 DFS, September 2007 expansion of proven and probable mineral reserves, the May 2008 DFS Update, and February 2011 Project Improvements described below.

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 mineral reserves lie within measured and indicated mineral resources of 694 million tons grading 0.3% copper, 0.08% nickel and 0.01 opt of precious metals. In addition, inferred mineral resources total 230 million tons grading 0.3% copper, 0.08% nickel and 0.01 opt of precious metals.

The 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.

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 estimates of 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 estimated $290 million of capital costs (for total estimated 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 September 26, 2007, the use of 240-ton trucks, and owner versus contract mine operations; and
- an estimated $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 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 and Permitting

To commence commercial production at our NorthMet Project, various regulatory approvals are needed.

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 November 2009, the Lead Agencies published the PolyMet Draft EIS, which marked the start of a period for public review and comment that ended February 3, 2010. During this period, 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 ("SDEIS") 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 joined 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 SDEIS, which:

- Supplements and supersedes the Draft EIS and respond to concerns identified by the EPA and other comments on the Draft EIS; and
- Incorporates potential effects from the proposed land exchange between the USFS Superior National Forest and PolyMet.

Once the 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. The major permits are:

U.S. Army Corps of Engineers
- Section 404 Individual Permit for Impacted Wetlands

Minnesota Department of Natural Resources
- Permit to Mine
- Water Appropriations Permit
- Dam Safety Permit
- Wetland Replacement Plan

Minnesota Pollution Control Agency
- National Pollutant Discharge Elimination System (NPDES) Permit (storm water)
- State Disposal System (SDS) Permit
- Air Emissions Permit

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 – Environmental Review

Since February 1, 2012 PolyMet's focus has continued to be advancing the NorthMet environmental review. The MDNR EIS Contractor has completed a significant amount of work on the SDEIS and is finalizing internal review of groundwater, surface water, and air dispersion models including quality assurance/quality control review of data that is being incorporated into the SDEIS.

On September 11, 2012 PolyMet reported that it had hired Foth Infrastructure & Environment ("Foth") to assist in completion of the NorthMet environmental review and permitting process. Separately, the Company reported that it had completed a mine site groundwater monitoring program in order to addresses concerns expressed by the EPA in its review of the 2009 Draft EIS.

On October 10, 2012 PolyMet announced it had successfully treated over one million gallons of water through its Reverse Osmosis (RO) pilot water treatment plant. The Company partnered with GE Water & Process Technologies (GE) and Barr Engineering to design and operate the pilot plant using RO membrane technology developed by GE. The test work demonstrates the technical and regulatory viability of RO as a water treatment method that will enable PolyMet to successfully develop the NorthMet Project and meet state and federal water quality standards.

On November 19, 2012 PolyMet announced completion of engineering control designs as well as the design of and inputs to groundwater, surface water and air dispersion models to assess potential environmental impacts from the NorthMet Project. Following extensive quality assurance/quality control review by Foth Infrastructure & Environment and Barr Engineering, PolyMet delivered these results to the state regulatory agencies and the EIS Contractor for review, which is largely complete. The results are being incorporated into the SDEIS which will then be reviewed by the EPA and other governmental and cooperating agencies prior to publication for public review.

On February 14, 2013 PolyMet announced project improvements resulting from addressing comments on the draft EIS. PolyMet has undertaken an extensive review of all aspects of the NorthMet Project which has resulted in numerous improvements and reduced environmental impacts. Reductions in the environmental impact are a significant step toward completion of the SDEIS, which is on track for mid-summer 2013.

PolyMet also reported that it was commencing detailed capital and operating cost updates based on these project changes and is reviewing detailed construction plans and schedules to prepare for project construction upon receipt of permits.

Other Key Developments

On March 9, 2012 PolyMet entered into an option agreement over certain land that it plans to have restored 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 warrants to purchase 1,083,333 of its common shares at $1.50 per share at any time until December 31, 2015. AG has provided the Company security over its requirement to perform the wetlands conversion work in the form 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 earn wetland credits. The mortgage will be proportionately 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 $0.680 million over seven years as compensation for the work AG is continuing to undertake. AG was subsequently acquired by Environmental Investment Partners (“EIP”) and the Company consented to the assignment of the agreement to EIP on September 7, 2012.

On June 21, 2012 PolyMet announced that Jon Cherry, a senior mining executive, would join the Company as CEO and President effective July 16, 2012. Mr. Cherry held increasingly senior positions at operations and projects for subsidiaries of Rio Tinto plc, one of the world's largest mining companies. Most recently he was responsible for strategic direction in environmental permitting and compliance, legal matters, and external relations related to development of the Resolution copper project in Arizona, a joint venture between Rio Tinto and BHP Billiton. Previously, he was responsible for permitting and initial development of the Eagle nickel-copper project in Michigan's Upper Peninsula. He started his career with Cyprus Thompson Creek in Idaho before joining Kennecott in Utah. Former CEO and President Joe Scipioni remains with the Company as Chief Operating Officer.

At its annual shareholders' meeting on July 10, 2012, shareholders approved amendment and restatement of the 2007 Omnibus Share Compensation Plan (the "Plan") and reapproved the Plan and all unallocated option or awards entitled to be granted thereunder. The amended Plan (a) amended the number of common shares reserved for issuance, (b) increased the maximum term of expiry from seven years to ten years; and (c) clarified the definition of "Market Price". The amended Plan was approved by the TSX on July 19, 2012.

On October 15, 2012 the Company sold to Glencore 5 million shares at US$2.00 per share pursuant to the November 2010 private placement agreement.

On April 10, 2013, the Company agreed to issue a debenture with the principal amount of $20,000,000 to Glencore and Glencore agreed to a Standby Purchase Agreement related to a $60,000,000 rights offering by the Company. The $20,000,000 debenture is payable on the earlier of (i) the $60,000,000 rights offering by the Company or (ii) May 1, 2014. The sale of the debenture was consummated on April 11, 2013. The debenture is guaranteed by the Company and is secured by the assets of the Company and our wholly-owned subsidiary. The debenture carried a fixed interest rate of 4.721% per annum. The debenture contains certain events of default that are customarily included in financings of this nature. In the event of default, Glencore may declare all of the then outstanding principal amount of the debenture, including any accrued and unpaid interest, to be due and payable immediately.

Selected Annual Financial Information

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

	Year Ended January 31,		
	2013	2012	2011
Revenue	-	-	-
Loss for the Year	6,626[1]	3,045[2]	6,662[3]
Loss per Share	(0.04)	(0.02)	(0.04)
Total Assets [4]	236,127	189,571	156,736
Total Non-Current Financial Liabilities [5]	34,458	32,690	29,406
Total Shareholders' Equity	142,912	132,366	102,417

Financial information for all years has been reported in accordance with IFRS as issued by IASB.

(1) Includes share-based compensation of $2,255.
(2) Includes share-based compensation of $625 and a future income tax recovery of $657.
(3) 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.
(4) Includes investments in mineral property, plant and equipment, investments in wetland credit intangible, and additions to mineral property as a result of changes in the environmental rehabilitation provision.
(5) Includes long term debt and convertible debt.

Discussion of Operations

Year ended January 31, 2013 compared to year ended January 31, 2012

a) Loss for the Year:

During the year ended January 31, 2013, the Company incurred a loss of $6.626 million ($0.04 loss per share) compared to a loss of $3.045 million ($0.02 loss per share) during the year ended January 31, 2012. The increase in the net loss for the year was primarily attributable to the following:

- an increase in share based compensation in the current year to $2.255 million (prior year - $0.625 million) relating to grants of options and RSU's, amortization of previously issued options, bonus shares, and RSU's, and a shareholder approved modification of the expiry dates of outstanding share options;
- an increase in salaries and benefits in the current year to $1.394 million (prior year - $0.664 million) relating to restructuring and termination benefits incurred;
- an increase in filing and regulatory fees in the current year to $0.281 million (prior year - $0.099 million) related to renewal of the universal shelf registration as discussed further in the "Financing Activities" section;
- a decrease in the non-cash future income tax recovery in the current year to $nil (prior year - $0.657 million) relating to prior year expiration of share purchase warrants; and
- an increase in finance costs in the current year to $0.821 million (prior year - $0.351 million) primarily due to an increase in the accretion of the environmental rehabilitation provision as a result of the increased liability and increase in the discount rate.

These items were partially offset by the following:

- a decrease in professional fees in the current year to $0.374 million (prior year - $0.740 million) primarily due to transition to IFRS in 2012.

b) Cash Flows for the Year:

Cash used in operating activities in the year ended January 31, 2013 was $1.116 million compared to cash used in the year ended January 31, 2012 of $2.955 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, 2013 was $10.130 million compared to cash provided in the year ended January 31, 2012 of $26.209 million. The current year includes funding of the 2010 Glencore financing Tranche 3 and exercise of share options. The prior year includes funding of the 2010 Glencore financing Tranche 2, the 2011 Glencore financing, the IRRRB loan, and exercise of share options, partially offset by the repayment of the Cliffs loan.

Cash used in investing activities for the year ended January 31, 2013 was $18.404 million compared to cash used in the year ended January 31, 2012 of $16.137 million. The increase was primarily due to cash consideration paid to enter into wetland credit options and development agreements. See further discussion in the “Other Key Developments” section above.

Total cash for the year ended January 31, 2013 decreased by $9.390 million for a balance of $8.088 million compared to the year ended January 31, 2012 where cash increased $7.117 million to a balance of $17.478 million.

c) Capital Expenditures for the Year:

During the year ended January 31, 2013 the Company capitalized $49.740 million (prior year - $28.701 million) of mineral property, plant, and equipment costs related to the NorthMet project (draft EIS and permitting) and other fixed assets. The current year includes an increase of $30.425 million to the environmental rehabilitation asset related to the Cliffs Purchase Agreements (prior year - $7.894 million). See further discussion in the “Asset Acquisitions” section above. In addition, the Company capitalized $5.992 million (prior year - $nil) of wetland credit intangible costs related to wetland credit options and development agreements. See further discussion in the “Other Key Developments” section above.

Year ended January 31, 2012 compared to year ended 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 the following:

- 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.

These items were partially offset by the following:

- an increase in share based compensation in the current year to $625,000 compared to a recovery in the prior year 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 - $365,000) primarily due to transition to IFRS.

b) Cash Flows for the Year:

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 for the Year:

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 SDEIS permitting.

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

Three Months Ended	**Jan. 31 2013**	**Oct. 31 2012**	**July 31 2012**	**Apr. 30 2012**	**Jan. 31 2012**	**Oct. 31 2011**	**July 31 2011**	**Apr 30 2011**
Total Revenues	-	-	-	-	-	-	-	-
General and Administrative	(1,406)	(1,261)	(1,958)	(1,283)	(704)	(520)	(962)	(1,183)
Other Income (Expenses)	(735)	8	(24)	33	211	474	(225)	(136)
Net Loss	(2,141)	(1,253)	(1,982)	(1,250)	(493)	(46)	(1,187)	(1,319)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)
Cash used in operating activities	1,377	(948)	(1,041)	(504)	(751)	(284)	(819)	(1,101)
Cash provided by (used) by financing activities	-	9,982	-	148	12,829	(432)	14,249	(437)
Cash used in investing activities	(4,347)	(3,797)	(4,072)	(6,188)	(1,753)	(3,623)	(7,847)	(2,914)

Financial information for all periods has been reported in accordance with IFRS as issued by IASB.

Results fluctuate from quarter to quarter based on activity in the Company including NorthMet development and corporate activities. See additional discussion of significant items in the "Discussion of Operations" section above and as follows:

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

1. January 31, 2013 - $304,000
2. October 31, 2012 - $214,000
3. July 31, 2012 - $1,121,000
4. April 30, 2012 - $616,000
5. January 31, 2012 - $28,000
6. October 31, 2011 - $29,000
7. July 31, 2011 - $32,000
8. April 30, 2011 - $536,000

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 in the quarter ended October 31, 2011. There was no similar tax recoveries recorded in the other quarters.

<u>Three months ended January 31, 2013 compared to three months ended January 31, 2012</u>

a) Loss for the Period:

During the three month period ended January 31, 2013, the Company incurred a loss of $2.141 million ($0.01 loss per share) compared to a loss of $0.493 million ($0.00 loss per share) during the three month period ended January 31, 2012. The increase in the net loss for the year was primarily attributable to the following:

- an increase in share based compensation in the current year period to $0.304 million (prior year period - $0.028 million) relating to grants of options and RSU's, amortization of previously issued options, bonus shares, and RSU's;
- an increase in filing and regulatory fees in the current year period to $0.202 million (prior year period - $0.017 million) related to renewal of the universal shelf registration; and
- a decrease in the non-cash future income tax recovery in the current year period to $nil (prior year period - $0.657 million) relating to expiration of share purchase warrants previously issued.
- an increase in finance costs in the current year period to $0.785 million (prior year - $0.164 million reversal) primarily due to an increase in the accretion of the environmental rehabilitation provision as a result of the increased liability and adjustment in the prior year.

b) Cash Flows for the Period:

Cash provided by operating activities in the three months ended January 31, 2013 was $1.377 million compared to cash used in the three months ended January 31, 2012 of $0.751 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 three months ended January 31, 2013 was $nil million compared to cash provided in the three months ended January 31, 2012 of $12.829 million. The prior year includes funding of the 2011 Glencore financing, partially offset by the repayment of the Cliffs loan.

Cash used in investing activities for the three months ended January 31, 2013 was $4.347 million compared to cash used in the three months ended January 31, 2012 of $1.753 million. The increase was primarily due to prior year proceeds due the sale of the used drill.

Total cash for the three months ended January 31, 2013 decreased by $2.970 million for a balance of $8.088 million compared to the three months ended January 31, 2012 where cash increased $10.325 million to a balance of $17.478 million.

c) Capital Expenditures for the Period:

During the three months ended January 31, 2013 the Company reversed $1.339 million capitalization (prior year period - $6.762 million increase) of mineral property, plant, and equipment costs related to the NorthMet project (draft EIS and permitting) and other fixed assets. The current year period includes a decrease of $5.743 million to the environmental rehabilitation asset related to the Cliffs Purchase Agreements due to changes in the estimated liability and risk-free interest rate (prior year period increase of $2.054 million). See further discussion in the “Asset Acquisitions” section above.

Financing Activities

On August 27, 2009 the Company announced that it had filed a universal shelf registration on Form F-3 with the United States Securities and Exchange Commission ("SEC") and short form base shelf prospectus with the various Canadian Provincial Security Commissions. These documents allowed 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 in the United States and Canada. The universal shelf registration on Form F-3 and short form base shelf prospectus were renewed in January 2013 for the same offering limit and covering the same securities. Unless otherwise specified the net proceeds from the offering of the securities will be used for construction finance for our copper, nickel, precious metals development project located in Minnesota and for working capital. There were no issuances of securities under these registrations during the years ended January 31, 2013 or 2012.

Glencore AG ("Glencore") Financing

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 the Company's 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, and shareholders approved, the election of a Glencore senior executive 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 and potential ownership of PolyMet comprises:

- 46,967,842 shares representing 25.6% of PolyMet's issued shares;
- $25.0 million initial principal floating rate secured debentures due September 30, 2014. Including capitalized interest as at January 31, 2013, these debentures are exchangeable at $1.50 per share into 20,338,440 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 or are repayable on September 30, 2014. The exercise price of the exchange warrants and the number of warrants are subject to conventional anti-dilution provisions; and
- Glencore holds warrants to purchase 5.6 million common shares at $1.50 per share, subject to conventional anti-dilution provisions, 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 NorthMet 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 72,906,282 common shares of PolyMet, representing 34.9% on a partially diluted basis, that is, if no other options or warrants were exercised or 32.4% on a fully diluted basis.

2010 Agreement

On November 12, 2010, PolyMet and Glencore entered into a definitive agreement to:

- Sell in a private placement to Glencore, 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 in the following three tranches:
  - 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 (closed on October 15, 2012).

- The maturity date of the $25 million in outstanding debentures, plus interest, was extended from September 30, 2011 to September 30, 2012 (subsequently extended under the 2011 Agreement described below). The Issued Debentures continued to be exchangeable into common shares of PolyMet, as agreed to in 2008 and the 2011 Agreement described below;
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, $25 million of Tranche E Debentures, as agreed to in 2008;
- 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 2008 Debentures;
- 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 described below; and
- Glencore was also granted a right of first refusal to provide all non-equity 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 fully diluted ownership interest (currently 25.6% of issued and outstanding shares and 32.4% on a fully diluted ownership interest basis).

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

- 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 share premium in fiscal 2011, the $875,000 of premium attributable to the second tranche of the financing was debited to share capital and credited to share premium in fiscal 2012, and the $875,000 of premium attributable to the third tranche of the financing was debited to share capital and credited to share premium in fiscal 2013.

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 NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore. Approximately $7.0 million of the proceeds from the sale of these shares was used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc.;
- Extend the term of the $25 million initial principal debentures to the earlier of i) PolyMet giving Glencore ten days' notice that PolyMet has received permits necessary to start construction of NorthMet 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. Upon occurrence of the Early Maturity Event, the initial principal and capitalized interest would be exchangeable into common shares of PolyMet at $1.50 per share. Alternatively, Glencore has the right to exchange some or all of the debentures at any time under the same conversion terms; 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 NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore.

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;
- 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.

Iron Range Resources & Rehabilitation Board ("IRRRB") Financing

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 (not expected to occur within 12 months from January 31, 2013). 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.

AG for Waterfowl, LLP ("AG") Financing

On March 9, 2012 the Company acquired a secured interest in land (“AG Land”) owned by AG that is permitted for restoration to wetland. AG was subsequently acquired by Environmental Investment Partners (“EIP”) and the Company consented to the assignment of the agreement to EIP on September 7, 2012. EIP will restore the wetlands and, upon completion, wetland credits are to be issued by the proper governmental authorities. The Company plans to use the wetland credits to offset wetlands disturbed during construction and operation of the NorthMet Project. The Company holds a first mortgage on the AG Land, which will be proportionately released as wetland credits are transferred to the Company. The Company has the option to exercise five separate phases of wetland credit development. Any option not exercised by February 28, 2017 will expire and the remaining mortgage, if any, will be released. As at January 31, 2013, the Company had exercised the option on phase 1.

The Company paid initial consideration of $2.0 million cash and issued 2,788,902 of the Company’s common shares valued at $3.375 million (of which 371,854 held in escrow pending completion of construction of the first phase) and a warrant to purchase 1,083,333 of the Company’s common shares at $1.50 per share at any time until December 31, 2015 as consideration for a $5.9 million mortgage to secure performance by EIP. In addition to the initial consideration, performance commitments for phase 1 totaling $0.68 million will be due over the seven years following wetland construction completion for ongoing maintenance by AG. Performance payments totaling $1.063 million per phase for completion and maintenance of phase 2 through 5 will only be incurred if and when the Company exercises its option on those phases, and will be due over the seven years following completion of each phase. If wetland credits are issued by the proper governmental authorities before the seven-year anniversary, any unpaid amounts are due upon issuance of the wetland credits.

The Company has concluded the transaction was negotiated between unrelated parties and therefore at the fair value of the services received. To date, the Company has recorded $5.992 million to Wetland Credit Intangibles which comprises the aggregate value of shares ($3.375 million), warrants ($0.525 million), cash ($2.0 million), and transaction costs ($0.092 million). Since the Company expects to exercise each of the remaining options prior to expiration, the Company determined that the total consideration price of approximately $10.833 million should be allocated equally amongst the total credits with approximately $2.167 million being allocated to each phase after all payments have been made.

Other Financings
On August 31, 2011, the unexercised warrants, to purchase 4,010,000 common shares of PolyMet at $5.00 per share if exercised before NorthMet has produced a cumulative total of 20,000 metric ton 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.

During the year ended January 31, 2013 the Company issued 185,000 shares (prior year– 1,185,000) upon exercise of options for proceeds of $148,000 (prior year - $902,000).

During the year ended January 31, 2013, PolyMet also issued 87,174 shares (prior year– 135,000) as partial payment for options to purchase land.

Liquidity and Capital Resources

Substantially all cash and cash equivalents are held in United States currency. 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.

As at January 31, 2013, the Company had working capital of $2.629 million compared with working capital of $16.375 million as at January 31, 2012 consisting primarily of cash and cash equivalents of $8.088 million (January 31, 2012 - $17.478 million), trade and other receivables of $0.830 million (January 31, 2012 - $0.440 million), prepaid expenses of $0.771 million (January 31, 2012 - $0.934 million), trade payables and accrued liabilities of $5.269 million (January 31, 2012 - $1.679 million), and the current portion of environmental rehabilitation provision of $1.808 million (January 31, 2012 - $0.828 million).

As at January 31, 2013, the Company has firm commitments related to the environmental review process, land options, wetland credit intangibles, rent, and consultants of approximately $3.0 million with the majority due over the next year and the remainder due over seven years.

As at January 31, 2013, the Company had non-binding commitments to maintain its mineral lease rights of $180,000 with all due in the next year.

As at January 31, 2013, the Company has obligations to issue 3,640,000 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, 2013, 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 US$3.80 per share, the date of the approval of the bonus plan by the disinterested shareholders.

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

The following table lists the known contractual obligations as at January 31, 2013:

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Trade payables and accrued liabilities	$ 5,269	$ 5,269	$ -	$ -	$ -
Long-term debt	5,014	-	5,014	-	-
Convertible debt	33,141	-	33,141	-	-
Environmental rehabilitation provision	53,488	1,808	10,388	18,281	23,011
Firm Commitments	3,000	2,354	326	204	116
Total	$ 99,912	$ 9,431	$ 48,869	$ 18,485	$ 23,127

The Company expects to repay the IRRRB long-term loan from working capital or additional financing and to either exchange the Glencore convertible debt into equity or repay from additional financings or from operations once commercial production has commenced.

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.

The Company has negative cash flow from operating activities. Should the Company wish to continue to further advance the NorthMet Project to commercial production PolyMet will require additional funds. The funds will be used to meet the Company's objective of continuing the development of the NorthMet Project towards completion of the EIS and a subsequent adequacy decision by the Department of Natural Resources and record of decision by the federal agencies, which are necessary for the land exchange to occur and for the various permits required to construct and operate the NorthMet Project to be issued. For this objective to be accomplished, the Company will have to specifically fund: (i) permitting and support, securing all remaining required regulatory permits through the federal state and local regulatory process and developing community relations; (ii) detailed engineering and project management involving payments to contractors, consultants and advisors; and (iii) working capital needs. The Company's planned activities for calendar year 2013 and 2014 anticipate significant NorthMet Project expenditures exceeding its current cash reserves. The funds required for the planned activities in calendar year 2013 and 2014 are expected to be raised through debt and equity financing, and possibly through potential joint ventures, production sharing arrangements and similar opportunities. See discussion of recent financing in the "Subsequent Events" section.

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

Financial Instruments and Risk Management

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

	January 31, 2013	January 31, 2012
Loans and Receivables [1]	**$ 8,088**	$ 17,478
Available-for-sale	**17**	30
Other loans and receivables	**830**	440
Other financial liabilities [2]	**$ 39,727**	$ 34,369

(1) Includes cash and cash 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 cash equivalents, investment, trade and other receivables, 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 cash equivalents in United States dollars. The Company has not hedged its exposure to currency fluctuations.

The Company was exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	January 31, 2013	January 31, 2012
Loans and receivables [1]	**$ 71**	$ 305
Available-for-sale	**17**	30
Other loans and receivables	**57**	95
Other financial liabilities [2]	**(268)**	(239)
	$ (123)	**$** 191

(1) Includes cash and cash equivalents.
(2) Includes trade payables and accrued liabilities.

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

Based on the above net exposures, as at January 31, 2013, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately $12,000.

Credit Risk

Credit risk arises on cash and cash 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 $8,918,000.

The Company's cash and cash equivalents are primarily 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 cash equivalents. See additional discussion in the "Liquidity and Capital Resources" section.

Interest Rate Risk

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

The Company was exposed to interest rate risk through the following assets and liabilities:

	January 31, 2013	January 31, 2012
Loans and receivables [(1)]	**$ 8,088**	$ 17,478
Other financial liabilities [(2)]	**$ 34,458**	$ 32,690

(1) Includes cash and cash equivalents.
(2) Represents long term debt and convertible debt.

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 input 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.

The fair values of the Company's cash and cash equivalents, and other loans and receivables approximate their carrying amounts. The Company's available-for-sale 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 and convertible debt approximate their carrying amounts. The Company’s 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. The face value of long term debt exceeds the carrying amount by approximately $50,000.

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, 2014, 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. See discussion of recent financing in the “Subsequent Events” section.

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

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, 2013 and 2012, as follows:

	Year ended January 31,		
	2013	2012	2011
Salaries and other short-term benefits	**$ 1,468**	$ 950	$ 825
Other long-term benefits	**54**	32	21
Termination benefits	**279**	-	-
Share-based payment	**2,102**	738	-
Commission on sale of used drill	**-**	200	-
Total	**$ 3,903**	$ 1,920	$ 846

Share-based payment represents the fair value determined at grant date to be expensed over the vesting period.

None of PolyMet's directors has a service contract with the Company providing for benefits upon termination of his employment. There are agreements with certain key employees and officers that contain severance provisions for termination without cause or in the event of a take-over bid.

During the year ended January 31, 2013, the Company granted 4,375,000 options to directors and management. This compares with 750,000 options granted during the year ended January 31, 2012.

During the quarter ended January 31, 2012, PolyMet sold a used drill for $3.680 million. A company controlled by one of PolyMet's directors received a commission of $200,000 related to this sale.

As a result of Glencore's ownership of 25.6% of the Company it is also a related party. See additional discussion in the "Financing Activities" section below.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. These transactions were in the normal course of operations.

Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS as issued by IASB requires the use of certain critical accounting estimates. These critical accounting estimates require management to make judgments 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.

Critical accounting estimates and judgments used in the preparation of these consolidated financial statements are as follows:

(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. In addition, 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.

(ii) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, including mineral property, plant and equipment, and wetland credit intangible are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at 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.

For its mineral 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. No indicators of impairment for its mining property were identified for the year ended January 31, 2013 or 2012.

(iii) Provision for Environmental Rehabilitation Costs

Provisions for environmental rehabilitation costs 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 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.

Upon initial recognition of provisions for environmental rehabilitation costs, 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 accreted to its future value over the life of the asset, reduced for actual reclamation payments incurred, adjusted for changes to the current market-based discount rate, and adjusted for changes in the amount and timing of the underlying cash flows needed to settle the obligation.

It is possible that the Company's estimates of its ultimate environmental rehabilitation liabilities could change as a result of changes in regulations, changes in the extent of environmental rehabilitation required, changes in the means of rehabilitation, changes in the extent of responsibility for the financial liability 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.

The Company's provision for environmental rehabilitation cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability.

Recent Accounting Pronouncements

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements and are therefore not discussed below.

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements, including the applicability of early adoption.

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 10 is effective for annual periods beginning on or after January 1, 2013. The Company has concluded that this standard currently has no impact on its consolidated 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 11 is effective for annual periods beginning on or after January 1, 2013. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

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 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

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. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

On October 20, 2011, the IASB issued a new interpretation, IFRIC 20, to address accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current 'stripping activity asset'. The standard also provides guidance for the depreciation or amortization and impairment of such assets. IFRIC 20 is effective for reporting years beginning on or after January 1, 2013, although earlier application is permitted. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

IAS 1 – Presentation of Items of Other Comprehensive Income

The amendments of IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to net earnings at a future point in time would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

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, and reapproved by the Company's shareholders most recently on July 10, 2012. 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 July 11, 2011, the Board of Directors of the Company waived the Shareholder Rights Plan in connection with shares that Glencore has the right to acquire through Tranche 2 of the November 2010 private placement. This waiver does not apply to any additional purchases of PolyMet shares by Glencore on market or from third parties.

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.

On October 11, 2012, the Board of Directors of the Company waived the Shareholder Rights Plan in connection with shares that Glencore has the right to acquire through Tranche 3 of the November 2010 private placement. This waiver does not apply to any additional purchases of PolyMet shares by Glencore on market or from third parties.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Proposed Transactions

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

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: 183,250,082 common shares as at April 18, 2013.

Outstanding options, warrants and convertible securities as at April 18, 2013**:**

Type of Security	Number	Exercise Price (US$)	Expiry Date
Share options	1,190,000	1.33*	September 19, 2015
Share options	200,000	1.17*	October 24, 2015
Share options	125,000	1.12*	December 5, 2015
Share options	1,950,000	2.69*	March 20, 2016
Share options	325,000	2.90*	June 19, 2016
Share options	300,000	3.73*	September 1, 2016
Share options	525,000	3.22*	January 5, 2017
Share options	1,250,000	2.99	February 13, 2017
Share options	250,000	2.92	March 12, 2017
Share options	50,000	2.89	March 23, 2017
Share options	360,000	3.00	September 4, 2017
Share options	205,000	3.05	December 12, 2017
Share options	70,000	3.03	January 11, 2018
Share options	100,000	2.87	January 31, 2018
Share options	500,000	2.72	February 15, 2018
Share options	100,000	3.92	June 2, 2018
Share options	175,000	3.22	July 30, 2018
Common share warrants	5,600,000	(Note 1) 1.50	December 31, 2018
Common share warrants	1,083,333	(Note 2) 1.50	December 31, 2018
Share options	585,000	0.82	January 30, 2019
Common share warrants	400,000	(Note 3) 2.50	June 20, 2019
Share options	910,000	0.82	February 17, 2019
Share options	115,000	2.67	October 15, 2019
Share options	60,000	3.54	January 8, 2020
Share options	300,000	2.17	January 25, 2021
Share options	750,000	2.04	March 10, 2021
Share options	1,150,000	1.19	March 8, 2022
Share options	100,000	1.16	April 2, 2022
Share options	2,500,000	0.88	June 21, 2022
Share options	125,000	0.84	July 9, 2022
Share options	150,000	0.95	July 11, 2022
Share options	50,000	1.00	July 25, 2022
Share options	300,000	0.92	January 7, 2023
Share options	250,000	1.18	April 1, 2016
Share options	100,000	1.15	April 3, 2023

* For information purposes, those share options granted with an exercise price in Canadian dollars (“CDN”) have been translated to the Company’s reporting currency using the exchange rate as at April 18, 2012 of 1.00 US$ = 1.0242 CDN$.

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 NorthMet 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 $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 $3.00 and PolyMet provides notice to the holder that it has received permits necessary to start construction of the NorthMet Project. Following satisfaction of the conditions for mandatory exercise, if the holder does not elect to exercise these warrants, the warrants will expire.

Note 3: 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.

The Omnibus Share Compensation Plan (“Omnibus Plan”) was created to align the interests of the Company’s employees, directors, officers and consultants with those of shareholders. Effective May 25, 2007, the Company adopted the Omnibus Plan, which was approved by the Company’s shareholders’ on June 27, 2007, modified and further ratified and reconfirmed by the Company’s shareholders most recently on July 10, 2012. The Omnibus Plan governs the award of share options, restricted shares, and bonus shares and is restricted to 10% of the common shares issued and outstanding on the grant date, excluding 2,682,706 common shares pursuant to an exemption approved by the Toronto Stock Exchange.

At the Annual and Special Meeting of the shareholders of PolyMet on June 24, 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.

At the Annual and Special Meeting of the shareholders of the Company on July 10, 2012, the disinterested shareholders approved an extension of the expiry date by three years of all share options outstanding as at July 10, 2012.

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, 2013 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, 2013 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 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) and15d-15(e) of the US Exchange Act and the rules of Canadian Securities Administration, as at January 31, 2013. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at January 31, 2013.

Management's Responsibility for Financial Statements

The information provided in this report including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

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, 2013, 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

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 http://www.polymetmining.com.