POLYMET MINING CORP.
(a development stage company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

31 October 2011

U.S. Funds

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

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PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Balance Sheets

As at October 31 and January 31
All figures in Thousands of U.S. Dollars- unaudited

ASSETS		31 October 2011		31 January 2011
Current				
Cash and equivalents	**$**	**7,153**	$	10,361
Trade and other receivables		**496**		318
Investment		**47**		66
Prepaid expenses		**404**		636
Assets held for sale *(Notes 5 and 14c))*		**3,170**		3,420
		11,270		14,801
Mineral Property, Plant and Equipment *(Notes 4 and 5)*		**163,927**		141,813
Total Assets	**$**	**175,197**	$	156,614

LIABILITIES				
Current				
Trade payables and accrued liabilities	**$**	**2,249**	$	2,444
Current portion of long term debt *(Note 6)*		**6,000**		6,750
Convertible debt *(Note 8)*		**28,755**		-
Current portion of environmental rehabilitation provision *(Note 7)*		**622**		1,408
		37,626		10,602
Long term				
Long term debt *(Note 6)*		**4,577**		1,775
Convertible debt *(Note 8)*		**-**		27,631
Environmental rehabilitation provision *(Note 7)*		**20,473**		14,311
Total Liabilities		**62,676**		54,319

SHAREHOLDERS' EQUITY				
Share Capital - *(Note 9)*		**154,126**		142,373
Equity Reserves – *(Note 9d))*		**40,714**		39,689
Deficit		**(82,319)**		(79,767)
		112,521		102,295
Total Liabilities and Shareholders' Equity	**$**	**175,197**	$	156,614

General Information *(Note 1)*

Commitments and Contingencies *(Notes 5, 7, 9 and 14)*

Subsequent Events *(Note 8)*

ON BEHALF OF THE BOARD:

"William Murray" Director

"David Dreisinger" Director

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Statements of Loss, Other Comprehensive Loss

For the Periods Ended October 31

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

	Three months ended 31 October 2011	Three months ended 31 October 2010	**Nine months ended 31 October 2011**	Nine months ended 31 October 2010
General and Administrative				
Amortization	**$ 8**	$ 8	**$ 23**	$ 23
Consulting fees	**6**	16	**25**	32
Directors' fees	**64**	-	**175**	-
Exploration	**-**	-	**-**	193
Financing costs write-off *(Note 14b))*	**-**	-	**-**	1,830
Investor relations and financing	**13**	4	**21**	63
Office and corporate wages	**214**	297	**746**	947
Professional fees	**56**	36	**478**	135
Shareholders' information	**88**	48	**319**	255
Share-based compensation *(Notes 9 b) and c))*	**29**	(203)	**597**	(169)
Transfer agent and filing fees	**(6)**	25	**82**	87
Travel	**48**	50	**199**	204
	520	281	**2,665**	3,600
Other Expenses (Income)				
Finance income and costs *(Note 10)*	**172**	179	**515**	477
Loss (gain) on foreign exchange	**19**	(8)	**72**	(40)
Rental income	**(8)**	(18)	**(43)**	(136)
	183	153	**544**	301
Loss for the Period before tax	**703**	434	**3,209**	3,901
Future income tax recovery *(Note 9e))*	**(657)**	(171)	**(657)**	(171)
Loss for the Period	**46**	263	**2,552**	3,730
Other Comprehensive Loss				
Unrealized loss (gain) on investment	**13**	(19)	**20**	54
Total Comprehensive Loss for the Period	**$ 59**	$ 244	**$ 2,572**	$ 3,784
Basic and Diluted Loss per Share	**$ (0.00)**	$ (0.00)	**$ (0.02)**	$ (0.03)
Weighted Average Number of Shares	**161,069,637**	149,463,703	**157,363,932**	149,167,531

PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended October 31

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

	Share Capital (*Note 9*)			Equity Reserves				
	Authorized Shares	Issued Shares	Amount	Warrants and Share-based Payment	Available for Sale Revaluation	Total Equity Reserves	Deficit	Total
Balance at January 31, 2011	Unlimited	154,825,791	$ 142,373	$ 39,695	$ (6)	$ 39,689	$ (79,767)	$ 102,295
Loss for the period	-	-	-	-	-	-	(2,552)	(2,552)
Other comprehensive loss for the period	-	-	-	-	(20)	(20)	-	(20)
Total other comprehensive income	-	-	-	-	(20)	(20)	(2,552)	(2,572)
Shares and warrants issued:								
Equity offering and issuance costs	-	5,000,000	9,978	-	-	-	-	9,978
Exercise of options	-	1,185,000	902	-	-	-	-	902
Fair value of stock options exercised	-	-	663	(663)	-	(663)	-	-
For options on land purchases	-	115,000	210	-	-	-	-	210
Long-term debt - warrants (Note 6)	-	-	-	550	-	550	-	550
Milestone 4 Bonus Share cost amortization (Note 14)	-	-	-	954	-	954	-	954
Future income tax recovery (Note 9e))	-	-	-	(657)	-	(657)	-	(657)
Share-based compensation (Note 9c))	-	-	-	861	-	861	-	861
Balance – October 31, 2011	**Unlimited**	**161,125,791**	**$ 154,126**	**$ 40,740**	**$ (26)**	**$ 40,714**	**$ (82,319)**	**$ 112,521**

	Share Capital (*Note 9*)			Equity Reserves				
	Authorized Shares	Issued Shares	Amount	Warrants and Share-based Payment	Available for Sale Revaluation	Total Equity Reserves	Deficit	Total
Balance at February 1, 2010	Unlimited	148,980,791	$ 132,066	$ 37,591	$ 71	$ 37,662	$ (72,083)	$ 97,645
Loss for the period	-	-	-	-	-	-	(3,730)	(3,730)
Other comprehensive gain (loss) for the period	-	-	-	-	(54)	(54)	-	(54)
Total other comprehensive income	-	-	-	-	(54)	(54)	(3,730)	(3,784)
Shares and warrants issued:								
Exercise of options	-	545,000	516	-	-	-	-	516
Fair value of stock options exercised	-	-	299	(299)	-	(299)	-	-
Milestone 4 Bonus Share cost amortization (Note 14)	-	-	-	(457)	-	(457)	-	(457)
Future income tax recovery (Note 9e))	-	-	-	(171)	-	(171)	-	(171)
Share-based compensation (Note 9c))	-	-	-	(61)	-	(61)	-	(61)
Balance – October 31, 2010	Unlimited	149,525,791	$ 132,881	$ 36,603	$ 17	$ 36,620	$ (75,813)	$ 93,688

PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Statements of Cash Flows

For the Periods Ended October 31

All figures in Thousands of U.S. Dollars - unaudited

	Three months ended October 31, 2011	Three months ended October 31, 2010	**Nine months ended October 31, 2011**	Nine months ended October 31, 2010
Operating Activities				
Loss for the period	**(46)**	(263)	**(2,552)**	(3,730)
Items not involving cash				
Amortization	**8**	8	**23**	23
Finance costs	**173**	150	**516**	450
Financing costs write-off	**-**	-	**-**	1,830
Share-based compensation	**29**	(203)	**597**	(169)
Future income tax recovery	**(657)**	(171)	**(657)**	(171)
Changes in non-cash working capital				
Trade and other receivables	**6**	6	**(178)**	(8)
Prepaid expenses	**223**	(47)	**232**	(234)
Trade payables and accrued liabilities	**(19)**	(155)	**(185)**	(525)
Net cash used in operating activities	**(283)**	(675)	**(2,204)**	(2,534)
Financing Activities				
Share capital – for cash *(Note 9)*	**68**	321	**10,880**	516
Deferred financing costs	**-**	-	**-**	(36)
Long-term debt funding (*Note 6)*	**-**	-	**4,000**	-
Long-term debt repayment	**(500)**	(500)	**(1,500)**	(1,500)
Net cash provided by (used in) financing activities	**(432)**	(179)	**13,380**	(1,020)
Investing Activities				
Deposit on asset held for sale	**250**	-	**250**	-
Purchase of mineral property, plant and equipment	**(3,874)**	(3,771)	**(14,634)**	(12,734)
Net cash used in investing activities	**(3,624)**	(3,771)	**(14,384)**	(12,734)
Net Increase (Decrease) in Cash and Cash Equivalents Position	**(4,339)**	(4,625)	**(3,208)**	(16,288)
Cash and Cash Equivalents Position – Beginning of Period	**11,492**	9,619	**10,361**	21,282
Cash and Cash Equivalents Position – End of Period	**7,153**	4,994	**7,153**	4,994

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 390 – 3600 Lysander Lane, Richmond, British Columbia, Canada, V7B 1C3.

2. Basis of Preparation

Statement of Compliance

The condensed interim consolidated financial statements of PolyMet Mining Corp. have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated interim financial information for the periods ended October 31, 2011 has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

In fiscal 2011, the Company's consolidated financial statements were 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 15. Comparative figures have been restated to reflect these adjustments. Certain information and disclosures which are considered material to the understanding of the Company's unaudited condensed interim consolidated financial statements and which are normally included in annual consolidated financial statements prepared in accordance with IFRS have been included in this interim report.

The policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended January 31, 2012 issued and outstanding as of December 8, 2011, the date the Board of Directors approved the statements. The Company's significant accounting policies under IFRS are set out in PolyMet's condensed interim consolidation financing statements for the quarter ended April 30, 2011. Any subsequent changes to IFRS, that must be reflected in the Company's annual consolidated financial statements for the year ending January 31, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended January 31, 2011, and the Company's condensed interim consolidated financial statements for the quarter ended April 30, 2011 prepared in accordance with IFRS applicable to interim financial statements.

Basis of Consolidation and Presentation

The condensed interim 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 condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Poly Met Mining, Inc. ("PolyMet US"). Inter-company balances and transactions have been eliminated on consolidation.

3. Recent Accounting Pronouncements

The IASB issued the following standards which may impact PolyMet, but have not yet been adopted by the Company: IFRS 9, *Financial instruments - Classification and Measurement* and IFRS 13, *Fair Value Measurement*. Both of these new standards are 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 either 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.

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.

4. 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 RGGS 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 2011 and, as such, has made total payments of $1,775,000 through that date. The next payment is due in 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 continue to 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.

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

5. Mineral Property, Plant and Equipment

Details are as follows:

Net Book Value	NorthMet Project	Other fixed assets	Total
Balance at January 31, 2011	141,607	206	141,813
Additions	16,382	223	16,605
Changes to environmental rehabilitation (Note 7)	5,851	-	5,851
Amortization	-	(342)	(342)
Balance at October 31, 2011	**$ 163,840**	**$ 87**	**$ 163,927**

NorthMet Project	**October 31, 2011**	January 31, 2011
Mineral property acquisition and interest costs	**$ 42,549**	$ 41,220
Mine plan and development	**34,581**	29,305
Environmental	**31,393**	25,994
Consulting and wages	**24,949**	21,756
Environmental rehabilitation	**18,871**	13,021
Site activities	**10,550**	9,362
Mine equipment	**947**	949
Net book value	**$ 163,840**	$ 141,607

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 was 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 stock 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.

5. **Mineral Property, Plant and Equipment** - *Continued*

The purchase price totalling 2 million common shares and $15 million in cash and debt (Note 6) was in four tranches:

- 2 million shares of PolyMet, 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. Interest is 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. No interest was payable until December 31, 2009 after which it is 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 $21,095,000 (Note 7) less 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.

On July 15, 2011 Glencore AG, a wholly-owned subsidiary of Glencore International plc ("Glencore"), acquired pursuant to a private transaction the 9,200,547 PolyMet common shares previously owned by Cliffs.

Interest and loan accretion on the long-term and convertible debt to October 31, 2011 in the amount of $8,169,000 (January 31, 2011 - $6,770,000) have been capitalized as part of the cost of the NorthMet Project assets.

As the above assets are not yet in use, no amortization of these assets has been recorded to October 31, 2011.

At October 31, 2011, certain equipment with a fair value of approximately $3.170 million 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 (net fair value of $3.42 million), resulting in a loss of $520,000. During the quarter ended October 31, 2011, PolyMet received a non-refundable deposit of $250,000 from a third party relating to a potential sale of these assets. This non-refundable deposit has been recorded as a credit against the carrying value of the asset.

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

6. Long Term Debt

Pursuant to Asset Purchase Agreement II (Note 5) 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 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 is interest bearing at the Wall Street Journal Prime Rate and is 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.

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 totaling approximately 5,375 acres of forests, wetlands, and lakes with high recreational value that are included as part of the 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 stock at US$2.50 per share at any time until the earlier of June 30, 2016 or one year after permits are received.

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 and allocating the residual of $550,124 to the warrants. The debt has been fair valued using the difference between 8% and the 5% interest rate on the debt.

As at October 31, 2011, the outstanding long term debt was as follows:

	October 31, 2011	January 31, 2011
Note payable to Cliffs	**$ 7,000**	$ 8,500
IRRRB loan	**3,450**	-
Accrued interest and accretion	**127**	25
Total Debt	**10,577**	8,525
Less current portion	**(6,000)**	(6,750)
Long term debt	**$ 4,577**	$ 1,775

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

7. Environmental Rehabilitation Provision

As part of the consideration for the Cliffs Purchase Agreements (Note 5), 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 Cliff's 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 October 31, 2011. Once the Company obtains its permit to mine the environmental and reclamation obligations will be direct with the governing bodies.

The Company's estimate of the fair value of the environmental rehabilitation provision at October 31, 2011 was $21,095,000 (January 31, 2011 - $15,719,000). This fair value was based upon a October 31, 2011 undiscounted future cost of $23.7 million (January 31, 2011 - $24.4 million) for the first Cliffs transaction and $1.8 million (January 31, 2011 - $2.1 million) for Asset Purchase Agreement II, an annual inflation rate of 2.00%, risk-free interest rate of 2.91%, a mine life of 20 years and a reclamation period of 9 years. The revision in estimated cash flow balance during the period of $5,851,000 is due to the decrease in the risk-free interest rate from 4.38% to 2.91% during the period.

In March 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. As part of its prior transactions with Cliffs (Note 5), PolyMet has agreed to indemnify Cliffs for certain on-going site environmental liabilities. As such, the Company has included its best estimate of the liabilities related to this consent decree in its environmental rehabilitation provision for the period ended October 31, 2011 ($384,000).

Adjustments to the provision were as follows:

	Nine months ended October 31, 2011	Year ended January 31, 2011
Balance – beginning of period	$ 15,719	$ 13,699
Liabilities incurred in the current period	-	-
Liabilities discharged in the current period	(991)	(457)
Accretion expense	516	600
Revisions in estimated cash flows	5,851	1,877
Balance – end of period	$ 21,095	$ 15,719

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

8. Glencore Financing

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

	Nine months ended October 31, 2011	Year ended January 31, 2011
Balance – beginning of period	$ 27,631	$ 24,866
Fair value adjustment on refinancing	-	706
Accretion and capitalized interest	1,124	2,059
Balance – end of period	$ 28,755	$ 27,631

In accordance with International Accounting Standard 1, the Company has reclassified the convertible debt, which was due to be repaid September 30, 2012, as a current liability. Subsequent to October 31, 2011, the term of the debt was extended (see 2011 Agreement below), as such, PolyMet expects the debt to be reclassified as long-term in the Company's year end financial statements.

Since October 31, 2008, the Company and Glencore have entered into four sets of agreements, known as the 2008 Agreement, the 2009 Agreement, the 2010 Agreement and the 2011 Agreement, the last of which was agreed subsequent to October 31, 2011.

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 October 31, 2011, $3,548,000 of interest had been added to the principal amount of the debt since inception. The Debentures are secured by 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 of $25 million of Debentures was cancelled under the 2010 Agreement described below.

8. **Glencore Financing** - *Continued*

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 12 month LIBOR at October 31, 2008 plus 4% (7.2075%). Costs related to the financing of $652,000 have been 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 12 month LIBOR 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.

<u>2009 Agreement</u>

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 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 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.

<u>2010 Agreement</u>

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.
- 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.

8. **Glencore Financing** - *Continued*

- 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 Debentures.
- Issuance of warrants (the "2010 Warrants") to purchase 3 million common shares of PolyMet at $2.00 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 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.

While it owns 10% or more of the issued and outstanding shares of PolyMet, Glencore has a right of first refusal to provide all material financings, subject to regulatory approval, since it owns 10% or more of the issued and outstanding shares of PolyMet. While it owns more than 5% of the issued and outstanding shares of PolyMet, Glencore has the right to participate in any equity-related financing to maintain its partially diluted ownership interest.

In accordance with IFRS, the November 12, 2010 transaction has been accounted for by deeming PolyMet's existing convertible debt at that date with a book value of $26.546 million to have been extinguished and reissued. Therefore all of the costs associated with the transaction have been recorded as a non-cash expense of $3,831,000, 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 $2.533 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.

<u>2011 Agreement</u>

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 US$1.50 per share for gross proceeds of US$20 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at US$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. Approximately US$7.0 million of the proceeds from the sale of these shares will be used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. The balance will be for permitting and other costs (including general corporate purposes) associated with the NorthMet project;

- 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 US$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 US$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.

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

9. 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 8). Transactions costs for the financing were $22,000.

During the nine months ended October 31 2011, the Company issued 1,185,000 shares (October 31, 2010 – 545,000) pursuant to the exercise of stock options for total proceeds of $902,000 (October 31, 2010 - $516,000).

b) Stock Options and Restricted Stock

Effective May 25, 2007, the Company adopted a Omnibus Share Compensation Plan ("Stock Option Plan"), which was approved by the Company's shareholders' on June 27, 2007. The Stock 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 stock 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 14a)) and the restricted stock noted below.

Details of stock option activity were as follows:

	Nine months ended October 31, 2011	**Year ended 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

During the nine months ended October 31, 2011, the Company granted bonuses comprising 327,500 restricted stock for U.S. employees and consultants and restricted stock 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.

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

9. Share Capital - *continued*

As at October 31, 2011, the following director, officer, consultant and employee stock options were outstanding:

Expiry Date	Exercise Price (US$)	Exercise Price (CDN$)	Number of options outstanding
March 30, 2012	0.66	0.65	60,000
May 1, 2012	0.86	0.85	135,000
June 15, 2012	0.95	0.94	40,000
September 19, 2012	1.37	1.36	1,240,000
October 24, 2012	1.21	1.20	200,000
December 5, 2012	1.16	1.15	125,000
March 20, 2013	2.78	2.76	2,400,000
June 19, 2013	3.00	2.97	325,000
September 1, 2013	3.85	3.82	300,000
September 22, 2013	3.54	3.51	75,000
January 5, 2014	3.33	3.30	525,000
February 13, 2014	2.99	2.96	1,250,000
March 12, 2014	2.92	2.89	250,000
March 23, 2014	2.89	2.86	50,000
September 4, 2014	3.00	2.97	360,000
December 12, 2014	3.05	3.02	205,000
January 11, 2015	3.03	3.00	70,000
January 31, 2015	2.87	2.85	100,000
February 15, 2015	2.72	2.70	500,000
June 2, 2015	3.92	3.89	100,000
July 30, 2015	3.22	3.19	175,000
January 30, 2016	0.82	0.81	575,000
February 17, 2016	0.82	0.81	910,000
October 15, 2016	2.67	2.65	115,000
January 8, 2017	3.54	3.51	60,000
January 25, 2018	2.17	2.15	300,000
March 10, 2018	2.04	2.02	750,000
Weighted average exercise price and total number of options outstanding	2.34	2.32	11,195,000

As at October 31, 2011 all options had vested and were exercisable, with the exception of 1,812,500, which vest upon completion of specific targets.

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

9. Share Capital - *continued*

c) Share-Based Compensation

During the nine month period ended October 31, 2011, the Company granted 750,000 options (October 31, 2010 – nil) to directors with an average exercise price of US$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 stock 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 US$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 stock options.

During the nine months ended October 31, 2011, the Company granted bonuses comprising 327,500 restricted stock for U.S. employees and consultants and restricted stock 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 stock and restricted stock units had a fair value of $668,000, which is being amortized over the vesting period.

During the nine month period ended October 31, 2011, the Company recorded $861,000 for share-based compensation in its accounts as an expense of $597,000 and as a debit to mineral property, plant and equipment of $264,000, with the offsetting entries to warrants and share-based payment reserve.

During the nine month period ended 31 October 2010, the Company recorded $151,000 for stock based compensation in its accounts as an expense of $43,000 and a debit to mineral property, plant and equipment of $108,000, with the offsetting entries going to contributed surplus. During the three month period ended 31 October 2010, the Company also recorded a debit to contributed surplus and a credit to stock based compensation expense of $212,000 to reverse prior accounting for stock options which had yet to vest and were forfeited in the period.

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

9. **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 stock options and warrants exercised.

Details were as follows:

	Nine months ended October 31, 2011	Year ended January 31, 2011
Balance – Beginning of period	**$ 39,695**	$ 37,591
Current period fair value of share-based compensation	**861**	63
Refinancing of convertible debt *(Note 8)*	**-**	3,125
Premium on equity financing	**-**	875
Bonus Shares for Milestone 4 cost amortization *(Note 14a))*	**954**	1,593
Forfeiture of Bonus Shares for Milestone 4 *(Note 14a))*	**-**	(1,682)
Deferred income tax charge *(Note 9e))*	**(657)**	(1,390)
Long-term debt – warrants to IRRRB *(Note 9e))*	**550**	-
Fair value of stock options and warrants exercised during the period	**(663)**	(480)
Balance – End of period	**$ 40,740**	$ 39,695

e) **Share Purchase Warrants**

Details of stock purchase warrant activity were as follows:

	Nine months ended October 31, 2011		Year ended January 31, 2011	
	Warrants	**Weighted Average Exercise Price (US$)**	Warrants	Weighted Average Exercise Price (US$)
Warrants outstanding - beginning of period	**7,010,000**	**4.00**	15,202,046	3.74
Expired *(Note 9e))*	**(4,010,000)**	**5.50**	(4,942,046)	3.23
Cancelled *(Note 8)*	**-**	**-**	(6,250,000)	3.00
Exercised	**-**	**-**	-	-
Issued *(Notes 6 and 8)*	**400,000**	**2.50**	3,000,000	2.00
Warrants outstanding – end of period	**3,400,000**	**2.06**	7,010,000	4.00

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 US$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 US$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.

9. Share Capital - *continued*

e) Share Purchase Warrants

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 stock at US$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 stock at US$5.00 if exercised before the NorthMet Project commenced commercial production, or US$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 stock at US$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 shares of PolyMet common stock were exercised in the year ended January 31, 2010. On December 31, 2010, the unexercised warrants, to purchase 3,842,046 shares of PolyMet common stock at US$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 shares of PolyMet common stock at US$5.00 if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or US$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.

9. 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 8. The warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at US$5.00 if exercised before the NorthMet project has produced a total of 20,000 metric tonnes of concentrate, or US$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 US$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 US$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 US$2.00 at any time until December 31, 2015, in consideration of the amendments to the debenture agreements. Subsequent to the period end, the Company amended the terms of the agreement resulting in the exercise price decreasing to US$1.50 (Note 8 – 2011 Agreement).

On June 30, 2011 PolyMet closed a $4,000,000 loan (Note 6 – 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 shares of its common stock at US$2.50 per share at any time until the earlier of June 30, 2016 or one year after permits are received.

On October 31, 2006, the Company issued 600,000 warrants to BNP Paribas Loan Services as partial consideration under the agreement described in Note 14b). These warrants had an exercise price of US$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 US$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.

f) 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, modified by the Company’s shareholders on June 17, 2008 and ratified and confirmed by the Company’s shareholders on July 13, 2011. All common shares 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.

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

9. Share Capital - *continued*

Each Right entitles the registered holder thereof to purchase from the Company on the occurrence of certain events, one common share of the Company at the price of Cdn$50 per share, subject to adjustment (the "Exercise Price"). However, upon certain events occurring (as defined in the Rights Plan), 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 stock, 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 stock by Glencore on market or from third parties.

10. Finance Income and Costs

Finance income and costs for the nine and months ended October 31, 2011 and 2010 were comprised of:

	Nine months ended October 31, 2011	Nine months ended October 31, 2010
Interest (income) expense	$ (1)	$ 27
Accretion of environmental rehabilitation provision	516	450
Finance income and costs	$ 515	$ 477

	Three months ended October 31, 2011	Three months ended October 31, 2010
Interest (income) expense	$ -	$ 29
Accretion of environmental rehabilitation provision	172	150
Finance income and costs	$ 172	$ 179

11. Supplemental Disclosure With Respect to Statements of Cash Flows

During the nine months ended October 31, 2011 and 2010 the Company entered into the following non-cash investing and financing activities:

	October 31, 2011	October 31, 2010
Changes in trade payables and accrued liabilities related to investing activities	$ (10)	$ (552)

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

12. 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 nine months ended October 31, 2011 and 2010, as follows:

	October 31, 2011	October 31, 2010
Wages and other short-term benefits	$ 711	$ 634
Other long-term benefits	26	17
Share-based compensation	738	-
Total	$ 1,475	$ 651

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 and were measured at the amount of consideration established and agreed to by the related party.

Included in key management compensation were consulting fees of $nil paid during the nine months ended October 31, 2011 (October 31, 2010 - $48,000) 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.

As a result of Glencore's partially diluted ownership of 24.8% of the Company it is also a related party. Transactions with Glencore are described in notes 8 and 14d).

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

13. 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:

October 31, 2011		**Canada**		**U.S.**		**Consolidated**
Segment operating loss (9 months ended)	**$**	**1,453**	**$**	**1,099**	**$**	**2,552**
Segment operating loss (3 months ended)	**$**	**(265)**	**$**	**311**	**$**	**46**
Identifiable assets	**$**	**7,371**	**$**	**167,826**	**$**	**175,197**

October 31, 2010		Canada		U.S.		Consolidated
Segment operating loss (9 months ended)	$	2,731	$	999	$	3,730
Segment operating loss (3 months ended)	$	(36)	$	299	$	263
Identifiable assets	$	4,868	$	140,035	$	144,903

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

14. Contingent Liabilities and Commitments

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 October 31, 2011, 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 October 31, 2011, 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	(i) issued in May 2009
Milestone 3	2,350,000	issued
Milestone 4	3,640,000	(ii) and (iii)

(i) Milestone 2 – 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. The bonus shares allocated to Milestone 2 are valued at CDN$0.75. This milestone was deemed to have been achieved in May 2009 and therefore the Company issued the shares to certain directors and insiders and capitalized $714,000 to property plant and equipment.

(ii) Milestone 4 – Commencement of commercial production at the NorthMet Project at a time when the Company has not less than 50% ownership interest.

(iii) 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 US$3.80, the Company's closing trading price on June 17, 2008.

During the nine months ended October 31, 2011, the Company recorded $954,000 of amortization related to Milestone 4 (October 31, 2010 – ($457,000)), 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.

b) On 31 October 2006 the Company entered into an agreement with BNP Paribas Loan Services ("BNPP") whereby BNPP will 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 shares of the Company's common stock at a price of US$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 US$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 quarter ended July 31, 2010.

14. Contingent Liabilities and Commitments - *continued*

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 has been reclassified as held for sale, has a book value of $3,170,000 and, as at October 31, 2011, the Company is paying the supplier $765,000 over time for work on the drill.

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 October 31, 2011, the Company had outstanding commitments related to equipment, rent, consultants and the environmental review process of approximately $1.7 million predominantly due over the next year.

f) At October 31, 2011 the Company had non-binding commitments in 2011 and 2012 of $451,000 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.

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

15. **Transition to IFRS**

IFRS accounting policies have been applied in preparing the financial statements for the three and nine month periods ended October 31, 2011, the comparative information presented in these financial statements for the three and nine month periods ended October 31, 2010 and the year ended January 31, 2011.

a) 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 October 31, 2010:

	Note	Share Capital	Contributed Surplus[1]	Accumulated Other Comprehensive Loss[2]	Deficit	Total Equity
As reported under Canadian GAAP		$ 132,881	$ 35,991	$ 17	$ (75,112)	$ 93,777
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)
Change in accretion of environmental rehabilitation provision	(ii)	-	-	-	(167)	(167)
As reported under IFRS		$ 132,881	$ 36,603	$ 17	$ (75,813)	$ 93,688

[1] Contributed surplus was reclassified to warrants and share-based payment equity reserve under IFRS
[2] Accumulated other comprehensive loss was reclassified to available for sale revaluation equity reserve under IFRS

Reconciliation of total comprehensive loss between Canadian GAAP and IFRS for the three and nine months ended October 31, 2010:

	Three months ended October 31, 2010	Nine months ended October 31, 2010
Total comprehensive loss - under Canadian GAAP	$ 191	$ 3,617
Change in loss on refinancing of convertible debt	-	-
Change in accretion of environmental rehabilitation provision	53	167
Total comprehensive loss – as reported under IFRS	$ 244	$ 3,784

15. **Transition to IFRS** - *Continued*

b) 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 warrants and 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 $23,380,170 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 $246,000 at January 31, 2011.

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 $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. Accretion for the provision under IFRS was $150,000 and $450,000 for the three and nine month periods ended October 31, 2010, an increase of $53,000 and $167,000, respectively. The transition from Canadian GAAP to IFRS resulted in an asset as part of mineral property, plant and equipment associated with environmental rehabilitation of $13,021,000 as at January 31, 2011, an increase of $11,156,000. As the associated assets are not in use, amortization of these assets has not been recorded to October 31, 2011.

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.

General

The following information, prepared as at December 9, 2011, should be read in conjunction with the condensed interim consolidated financial statements of PolyMet Mining Corp. (the "Company" or "PolyMet") for the three months ended October 31, 2011 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

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. A new hydrometallurgical plant is planned to be installed adjacent to the existing mill on surplus land.

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 concentrates are planned to be sold prior to completion of construction and commissioning of the new hydrometallurgical metal recovery processing facilities. Once completed, the new hydrometallurgical plant will produce copper metal, 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, and a long-term mitigation plan, which has been submitted to the MPCA for its review. As part of its prior transactions with Cliffs, PolyMet has agreed to indemnify Cliffs for certain on-going site environmental liabilities.

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 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 October 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.
- 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.

In March 2011, PolyMet entered into an agreement with the State of Minnesota's Department of Natural Resources committing it to an additional $2,818,000 through April 1, 2012 for continued work on the SDEIS.

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.

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 its common stock at US$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 shares at US$2.00 per share pursuant to the November 2010 private placement agreement. In a separate transaction, Glencore acquired 9.2 million of the Company's common stock from Cliffs, representing that company's entire holding of PolyMet's common stock.

On September 19, 2011 PolyMet reported that the Lead Agencies anticipate that the SDEIS is expected to be completed in January 2012. Once the SDEIS is complete, the Lead Agencies will review it with the Cooperating Agencies, Regulating Agencies and PolyMet. The Lead Agencies expect the SDEIS to be published in the second quarter of 2012. The detailed project, which includes the simplified metallurgical process and reduction in capital costs that the Company announced on February 2, 2011, is being modeled to predict environmental impacts of the project.

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

a) Sell in a private placement to Glencore, 13,333,333 common shares at US$1.50 per share for gross proceeds of US$20 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at US$1.50 per share at any time until 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 the 2011 Warrants, the 2011 Warrants will expire. Approximately US$7.0 million of the proceeds from the sale of these shares will be used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. The balance will be for permitting and other costs (including general corporate purposes) associated with the NorthMet project;
b) 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 US$1.50 per share; and
c) 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 US$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.

Results of Operations

For the three months ended October 31, 2011 (the "2012 third quarter") compared to the three months ended October 31, 2010 (the "2011 third quarter")

a) Loss for the Period:

During the three months ended October 31, 2011, the Company incurred a loss of $46,000 ($0.00) loss per share) compared to a loss of $263,000 ($0.00 loss per share) in the fiscal 2011 third quarter. The decrease in the net loss for the period was primarily attributable to a non-cash future income tax recovery, related to expiration of stock purchase warrants previously issued of $657,000 (October 31, 2010 – $171,000), partially offset by the non-cash reversal, in the prior year quarter of previously recorded stock-based compensation costs relating to board and other management changes of $212,000 (October 31, 2011 – nil).

b) Cash Flows:

Cash used in operating activities in the three months ended October 31, 2011 was $283,000 compared to cash used in the three months ended October 31, 2010 of $675,000. The variance in cash is primarily due to changes in non-cash working capital balances.

Cash used in financing activities for the three months ended October 31, 2011 was $432,000 (prior year period - $179,000). The 2012 third quarter activity was due to the issuance of share capital on the exercise of stock options for $68,000 (prior year period - $321,000), partially offset by the scheduled repayment of $500,000 of debt (prior year period - $500,000).

Cash used in investing activities for the three months ended October 31, 2011 was $3.624 million compared with $3.771 million in the three months ended October 31, 2010, with the decrease being primarily the result of the receipt of a non-refundable deposit of $250,000 on an asset held for sale.

Total cash for the three months ended October 31, 2011 decreased by $4.339 million for a balance of $7.153 million compared to the three months ended October 31, 2010 where cash decreased $4.625 million to a balance of $4.994 million.

c) Capital Expenditures:

During the three months ended October 31, 2011 the Company capitalized $8.820 million (2010 - $3.030 million) of costs primarily related to site activity, the supplementary draft EIS, permitting and a $4.343 million increase in the asset retirement asset due to a change in the risk-free interest rate used to discount the asset retirement liability from 3.91% to 2.92% during the period.

For the nine months ended October 31, 2011 compared to the nine months ended October 31, 2010

a) Loss for the Period:

During the nine months ended October 31, 2011, the Company incurred a loss of $2,552,000 ($0.02) loss per share) compared to a loss of $3,730,000 ($0.03 loss per share) in the prior year period. The decrease in the net loss for the period was primarily attributable to:

- the Company's decision, in the prior year period, 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, $1,830,000, $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 in the prior year, and
- a non-cash future income tax recovery related to expiration of stock purchase warrants previously issued of $657,000 (October 31, 2010 – $171,000).

These items were partially offset by:

- an increase in share based compensation in the current year period to $597,000 compared to a recovery in the prior year period of recovery of $169,000 including $212,000 (October 31, 2011 – nil) relating to board and other management changes and
- an increase in professional fees to $478,000 (prior year period - $135,000) due to increased corporate activities. .

b) Cash Flows:

Cash used in operating activities in the nine months ended October 31, 2011 was $2,204,000 compared to cash used in the nine months ended October 31, 2010 of $2,534,000. 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 October 31, 2011 was $13,380,000 (prior year period use of - $1,020,000). The current period activity was primarily due to the Glencore financing and the IRRRB loan and the issuance of share capital on the exercise of stock options for $902,000 (prior year period - $516,000), partially offset by the scheduled repayment of $1,500,000 of debt (prior year period - $1,500,000).

Cash used in investing activities for the nine months ended October 31, 2011 was $14.384 million compared with $12.734 million in the nine months ended October 31, 2010, with the increase being primarily the result of purchasing land for the USFS land exchange with funds received from the loan from the IRRRB, partially offset by lower engineering and project costs as the Company scaled back work not required for permitting over the last year and the receipt of a non-refundable deposit of $250,000 on an asset held for sale.

Total cash for the nine months ended October 31, 2011 decreased by $3.208 million for a balance of $7.153 million compared to the nine months ended October 31, 2010 where cash decreased $16.288 million to a balance of $4.994 million.

c) Capital Expenditures:

During the nine months ended October 31, 2011 the Company capitalized $22.114 million (2010 - $13.161 million) of costs primarily directly related to the above noted land purchase, site activity, the supplementary draft EIS, permitting and a $5.851 million increase in the asset retirement asset due to a change in the risk-free interest rate used to discount the asset retirement liability from 4.38% to 2.92% during the period..

Summary of Quarterly Results

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

Three Months Ended	Oct. 31 2011 $	July 31 2011 $	Apr 30 2011 $	Jan. 31 2011 $	Oct. 31 2010 $	July 31 2010 $	Apr 30 2010 $	Jan 31 2010 $
Total Revenues	-	-	-	-	-	-	-	-
General and Administrative	(520)	(962)	(1,183)	(748)	(281)	(2,468)	(851)	(6,069)
Other Income (Expenses)	474	(225)	(136)	(3,206)	18	(81)	(67)	(138)
Net Loss	(46)	(1,187)	(1,319)	(3,954)	(263)	(2,549)	(918)	(6,207)
Loss per share	(0.00)	(0.01)	(0.01)	(0.03)	(0.00)	(0.02)	(0.01)	(0.04)

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 $3.831 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 stock based compensation costs of $212,000 due to the forfeiture of unvested stock options was recorded in the quarter ended October 31, 2010. There were no similar stock 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.

A warrant amendment expense of $3.915 million was recorded in the quarter ended January 31, 2010. There were no warrant amendment expenses recorded in the other quarters.

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

1. October 31, 2011 - $29,000
2. July 31, 2011 - $32,000
3. April 30, 2011 - $536,000
4. January 31, 2011 - $50,000
5. October 31, 2010 - $(203,000)
6. July 31, 2010 - $24,000
7. April 30, 2010 - $10,000
8. January 31, 2010 - $33,000

Financing Activities

During the nine months ended October 31, 2011 the Company issued 1,185,000 shares (prior year period – 545,000) upon exercise of options for proceeds of $902,000 (prior year period - $516,000). During the nine months ended October 31, 2011, PolyMet also issued 115,000 shares (prior year period – nil) as partial payment for options to purchase land.

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 US$2.00 per share for gross proceeds of US$30 million, before deducting estimated offering expenses. Completion of the sale of these shares and funding are expected to occur in the following three tranches subject, in each case, to certain closing conditions:

- Tranche 1 of US$10 million (closed on January 17, 2011);
- Tranche 2 of US$10 million (closed July 15, 2011); and
- Tranche 3 of US$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.

While it owns 10% or more of the issued and outstanding shares of PolyMet, Glencore has a right of first refusal to provide all material financings, subject to regulatory approval. While it owns more than 5% of the issued and outstanding shares of PolyMet, Glencore has the right to participate in any equity-related financing to maintain its partially diluted ownership interest (17.8% as of October 31, 2011).

On June 30, 2011 PolyMet closed a $4,000,000 loan from Iron Range Resources & Rehabilitation Board ("IRRRB"). At the same time, the Company exercised its options to acquire two tracts of land totaling approximately 5,375 acres of forests, wetlands, and lakes with high recreational value that are included as part of the 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 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 stock at US$2.50 per share at any time until the earlier of June 30, 2016 or one year after permits are received.

Liquidity and Capital Resources

As at October 31, 2011 the Company had negative working capital of $26.356 million compared with working capital of $4.199 million at January 31, 2011 consisting primarily of cash of $7.153 million (January 31, 2011 - $10.361 million), trade and other receivables of $496,000 (January 31, 2011 - $318,000), prepaid expenses of $404,000 (January 31, 2011 - $636,000), asset held for sale of $3.170 million (January 31, 2011 - $3.420 million); accounts payable and accrued liabilities of $2.249 million (January 31, 2011 - $2.444 million), the current portion of the notes to Cliffs of $6.000 million (January 31, 2011 - $6.750 million), convertible debt of $28.755 million (January 31, 2011 – nil current) and the current portion of asset retirement obligations of $622,000 (January 31, 2011 - $1.408 million). In accordance with International Accounting Standard 1, the Company has reclassified the convertible debt, which was due to be repaid September 30, 2012, as a current liability. Subsequent to October 31, 2011, the term of the debt was extended, as such, PolyMet expects the debt to be reclassified as long-term in the Company's year end financial statements. The Company expects to pay the remaining balance of $1.019 million (January 31, 2011 - $1.775 million) long term notes to Cliffs, 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.

At October 31, 2011 the Company had non-binding commitments in 2011 and 2012 of $451,000 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 October 31, 2011 the Company, in addition to its obligation to Cliffs 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, 2011, 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. As at December 7, 2011, the Company has outstanding firm commitments of approximately $1.300 million, the majority of which relates to the Supplemental Draft Environmental Impact Study process.

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.

These interim unaudited 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.

In the past the Company has taken steps to fund its operations through the issuance of equity and debt. It plans to meet its ongoing financial obligations to the point at which all regulatory approvals for its NorthMet project have been obtained and which will allow the Company to raise additional capital to construct its mine and commence commercial production. In the event that currently available resources are not sufficient to meet these obligations, the Company may be forced to curtail or delay expenditures, sell assets or seek additional financing sources. All of these circumstances may delay the progress of or affect the ultimate success of the Company's plans.

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 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 US$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.

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

a) Sell in a private placement to Glencore, 13,333,333 common shares at US$1.50 per share for gross proceeds of US$20 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at US$1.50 per share at any time until 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 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;
b) 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. Upon occurrence of the Early Maturity Event, the initial principal and capitalized interest will be exchanged into common shares of PolyMet at US$1.50 per share; and
c) 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 US$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 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 transactions closed on December 6, 2011.

Net proceeds from the 2011 placement together with Tranche 3 of the 2010 placement to be received no later than October 15, 2012 and cash on hand at October 31, 2011 are expected to be sufficient to cover the Company's anticipated expenditures during the next twelve months.

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 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 stock, 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 stock by Glencore on market or from third parties.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Related Party Transactions

During the nine months ended October 31, 2011, the Company paid $nil (October 31, 2010 - $48,000) to Dr. Dreisinger, a Director of PolyMet, for consulting fees 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 it was 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.

As a result of Glencore's partially diluted ownership of 24.8% 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.

Subsequent Events

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

a) Sell in a private placement to Glencore, 13,333,333 common shares at US$1.50 per share for gross proceeds of US$20 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at US$1.50 per share at any time until 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 the 2011 Warrants, the 2011 Warrants will expire. Approximately US$7.0 million of the proceeds from the sale of these shares will be used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. The balance will be for permitting and other costs (including general corporate purposes) associated with the NorthMet project;
b) 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 US$1.50 per share; and
c) 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 US$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.

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 was the filing for the three months ended April 30, 2011 which contains IFRS compliant financial statements on a comparative basis as well as details (Notes 3 and 17 to the financial statements) of the changes in accounting policies as a result of the adoption of IFRS.

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 warrants and 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 $23,380,170 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 $246,000 at January 31, 2011.

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 $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. Accretion for the provision under IFRS was $150,000 and $450,000 for the three and nine month periods ended October 31, 2010, an increase of $53,000 and $167,000, respectively. The transition from Canadian GAAP to IFRS resulted in an asset as part of mineral property, plant and equipment associated with environmental rehabilitation of $13,021,000 as at January 31, 2011, an increase of $11,156,000. As the associated assets are not in use, amortization of these assets has not been recorded to October 31, 2011.

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.

Changes in Accounting Policy and Disclosures

The International Accounting Standards Board ("IASB") has issued the following standards which may impact PolyMet, but have not yet been adopted by the Company: IFRS 9, *Financial instruments - Classification and Measurement* and IFRS 13, *Fair Value Measurement*. IFRS 9 and IFRS 13 are effective for annual periods beginning on or after January 1, 2015 and January 1, 2013, respectively, 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 either 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.

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.

Other MD&A Requirements

Outstanding Share Data

Authorized Capital: Unlimited common shares without par value.

Issued and outstanding: As at December 7, 2011, 174,459,124 common shares were issued and outstanding.

Outstanding options, warrants and convertible securities as at December 7, 2011:

Type of Security	Number	Exercise Price (US$)	Expiry Date
Stock options	60,000	0.64	March 30, 2012
Stock options	135,000	0.84	May 1, 2012
Stock options	40,000	0.93	June 15, 2012
Stock options	1,240,000	1.35	September 19, 2012
Stock options	200,000	1.19	October 24, 2012
Stock options	125,000	1.14	December 5, 2012
Stock options	2,400,000	2.73	March 20, 2013
Stock options	325,000	2.94	June 19, 2013
Stock options	300,000	3.78	September 1, 2013
Stock options	75,000	3.47	September 22, 2013
Stock options	525,000	3.27	January 5, 2014
Stock options	1,250,000	2.99	February 13, 2014
Stock options	250,000	2.92	March 12, 2014
Stock options	50,000	2.89	March 23, 2014
Stock options	360,000	3.00	September 4, 2014
Stock options	205,000	3.05	December 12, 2014
Stock options	70,000	3.03	January 11, 2015
Stock options	100,000	2.87	January 31, 2015
Stock options	500,000	2.72	February 15, 2015
Stock options	100,000	3.92	June 2, 2015
Stock options	175,000	3.22	July 30, 2015
Common share warrants	5,600,000	(Note 1) 1.50	December 31, 2015
Stock options	575,000	0.82	January 30, 2016
Common share warrants	400,000	2.50	(Note 2)
Stock options	910,000	0.82	February 17, 2016
Stock options	115,000	2.67	October 15, 2016
Stock options	60,000	3.54	January 8, 2017
Stock options	300,000	2.17	January 25, 2018
Stock options	750,000	2.04	March 10, 2018

Note 1: Each warrant entitles the holder to purchase one common share of PolyMet at US$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 US$2.50 and expires on the earlier of June 20, 2016 and one year after the Company receives its permits for the NorthMet Project.

Note 3:On August 31, 2011, the unexercised warrants, to purchase 4,010,000 shares of PolyMet common stock at US$5.00 if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or US$6.00 thereafter, expired.

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 stock options outstanding as at June 24, 2009.

Effective May 25, 2007, the Company adopted a new Omnibus Share Compensation Plan (“Stock 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 Stock Option Plan covers the Company’s employees, directors, officers and consultants. The options are granted for varying terms ranging from two to five years. The maximum number of common shares under the stock 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.

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, 2011 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, 2011 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

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

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. 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.

There have been no other changes in the Company's internal control over financial reporting during the three month period ended October 31, 2011 that have materially affected, or are reasonably likely to material affect, its internal control over financial reporting.

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 www.polymetmining.com.

Form 52-109F2
Certification of Interim Filings
Full Certificate

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

1. ***Review:*** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of PolyMet Mining Corp. (the "issuer") for the interim period ended October 31, 2011.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the interim 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, with respect to the period covered by the interim filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim 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 interim 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 end of the period covered by the interim filings

   (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 interim 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 Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework.

5.2 N/A

5.3 N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on August 1, 2011 and ended on October 31, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: December 12, 2011

"Douglas Newby" (signed)
Douglas Newby
Chief Financial Officer

Form 52-109F2
Certification of Interim Filings
Full Certificate

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

1. ***Review:*** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of PolyMet Mining Corp. (the "issuer") for the interim period ended October 31 2011.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the interim 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, with respect to the period covered by the interim filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim 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 interim 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 end of the period covered by the interim filings

   (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 interim 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 Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework.

5.2 N/A

5.3 N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on August 1, 2011 and ended on October 31, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: December 12, 2011

"Joseph Scipioni" (signed)
Joseph Scipioni
President and Chief Executive Officer