POLYMET MINING CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

As at January 31, 2016 and 2015
And for the years ended January 31, 2016, 2015, and 2014

General

The following information, prepared as at April 21, 2016 should be read in conjunction with the audited consolidated financial statements of PolyMet Mining Corp. ("PolyMet" or the "Company") as at January 31, 2016 and 2015 and for each of the years in the three year period ended January 31, 2016 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in United States ("US") dollars unless otherwise indicated.

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

Forward Looking Statements

This Management Discussion and Analysis ("MD&A") contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements appear in a number of different places in this MD&A and can frequently, but not always, be identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", "projects", "plans" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved or their negatives or other comparable words. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause PolyMet's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Forward-looking statements include statements regarding the outlook for the Company's future operations, plans and timing for PolyMet's exploration and development programs, statements about future market conditions, supply and demand conditions, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The Company's actual results may differ materially from those in the forward-looking statements due to risks facing PolyMet or due to actual facts differing from the assumptions underlying the Company's predictions.

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

- Obtaining permits on a timely basis;
- Raising the funds necessary to develop the NorthMet Project and continue operations;
- Execution of prospective business plans; and
- Complying with applicable governmental regulations and standards.

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

- Changes in general economic and business conditions, including changes in interest rates and exchange rates;
- Changes in the resource market including 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; and
- Other factors, many of which are beyond the Company's control.

All forward-looking statements included in this MD&A are based on information available to the Company on the date of this MD&A. The Company expressly disclaims any obligation to update publicly, or otherwise, these statements, whether as a result of new information, future events or otherwise except to the extent required by law, rule or regulation. Readers should not place undue reliance on forward-looking statements. Readers should carefully review the cautionary statements and risk factors contained in this and all other documents that the Company files from time to time with regulatory authorities.

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

Summary of Business

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

The NorthMet ore body is at the western end of a series of known copper-nickel-precious metals deposits in the Duluth Complex, Completion of the Definitive Feasibility Study ("DFS") in 2006 established proven and probable reserves, positioning NorthMet as the most advanced of the four advanced projects in the Duluth Complex: namely, from west to east; NorthMet, Mesaba, Serpentine, and Nokomis.

PolyMet acquired the Erie Plant and associated infrastructure from Cliffs Erie LLC, a subsidiary of Cliffs Natural Resources Inc. (together "Cliffs"). The plant is located about six miles west of the NorthMet ore body and comprises a 100,000 ton-per-day crushing and milling facility, a railroad and railroad access rights connecting the Erie Plant to the NorthMet ore body, tailings storage facilities, 120 railcars, locomotive fueling and maintenance facilities, water rights and pipelines, administrative offices on site and approximately 6,000 acres of land to the east and west of and contiguous to the existing tailings storage facilities.

The NorthMet Project covers a total of approximately 16,700 acres or 25.9 square miles comprising two areas: the NorthMet mine site totaling approximately 4,300 acres or 6.5 square miles of leased mineral rights and the Erie Plant site totaling approximately 12,400 acres or 19.4 square miles of freehold land. Under a proposed land exchange with the U.S. Forest Service ("USFS"), PolyMet will receive approximately 6,650 acres or 10.4 square miles of surface rights above and around the leased mineral rights.

The property is located in St. Louis County in the Mesabi Iron Range mining district about 60 miles north of Duluth, Minnesota. The NorthMet Project is easily accessible via state and county roads. The surfaced County Highway 666 links the plant to the town of Hoyt Lakes, itself approximately 25 miles east of Virginia, Minnesota which is located on State Highway 53. The mine site is accessible by an all-season gravel road from the plant site and a private railroad crosses the property immediately south of the deposit and runs to the plant site. The plant site is serviced by commercial railroad which connects into the US national and Trans-Canadian railroad systems, as well as a private railroad providing access to port facilities located on Lake Superior. High-voltage power lines owned by Minnesota Power, a wholly-owned subsidiary of ALLETE Inc., supply the plant site and there is ready access to industrial electric power at the mine site. PolyMet has a long-term power supply contract with Minnesota Power.

Environmental Review

Under the Minnesota Environmental Policy Act ("MEPA") and the National Environmental Policy Act ("NEPA"), state and federal agencies are required to complete an Environmental Impact Statement ("EIS") with periods for public review and comment before permits to construct and operate the Project can be issued.

The Minnesota Department of Natural Resources ("MDNR"), the U.S. Army Corps of Engineers ("USACE"), and the USFS were established as Co-lead Agencies for preparation of the NorthMet EIS and the U.S. Environmental Protection Agency ("EPA") joined as a Cooperating Agency in 2011. In November 2015, the Co-lead Agencies published the Final EIS and the USFS issued its Draft Record of Decision ("ROD") on the proposed land exchange.

The MDNR issued has its ROD that the Final EIS met the requirements under MEPA and the 30-day period allowed by law to challenge the state's ROD has passed without any legal challenge being filed. With the state environmental review process completed, the regulatory focus moves to formal permits to construct and operate the NorthMet Project.

Summary of Recent Events and Outlook

Highlights of fiscal 2016 and fiscal 2017 to date

- Publication of the NorthMet Final EIS on November 6, 2015;
- USFS Draft ROD on the proposed land exchange on November 17, 2015;
- MDNR ROD on the Adequacy of the Final EIS on March 3, 2016;
- Initiation of the formal permit process with a public meeting in Aurora, MN to layout the permit process on April 19, 2016;
- Continued development of a Definitive Cost Estimate and Project Update incorporating project modifications in the Final EIS and permit applications;
- $33.0 million secured debentures issued to Glencore AG, a wholly owned subsidiary of Glencore plc (together "Glencore") to fund environmental review, permitting and general corporate purposes; and
- Extension of the Glencore convertible and non-convertible loans to March 31, 2017 and clarification of PolyMet's right to repay at any time without penalty, with an interest rate of 12-month US dollar LIBOR plus 15.0% from January 1, 2016.

Net cash used in operating and investing activities was $32.050 million, of which approximately $19 million was spent on environmental review and permitting. PolyMet pays its own engineering and legal consultants and also reimburses the state of Minnesota for its internal staff costs and the cost of the EIS Contractor. Other spending relates to engineering and cost estimates, maintaining existing infrastructure, financing, and general corporate purposes.

Goals and Outlook for the remainder of fiscal 2017

- USFS Final ROD on the proposed land exchange and transfer of title to the surface rights over and around the NorthMet mineral rights to PolyMet;
- Submission of state permit applications;
- Section 404 wetlands permit preparation for review;
- Completion of Definitive Cost Estimate and Project Update;
- Completion of project implementation plan;
- Repayment / conversion of Glencore and Iron Range Resources and Rehabilitation Board (“IRRRB”) loans; and
- Completion of construction finance plan including commitment of debt prior to the issuance of permits but subject to typical conditions precedent such as receipt of key permits.

PolyMet expects to spend approximately $30 million in the year to January 31, 2017. The primary focus remains completion of the permitting process. Other areas of focus include engineering and updated cost estimates that will be reported in an Updated Technical Report under National Instrument 43-101, maintaining existing infrastructure and financing.

Prior to receipt of permits, the Company will seek to secure construction financing that would be available upon receipt of key permits, with construction and ramp-up to commercial production anticipated to take approximately 24 months from receipt of key permits. The Company is in discussion with commercial banks and other financial institutions regarding construction finance.

Upon completion of the land exchange which PolyMet anticipates will be completed during the current fiscal year, PolyMet will own surface rights to approximately 19,050 acres or 29.8 square miles of contiguous surface rights stretching from west of the Erie Plant to east of the proposed East pit at NorthMet.

Detailed Description of Business

Asset Acquisitions

In November 2005, the Company, through its Minnesota subsidiary Poly Met Mining, Inc. (“PolyMet US”), acquired the Erie Plant, which is located approximately six miles west of PolyMet’s NorthMet deposit. The plant was operated by Cliffs for many years and was acquired by Cliffs from LTV Steel Mining Company (“LTV”) after LTV’s bankruptcy, at which time the plant was shut down with a view to a potential restart. The facility includes crushing and milling equipment, comprehensive spare parts, plant site buildings, real estate, tailings storage facilities and mine workshops, as well as access to extensive mining infrastructure including roads, rail, water, and power.

PolyMet plans to refurbish, reactivate and, as appropriate, rebuild the crushing, concentrating and tailings storage facilities at the Erie Plant to produce concentrates containing copper, nickel, cobalt and precious metals. Once it has established commercial operations, the Company may install an autoclave to upgrade the nickel concentrates to produce a nickel-cobalt hydroxide and a precious metals precipitate. The autoclave circuit has been included as an option in the Final EIS.

In December 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, administrative offices on site and an additional 6,000 acres of land to the east and west of and contiguous to its existing tailings storage facilities.

PolyMet indemnified Cliffs for reclamation and remediation associated with the property under both transactions. In April 2010, Cliffs entered into a consent decree with the MPCA relating to alleged violations on the Cliffs Erie Property. This consent decree required both short-term and long-term mitigation. Field study activities were completed in 2010 and 2011 and short-term mitigations were initiated in 2011 as outlined in the plans and approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October 2012 response from the MPCA and subsequent communication amongst MPCA, Cliffs and the Company provide increasing clarification of the potential liability for the long-term mitigation included in the Company's environmental rehabilitation provision.

Feasibility Study, Mineral Resources and Mineral Reserves

With publication of the DFS in September 2006, summarized in a NI 43-101 Technical Report, PolyMet established proven and probable mineral reserves estimated at 181.7 million short tons grading 0.31% copper, 0.08% nickel and 0.012 ounces per short ton ("opt") of precious metals (palladium, platinum and gold).

In 2007, PolyMet reported an expansion in these proven and probable mineral reserves to an estimated 274.7 million short tons grading 0.28% copper, 0.08% nickel and 0.010 opt of precious metals. These mineral reserves lie within measured and indicated mineral resources of an estimated 694.2 million short tons grading 0.27% copper, 0.08% nickel and 0.010 opt of precious metals. The reserves are based on copper at $1.25 per pound, nickel at $5.60 per pound, and precious metal prices of $210, $800, and $400 per ounce respectively for palladium, platinum and gold.

From 2008 to 2013, PolyMet incorporated numerous project improvements that were reflected in the draft and supplemental draft EIS's published in 2009 and 2013, respectively. The changes included Phase I production of separate copper and nickel concentrates with Phase II installation of an autoclave to upgrade the nickel concentrate as well as numerous modifications that will result in reduced environmental impacts including: reductions in sulfur dioxide, mercury and greenhouse gas emissions at the plant site, capture of groundwater and surface seepage with the construction of an in ground containment system to the north and west of the existing tailings basin, and all contact water discharged from the NorthMet Project will be treated through reverse osmosis plants.

An Updated Technical Report under NI 43-101, dated January 14, 2013, describing these changes is filed on EDGAR and SEDAR.

PolyMet plans to complete a Definitive Cost Estimate and Project Update prior to commencement of construction. The Project Update will incorporate numerous process and project improvements, as well as environmental controls described in the Final EIS. The Project Update will also include detailed capital and operating costs reflecting the advanced stage of engineering and design.

Environmental Review and Permitting

PolyMet commenced the environmental review and permitting process in 2004. In 2005, the MDNR published its Environmental Assessment Worksheet Decision Document establishing the MDNR as the lead state agency and the USACE as the lead federal agency for preparation of an EIS for NorthMet.

In November 2009, the Co-lead Agencies published the NorthMet draft EIS, which marked the start of a period for public review and comment including two public meetings.

In June 2010, the Co-lead Agencies announced that they intended to complete the EIS process by preparing a supplemental draft EIS incorporating a proposed land exchange with the USFS and

expanding government agency cooperation. The USFS joined the USACE as a federal Co-lead Agency and in June 2011, the EPA joined as a Cooperating Agency.

On December 6, 2013, the Co-lead Agencies published the SDEIS, which started a new period for public review and comment, including three public meetings, which ended on March 13, 2014. The EPA issued comments on the supplemental draft EIS, which included an EC-2 rating, which is the highest rating for a proposed mining project, so far as the Company is aware. The highest rating LO (Lack of Objections) is typically applied to non-industrial projects such as the Upper Mississippi National Wildlife and Fish Refuge Comprehensive Conservation Plan Implementation. The EC-2 (Environmental Concerns) rating is the same as received by some other notable Minnesota projects including the Central Corridor Light Rail Project in the Twin Cities and the St. Croix River Crossing which have been built or are in the process of being constructed.

On November 6, 2015, the Co-lead Agencies published the Final EIS incorporating responses to comments on the draft and supplemental draft EIS's. On November 17, 2015, the USFS issued its Draft ROD on the proposed land exchange which concluded that the land exchange was in the public interest and meets the desired conditions in the Superior National Forest Land and Resource Management Plan.

On March 3, 2016, the MDNR issued its ROD that the Final EIS addresses the objectives defined in the EIS scoping review, meets procedural requirements, and responds appropriately to public comments. The 30-day period allowed by law to challenge the state's ROD has passed without any legal challenge being filed.

The state's decision also lays the foundation for permits to construct and operate the NorthMet Project. On April 19, 2016 the MDNR held a Pre-application Public Informational Meeting that included an overview of the NorthMet Project and the permit to mine process together with a summary of other state permits, such as tailings dam safety, water quality, air quality and wetlands. After consultation with the MDNR and the MPCA, PolyMet will begin to submit the various state permit applications that will be required to construct and operate the project.

With publication of the ROD on the Final EIS, PolyMet is now focused on submission and regulatory review of state permit applications, completion of the USFS ROD and associated land exchange, and progress toward issuance of the Section 404 Wetlands Final ROD and Permit.

The permitting process is managed by the regulatory agencies and, therefore, timelines are not under PolyMet's control. PolyMet expects that, under state guidelines, there should be decisions on draft state permits within 150 days of the applications being accepted.

The key permits are:

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

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

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

Financing Activities

Glencore Financing
Since October 2008, the Company and Glencore have entered into a series of financing agreements comprising:

- Convertible debt – $25.0 million initial principal secured convertible debentures drawn in four tranches (together the "2008 Debentures");
- Equity – four separate agreements comprising $25.0 million placement of PolyMet common shares in calendar 2009 in two tranches; a $30.0 million placement of PolyMet common shares in calendar 2010 in three tranches; a $20.0 million placement of PolyMet common shares in calendar 2011 in one tranche; and a $20.960 million purchase of PolyMet common shares in the 2013 Rights Offering (see 2013 Glencore Agreement below);
- Non-convertible debt – two separate agreements comprising $30.0 million initial principal secured debentures in calendar 2015 drawn in four tranches (the "2015 Debentures") and $11.0 million initial principal secured debenture in calendar 2016 drawn in one tranche (the "2016 Debenture") (see 2015 Glencore Agreements below).

As a result of these financing transactions and the purchase by Glencore of PolyMet common shares previously owned by Cliffs, Glencore's ownership and ownership rights of PolyMet as at January 31, 2016 comprises:

- 78,724,821 shares representing 28.4% of PolyMet's issued shares;
- 2008 Debentures exchangeable through the exercise of an Exchange Warrant at $1.2920 per share into 27,853,358 common shares of PolyMet (including capitalized and accrued interest as at January 31, 2016) until the Repayment Date, which is the earlier of March 31, 2017, availability of $80 million of debt or equity financing, or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures, subject to ten days notice during which time Glencore can elect to exercise the Exchange Warrant. The exercise price of the Exchange Warrant is and the number of shares issuable are subject to conventional anti-dilution provisions; and
- Warrants ("Purchase Warrants") to purchase 6,458,001 million common shares at $0.8231 per share at any time until December 31, 2017, subject to mandatory exercise if the 20-day volume weighted average price ("VWAP") of PolyMet common shares is equal to or greater than 150% of the exercise price and PolyMet has received permits and construction finance is available ("Early Maturity Event"). The exercise price of the Purchase Warrants and the number of warrants are subject to conventional anti-dilution provisions.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 113,036,180 common shares of PolyMet, representing 36.2% on a partially diluted basis, that is, if no other options or warrants were exercised or 34.0% on a fully diluted basis, if all other options and warrants were exercised, whether they are in-the-money or not.

2013 Glencore Agreement
On April 10, 2013, the Company issued a Tranche E debenture ("2013 Debenture") with the principal amount of $20.0 million to Glencore and Glencore agreed to a Standby Purchase Agreement ("Standby") related to the $60.480 million Rights Offering by the Company. Under the Standby, Glencore agreed to purchase any common shares offered under the Rights Offering that were not subscribed for by holders of the Rights, subject to certain conditions and limitations. The 2013 Debenture carried a fixed interest rate of 4.721% per annum, was issued on April 11, 2013 and repaid upon closing of the Rights Offering on July 5, 2013. The Company recognized the 2013 Debenture issued initially at fair value and

subsequently accounted for the debenture at its amortized cost. Transaction costs for the financing were $0.103 million. All borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2014.

Glencore purchased 31,756,979 common shares of the Company for $20.960 million upon closing of the Rights Offering on July 5, 2013.

2014 Glencore Agreement
On April 25, 2014, the Company extended the term of the 2008 Debentures and the expiration date of the associated Exchange Warrant to the earlier of the Early Maturity Event or September 30, 2015. All other terms of both the debentures and the warrant were unchanged.

2015 Glencore Agreements
On January 28, 2015, the Company agreed to issue to Glencore new Tranche F, G, H, and I secured debentures with the total principal amount of $30.0 million. Tranche F in the amount of $8.0 million was issued on January 30, 2015. Tranche G in the amount of $8.0 million was issued on April 15, 2015. Tranche H in the amount of $8.0 million was issued on July 1, 2015. Tranche I in the amount of $6.0 million was issued on October 1, 2015. The interest rate on these debentures was 12-month US dollar LIBOR plus 8.0% per annum payable in cash upon maturity and the maturity was the earlier of (i) the availability of at least $100 million of construction finance or (ii) March 31, 2016. The Company provided security by way of a guarantee and a pledge of the assets of the Company and its wholly-owned subsidiary. The Company recognized these debentures initially at fair value and subsequently accounted for the debentures at amortized cost. Transaction costs for the financing were $0.150 million.

On July 30, 2015, the Company extended the term of the 2008 Debentures and the expiration date of the associated Exchange Warrant to the earlier of the Early Maturity Event or March 31, 2016 and the interest rate was increased from 12-month US dollar LIBOR plus 4.0% to 12-month US dollar LIBOR plus 8.0% effective August 1, 2015, thus conforming to the 2015 Debentures in recognition of uncertainty regarding regulatory approval of the amendments to the Exchange Warrants, the significant premium of the exercise price over the then market price, and the short tenor of the 2008 Debentures. The Purchase Warrant expiration date was extended to the earlier of the Early Maturity Event or December 31, 2016 and the exercise price was reduced from $1.3022 per share to $0.9292 per share. The transaction has been accounted for as a modification of the existing convertible debt with the $1.241 million difference in the fair value of the purchase warrants as a result of the extension in term and price reduction being recorded within equity.

On December 15, 2015, the Company extended the term of the 2008 Debentures and expiration date of the associated Exchange Warrant and extended the term of the 2015 Debentures to the Repayment Date, which is the earlier of March 31, 2017, availability of $80 million of debt or equity financing or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures, subject to ten days notice during which time Glencore can elect to exercise the Exchange Warrant. The interest rate on both the 2008 Debentures and the 2015 Debentures was increased from 12-month US dollar LIBOR plus 8.0% to 12-month US dollar LIBOR plus 15.0% effective January 1, 2016. The Purchase Warrant expiration date was extended to December 31, 2017, and the exercise price was reduced from $0.9292 per share to $0.8231 per share. The transactions have been accounted for as a modification of the existing convertible debt with the $0.615 million difference in the fair value of the purchase warrants as a result of the extension in term and price reduction being recorded within equity.

2016 Glencore Agreement
On January 27, 2016, the Company issued to Glencore a Tranche J secured debenture with the total principal amount of $11.0 million. The interest rate on this debenture was 12-month US dollar LIBOR plus 15.0% per annum payable in cash upon maturity and the maturity was the Repayment Date, which is

the earlier of March 31, 2017, availability of $80 million of debt or equity financing or an earlier date on which PolyMet can demonstrate that it is prudent to repay the debentures. The Company provided security by way of a guarantee and a pledge of the assets of the Company and its wholly-owned subsidiary. The Company recognized this debenture initially at fair value and subsequently accounted for the debenture at amortized cost. Transaction costs for the financing were $0.050 million.

IRRRB Financing

In June 2011, the Company closed a $4.0 million loan from IRRRB, a development agency created by the State of Minnesota to stabilize and enhance the economy of northeastern Minnesota. At the same time, the Company exercised its options to acquire two tracts of land as part of the proposed land exchange with the USFS. The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS. The Company has issued warrants giving the IRRRB the right to purchase 461,286 shares of its common shares at $2.1678 per share at any time until the earlier of June 30, 2016 and one year after permits are received.

AG for Waterfowl, LLP ("AG") Financing

In March 2012, the Company acquired a secured interest in land owned by AG that is permitted for wetland restoration. AG subsequently assigned the agreement to EIP Minnesota, LLC (“EIP”) in September 2012. EIP will restore the wetlands and, upon completion, wetland credits are to be issued by the proper governmental authorities.

As part of the initial consideration, AG received warrants to purchase 1,249,315 common shares at $1.3007 per share. These warrants expired on December 31, 2015.

In April 2015, the Company entered into a revised agreement with EIP whereby EIP will seek to sell credits that PolyMet does not need to third parties and, over time, reimburse PolyMet for its costs. The financial instrument has been designated as available for sale. Upon closing of the transaction, the Company recognized the receivable at fair value calculated using a 9.25% discount rate and 12 year term resulting in a receivable of $2.552 million and a non-cash loss of $1.852 million. The Company accounted for subsequent fair value changes through other comprehensive income or loss. Under the agreement, PolyMet retains the right to purchase up to 300 credits until February 28, 2017 with additional payments due only if PolyMet exercises that right in part or in full.

Rights Offering

On May 24, 2013, the Company filed the final prospectus for an offering of rights ("Rights") to holders of common shares of the Company (the "Rights Offering"). Every shareholder received one Right for each common share owned on June 4, 2013, the Record Date, and two Rights entitled the holder to acquire one new common share of the Company at $0.66 per share.

Upon the closing of the Rights Offering on July 5, 2013, the Company issued a total of 91,636,202 common shares for gross proceeds of $60.480 million. Expenses and fees relating to the Rights Offering were $2.108 million, including the $1.061 million standby commitment fee paid to Glencore, and reduced the gross proceeds recorded as share capital. The closing of the Rights Offering triggered customary anti-dilution provisions for outstanding warrants, share options, and unissued restricted share units.

The key business objectives that the Company expected to accomplish with the proceeds of the Rights Offering were: (a) repayment of the Bridge Loan upon closing of the Rights Offering at a cost of $20.0 million (b) completion of the environmental review that is necessary for the issuance of permits required to construct and operate the NorthMet Project at a cost of approximately $17.0 million, (c) maintaining existing infrastructure at a cost of approximately $5.0 million, (d) completion of engineering needed to

commence construction shortly after receipt of permits at a cost of approximately $10.0 million, and (e) initial procurement of long lead time equipment at a cost of approximately $10.0 million.

As at January 31, 2016, approximate proceeds usage from the Rights Offering was as follows:

Purpose	Planned	Actual To Date	Variance	Note
Cash on hand prior to closing	$ 15,000	$ 12,986	$ (2,014)	(1)
Rights Offering Proceeds	60,480	60,480	-0-	
Rights Offering Expenses	(1,630)	(2,108)	(478)	(2)
Repay Bridge Loan (principal)	(20,000)	(20,000)	-0-	
Environmental Review & Permitting	(17,000)	(29,488)	(12,488)	(3)
Maintain Existing Infrastructure	(5,000)	(6,363)	(1,363)	(4)
Engineering	(10,000)	(3,481)	6,519	(4)
Procure Long Lead Equipment	(10,000)	-0-	10,000	(4)
General Corporate Purposes	(11,850)	(12,026)	(176)	
Remaining Rights Offering Cash	$ -	$ -	$ -	

Note:
(1) Land purchase closed before rights offering rather than after as planned.
(2) Additional costs to clarify rights offering eligibility and assist eligible shareholders.
(3) Additional costs to complete SDEIS, respond to public comments, and prepare Final EIS.
(4) Spending on engineering and long lead equipment was deferred where appropriate to focus on receipt of permits and to maintain existing infrastructure.

Other Financings
During the year ended January 31, 2016, the Company issued 275,000 shares (prior year – 75,000 shares) upon exercise of options for proceeds of $0.216 million (prior year - $0.081 million).

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

Three Months Ended	Jan. 31 2016	Oct 31 2015	July 31 2015	Apr 30 2015	Jan. 31 2015	Oct 31 2014	July 31 2014	Apr 30 2014
Revenues	-	-	-	-	-	-	-	-
General and Administrative	(1,827)	(1,170)	(1,168)	(1,343)	(1,796)	(1,131)	(1,171)	(1,391)
Other Income (Expenses)	(602)	(491)	(530)	(2,215)	(467)	(488)	(439)	(393)
Loss for the Period	(2,429)	(1,661)	(1,698)	(3,558)	(2,263)	(1,619)	(1,610)	(1,784)
Loss per Share [1]	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Cash used in operating activities	(1,717)	(881)	(712)	(1,512)	(1,186)	(861)	(1,077)	(1,072)
Cash provided by (used) by financing activities	11,156	5,880	8,025	7,954	7,896	-	-	81
Cash used in investing activities	(7,206)	(6,138)	(8,078)	(5,806)	(6,258)	(6,552)	(6,227)	(8,216)

[1] Loss per share amounts may not reconcile due to rounding differences.

The loss for the period includes share-based compensation expense for the three months ended:

January 31, 2016 - $0.056 million
October 31, 2015 - $0.148 million
July 31, 2015 - $0.127 million
April 30, 2015 - $0.126 million
January 31, 2015 - $0.622 million
October 31, 2014 - $0.134 million
July 31, 2014 - $0.216 million
April 30, 2014 - $0.149 million

Results fluctuate from quarter to quarter based on activity in the Company including NorthMet development and corporate activities. See additional discussion of significant items in the sections above and below.

Three months ended January 31, 2016 compared to three months ended January 31, 2015

The Company's focus during the three months ended January 31, 2016 was on the environmental review and permitting process for the NorthMet Project, maintenance of existing infrastructure, and financing.

a) Loss for the Period:

During the three months ended January 31, 2016, the Company incurred a loss of $2.429 million ($0.01 loss per share) compared to a loss of $2.263 million ($0.01 loss per share) during the three months ended January 31, 2015. The increase in the net loss was primarily due to public relations surrounding the publication of the Final EIS, the USFS Draft ROD on the proposed land exchange, and the MDNR ROD on the Adequacy of the Final EIS.

b) Cash Flows for the Period:

Cash used in operating activities for the three months ended January 31, 2016 was $1.717 million compared to cash used in the three months ended January 31, 2015 of $1.186 million. The variance in cash is primarily due to changes in non-cash working capital balances.

Cash provided by financing activities for the three months ended January 31, 2016 was $11.156 million compared to cash provided in the three months ended January 31, 2015 of $7.896 million. The increase was primarily due to funding from the non-convertible loan.

Cash used in investing activities for the three months ended January 31, 2016 was $7.206 million compared to cash used in the three months ended January 31, 2015 of $6.258 million. The increase was primarily due to increased spending on engineering and cost estimates which was partially offset by decreased environmental technical support costs as the EIS process winds down.

Including the effect of foreign exchange, total cash for the three months ended January 31, 2016 increased by $2.227 million for a balance of $10.256 million compared to the three months ended January 31, 2015 where cash increased $0.435 million to a balance of $9.301 million.

c) Capital Expenditures for the Period:

During the three months ended January 31, 2016 the Company capitalized $7.578 million of mineral property, plant, and equipment costs related to the acquisition, development and preservation of the NorthMet Project and other fixed assets as compared to a $25.004 million during the three months ended January 31, 2015. The decrease is primarily due to a decrease in the environmental rehabilitation provision of $2.074 million during the three months ended January 31, 2016 as compared to an increase of $17.263 million during the three months ended January 31, 2015. The change in the environmental rehabilitation provision includes a decrease of $4.230 million (prior year increase of $9.867 million) as a result of clarification of the long-term mitigation at the tailings basin and an increase of $2.156 million (prior year increase of $7.396 million) as a result of changes in the risk free-interest rate.

Selected Annual Financial Information
(All figures in thousands of U.S. dollar except loss per share)

Year Ended January 31	2016	2015	2014
Revenues	-	-	-
Net Loss	(9,346)	(7,276)	(8,132)
Basic and Diluted Loss Per Share	(0.03)	(0.03)	(0.04)
Total Assets	337,660	313,229	287,525
Long-Term Debt including Convertible Debt	79,009	41,306	36,243
Total Shareholders' Equity	184,657	192,376	196,332

The loss for the year includes share-based compensation expense of:
January 31, 2016 - $0.457 million
January 31, 2015 - $1.121 million
January 31, 2014 - $1.697 million

Year ended January 31, 2016 compared to year ended January 31, 2015

The Company's focus during the year ended January 31, 2016 was on the environmental review and permitting process for the NorthMet Project, maintenance of existing infrastructure, and financing.

a) Loss for the Year:

During the year ended January 31, 2016, the Company incurred a loss of $9.346 million ($0.03 loss per share) compared to a loss of $7.276 million ($0.03 loss per share) during the year ended January 31, 2015. The increase in the net loss for the year was primarily attributable to a non-cash loss on disposal of Wetland Credit Intangible as the proceeds are anticipated to be received over many years.

b) Cash Flows for the Year:

Cash used in operating activities for the year ended January 31, 2016 was $4.822 million compared to cash used in the year ended January 31, 2015 of $4.196 million. The variance in cash is primarily due to changes in non-cash working capital balances.

Cash provided by financing activities for the year ended January 31, 2016 was $33.015 million compared to cash provided in the year ended January 31, 2015 of $7.977 million. The current year includes $33.0 million funding of the non-convertible loan and proceeds from share option exercises. The prior year includes $7.9 million funding of the non-convertible loan and proceeds from share option exercises.

Cash used in investing activities for the year ended January 31, 2016 was $27.228 million compared to cash used in the year ended January 31, 2015 of $27.253 million. Increased spending on engineering and cost estimates were mostly offset by decreased environmental technical support costs as the EIS process winds down.

Including the effect of foreign exchange, total cash for the year ended January 31, 2016 increased by $0.955 million for a balance of $10.256 million compared to the year ended January 31, 2015 where cash decreased $23.489 million for a balance of $9.301 million.

c) Capital Expenditures for the Year:

During the year ended January 31, 2016 the Company capitalized $25.402 million (prior year - $50.219 million) of mineral property, plant, and equipment costs related to the acquisition, development and preservation of the NorthMet Project and other fixed assets. The decrease is primarily due to a decrease in the environmental rehabilitation provision of $7.269 million during the year ended January 31, 2016 as compared to an increase of $20.454 million during the year ended January 31, 2015. The change in the environmental rehabilitation provision includes a decrease of $4.230 million (prior year increase of $9.867 million) as a result of clarification of the potential liability for the long-term mitigation at the tailings basin and a decrease of $3.039 million (prior year increase of $10.587 million) as a result of changes in the risk free-interest rate. In addition, the Company capitalized $0.100 million (prior year - $0.100 million) of wetland credit intangible costs related to wetland credit options and development agreements.

Year ended January 31, 2015 compared to year ended January 31, 2014

The Company's focus during the year ended January 31, 2015 was on the environmental review and permitting process for the NorthMet Project, maintenance of existing infrastructure, and financing.

a) Loss for the Year:

During the year ended January 31, 2015, the Company incurred a loss of $7.276 million ($0.03 loss per share) compared to a loss of $8.132 million ($0.04 loss per share) during the year ended January 31, 2014. The decrease in the net loss for the year was primarily attributable to a decrease in investor and public relations from $2.075 million to $1.276 million relating to the Rights Offering during the year ended January 31, 2014. This was partially offset by an increase in finance costs from $1.465 million to $1.816 million relating to an increase in the accretion of the environmental rehabilitation provision.

b) Cash Flows for the Year:

Cash used in operating activities in the year ended January 31, 2015 was $4.196 million compared to cash used in the year ended January 31, 2014 of $8.034 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted operating variances.

Cash provided by financing activities for the year ended January 31, 2015 was $7.977 million compared to cash provided in the year ended January 31, 2014 of $58.269 million. The year ended January 31, 2015 includes funding of the non-convertible loan and proceeds from share option exercises. The year ended January 31, 2014 includes proceeds from the rights offering, funding of the Glencore bridge loan, and repayment of the Glencore bridge loan.

Cash used in investing activities for the year ended January 31, 2015 was $27.253 million compared to cash used in the year ended January 31, 2014 of $25.523 million. The increase was primarily due to increased work surrounding the SDEIS public comment period and review of comments received.

Including the effect of foreign exchange, total cash for the year ended January 31, 2015 decreased by $23.489 million for a balance of $9.301 million compared to the year ended January 31, 2014 where cash increased $24.705 million for a balance of $32.790 million.

c) Capital Expenditures for the Year:

During the year ended January 31, 2015 the Company capitalized $50.219 million (prior year - $25.599 million) of mineral property, plant, and equipment costs related to the acquisition, development and preservation of the NorthMet Project and other fixed assets. The increase is primarily due to an increase in the environmental rehabilitation provision of $20.454 million during the year ended January 31, 2015 as compared to a decrease of $2.350 million during the year ended January 31, 2014. The increase comprises $9.867 million (prior year increase of $2.430 million) for an increase to the estimated liability as a result of clarification of the long-term mitigation at the tailings basin and $10.587 million (prior year decrease of $4.780 million) for changes in the risk free-interest rate. In addition, the Company capitalized $0.100 million (prior year - $0.100 million) of wetland credit intangible costs related to wetland credit options and development agreements.

Liquidity and Capital Resources

As at January 31, 2016, the Company had working capital of $2.162 million compared with a working capital deficiency of $31.672 million as at January 31, 2015 consisting primarily of cash of $10.256 million (January 31, 2015 - $9.301 million), amounts receivable of $0.429 million (January 31, 2015 - $0.381 million), prepaid expenses of $1.285 million (January 31, 2015 - $1.108 million), accounts payable and accrued liabilities of $3.348 million (January 31, 2015 - $2.673 million), convertible debt of $nil (January 31, 2015 - $33.451 million), non-convertible debt of $4.962 million (January 31, 2015 - $4.614 million), and the current portion of environmental rehabilitation provision of $1.498 million (January 31, 2015 - $1.724 million).

As at January 31, 2016, the Company has firm commitments related to the environmental review process, land options, wetland credit intangibles, consultants and rent of approximately $2.3 million with the majority due over the next year and the remainder due over three years.

As at January 31, 2016, the Company had non-binding commitments to maintain its mineral lease rights of $0.180 million with all due in the next year.

The following table lists the known contractual obligations as at January 31, 2016:

Contractual Obligations	Carrying Value	Contractual Cash flows	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 3,348	$ 3,348	$ 3,348	$ -	$ -	$ -
Convertible debt	35,986	43,292	-	43,292	-	-
Non-convertible debt	47,985	56,974	5,111	51,863	-	-
Commitments	-	2,243	2,068	175	-	-
Total	$ 87,319	$ 105,857	$ 10,527	$ 95,330	$ -	$ -

The Company expects to repay the non-convertible debt from working capital or additional financing and to either exchange the convertible debt into equity or repay from additional financings.

As at January 31, 2016, the Company has obligations to issue up to 3,640,000 shares under the Company's Bonus Share Plan. The Company has received shareholder approval for the Bonus Shares of Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 represents commencement of commercial production at NorthMet at a time when the Company has not less than 50% ownership interest and is subject to regulatory approval.

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

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over available financial assets due at any point in time. As at January 31, 2016, PolyMet had cash of $10.256 million and working capital of $2.162 million.

Management believes, based upon the underlying value of the NorthMet Project, the advanced stage of permitting, the financing arrangements with Glencore and the ongoing discussions with numerous investment banks and investors regarding potential financing, that financing will continue to be available allowing the Company to meet its current obligations, as well as fund ongoing development, capital expenditures and administration expenses in accordance with the Company's spending plans for the next twelve months. However, while in the past the Company has been successful in closing financing agreements, there can be no assurance it will be able to do so again. Factors that could affect the availability of financing include the state of debt and equity markets, investor perceptions and expectations, and the metals markets.

See additional discussion in the "Summary of Recent Events and Outlook" section above and "Financial Instruments and Risk Management" section below.

Financial Instruments and Risk Management

The Company's financial instruments are classified as loans and receivables, available for sale, and other financial liabilities.

The carrying values of each classification of financial instrument at January 31, 2016 are:

	Loans and receivables	Available for sale	Other financial liabilities	Total carrying value
Financial assets				
Cash	$ 10,256	$ -	$ -	$ 10,256
Amounts receivable	65	2,517	-	2,582
Total financial assets	$ 10,321	$ 2,517	$ -	$ 12,838
Financial liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ 3,348	$ 3,348
Convertible debt	-	-	35,986	35,986
Non-convertible debt	-	-	47,985	47,985
Total financial liabilities	$ -	$ -	$ 87,319	$ 87,319

The carrying values of each classification of financial instrument at January 31, 2015 are:

	Loans and receivables	Other financial liabilities	Total carrying value
Financial assets			
Cash	$ 9,301	$ -	$ 9,301
Amounts receivable	381	-	381
Total financial assets	$ 9,682	$ -	$ 9,682
Financial liabilities			
Accounts payable and accrued liabilities	$ -	$ 2,673	$ 2,673
Convertible debt	-	33,451	33,451
Non-convertible debt	-	12,469	12,469
Total financial liabilities	$ -	$ 48,593	$ 48,593

Fair Value Measurements

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The fair values of cash, amounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature.

Risks Arising from Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including currency and interest rate), credit risk, and liquidity risk. Reflecting the current stage of development of the Company's

NorthMet Project, the overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan.

Risk management is the responsibility of executive management. Material risks are identified and monitored and are discussed with the Audit Committee and the Board of Directors.

Currency Risk

The Company incurs expenditures in Canada and in the United States. The functional and reporting currency of the Company and its subsidiary is the United States dollar. Foreign exchange risk arises because the amount of Canadian dollar cash, amounts receivable, or accounts payable and accrued liabilities will vary in United States dollar terms due to changes in exchange rates.

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

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

	January 31, 2016	January 31, 2015
Cash	**$ 134**	$ 90
Amounts receivables	**10**	8
Accounts payable and accrued liabilities	**-**	(8)
Total	**$ 144**	$ 90

Based on the above net exposures, as at January 31, 2016, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately $14,400.

Interest Rate Risk

Interest rate risk arises from interest paid on floating rate debt and interest received on cash and short-term deposits. The Company has not hedged any of its interest rate risk. The Company currently capitalizes to qualifying assets the majority of interest charges, and therefore the risk exposure is primarily on cash interest payable and net earnings in relation to the subsequent depreciation of capitalized interest charges.

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

	January 31, 2016	January 31, 2015
Cash	**$ 10,256**	$ 9,301
Convertible debt	**35,986**	33,451
Non-convertible debt	**$ 47,985**	$ 7,855

Credit Risk

Credit risk arises on cash held with banks and financial institutions, as well as credit exposure on outstanding amounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets of $12.838 million.

The Company's cash is primarily held through a large Canadian financial institution.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents. See additional discussion in the "Liquidity and Capital Resources" section above.

Capital Management

The Company's capital management objective is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral property. In the management of capital, the Company includes the components of shareholders' equity, convertible debt and non-convertible debt. The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. The Company has no externally imposed capital requirements.

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

Although the Company plans to have the resources to carry out its plans and operations through January 31, 2017, it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is in discussions to arrange sufficient capital to meet these requirements. During the upcoming fiscal year, the Company's objective is to identify the source or sources from which it will obtain the capital required to complete the Project. See additional discussion in the "Liquidity and Capital Resources" section above.

Related Party Transactions

The Company conducted transactions with senior management, directors and persons or companies related to these individuals, and paid or accrued amounts as follows:

	Year ended January 31		
	2016 (1)	2015 (2)	2014 (3)
Salaries and other short-term benefits	**$ 1,825**	$ 1,509	$ 1,718
Other long-term benefits	**36**	49	60
Share-based payment (4)	**-**	1,093	2,366
Total	**$ 1,861**	$ 2,651	$ 4,144

(1) Year ended January 31, 2016 includes Directors (Jonathan Cherry, Matthew Daley, David Dreisinger, W. Ian L. Forrest, Alan Hodnik, William Murray, Stephen Rowland, and Michael Sill) and senior management (Jonathan Cherry, Douglas Newby, and Bradley Moore).
(2) Year ended January 31, 2015 includes Directors (Jonathan Cherry, Matthew Daley, David Dreisinger, W. Ian L. Forrest, Alan Hodnik, William Murray, Stephen Rowland, Michael Sill, and Frank Sims) and senior management (Jonathan Cherry, Douglas Newby, Joseph Scipioni, and Bradley Moore).
(3) Year ended January 31, 2014 includes Directors (Jonathan Cherry, David Dreisinger, W. Ian L. Forrest, Alan Hodnik, William Murray, Stephen Rowland, Michael Sill, and Frank Sims) and senior management (Jonathan Cherry, Douglas Newby, Joseph Scipioni, and Bradley Moore).
(4) Share-based payment represents the fair value determined at grant date to be expensed over the vesting period.

There are agreements with key employees (Jonathan Cherry, Douglas J. Newby and Bradley Moore) that contain severance provisions for termination without cause or in the event of a take-over. Other than the President and Chief Executive officer, none of PolyMet's other directors has a service contract with the Company providing for benefits upon termination of their employment.

As a result of Glencore's ownership of 28.4% of the Company it is also a related party. PolyMet has entered into a Technical Services Agreement with Glencore whereby PolyMet reimburses Glencore for costs associated with providing technical support to PolyMet, primarily in detailed project design and mineral processing where PolyMet requests assistance under an agreed scope of work. During the year ended January 31, 2016, the Company paid $3.350 million (January 31, 2015 - $nil) for services under this agreement. See additional discussion in the "Financing Activities" section above.

Shareholder Rights Plan

The Shareholder Rights Plan is designed to ensure that all shareholders receive equal treatment and to maximize shareholder values in the event of a take-over bid or other acquisition that could lead to a change in control of the Company. It is not intended to deter take-over bids. The Shareholder Rights Plan is intended to provide time for shareholders to properly assess any take-over bid and to provide non-abstaining members of the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value, including, if considered appropriate, identifying and locating other potential bidders.

Effective December 4, 2003, the Company adopted the Shareholder Rights Plan ("Rights Plan"), which was approved by the Company's shareholders on May 28, 2004, modified and further ratified and reconfirmed by the Company's shareholders most recently on July 9, 2013. Under the Rights Plan, the Company has issued one right for no consideration in respect of each outstanding common share held by the shareholder of the Company 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 Rights Plan expires if not reapproved at every third annual shareholder meeting.

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 non-abstaining Board of Directors. Each Right entitles the registered holder to purchase one common share of the Company at the price of CDN$43.06 per share, subject to adjustment which was triggered upon close of the Rights Offering (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 purchase that number of common shares having a market value at the date of the Flip-in Event equal to twice the Exercise Price upon payment of the Exercise Price.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Proposed Transactions

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

Critical Accounting Estimates and Judgments

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

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

(i) Determination of mineral reserves

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

(ii) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, including mineral property, plant and equipment, and wetland credit intangible are reviewed at each reporting date or when events or changes in circumstances occur that indicate the asset may not be recoverable to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss previously recorded is reversed if there has been a change in the estimates used to determine the recoverable amount resulting in an increase in the estimated service potential of an asset.

For its mineral property interest the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral property interests. Internal sources of information the Company considers include indications of economic performance of the asset. No impairment loss on the mineral property interests was recorded for the year ended January 31, 2016 or January 31, 2015.

(iii) Provision for Environmental Rehabilitation Costs

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

It is possible that the Company's estimates of its ultimate environmental rehabilitation liabilities could be affected by changes in regulations, changes in the extent of environmental rehabilitation required, changes in the means of rehabilitation, changes in the extent of responsibility for the financial liability or changes in cost estimates. The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company may vary greatly and are not predictable.

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

Future Accounting Changes

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

IFRS 9 – Financial Instruments - Classification and Measurement

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard replaces parts of IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 - Revenue and IAS 11 - Construction Contracts and provides a five step framework for application to customer contracts: identification of customer contract, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be recognized to the extent that it is highly probable that significant reversal of revenue will not occur. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting IFRS 15 on its consolidated financial statements.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 - Leases and eliminates the classification of leases as either operating or finance leases by the lessee. The treatment of leases by the lessee will require capitalization of all leases resulting in accounting treatment similar to finance leases under IAS 17 - Leases. Exemptions for leases of very low value or short-term leases will be applicable. The new standard will result in an increase in lease assets and liabilities for the lessee. Under the new standard the treatment of all lease expense is aligned in the statement of earnings with depreciation, and an interest expense component recognized for each lease, in line with finance lease accounting under IAS 17 - Leases. The new standard will be effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting IFRS 16 on its consolidated financial statements.

Other MD&A Requirements

Outstanding Share Data

Authorized Capital: Unlimited common shares without par value.

The following table summarizes the outstanding share information as at April 15, 2016:

Type of Security	Number Outstanding	Weighted Average Exercise Price (US$)
Issued and outstanding common shares	277,672,970	$ -
Restricted share units	1,865,104	$ -
Share options	19,412,002	$ 1.19 *
Share purchase warrants	6,919,287	$ 1.01
Convertible debt including capitalized interest	28,594,387	$ 1.29

* For information purposes, those share options granted with an exercise price in Canadian dollars ("CDN$") have been translated to the Company's reporting currency using the exchange rate as at April 15, 2016 of US$1.00 = CDN$1.2838.

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, 2016 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, 2016 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

Disclosure controls and procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted by the Company under U.S. and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules, including providing reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to permit timely decisions regarding public disclosure. Management, including the CEO and CFO, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the US Exchange Act and the rules of Canadian Securities Administration, as at January 31, 2016. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at January 31, 2016.

Management's Responsibility for Financial Statements

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

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

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the U.S. Exchange Act and National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim filings. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management has used the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that as at January 31, 2016, the Company's internal control over financial reporting was effective.

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

Additional Information

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