POLYMET MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2013 and 2012
And for the years ended January 31, 2013, 2012, and 2011

POLYMET MINING CORP.

Management Report

Management's Responsibility for Consolidated Financial Statements

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

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

Management's Annual Report on Internal Control over Financial Reporting

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

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

Management has assessed the effectiveness of the Company's internal control over financial reporting as at January 31, 2013. In making its assessment, management has used the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as at that date.

The effectiveness of the Company's internal control over financial reporting as at January 31, 2013 has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report which appears herein.

/S/ Jonathan Cherry	*/S/ Douglas Newby*
Jonathan Cherry	Douglas Newby
President and Chief Executive Officer	Chief Financial Officer

April 22, 2013

Independent Auditor's Report

To the Shareholders of PolyMet Mining Corp.

We have completed integrated audits of PolyMet Mining Corp's 2013 and 2012 consolidated financial statements and its internal control over financial reporting as at January 31, 2013 and an audit of its 2011 consolidated financial statements. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of PolyMet Mining Corp., which comprise the consolidated balance sheets as at January 31, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended January 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PolyMet Mining Corp. as at January 31, 2013 and 2012 and its financial performance and its cash flows for each of the three years in the period ended January 31, 2013in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting
We have also audited PolyMet Mining Corp.'s internal control over financial reporting as at January 31, 2013, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting.

Auditor's responsibility
Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the Company's internal control over financial reporting.

Definition of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion
In our opinion, PolyMet Mining Corp. maintained, in all material respects, effective internal control over financial reporting as at January 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by COSO.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

PolyMet Mining Corp.
(a development stage company)
Consolidated Balance Sheets
All figures in Thousands of U.S. Dollars

		January 31, 2013		January 31, 2012
ASSETS				
Current				
Cash and cash equivalents	**$**	**8,088**	$	17,478
Trade and other receivables		**830**		440
Investment		**17**		30
Prepaid expenses		**771**		934
		9,706		18,882
Non-Current				
Mineral Property, Plant and Equipment *(Notes 4 and 5)*		**220,429**		170,689
Wetland Credit Intangible *(Note 6)*		**5,992**		-
Total Assets	**$**	**236,127**	$	189,571
LIABILITIES				
Current				
Trade payables and accrued liabilities	**$**	**5,269**	$	1,679
Environmental rehabilitation provision *(Note 7)*		**1,808**		828
		7,077		2,507
Non-Current				
Long term debt *(Note 8)*		**3,950**		3,672
Convertible debt *(Note 9)*		**30,508**		29,018
Environmental rehabilitation provision *(Note 7)*		**51,680**		22,008
Total Liabilities		**93,215**		57,205
SHAREHOLDERS' EQUITY				
Share Capital *(Note 11)*		**181,215**		168,434
Share Premium *(Notes 10 and 11)*		**3,007**		2,132
Equity Reserves		**47,106**		43,590
Deficit		**(88,416)**		(81,790)
Total Shareholders' Equity		**142,912**		132,366
Total Liabilities and Shareholders' Equity	**$**	**236,127**	$	189,571

Nature of Business *(Note 1)*

Commitments and Contingencies *(Notes 4, 6, 7, 8, 9, 10 and 17)*

Subsequent Events *(Note 19)*

ON BEHALF OF THE BOARD OF DIRECTORS:

/S/ Jonathan Cherry, Director */S/ William Murray*, Director

- See Accompanying Notes –

PolyMet Mining Corp.
(a development stage company)

Consolidated Statements of Loss and Comprehensive Loss

For the years ended January 31
All figures in Thousands of U.S. Dollars, except per share amounts

	January 31, 2013	January 31, 2012	January 31, 2011
General and Administrative			
Salaries and benefits	$ **1,394**	$ 664	$ 882
Share-based compensation *(Note 11)*	**2,255**	625	(119)
Director fees and expenses	**290**	248	-
Consulting fees	**81**	31	36
Professional fees	**374**	740	365
Filing and regulatory fees	**281**	99	99
Shareholder, investor, and public relations	**571**	385	448
Travel	**305**	226	267
Rent and other office expenses	**180**	171	188
Insurance	**139**	149	126
Exploration	**-**	-	193
Amortization	**38**	31	31
	5,908	3,369	2,516
Other Expenses (Income)			
Finance costs *(Note 12)*	**821**	351	499
Financing costs write-off *(Note 17)*	**-**	-	1,830
Loss (gain) on foreign exchange	**(44)**	104	(46)
Loss (gain) on asset held for sale *(Note 5)*	**-**	(72)	520
Loss on refinancing of convertible debt *(Note 10)*	**-**	-	2,931
Rental income	**(59)**	(50)	(198)
	718	333	5,536
Loss for the year before tax	**6,626**	3,702	8,052
Income tax recovery *(Note 15)*	**-**	(657)	(1,390)
Loss for the year	**6,626**	3,045	6,662
Other Comprehensive Loss			
Unrealized loss on investment	**(13)**	(36)	(77)
Total Comprehensive Loss for the year	**6,639**	3,081	6,739
Basic and Diluted Loss per Share	$ **(0.04)**	$ (0.02)	$ (0.04)
Weighted Average Number of Shares	**178,949,306**	160,358,498	149,444,955

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Consolidated Statements of Changes in Shareholders' Equity

For the years ended January 31

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

	Share Capital (authorized = unlimited)			Equity Reserves				
	Issued Shares	Paid-in Share Capital	Share Premium	Warrants and Share-based Payments	Accumulated Other Comp Loss	Total Equity Reserves	Deficit	Total Shareholders' Equity
Balance at February 1, 2010	148,980,791	$ 132,066	$ -	$ 37,591	$ 71	$ 37,662	$ (72,083)	$ 97,645
Loss and comprehensive loss for the year	-	-	-	-	(77)	(77)	(6,662)	(6,739)
Shares and warrants issued:								
Equity offering	5,000,000	9,019	875	-	-	-	-	9,894
Exercise of options	845,000	808	-	-	-	-	-	808
Fair value transfer on exercised options	-	480	-	(480)	-	(480)	-	-
Refinancing of convertible debt	-	-	-	2,225	-	2,225	-	2,225
Future tax recovery on warrant expiration	-	-	-	(1,390)	-	(1,390)	-	(1,390)
Bonus Share cost amortization	-	-	-	(89)	-	(89)	-	(89)
Share-based compensation	-	-	-	63	-	63	-	63
Balance at January 31, 2011	**154,825,791**	**$ 142,373**	**$ 875**	**$ 37,920**	**$ (6)**	**$ 37,914**	**$ (78,745)**	**$ 102,417**
Loss and comprehensive loss for the year	-	-	-	-	(36)	(36)	(3,045)	(3,081)
Shares and warrants issued:								
Equity offering (Notes 10 and 11)	13,333,333	15,162	4,667	-	-	-	-	19,829
Equity offering (Notes 10 and 11)	5,000,000	9,103	875	-	-	-	-	9,978
Exercise of options (Note 11)	1,185,000	902	-	-	-	-	-	902
Fair value transfer on exercised options (Note 11)	-	663	-	(663)	-	(663)	-	-
Restricted share units held in trust (Note 11)	259,000	-	-	-	-	-	-	-
Land purchase options	135,000	231	-	-	-	-	-	231
Refinancing of convertible debt (Note 10)	-	-	(4,285)	4,285	-	4,285	-	-
Issuance of long-term debt - warrants (Note 8)	-	-	-	550	-	550	-	550
Future tax recovery on warrant expiration (Note 11)	-	-	-	(657)	-	(657)	-	(657)
Bonus Share cost amortization (Note 11)	-	-	-	1,235	-	1,235	-	1,235
Share-based compensation (Note 11)	-	-	-	962	-	962	-	962
Balance - January 31, 2012	**174,738,124**	**$ 168,434**	**$ 2,132**	**$ 43,632**	**$ (42)**	**$ 43,590**	**$ (81,790)**	**$ 132,366**
Loss and comprehensive loss for the year	-	-	-	-	(13)	(13)	(6,626)	(6,639)
Shares and warrants issued:								
Equity offering (Notes 10 and 11)	5,000,000	9,107	875	-	-	-	-	9,982
Exercise of options (Note 11)	185,000	148	-	-	-	-	-	148
Fair value transfer on exercised options (Note 11)	-	62	-	(62)	-	(62)	-	-
Purchase of wetland credit intangibles (Note 6)	2,788,902	3,375	-	525	-	525	-	3,900
Restricted share units held in trust (Note 11)	450,882	-	-	-	-	-	-	-
Land purchase options	87,174	89	-	-	-	-	-	89
Share option modification (Note 11)	-	-	-	795	-	795	-	795
Bonus Share cost amortization (Note 11)	-	-	-	387	-	387	-	387
Share-based compensation (Note 11)	-	-	-	1,884	-	1,884	-	1,884
Balance - January 31, 2013	**183,250,082**	**$ 181,215**	**$ 3,007**	**$ 47,161**	**$ (55)**	**$ 47,106**	**$ (88,416)**	**$ 142,912**

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Consolidated Statements of Cash Flows

For the years ended January 31

All figures in Thousands of U.S. Dollars

	January 31, 2013	January 31, 2012	January 31, 2011
Operating Activities			
Loss for the year	**$ (6,626)**	$ (3,045)	$ (6,662)
Items not involving cash			
Amortization	**38**	31	31
Accretion of environmental rehabilitation provision *(Note 7)*	**792**	350	480
Share-based compensation *(Note 11)*	**2,255**	625	(119)
Deferred income tax recovery *(Note 15)*	**-**	(657)	(1,390)
Loss (gain) on asset held for sale *(Note 5)*	**-**	(72)	520
Financing costs write-off *(Note 17)*	-	-	1,830
Loss on refinancing of convertible debt *(Note 10)*	-	-	2,931
Changes in non-cash working capital			
Trade and other receivables	**(390)**	(122)	(230)
Prepaid expenses	**163**	(298)	(124)
Trade payables and accrued liabilities	**2,652**	233	(335)
Net cash used in operating activities	**(1,116)**	(2,955)	(3,068)
Financing Activities			
Share capital - for cash *(Note 11)*	**10,130**	30,709	10,702
Deferred financing costs	**-**	-	(36)
Long-term debt funding *(Note 8)*	**-**	4,000	-
Long-term debt repayment *(Note 8)*	**-**	(8,500)	(2,000)
Net cash provided by financing activities	**10,130**	26,209	8,666
Investing Activities			
Purchase of property, plant and equipment *(Note 5)*	**(16,312)**	(19,629)	(16,519)
Purchase of Wetland Credit Intangible *(Note 6)*	**(2,092)**	-	-
Sale of asset held for sale *(Note 5)*	**-**	3,492	-
Net cash used in investing activities	**(18,404)**	(16,137)	(16,519)
Net Increase (Decrease) in Cash and Cash Equivalents	**(9,390)**	7,117	(10,921)
Cash and Cash Equivalents - Beginning of year	**17,478**	10,361	21,282
Cash and Cash Equivalents - End of year	**$ 8,088**	$ 17,478	$ 10,361

Supplemental Disclosure with Respect to Statement of Cash Flows *(Note 13)*

- See Accompanying Notes -

1. Nature of Business

PolyMet Mining Corp. ("PolyMet" or 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 ("NorthMet" or "Project"), a polymetallic project in northeastern Minnesota, USA which comprises the NorthMet copper-nickel-precious metals ore body and the Erie Plant, a large processing facility located approximately six miles from the ore body. The realization of the Company's investment in NorthMet and other assets is dependent upon various factors, including the existence of economically recoverable mineral reserves, the ability to complete the environmental review and obtain permits necessary to construct and operate NorthMet, the ability to obtain financing necessary to complete the exploration and development of NorthMet, and future profitable operations or alternatively, 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") and NorthMet moved from the exploration stage to the development stage. An updated Technical Report under NI 43-101 was filed January 2013.

The corporate address and records office of the Company are located at 100 King Street West, Suite 5700, Toronto, Ontario, Canada M5X 1C7, and 700 West Georgia, 25th Floor, Vancouver, British Columbia, Canada, V7Y 1B3, respectively. The executive office of Poly Met Mining, Inc. ("PolyMet US"), the Company's wholly-owned subsidiary, is located at 444 Cedar Street, Suite 2060, St. Paul, Minnesota, United States of America, 55101.

2. Summary of Significant Accounting Policies

a) Statement of Compliance

The consolidated financial statements of PolyMet Mining Corp. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved by the Board of Directors on April 22, 2013.

b) Basis of Consolidation and Presentation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of assets available-for-sale. All dollar amounts presented are in United States ("US") dollars unless otherwise specified.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Inter-company balances and transactions have been eliminated on consolidation.

2. Summary of Significant Accounting Policies - *Continued*

c) Critical Accounting Estimates and Judgments

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

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

(i) Determination of mineral reserves

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

(ii) Impairment of non-financial assets

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

For its mineral property interest the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining property interests. Internal sources of information the Company considers include indications of economic performance of the asset. No indicators of impairment for its mining property were identified for the year ended January 31, 2013 or 2012.

2. Summary of Significant Accounting Policies - *Continued*

c) Critical Accounting Estimates and Judgments - *Continued*

(iii) Provisions for Environmental Rehabilitation Costs

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

Upon initial recognition of provisions for environmental rehabilitation costs, a corresponding increase to the carrying amount of the related asset is recorded and amortized over the life of the asset. The estimates are based principally on legal and regulatory requirements. Following initial recognition of the environmental rehabilitation provision, the carrying amount of the liability is accreted to its future value over the life of the asset, reduced for actual reclamation payments incurred, adjusted for changes to the current market-based discount rate, and adjusted for changes in the amount and timing of the underlying cash flows needed to settle the obligation.

It is possible that the Company's estimates of its ultimate environmental rehabilitation liabilities could 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. See additional discussion in Note 7.

d) Foreign Currency Translation

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

2. Summary of Significant Accounting Policies - *Continued*

e) Cash and Cash Equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of three months or less.

f) Financial Assets

All financial assets are initially recorded at fair value and designated upon inception as one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except when there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive loss shall be reclassified from equity to profit or loss as a reclassification adjustment. Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. See additional discussion in Note 18.

g) Mineral Property, Plant and Equipment

<u>Mineral Property</u>

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

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

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

2. Summary of Significant Accounting Policies - *Continued*

g) Mineral Property, Plant and Equipment- *Continued*

Plant and Equipment

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

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

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

h) Wetland Credit Intangible

Wetland Credit Intangible costs and related acquisition costs are capitalized until the wetland credits are used, sold, or abandoned. Wetland credits are used through offset with wetlands disturbed during construction and operation of NorthMet. As such, costs are amortized on a unit of production basis over the estimated proven and probable mineral reserves not to exceed the assets' useful lives. See additional discussion in Note 6.

i) Financial Liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities. See additional discussion in Note 18.

2. Summary of Significant Accounting Policies - *Continued*

j) Borrowing costs

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

k) Share-Based Compensation (Options, Restricted Shares, and Bonus Shares)

All share-based compensation awards made to directors, employees and non-employees are measured and recognized using a fair value based method. For directors and employees, or those providing services similar to employees, the fair value of options is determined using the Black-Scholes option pricing model, and is amortised straight-line over the vesting period. Awards issued to non-employees are recognized based on the fair value of the goods or services received and recognized over the tranche's vesting period. The fair value of the bonus shares and restricted share units is calculated using the intrinsic value of the shares at issuance, and is amortised straight-line over the vesting period.

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

Certain awards vest upon achievement of a specified performance condition. On a quarterly basis, management assesses the probability of achieving those performance conditions using the best available information, and estimates the appropriate vesting period.

When the Company amends the terms of share options, the incremental change in the fair value of the options due to the amendment, as determined using the Black-Scholes option pricing model, is recognized over the tranche's vesting period in the statement of loss or capitalized as appropriate.

l) Share Purchase Warrants

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

2. Summary of Significant Accounting Policies - *Continued*

m) Loss Per Share

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

n) Income Taxes and Deferred Taxes

The income tax expense or benefit for the year consists of two components: current and deferred.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Taxable profit or loss differs from profit or loss as reported in the Consolidated Statements of Comprehensive Loss because of items of income or expense that are taxable or deductible in other years, and items that are never taxable or deductible.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, loss carry forwards and tax credit carry forwards to the extent that it is probable that taxable profits will be available against which they can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences, loss carry forwards, and tax credit carry forwards can be utilized, a deferred tax asset is not recognized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Recent Accounting Pronouncements

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

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

IFRS 9 – Financial instruments - classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements, including the applicability of early adoption.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

3. Recent Accounting Pronouncements - *Continued*

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has concluded that this standard currently has no impact on its consolidated financial statements.

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

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

IAS 1 – Presentation of Items of Other Comprehensive Income

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

4. Mineral Property Agreements

NorthMet, Minnesota, U.S.A.

Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, the Company leases 4,162 acres 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 2013. The next payment is due in January 2014.

The Company can, at its option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination date or can indefinitely extend the 20-year term by continuing to make $150,000 annual lease payments on each successive anniversary date.

The lease payments are considered advance royalty payments and shall be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return received by the Company. The Company's recovery of $2.075 million in 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 an agreement effective December 1, 2008, the Company leases 120 acres in St. Louis County, Minnesota from LMC Minerals. The initial term of the renewable lease is 20 years and calls for minimum annual lease payments of $3,000 was for the first four years after which the minimum annual lease payment increases to $30,000. The initial term may be extended for up to four additional five-year periods on the same terms. All lease payments have been paid or accrued to January 31, 2013. The next payment is due in November 2013.

The lease payments are considered advance royalty payments and will be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return that we receive. The Company's recovery of $0.042 million in 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 (Note 8).

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

5. Mineral Property, Plant and Equipment

Details of Mineral Property, Plant, and Equipment are as follows:

Net Book Value		NorthMet		Other fixed assets		Total
Balance at February 1, 2011	$	141,729	$	206	$	141,935
Additions		20,807		412		21,219
Changes to environmental rehabilitation provision (Note 7)		7,894		-		7,894
Amortization		-		(359)		(359)
Balance at January 31, 2012	$	170,430	$	259	$	170,689
Additions		19,438		27		19,465
Changes to environmental rehabilitation provision (Note 7)		30,425		-		30,425
Amortization		-		(150)		(150)
Balance at January 31, 2013	**$**	**220,293**	**$**	**136**	**$**	**220,429**

NorthMet		**January 31, 2013**		January 31, 2012
Mineral property acquisition and interest costs	**$**	**44,514**	$	42,895
Mine plan and development		**35,688**		34,941
Environmental		**46,198**		33,843
Consulting and wages		**29,132**		25,921
Environmental rehabilitation		**51,350**		20,925
Site activities		**12,462**		10,956
Mine equipment		**949**		949
Total	**$**	**220,293**	$	170,430

Erie Plant, Minnesota, U.S.A.

In October 2003, the Company entered into an option with Cliffs Natural Resources Inc. (“Cliffs”) to purchase 100% ownership of large parts of the former LTV Steel Mining Company ore processing plant in northeastern Minnesota. The Company paid $500,000 in cash and issued 1,000,000 common shares (at fair value of $229,320) for this option, which it exercised on November 15, 2005 under the Asset Purchase Agreement with Cliffs (“Cliffs I”). Consideration for the purchase was $1.0 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 million) of the Company.

On December 20, 2006, the Company closed a transaction (“Cliffs 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. Consideration for the purchase was $1.0 million in cash, $14.0 million in notes payable (paid in full in December 2011) and the issuance of 2,000,000 common shares (at fair market value of $6.160 million) of the Company.

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

The Company assumed certain ongoing site-related environmental and reclamation obligations as a result of the above purchases (Note 7). 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.

Interest and loan accretion on current and retired long-term (Note 8) and convertible debt (Note 9) to January 31, 2013 in the amount of $10.756 million (January 31, 2012 - $8.988 million) have been capitalized as part of the cost of NorthMet assets. All borrowing costs during the year ended January 31, 2013 were capitalized.

As NorthMet assets are not in use or capable of operating in a manner intended by management, no amortization of these assets has been recorded to January 31, 2013.

At April 30, 2010, certain equipment was classified as assets held for sale. During the year ended January 31, 2011, these assets were written down to fair value less estimated cost to sell, resulting in a loss of $520,000. During the year ended January 31, 2012 the assets were sold for cash of $3.492 million resulting in a gain of $72,000.

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

6. Wetland Credit Intangible

Details of Wetland Credit Intangibles are as follows:

		January 31, 2013		January 31, 2012
Wetland Credit Intangible – Exercised options	**$**	**1,579**	$	-
Wetland Credit Intangible – Unexercised options		**4,413**		-
	$	**5,992**	$	-

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

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

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

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 related to 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. Once the Company obtains its permit to mine the environmental and reclamation obligations will be direct with the governing bodies. The Company's provisions for future site closure and reclamation costs are based upon existing reclamation requirements at January 31, 2013. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

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. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October response from the MPCA provides clarification to the potential liability for the Long Term Mitigation Plan. The Company has included its best estimate of the liabilities related to this consent decree in its environmental rehabilitation provision for the period ended January 31, 2013 in the amount of $31.8 million.

The Company's best estimate of the environmental rehabilitation provision at January 31, 2013 was $53.5 million (January 31, 2012 - $22.8 million) based on estimated cash flows required to settle this obligation in present day costs of $24.5 million (January 31, 2012 - $23.9 million) for Cliffs I and $33.0 million (January 31, 2012 - $2.0 million) for Cliffs II, an annual inflation rate of 2.00% (January 31, 2012 – 2.00%), a risk-free interest rate of 2.79% (January 31, 2012 – 2.55%), a mine life of 20 years and a rehabilitation period of 10 years.

Details of Environmental Rehabilitation Provision are as follows:

	Year ended January 31, 2013	Year ended January 31, 2012
Environmental Rehabilitation Provision – beginning of year	$ **22,836**	$ 15,719
Change in estimated liability	**31,845**	-
Liabilities discharged	**(565)**	(1,127)
Accretion expense	**792**	350
Change in pre-tax risk-free interest rate	**(1,420)**	7,894
Environmental Rehabilitation Provision – end of year	**53,488**	22,836
Less current portion	**(1,808)**	(828)
Non-current portion	$ **51,680**	$ 22,008

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

8. Long Term Debt

Pursuant to Cliffs II (Note 5) the Company signed two notes payable to Cliffs totaling $14.0 million. The first note was paid in quarterly installments equal to $250,000 with the first payment on December 31, 2006 for total repayment of $7.0 million with the balance due upon receipt of production financing. The second note was paid in quarterly installments equal to $250,000 commencing on December 31, 2009 for total repayment of $7.0 million with the balance due on December 31, 2011. Both of these notes were repaid in full as at December 2011.

On June 30, 2011 PolyMet closed a $4.0 million loan from Iron Range Resources & Rehabilitation Board ("IRRRB"), a development agency created by the State of Minnesota to stabilize and enhance the economy of northeastern Minnesota. At the same time, the Company exercised its options to acquire two tracts of land as part of a proposed land exchange with the U.S. Forest Service ("USFS"). The loan is secured by the land acquired, carries a fixed interest rate of 5% per annum, compounded annually, and is repayable on the earlier of June 30, 2016 or the date which the related land is exchanged with the USFS (not expected to occur within 12 months from January 31, 2013). PolyMet has issued warrants giving the IRRRB the right to purchase 400,000 shares of its common shares at $2.50 per share at any time until the earlier of June 30, 2016, the date the land is exchanged with the USFS or an alternative date as determined between the parties as the due date of the loan ("IRRRB Warrants").

The Company has accounted for the IRRRB loan and the 400,000 common share warrants issued by allocating the $4.0 million between the debt and the warrants by fair valuing the debt using a discount rate of 8% and allocating the residual of $550,124 to the warrants.

Details of long term debt are as follows:

		Year ended January 31, 2013		Year ended January 31, 2012
Long Term Debt – beginning of year	**$**	**3,672**	**$**	8,525
Issuance of Debt		**-**		3,450
Retirement of Debt		**-**		(8,525)
Accretion and capitalized interest		**278**		222
Long Term Debt – end of year		**3,950**		3,672
Less current portion		**-**		-
Non-current portion	**$**	**3,950**	**$**	3,672

All long term debt borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2013.

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

9. Convertible Debt

Details of Convertible Debt are as follows:

		Year ended January 31, 2013		Year ended January 31, 2012
Convertible Debt – beginning of year	**$**	**29,018**	$	27,631
Accretion and capitalized interest		**1,490**		1,387
Convertible Debt – end of year		**30,508**		29,018
Less current portion		**-**		-
Non-current portion	**$**	**30,508**	$	29,018

The Company issued $25.0 million of Debentures to Glencore AG (“Glencore”) that 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 Glencore’s option. At January 31, 2013, $5.508 million (January 31, 2012 - $4.018 million) of interest had been added to the principal amount of the debt since inception. The Company has provided security on the Debentures covering all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet’s 100% shareholding in PolyMet US. The due date of the Debentures is the earlier of i) PolyMet giving Glencore ten days’ notice that PolyMet has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and ii) September 30, 2014, on which date all principal and interest accrued to such date will be due and payable. Upon occurrence of the Early Maturity Event and at the Company’s option, the initial principal and capitalized interest would be exchangeable into common shares of PolyMet at $1.50 per share. Alternatively, Glencore has the right to exchange some or all of the debentures at any time under the same conversion terms. All convertible debt borrowing costs were eligible for capitalization and 100% of these costs were capitalized during the year ended January 31, 2013.

10. Glencore Financing

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

- 46,967,842 shares representing 25.6% of PolyMet's issued shares;
- $25.0 million initial principal floating rate secured debentures due September 30, 2014 (Note 9). Including capitalized interest as at January 31, 2013, these debentures are exchangeable at $1.50 per share into 20,338,440 common shares of PolyMet upon PolyMet giving Glencore notice that it has received permits necessary to start construction of NorthMet and availability of senior construction finance in a form reasonably acceptable to Glencore or are repayable on September 30, 2014. The exercise price of the exchange warrants and the number of warrants are subject to conventional anti-dilution provisions; and
- Glencore holds warrants to purchase 5.6 million common shares at $1.50 per share, subject to conventional anti-dilution provisions, at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ("VWAP") of PolyMet common shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 72,906,282 common shares of PolyMet, representing 34.9% on a partially diluted basis, that is, if no other options or warrants were exercised or 32.4% on a fully diluted basis.

<u>2010 Agreement</u>

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

- Sell in a private placement to Glencore, 15 million common shares at $2.00 per share for gross proceeds of $30 million (before deducting estimated offering expenses). Completion of the sale of these shares and funding occurred in the following three tranches:
  - Tranche 1 of $10 million (closed on January 17, 2011);
  - Tranche 2 of $10 million (closed on July 15, 2011); and
  - Tranche 3 of $10 million (closed on October 15, 2012).

10. Glencore Financing - *Continued*

- The maturity date of the $25 million in outstanding debentures, plus interest, was extended from September 30, 2011 to September 30, 2012 (subsequently extended under the 2011 Agreement described below). The Issued Debentures continued to be exchangeable into common shares of PolyMet, as agreed to in 2008 and the 2011 Agreement described below;
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, $25 million of Tranche E Debentures, as agreed to in 2008;
- Cancellation of warrants to purchase 6.25 million common shares of PolyMet at $3.00 per share at any time until September 30, 2011 issued to Glencore in connection with the 2008 Debentures;
- Issuance of warrants (the "2010 Warrants") to purchase 3 million common shares of PolyMet at $2.00 per share at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above. The terms of these warrants were amended under the 2011 Agreement described below; and
- Glencore was also granted a right of first refusal to provide all non-equity material financings, subject to regulatory approval as long as it owns 10% or more of the issued and outstanding shares of PolyMet. As long as Glencore owns more than 5% of the issued and outstanding shares of PolyMet, it has the right to participate in any equity-related financing to maintain its fully diluted ownership interest (currently 25.6% of issued and outstanding shares and 32.4% on a fully diluted ownership interest basis).

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

- The change in fair value of the conversion feature resulting from its term being extended from September 30, 2011 to September 30, 2012 of $1.633 million;
- The difference in fair value between the warrants to purchase 6.25 million common shares at $3.00 per share exercisable until September 30, 2011 and the warrants to purchase 3 million common shares at $2.00 per share exercisable until December 31, 2015 of $3.217 million;
- The amounts of discount and deferred costs remaining to be accreted and amortized over the life of the debt of $706,000; less
- The premium of $2.625 million resulting from the price of the common shares sold or to be sold to Glencore compared with the market price at the time of the arrangement. The $875,000 of premium attributable to the first tranche of the financing was debited to share capital and credited to share premium in fiscal 2011, the $875,000 of premium attributable to the second tranche of the financing was debited to share capital and credited to share premium in fiscal 2012, and the $875,000 of premium attributable to the third tranche of the financing was debited to share capital and credited to share premium in fiscal 2013.

10. Glencore Financing - *Continued*

2011 Agreement

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

- Sell in a private placement to Glencore, 13,333,333 common shares at $1.50 per share for gross proceeds of $20 million (before deducting offering expenses) and issue to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ("VWAP") of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore. Approximately $7.0 million of the proceeds from the sale of these shares was used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. (Note 8);
- Extend the term of the $25 million initial principal debentures to the earlier of i) PolyMet giving Glencore ten days' notice that PolyMet has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and ii) September 30, 2014, on which date all principal and interest accrued to such date will be due and payable. Upon occurrence of the Early Maturity Event and at the Company's option, the initial principal and capitalized interest would be exchangeable into common shares of PolyMet at $1.50 per share. Alternatively, Glencore has the right to exchange some or all of the debentures at any time using the same conversion terms; and
- Amend the terms of the warrants issued to Glencore in 2010 (the "2010 Warrants") to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore.

The transactions closed on December 6, 2011.

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

- The change in fair value of the conversion feature resulting from its term being extended from September 30, 2012 to September 30, 2014 of $2.400 million;
- The difference in fair value between the warrants to purchase 3 million common shares at $2.00 per share exercisable until December 31, 2015 and the warrants to purchase 3 million common shares at $1.50 per share exercisable until December 31, 2015 of $177,000;
- The fair value of the warrants to purchase 2.6 million common shares at $1.50 per exercisable until December 31, 2015 of $1.708 million; less
- The premium of $4.667 million results from the agreed upon price of the common shares of $1.50 per share, compared with the market price at the time of the arrangement.

11. Share Capital

a) Share Issuances for Cash

On July 15, 2011, the Company closed the second tranche of the 2010 Agreement with Glencore for 5,000,000 common shares at $2.00 per share for gross proceeds of $10.0 million. For accounting purposes, the $875,000 premium over the market price at the time of the arrangement was debited to share capital and credited to equity reserves (Note 10). Transaction costs for the financing were $22,000.

On December 6, 2011, the Company closed the 2011 Agreement with Glencore for 13,333,333 commons shares at $1.50 per share for gross proceeds of $20.0 million (Note 10). Transaction costs for the financing were $171,000.

On October 15, 2012, the Company closed the third tranche of the 2010 Agreement with Glencore for 5,000,000 common shares at $2.00 per share for gross proceeds of $10.0 million. For accounting purposes, the $875,000 premium over the market price at the time of the arrangement was debited to share capital and credited to equity reserves (Note 10). Transaction costs for the financing were $18,000.

During the year ended January 31, 2013 the Company issued 185,000 shares (January 31, 2012 – 1,185,000) pursuant to the exercise of share options for total proceeds of $148,000 (January 31, 2012 - $902,000).

b) Share-Based Compensation

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

During the year ended January 31, 2013, the Company recorded $2.679 million (January 31, 2012 - $0.962 million) for share-based compensation with $2.255 million (January 31, 2012 - $0.625 million) expensed and $0.424 million (January 31, 2012 - $0.337 million) capitalized to mineral property, plant and equipment. The offsetting entries were to warrants and share-based payment reserve. Total share-based compensation for the period includes $1.644 million (January 31, 2012 - $0.688 million) for share options, $0.240 million (January 31, 2012 - $0.274 million) for restricted shares, and $0.795 million (January 31, 2012 - nil) related to the three year term extension as a result of the option modification of 14,420,000 options outstanding at the July 10, 2012.

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

11. Share Capital - *Continued*

c) Share Options

Details of share option activity are as follows:

	Year ended January 31, 2013	Year ended January 31, 2012
Outstanding - Beginning of year	**11,195,000**	11,630,000
Granted	**4,375,000**	750,000
Exercised	**(185,000)**	(1,185,000)
Cancelled	**(425,000)**	-
Expired	**(40,000)**	-
Outstanding - End of year	**14,920,000**	11,195,000

The weighted average closing share price on the dates the options were exercised during the year ended January 31, 2013 was $1.12 (January 31, 2012 - $1.78).

During the year ended January 31, 2013, the Company granted 4,375,000 share options (January 31, 2012 – 750,000) to directors and management with an average exercise price of $0.97 per option. The fair value of these share options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year ended January 31, 2013	Year ended January 31, 2012
Risk-free interest rate	0.27% to 0.50%	1.71%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	Nil	Nil
Expected share price volatility	96.90% to 125.92%	75.18%
Expected option life in years	2.25 to 3.00	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 reduce staffing levels and anticipates that the likelihood of resignations will diminish as the permitting process proceeds.

The expected share price volatility reflects the Company’s expectation that historical volatility over a period similar to the life of the option is indicative of future trends, which may or may not necessarily be the actual outcome.

The weighted fair value of share options granted during the year ended January 31, 2013 was $0.43. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s share options.

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

11. Share Capital - *Continued*

c) Share Options - *Continued*

Details of share options outstanding as at January 31, 2013 are as follows:

Expiry Date	Exercise Price (US$)	Exercise Price (CDN$)	Number of options outstanding
September 19, 2015 **	1.36*	1.36	1,190,000
October 24, 2015 **	1.20*	1.20	200,000
December 5, 2015 **	1.15*	1.15	125,000
March 20, 2016 **	2.75*	2.76	2,100,000
June 19, 2016 **	2.96*	2.97	325,000
September 1, 2016 **	3.81*	3.82	300,000
January 5, 2017 **	3.29*	3.30	525,000
February 13, 2017 **	2.99		1,250,000
March 12, 2017 **	2.92		250,000
March 23, 2017 **	2.89		50,000
September 4, 2017 **	3.00		360,000
December 12, 2017 **	3.05		205,000
January 11, 2018 **	3.03		70,000
January 31, 2018 **	2.87		100,000
February 15, 2018 **	2.72		500,000
June 2, 2018 **	3.92		100,000
July 30, 2018 **	3.22		175,000
January 30, 2019 **	0.82		585,000
February 17, 2019 **	0.82		910,000
October 15, 2019 **	2.67		115,000
January 8, 2020 **	3.54		60,000
January 25, 2021 **	2.17		300,000
March 10, 2021 **	2.04		750,000
March 8, 2022 **	1.19		1,150,000
April 2, 2022 **	1.16		100,000
June 21, 2022 **	0.88		2,500,000
July 9, 2022 **	0.84		125,000
July 11, 2022	0.95		150,000
July 25, 2022	1.00		50,000
January 7, 2023	0.92		300,000
Weighted average exercise price and total number of options outstanding	1.94		14,920,000

* 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 January 31, 2013 of 1.00 US$ = 1.0020 CDN$.

** Expiry Date extended three years by resolution approved by disinterested shareholders at the annual shareholders’ meeting on July 10, 2012.

As at January 31, 2013 all share options had vested and were exercisable, with the exception of 3,604,166, which vest upon completion of specific targets (SDEIS – 933,333; EIS – 160,000; Permits – 1,065,833; Construction – 960,000; Start of Commercial Production – 300,000; Other – 185,000).

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

11. Share Capital - *Continued*

d) Share Bonus Plan

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 NorthMet. As at January 31, 2013, the Company had received shareholder approval of the Bonus Shares for Milestones 1 to 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval. To January 31, 2013, 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	Status
Milestone 1	1,590,000	issued
Milestone 2	1,300,000	issued
Milestone 3	2,350,000	issued
Milestone 4	3,640,000	(i) and (ii)

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

(ii) At the Annual General Meeting of shareholders of the Company, held on June 17, 2008, the disinterested shareholders approved the bonus shares for Milestone 4. The bonus shares allocated to Milestone 4 are valued at $3.80, the Company's closing trading price on June 17, 2008.

During the year ended January 31, 2013, the Company recorded $387,000 amortization related to Milestone 4 (January 31, 2012 – $1,235,000), which was capitalized to Mineral Property, Plant and Equipment. The fair value of these unissued bonus shares is being amortized until the estimated date of issuance.

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

11. Share Capital - *Continued*

e) Restricted Shares

Details of restricted share activity are as follows:

	Year ended January 31, 2013	Year ended January 31, 2012
Outstanding - Beginning of year	**327,500**	-
Granted	**458,382**	327,500
Outstanding - End of year	**785,882**	327,500

During the year ended January 31, 2013, the Company granted 458,382 restricted shares to U.S. employees with 450,882 of the U.S. restricted shares issued in trust to a third party. 275,676 of the restricted shares vest upon issuance of permits or December 31, 2014, whichever comes earlier. 91,353 of the restricted shares vest upon publication of the NorthMet supplemental draft Environmental Impact Statement. 91,353 of the restricted shares vest upon receipt of permits to start construction of NorthMet. The restricted shares had a fair value of $414,000 which is being amortized over the vesting periods.

During the year ended January 31, 2012, the Company granted 327,500 restricted shares for U.S. employees and consultants and restricted share units for Canadian employees and consultants with 259,000 of the U.S. restricted shares issued in trust to a third party. 50% of each award is to be issued upon receipt of permits and the balance to be issued upon the start of production. The restricted shares had a fair value of $668,000 which is being amortized over the vesting periods.

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

11. Share Capital - *Continued*

f) Share Purchase Warrants

Details of share purchase warrants are as follows:

	Year ended January 31, 2013		Year ended January 31, 2012	
	Warrants	**Weighted Average Exercise Price (US$)**	Warrants	Weighted Average Exercise Price (US$)
Share Purchase Warrants – beginning of year	**6,000,000**	**1.57**	7,010,000	4.00
Expired *(Note 8e)*	**-**	**-**	(4,010,000)	5.00
Amended *(Note 7)*	**-**	**-**	(3,000,000)	2.00
Amended *(Note 7)*	**-**	**-**	3,000,000	1.50
Issued *(Notes 5, 7 and 14)*	**1,083,333**	**1.50**	3,000,000	1.63
Share Purchase Warrants – end of year	**7,083,333**	**1.56**	6,000,000	1.57

On June 30, 2011, as part of a loan agreement (Note 8) the Company issued warrants to IRRRB giving them the right to purchase 400,000 common shares of the Company at $2.50 per share at any time until the earlier of June 30, 2016 or one year after permits are received.

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

On December 6, 2011, as part of the 2011 Agreement (Note 10), PolyMet issued to Glencore warrants (“2011 Warrants”) to purchase 2,600,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore. In addition, the Company agreed to amend the terms of the warrants issued to Glencore in 2010 ("2010 Warrants”) to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of NorthMet and availability of senior construction finance, in a form reasonably acceptable to Glencore.

On March 9, 2012, as part of a wetlands agreement (Note 6) the Company issued warrants to AG Waterfowl LLP giving them the right to purchase 1,083,333 common shares of the Company at $1.50 per share at any time until December 31, 2015.

11. Share Capital - *Continued*

g) 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, and reapproved by the Company's shareholders most recently on July 10, 2012. Under the Rights Plan, the Company has issued one right for no consideration in respect of each outstanding common share of the Company to all holders of record of common shares on December 4, 2003. All common shares subsequently issued by the Company during the term of the Rights Plan will have one right represented for each common share held by the shareholder of the Company. The term of the Rights Plan is 10 years, unless the rights are earlier redeemed or exchanged. The Rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of the Company's common shares without complying with the Rights Plan or without the approval of the Board of Directors of the Company.

Each Right entitles the registered holder thereof to purchase from the Company on the occurrence of certain events, one common share of the Company at the price of CDN$50.00 per share, subject to adjustment (the "Exercise Price"). However, if a Flip-in Event (as defined in the Rights Plan) occurs, each Right would then entitle the registered holder to receive, upon payment of the Exercise Price, that number of common shares that have a market value at the date of that occurrence equal to twice the Exercise Price. The Rights are not exercisable until the Separation Time as defined in the Rights Plan.

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

On November 30, 2011 the Board of Directors of the Company waived the Shareholder Rights Plan in connection with shares that Glencore owns or has the right to acquire through the existing agreements, including: Tranche 3 of the November 2010 private placement, exchange of the 2008 Debentures into common shares, exercise of the 2010 Warrants issued to Glencore in November 2010, the November 2011 private placement, and exercise of the 2011 Warrants issued to Glencore in 2011 (Note 10). Shares that could be acquired by Glencore pursuant to its right of first refusal to, or right to participate in, future financings are also covered by the waiver, but issue of such shares would be subject to regulatory approval. This waiver does not apply to any additional purchases of PolyMet common shares by Glencore on market or from third parties.

On October 11, 2012, the Board of Directors of the Company waived the Shareholder Rights Plan in connection with shares that Glencore has the right to acquire through Tranche 3 of the November 2010 private placement (Note 10). This waiver does not apply to any additional purchases of PolyMet shares by Glencore on market or from third parties.

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

12. Finance Costs

Details of Finance Income and Costs are as follows:

	Year ended January 31,		
	2013	2012	2011
Interest and financing costs, net	**$ 29**	$ 1	$ 19
Accretion of environmental rehabilitation provision (Note 6)	**792**	350	480
Finance costs	**$ 821**	$ 351	$ 499

13. Supplemental Disclosure With Respect to Statements of Cash Flows

The Company entered into the following non-cash investing and financing activities:

	Year ended January 31,		
	2013	2012	2011
Changes in trade payables and accrued liabilities related to investing activities	**$ 938**	$ 998	$ 176
Accretion and accrued interest	**2,560**	1,387	2,059
Deferred income tax recovery	**-**	(657)	(1,390)
Share-based compensation	**2,679**	962	63
Milestone 4 Bonus Share cost amortization	**387**	1,235	(89)
Shares and warrants issued	**$ 3,900**	$ 550	$ -

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

14. 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, as follows:

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

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

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

During the year ended January 31, 2012, PolyMet sold a used drill for $3.680 million. A company controlled by one of PolyMet's directors received a commission of $0.200 million related to this sale.

As a result of Glencore's ownership of 25.6% of the Company it is also a related party. Transactions with Glencore are described in Notes 9, 10, and 11.

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

15. Income Taxes

a) Income tax recovery

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

		2013		2012		2011
Loss for the period	$	**(6,626)**	$	(3,045)	$	(6,692)
Statutory tax rate		**25.0%**		26.5%		28.5%
Recovery of income taxes computed at statutory rates		**(1,657)**		(807)		(1,907)
Difference in foreign tax rates		**(199)**		(118)		(320)
Change in unrecognized deferred tax		**1,292**		102		2
Non-deductible items		**564**		166		835
Income tax recovery	$	**-**	$	(657)	$	(1,390)

b) Unrecognized deferred tax assets and liabilities

Deferred tax assets and liabilities have not yet been recognized in respect of the following items:

		2013		2012
Non-capital loss carry forward assets	$	**33,205**	$	27,039
Mineral properties, development and capital liabilities		**(15,451)**		(10,742)
Other assets (liabilities)		**(8)**		157
Unrecognized deferred tax assets and liabilities	$	**17,746**	$	16,454

As of January 31, 2013, the Company has Canadian non-capital loss carry forwards of approximately $13.3 million (2012 - $9.7 million) and US non-capital loss carry forwards of approximately $72.2 million (2012 - $59.4 million) available to reduce future years' income for tax purposes. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The tax loss carry forwards expire as follows:

Expiry of Tax Losses		Amount
January 31, 2019	$	835
January 31, 2020		693
January 31, 2021		827
January 31, 2022		937
January 31, 2023		859
January 31, 2024		655
January 31, 2025		945
January 31, 2026		1,632
January 31, 2027		3,657
January 31, 2028		4,350
January 31, 2029		7,907
January 31, 2030		11,474
January 31, 2031		21,041
January 31, 2032		13,351
January 31, 2033		16,318
Non-capital loss carry forward	$	85,481

As at January 31, 2013, the Company had deductible temporary differences for which deferred tax assets and liabilities have not been recognized because it is uncertain whether future profit will be available against which the Company can utilize the benefits.

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

16. Segmented Information

The Company's primary mineral property is the NorthMet Project, which is in the permitting stage of development. Financing and administrative functions are provided at the corporate office. Segmented information is as follows:

January 31, 2013		**Corporate**		**NorthMet Operations**		**Consolidated**
Cash and cash equivalents	**$**	**7,999**	**$**	**89**	**$**	**8,088**
Trade and other receivables		**57**		**773**		**830**
Investment		**17**		**-**		**17**
Prepaid expenses		**42**		**729**		**771**
Wetland Credit Intangible		**-**		**5,992**		**5,992**
Mineral Property, Plant & Equipment		**85**		**220,344**		**220,429**
Total assets		**8,200**		**227,927**		**236,127**
Trade payables and accrued liabilities		**2,766**		**2,503**		**5,269**
Long term debt		**-**		**3,950**		**3,950**
Convertible debt		**30,508**		**-**		**30,508**
Environmental rehabilitation provision		**-**		**53,488**		**53,488**
Total liabilities		**33,274**		**59,941**		**93,215**
General and administrative		**5,422**		**486**		**5,908**
Interest and financing costs, net		**30**		**(1)**		**29**
Accretion of environmental rehabilitation provision		**-**		**792**		**792**
Other (Income) Expense		**(44)**		**(59)**		**(103)**
Segmented loss	**$**	**5,408**	**$**	**1,218**	**$**	**6,626**

January 31, 2012		Corporate		NorthMet Operations		Consolidated
Cash and cash equivalents	$	15,850	$	1,628	$	17,478
Trade and other receivables		98		342		440
Investment		30		-		30
Prepaid expenses		238		696		934
Mineral Property, Plant & Equipment		19		170,670		170,689
Total assets		16,235		173,336		189,571
Trade payables and accrued liabilities		315		1,364		1,679
Long term debt		-		3,672		3,672
Convertible debt		29,018		-		29,018
Environmental rehabilitation provision		-		22,836		22,836
Total liabilities		29,333		27,872		57,205
General and administrative		2,571		798		3,369
Interest and financing costs, net		2		(1)		1
Accretion of environmental rehabilitation provision		-		350		350
Gain on asset held for sale		-		(72)		(72)
Other (Income) Expense		104		(50)		54
Deferred income tax recovery		(657)		-		(657)
Segmented loss	$	2,020	$	1,025	$	3,045

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

17. Commitments and Contingencies

a) On October 31, 2006 the Company entered into an agreement with BNP Paribas Loan Services ("BNPP") whereby BNPP agreed to advise and assist PolyMet in all aspects of preparation for construction finance. As part of this agreement, BNPP was issued warrants to purchase 600,000 of the Company's common shares at a price of $4.00 per share at any time prior to October 30, 2010. The fair value of these warrants was $1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of $4.00 per share at any time prior to October 30, 2010 would vest. As part of the agreement, PolyMet would also pay BNPP a monthly fee for its advice and assistance and pay the costs for BNPP's independent engineers. The Company decided to review alternatives for construction financing and decided not to renew its agreement with BNPP which expired on July 31, 2010. As such, the $1,830,000, $1,197,000 of which was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset was written off to the consolidated statement of loss and comprehensive loss in the year ended January 31, 2011.

b) 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.

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

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

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

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

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

18. Financial Instruments and Risk Management

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

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

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

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

Risks Arising from Financial Instruments and Risk Management

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

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

Currency Risk

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

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

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

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

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

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

18. Financial Instruments and Risk Management - *Continued*

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

Credit Risk

Credit risk arises on cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets of $8,918,000.

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

Liquidity Risk

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

Interest Rate Risk

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

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

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

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

18. Financial Instruments and Risk Management - *Continued*

Fair Value Measurements

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

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

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

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

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

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

The fair value of the Company's trade payables and accrued liabilities and convertible debt approximate their carrying amounts. The Company's long term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. The face value of long term debt exceeds the carrying amount by approximately $50,000.

Capital Management

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

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

18. Financial Instruments and Risk Management - *Continued*

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

Although the Company plans to have the resources to carry out its plans and operations through January 31, 2014, it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is currently in discussions to arrange sufficient capital to meet these requirements. See discussion of subsequent event financing below.

19. Subsequent Event

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

Form 52-109F1
Certification of Annual Filings
Full Certificate

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

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of PolyMet Mining Corp. (the "issuer") for the financial year ended January 31, 2013.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 N/A

5.3 N/A

6. ***Evaluation:*** The issuer's other certifying officer(s) and I have

(a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and

(b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A

(i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

(ii) for each material weakness relating to operation existing at the financial year end

(A) a description of the material weakness;

(B) the impact of the material weakness on the issuer's financial reporting and its ICFR; and

(C) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

7. ***Reporting changes in ICFR:*** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on November 1, 2012 and ended on January 31, 2013 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. ***Reporting to the issuer's auditors and board of directors or audit committee:*** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: April 22, 2013

"Jonathan Cherry"

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Jonathan Cherry
President and Chief Executive Officer

Form 52-109F1
Certification of Annual Filings
Full Certificate

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

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of PolyMet Mining Corp. (the "issuer") for the financial year ended January 31, 2013.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 N/A

5.3 N/A

6. ***Evaluation:*** The issuer's other certifying officer(s) and I have

   (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and

   (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A

      (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

      (ii) for each material weakness relating to operation existing at the financial year end

         (A) a description of the material weakness;

         (B) the impact of the material weakness on the issuer's financial reporting and its ICFR; and

         (C) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

7. ***Reporting changes in ICFR:*** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on November 1, 2012 and ended on January 31, 2013 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. ***Reporting to the issuer's auditors and board of directors or audit committee:*** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: April 22, 2013

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Douglas Newby
Chief Financial Officer