POLYMET MINING CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2012

PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Balance Sheets

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

		October 31, 2012		January 31, 2012
ASSETS				
Current				
Cash and equivalents	**$**	**11,058**	$	17,478
Trade and other receivables		**797**		440
Investment		**14**		30
Prepaid expenses		**710**		934
		12,579		18,882
Wetland Credit Intangible *(Note 14)*		**5,992**		-
Mineral Property, Plant and Equipment *(Notes 3 and 4)*		**221,768**		170,689
Total Assets	**$**	**240,339**	$	189,571
LIABILITIES				
Current				
Trade payables and accrued liabilities	**$**	**2,797**	$	1,679
Current portion of environmental rehabilitation provision *(Note 6)*		**1,897**		828
		4,694		2,507
Long term				
Long term debt *(Note 5)*		**3,870**		3,672
Convertible debt *(Note 7)*		**30,136**		29,018
Environmental rehabilitation provision *(Note 6)*		**56,794**		22,008
Total Liabilities		**95,494**		57,205
SHAREHOLDERS' EQUITY				
Share Capital - *(Note 8)*		**181,190**		168,434
Share Premium – *(Note 8)*		**3,007**		2,132
Equity Reserves		**46,923**		43,590
Deficit		**(86,275)**		(81,790)
		144,845		132,366
Total Liabilities and Shareholders' Equity	**$**	**240,339**	$	189,571

General Information and Going Concern *(Note 1)*

Commitments and Contingencies *(Notes 3, 4, 6, 7, 8, 13 and 14)*

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)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the periods ended October 31

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

	Three months ended October 31,		Nine months ended October 31,	
	2012	2011	**2012**	2011
General and Administrative				
Amortization	$ **8**	$ 8	$ **30**	$ 23
Consulting fees	**11**	6	**57**	25
Director fees and expenses	**73**	64	**217**	175
Investor relations	**1**	13	**35**	21
Office expenses and corporate wages	**668**	214	**1,284**	746
Professional fees	**62**	56	**223**	478
Shareholder information	**131**	88	**396**	319
Share-based compensation *(Note 8)*	**214**	29	**1,951**	597
Transfer agent and filing fees	**21**	(6)	**79**	82
Travel	**72**	48	**230**	199
	1,261	520	**4,502**	2,665
Other Expenses (Income)				
Finance income and costs *(Note 9)*	**2**	172	**36**	515
Loss (gain) on foreign exchange	**16**	19	**(3)**	72
Rental income	**(26)**	(8)	**(50)**	(43)
	(8)	183	**(17)**	544
Loss for the period before tax	**1,253**	703	**4,485**	3,209
Future income tax recovery *(Note 8e)*	**-**	(657)	**-**	(657)
Loss for the period	**1,253**	46	**4,485**	2,552
Other Comprehensive Loss				
Unrealized loss on investment	**1**	13	**16**	20
Total Comprehensive Loss for the period	**1,254**	59	**4,501**	2,572
Basic and Diluted Loss per Share	$ **(0.01)**	$ (0.00)	$ **(0.03)**	$ (0.02)
Weighted Average Number of Shares	**178,682,678**	161,069,637	**177,623,634**	157,363,932

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended October 31

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

	Share Capital					Equity Reserves				
	Authorized Shares	Issued Shares	Paid-in Share Capital	Share Premium	Total	Warrants and Share-based Payment	Accumulated Other Comprehensive Loss	Total Equity Reserves	Deficit	Total
Balance at January 31, 2012	Unlimited	174,738,124	$ 168,434	$ 2,132	$ 170,566	$ 43,632	$ (42)	$ 43,590	$ (81,790)	$ 132,366
Loss and comprehensive loss for the period	-	-	-	-	-	-	(16)	(16)	(4,485)	(4,501)
Shares and warrants issued:					-			-		-
Equity offering and issuance costs (Note 7)	-	5,000,000	9,107	875	9,982	-	-	-	-	9,982
Exercise of options (Note 8)	-	185,000	148	-	148	-	-	-	-	148
Fair value of share options exercised (Note 8)	-	-	62	-	62	(62)	-	(62)	-	-
For wetland credit intangibles purchase (Note 14)	-	2,788,902	3,375	-	3,375	525	-	525	-	3,900
For options on land purchases	-	60,000	64	-	64	-	-	-	-	64
Option extension (Note 8)	-	-	-	-	-	795	-	795	-	795
Milestone 4 Bonus Share cost amortization (Note 13)	-	-	-	-	-	574	-	574	-	574
Share-based compensation (Note 8)	-	-	-	-	-	1,517	-	1,517	-	1,517
Balance - October 31, 2012	**Unlimited**	**182,772,026**	**$ 181,190**	**$ 3,007**	**$ 184,197**	**$ 46,981**	**$ (58)**	**$ 46,923**	**$ (86,275)**	**$ 144,845**

	Share Capital					Equity Reserves				
	Authorized Shares	Issued Shares	Paid-in Share Capital	Share Premium	Total	Warrants and Share-based Payment	Accumulated Other Comprehensive Loss	Total Equity Reserves	Deficit	Total
Balance at January 31, 2011	Unlimited	154,825,791	$ 142,373	$ 875	$ 143,248	$ 37,920	$ (6)	$ 37,914	$ (78,745)	$ 102,417
Loss and comprehensive loss for the period	-	-	-	-	-	-	(20)	(20)	(2,552)	(2,572)
Shares and warrants issued:					-			-	-	-
Equity offering and issuance costs (Note 7)	-	5,000,000	9,103	875	9,978	-	-	-	-	9,978
Exercise of options (Note 8)	-	1,185,000	902	-	902	-	-	-	-	902
Fair value of share options exercised (Note 8)	-	-	663	-	663	(663)	-	(663)	-	-
For options on land purchases	-	115,000	210	-	210	-	-	-	-	210
Long-term debt - warrants (Note 5)	-	-	-	-	-	550	-	550	-	550
Milestone 4 Bonus Share cost amortization (Note 13)	-	-	-	-	-	954	-	954	-	954
Future income tax recovery (Note 8)	-	-	-	-	-	(657)	-	(657)	-	(657)
Share-based compensation (Note 8)	-	-	-	-	-	861	-	861	-	861
Balance - October 31, 2011	**Unlimited**	**161,125,791**	**$ 153,251**	**$ 1,750**	**$ 155,001**	**$ 38,965**	**$ (26)**	**$ 38,939**	**$ (81,297)**	**$ 112,643**

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Condensed Interim Consolidated Statements of Cash Flows

For the periods ended October 31
All figures in Thousands of U.S. Dollars - unaudited

	Three months ended October 31,		Nine months ended October 31,	
	2012	2011	**2012**	2011
Operating Activities				
Loss for the period	**$ (1,253)**	$ (46)	**$ (4,485)**	$ (2,552)
Items not involving cash				
Amortization	**8**	8	**30**	23
Share-based compensation *(Note 8)*	**214**	29	**1,951**	597
Accretion of environmental rehabilitation provision *(Note 6)*	**5**	173	**57**	516
Changes in non-cash working capital				
Trade and other receivables	**(132)**	6	**(357)**	(657)
Prepaid expenses	**(171)**	223	**224**	232
Trade payables and accrued liabilities	**381**	(19)	**87**	(185)
Net cash used in operating activities	**(948)**	(283)	**(2,493)**	(2,204)
Financing Activities				
Share capital - for cash *(Note 8)*	**9,982**	68	**10,131**	10,880
Long-term debt funding *(Note 5)*	**-**	-	**-**	4,000
Long-term debt repayment *(Note 5)*	**-**	(500)	**-**	(1,500)
Net cash provided (used) by financing activities	**9,982**	(432)	**10,131**	13,380
Investing Activities				
Purchase of Wetland Credit Intangible *(Note 14)*	**-**	-	**(2,092)**	-
Deposit on asset held for sale	**-**	250	**-**	250
Purchase of property, plant and equipment *(Note 4)*	**(3,797)**	(3,874)	**(11,966)**	(14,634)
Net cash used in investing activities	**(3,797)**	(3,624)	**(14,058)**	(14,384)
Net Increase (Decrease) in Cash and Cash Equivalents	**5,237**	(4,339)	**(6,420)**	(3,208)
Cash and Cash Equivalents - Beginning of period	**5,821**	11,492	**17,478**	10,361
Cash and Cash Equivalents - End of period	**$ 11,058**	$ 7,153	**$ 11,058**	$ 7,153

Supplemental Disclosure with Respect to Statement of Cash Flows ***(Note 10)***

\- See Accompanying Notes -

1. General Information

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, a polymetallic project in northeastern Minnesota, USA. The realization of the Company's investment in the NorthMet Project and other assets is dependent upon various factors, including the existence of economically recoverable mineral reserves, the ability to complete the environmental review and obtain permits necessary to construct and operate the NorthMet project, the ability to obtain financing necessary to complete the exploration and development of the NorthMet Project, 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") that confirmed the economic and technical viability of the NorthMet Project (the "Project") and, as such, the Project moved from the exploration stage to the development stage.

The 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 the Company's wholly-owned subsidiary is located at 444 Cedar Street, Suite 2060, St. Paul, Minnesota, United States of America, 55101.

Going Concern

While these condensed interim consolidated financial statements have been prepared on the basis that PolyMet will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations, realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are conditions that cast substantial doubt on the validity of that assumption. The Company has incurred losses since inception and has an accumulated deficit of $86.3 million at October 31, 2012.

PolyMet will need to raise sufficient funds to meet its current obligations as well as fund ongoing development, capital expenditures and administration expenses, in accordance with the Company's spending plans for the next year. While in the past the Company has been successful in closing financing agreements with Glencore AG ("Glencore") and other parties, there can be no assurance it will be able to do so again in the future.

In order to meet all of its obligations for the period to October 31, 2013, PolyMet will have to obtain additional financing.

1. General Information - *Continued*

Management believes that, based upon the underlying value of the NorthMet Project, it will be able to obtain the necessary financing to meet the Company's requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained. Factors that could affect the availability of financing include the state of international debt and equity markets, investor perceptions and expectations and the global metals markets.

These condensed interim consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities, reported expenses, and balance sheet classifications that would be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

2. Basis of Preparation

Statement of Compliance

The accounting policies followed by the Company are set out in Note 3 of the audited consolidated financial statements for the year ended January 31, 2012 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These accounting policies and methods of application have consistently been followed in the preparation of these condensed interim consolidated financial statements. The consolidated interim financial statements for the three and nine month periods ended October 31, 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with Company's audited consolidated annual financial statements for the year ended January 31, 2012.

The financial statements were approved by the Board of Directors on December 6, 2012.

Basis of Consolidation and Presentation

These condensed interim consolidated financial statements follow the same accounting polices and methods of application as the Company's most recent annual financial statements.

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

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

3. Resource Property Agreements

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

Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, the Company leases certain lands in St. Louis County, Minnesota from RGGS Land & Minerals Ltd., L.P. The original term of the renewable lease was 20 years and called for total lease payments of $1,475,000. The Company can and has renewed the lease by making annual payments of $150,000 on or before each anniversary through January 2012. The next payment is due in January 2013.

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

The lease payments are considered advance royalty payments and shall be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return received by the Company. The Company's recovery of the advance royalty payments is subject to the lessor receiving an amount not less than the amount of the annual lease payment due for that year.

Pursuant to the leases, PolyMet holds mineral rights and the right to mine. PolyMet intends to acquire surface rights through a land exchange with the United States Forest Service.

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

4. Mineral Property, Plant and Equipment

Details are as follows:

Net Book Value		NorthMet Project		Other fixed assets		Total
Balance at January 31, 2012	$	$170,430	$	259	$	170,689
Additions		15,022		27		15,049
Changes to environmental rehabilitation provision (Note 6)		36,168		-		36,168
Amortization		-		(138)		(138)
Balance at October 31, 2012	**$**	**221,620**		**148**		**221,768**

NorthMet Project		**October 31, 2012**		January 31, 2012
Mineral property acquisition and interest costs	**$**	**44,125**	$	42,895
Mine plan and development		**35,277**		34,941
Environmental		**43,458**		33,843
Consulting and wages		**28,636**		25,921
Environmental rehabilitation		**57,094**		20,925
Site activities		**12,081**		10,956
Mine equipment		**949**		949
Net book value	**$**	**221,620**	$	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 north eastern Minnesota. The Company paid $500,000 in cash and issued 1,000,000 common shares (at fair value of $229,320) for this option, which it exercised on November 15, 2005 under the Asset Purchase Agreement with Cliffs (“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.

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

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

The Company assumed certain ongoing site-related environmental and reclamation obligations as a result of the above purchases. These environmental and reclamation obligations are presently contracted under the terms of the purchase agreements with Cliffs. Once the Company obtains its permit to mine and Cliffs is released from its obligations by the State agencies, the environmental and reclamation obligations will be direct with the governing bodies.

Interest and loan accretion on current and retired long-term (Note 5) and convertible debt (Note 7) to October 31, 2012 in the amount of $10.304 million (January 31, 2012 - $8.988 million) have been capitalized as part of the cost of the NorthMet Project assets.

As the NorthMet project assets are not in use, no amortization of these assets has been recorded to October 31, 2012.

5. Long Term Debt

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. 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.

The Company has accounted for the IRRRB loan and the 400,000 common share warrants 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.

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

	Nine months ended October 31, 2012	Year ended January 31, 2012
Balance – beginning of period	**$ 3,672**	$ 3,450
Accretion and capitalized interest	**198**	222
Balance – end of period	**3,870**	3,672
Less current portion	**-**	-
Long term debt	**$ 3,870**	$ 3,672

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

6. Environmental Rehabilitation Provision

As part of the consideration for the Cliffs Purchase Agreements (Note 4), the Company indemnified Cliffs for the liability for final reclamation and closure of the acquired property.

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is contracted to indemnify Cliff's requirement to meet performance standards to minimize environmental impact from operations and to perform site restoration and other closure activities. 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 standards at October 31, 2012. 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, which have been approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October response from the MPCA provides 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 October 31, 2012 in the amount of $35.5 million.

The Company's best estimate of the environmental rehabilitation provision at October 31, 2012 was $58.7 million (January 31, 2012 - $22.8 million). This fair value was based upon an October 31, 2012 undiscounted future cost of $28.2 million (January 31, 2012 - $23.9 million) for Cliffs I and $32.9 million (January 31, 2012 - $2.0 million) for Cliffs II, an annual inflation rate of 2.00%, a risk-free interest rate of 2.46%, a mine life of 20 years and a reclamation period of 9 years. The increase in the estimated undiscounted environmental rehabilitation cash flows during the current period coupled with the decrease in the risk-free rate from 2.55% to 2.46% resulted in an increase of $0.7 million in the period.

Adjustments to the provision were as follows:

	Nine months ended October 31, 2012	Year ended January 31, 2012
Balance – beginning of period	$ **22,836**	$ 15,719
Liabilities added	**35,503**	-
Liabilities discharged	**(370)**	(1,127)
Accretion expense	**57**	350
Revisions in estimated cash flows	**665**	7,894
Balance – end of period	**58,691**	22,836
Less current portion	**(1,897)**	(828)
Long-term environmental rehabilitation provision	$ **56,794**	$ 22,008

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

7. Glencore Financing

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

		Nine months ended October 31, 2012		Year ended January 31, 2012
Balance – beginning of period	$	**29,018**	$	27,631
Accretion and capitalized interest		**1,118**		1,387
Balance – end of period	$	**30,136**	$	29,018

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 to shareholders the election of Stephen Rowland, a senior executive of Glencore, as a director and also appointed a senior member of Glencore's technical team to PolyMet's Technical Steering Committee. As a result of the series of financing transactions and the purchase by Glencore of PolyMet common shares previously owned by Cliffs, Glencore's current and potential ownership of PolyMet comprises:

- 46,967,842 shares representing 25.7% of PolyMet's issued shares;
- $25.0 million initial principal floating rate secured debentures due September 30, 2014. Including capitalized interest as at October 31, 2012, these debentures are exchangeable at $1.50 per share into 20,090,861 common shares of PolyMet upon PolyMet giving Glencore notice that it has received permits necessary to start construction of the NorthMet project and availability of senior construction finance in a form reasonably acceptable to Glencore; and
- Glencore holds warrants to purchase 5.6 million common shares at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ("VWAP") of PolyMet common shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 72,658,703 common shares of PolyMet, representing 34.9% on a partially diluted basis, that is, if no other options or warrants were exercised.

7. Glencore Financing - *Continued*

2008 Agreement

On October 31, 2008, the Company entered into a financing with Glencore for an aggregate of $50 million floating rate secured debentures which were due on September 30, 2011 (the "Debentures") to be issued by PolyMet US, and guaranteed by the Company.

The Debentures bear interest at 12-month US dollar LIBOR plus 4%, compounded quarterly. Interest is payable in cash or by increasing the principal amount of the Debentures, at PolyMet's option, for payments on or before September 30, 2009, and at Glencore's option thereafter. At October 31, 2012, $5.136 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 was extended under the 2010 and 2011 Agreements.

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

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

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

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

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

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

7. Glencore Financing - *Continued*

2009 Agreement

On November 17, 2009, the Company agreed to modify certain terms of the 2008 agreement. Under the new terms the 2008 Warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at $3.00 at any time on or before September 30, 2011. The incremental $158,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to the warrants and share-based payment reserve. The 2008 warrants were cancelled as part of the November 2010 agreements described below.

On November 17, 2009, PolyMet agreed to modify the terms of the final $25 million Tranche E of the $50 million Debenture with Glencore such that Tranche E, if drawn, could be exchanged at $2.65 per share. The first four tranches totalling $25 million (excluding capitalized interest) that had already been drawn would continue to be exchangeable at $4.00 per share.

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

2010 Agreement

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

- The maturity date of the $25 million in outstanding debentures, plus interest, was extended from September 30, 2011 to September 30, 2012. The Issued Debentures continued to be exchangeable into common shares of PolyMet at $4.00 per share, as agreed to in 2008.
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, $25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact Statement, receipt of a term sheet for construction financing, and other customary conditions.
- Cancellation of the 2008 Warrants as amended, and
- Issuance of warrants (the "2010 Warrants") to purchase 3 million common shares of PolyMet at $2.00 per share at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above. The terms of the 2010 Warrants were amended under the 2011 Agreement.

7. Glencore Financing - *Continued*

2010 Agreement (C*ontinued*)

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

- Tranche 1 of $10 million (closed on January 17, 2011);
- Tranche 2 of $10 million (closed on July 15, 2011); and
- Tranche 3 of $10 million (closed on October 15, 2012).

Glencore was also granted a right of first refusal to provide all material financings, subject to regulatory approval as long as it owns 10% or more of the issued and outstanding shares of PolyMet. As long as Glencore owns more than 5% of the issued and outstanding shares of PolyMet, it has the right to participate in any equity-related financing to maintain its partially diluted ownership interest (currently 25.7% of issued and 34.9% on a partially diluted basis).

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

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

7. 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 the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2011 Warrants, the 2011 Warrants will expire. Approximately $7.0 million of the proceeds from the sale of these shares were used to repay outstanding notes (including interest) to Cliffs Natural Resources Inc. (Note 4);
- Extend the term of the $25 million initial principal debentures from September 30, 2012 to the earlier of i) PolyMet giving Glencore ten days notice that PolyMet has received permits necessary to start construction of the NorthMet project and availability of senior construction finance, in a form reasonably acceptable to Glencore (the "Early Maturity Event"), and ii) September 30, 2014, on which date all principal and interest accrued to such date will be due and payable. Glencore has the right to exchange some or all of the debentures at any time. Upon occurrence of the Early Maturity Event, the initial principal and capitalized interest will be exchanged into common shares of PolyMet at $1.50 per share; and
- Amend the terms of the warrants issued to Glencore in 2010 (the "2010 Warrants") to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2010 Warrants, the 2010 Warrants will expire.

The transactions closed on December 6, 2011.

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

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

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

8. Share Capital

a) Share Issuances for Cash

On October 15, 2012, the Company closed the third tranche of its equity financing 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 7). Transaction costs for the financing were $18,000.

During the nine months ended October 31, 2012 the Company issued 185,000 shares (October 31, 2011 – 1,185,000) pursuant to the exercise of share options for total proceeds of $148,000 (October 31, 2011 - $902,000).

b) Share Options and Restricted Shares

Effective May 25, 2007, the Company adopted an Omnibus Share Compensation Plan ("Omnibus Plan"), which was approved by the Company's shareholders' on June 27, 2007, modified by the Company's shareholders on June 17, 2008, ratified and reconfirmed by the Company's shareholders on July 7, 2010, and modified, ratified and reconfirmed by the Company's shareholders on July 10, 2012. The Omnibus Plan covers the Company's employees, directors, officers and consultants. The awards are granted for varying terms ranging from two to ten years.

20,455,908 common shares, comprising 17,773,202 common shares representing 10% of the common shares issued and outstanding on June 1, 2012 (the record date for the July 10, 2012 shareholders' meeting) plus 2,682,706 common shares pursuant to an exemption under Section 613(c) of the Toronto Stock Exchange Company Manual have been reserved for issuance pursuant to the Omnibus Plan and approved by the Toronto Stock Exchange. 3,640,000 of these common shares have been reserved for issuance of Bonus Shares.

Details of share option activity were as follows:

	Nine months ended October 31, 2012	Year ended January 31, 2012
Outstanding - Beginning of period	**11,195,000**	11,630,000
Granted	**4,075,000**	750,000
Forfeited	**(465,000)**	-
Exercised	**(185,000)**	(1,185,000)
Outstanding - End of period	**14,620,000**	11,195,000

The weighted average closing share price on the dates the options were exercised in the nine months ended October 31, 2012 was $1.12 (January 31, 2012 - $1.78).

Details of restricted share activity were as follows:

	Nine months ended October 31, 2012	Year ended January 31, 2012
Outstanding - Beginning of period	**327,500**	-
Granted	**182,706**	327,500
Forfeited	**-**	-
Exercised	**-**	-
Outstanding - End of period	**510,206**	327,500

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

8. Share Capital - *Continued*

b) Share Options and Restricted Shares - *Continued*

As at October 31, 2012, the following share options were outstanding:

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 **	2.76*	2.76	2,100,000
June 19, 2016 **	2.97*	2.97	325,000
September 1, 2016 **	3.82*	3.82	300,000
January 5, 2017 **	3.30*	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
Weighted average exercise price and total number of options outstanding	1.96		14,620,000

* For information purposes, those options granted with an exercise price in Canadian dollars have been translated to the Company's reporting currency using the exchange rate as at October 31, 2012 of 1.00 US$ = 1.0004 CDN$.

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

As at October 31, 2012 all options had vested and were exercisable, with the exception of 3,604,166, which vest upon completion of specific targets.

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

8. Share Capital - *Continued*

c) Share-Based Compensation

During the nine month period ended October 31, 2012, the Company granted 4,075,000 options (October 31, 2011 – 750,000) to directors and management with an average exercise price of $0.98 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	0.28% to 0.50%
Expected dividend yield	Nil
Expected forfeiture rate	Nil
Expected share price volatility	111.57% to 125.92%
Expected option life in years	2.75 to 3.00

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 weighted fair value of options granted during the nine month period ended October 31, 2012 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.

During the nine month period ended October 31, 2012, the Company recorded $2.311 million (October 31, 2011 - $861,000) for share-based compensation in its accounts as an expense of $1.951 million (October 31, 2011 - $597,000) and as a charge to mineral property, plant and equipment of $360,000 (October 31, 2011 - $264,000), with the offsetting entries going to the warrants and share-based payment reserve. The total share-based compensation for the period includes the $795,000 impact of the three year term extension of 14,420,000 options outstanding at the date of extension, which was approved by disinterested shareholders on July 10, 2012.

During the nine month period ended October 31, 2012, the Company granted bonuses comprising 182,706 restricted shares for U.S. employees with 50% of each award issued upon publication of the NorthMet supplemental draft Environmental Impact Statement and the balance issued upon receipt of permits to start construction of the NorthMet Project. The restricted shares had a fair value of $161,000 which is being amortized over the vesting periods. During the nine month period ended October 31, 2012, the Company recorded $56,000 for share-based compensation relating to these units in its accounts as an expense of $56,000 with the offsetting entries to warrants and share-based payment reserve (prior year period $nil and $nil, respectively). These amounts are included in the share-based compensation totals in the preceding paragraph.

During the year ended January 31, 2012, the Company granted bonuses comprising 327,500 restricted shares for U.S. employees and consultants and restricted share units for Canadian employees and consultants with 259,000 of the 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. During the nine month period ended October 31, 2012, the Company recorded $98,000 for share-based compensation relating to these units in its accounts as an

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

8. Share Capital - *Continued*

c) **Share-Based Compensation** - *Continued*

expense of $34,000 and as a charge to mineral property, plant and equipment of $64,000, with the offsetting entries to warrants and share-based payment reserve (prior year period $203,000, $70,000 and $133,000, respectively). These amounts are included in the share-based compensation totals in the preceding paragraph.

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

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

Details were as follows:		**Nine months ended October 31, 2012**		Year ended January 31, 2012
Balance – Beginning of period	**$**	**43,632**	$	37,920
Fair value of share options and warrants exercised		**(62)**		(663)
Warrants issued to AG for Waterfowl *(Note 14)*		**525**		-
Option extension *(Note 8c)*		**795**		-
Bonus Shares for Milestones 4 cost amortization *(Note 13a)*		**574**		1,235
Current period fair value of share-based compensation		**1,517**		962
Deferred income tax charge *(Note 8e)*		**-**		(657)
Refinancing of convertible debt *(Note 7)*		**-**		4,285
Long-term debt – warrants to IRRRB		**-**		550
Balance – End of period	**$**	**46,981**	$	43,632

e) **Share Purchase Warrants**

Details of share purchase warrant activity were as follows:

	Nine months ended October 31, 2012		Year ended January 31, 2012	
	Warrants	**Weighted Average Exercise Price (US$)**	Warrants	Weighted Average Exercise Price (US$)
Warrants outstanding – beginning of period	**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
Warrants outstanding – end of period	**7,083,333**	**1.56**	6,000,000	1.57

On April 17, 2007, the Company issued 7,500,000 warrants in connection with a non-brokered private placement financing of 15.0 million units at $2.75 per unit, with each unit comprising one common share and one-half of one warrant. Each whole warrant was exercisable into a common share at a price of $4.00 at any time until October 13, 2008. In connection with the private placement, the Company has paid finders' fees including an additional 520,000 broker warrants having the same terms as the warrants described above.

8. Share Capital - *Continued*

e) **Share Purchase Warrants** - *Continued*

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

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

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

In October and November 2009, the Company received the consent from holders of more than two-thirds of the above warrants to, in two steps, exchange the 4,010,000 warrants due to expire on October 13, 2009 for 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common shares at $3.00 per share at any time until December 31, 2010, with certain provisions for acceleration. The $4.762 million increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to the warrants and share-based payment reserve.

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

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

8. Share Capital - *Continued*

e) **Share Purchase Warrants** - *Continued*

On October 31, 2008, the Company issued the 2008 Warrants to Glencore as partial consideration under the financing agreement described in Note 7. The warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at $5.00 if exercised before the NorthMet project has produced a total of 20,000 metric tonnes of concentrate, or $6.00 thereafter. The warrants would have expired on September 30, 2011.

On November 17, 2009, the Company amended the terms such that the 2008 Warrants entitled Glencore to purchase 6,250,000 common shares of PolyMet at $3.00 and expire on September 30, 2011.

On November 12, 2010, the Company cancelled the 2008 Warrants and issued the 2010 Warrants giving Glencore the right to purchase 3,000,000 common shares of PolyMet at $2.00 at any time until December 31, 2015, in consideration of the amendments to the debenture agreements.

On December 6, 2011, PolyMet issued to Glencore warrants (the 2011 Warrants) to purchase 2,600,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2011 Warrants, the 2011 Warrants will expire. On that same date, the Company agreed to amend the terms of the warrants issued to Glencore in 2010 (the "2010 Warrants") to conform to the 2011 Warrants, giving Glencore the right to acquire 3,000,000 common shares of PolyMet at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day VWAP of PolyMet shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore. Following satisfaction of the conditions for mandatory exercise, if Glencore does not elect to exercise the 2010 Warrants, the 2010 Warrants will expire. Note 7 - 2011 Agreement.

On June 30, 2011 PolyMet closed a $4.0 million loan (Note 5 – also includes use of proceeds) from Iron Range Resources & Rehabilitation Board ("IRRRB"). In consideration for making of the loan to the Company, PolyMet has issued warrants giving the IRRRB the right to purchase 400,000 common 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 March 9, 2012, as part of a wetlands agreement (Note 14) the Company issued warrants to AG Waterfowl LLP giving that company the right to purchase 1,083,333 common shares of PolyMet at $1.50 per share at any time until December 31, 2015.

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

8. Share Capital - *Continued*

f) Shareholder Rights Plan

Effective May 25, 2007, the Company adopted an updated Shareholder Rights Plan ("Rights Plan"), which was approved by the Company's shareholders on June 27, 2007, and modified by the Company's shareholders on June 17, 2008, and reapproved by the Company's shareholders on July 13, 2011 and 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 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 7). This waiver does not apply to any additional purchases of PolyMet shares by Glencore on market or from third parties.

9. Finance Income and Costs

Finance income and costs for the nine months ended October 31, 2012 and 2011 were comprised of:

	Nine months ended October 31,	
	2012	2011
Interest (income) expense and financing costs, net	**$ (21)**	$ (1)
Accretion of environmental rehabilitation provision (Note 6)	**57**	516
Finance income and costs	**$ 36**	$ 515

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

10. Supplemental Disclosure With Respect to Statements of Cash Flows

During the nine months ended October 31, 2012 and 2011 the Company entered into the following non-cash investing and financing activities:

	Nine months ended October 31, **2012**	2011
Changes in trade payables and accrued liabilities related to investing activities	**$ 1,031**	$ (10)
Accretion and accrued interest	**1,373**	1,192
Share-based compensation	**2,312**	861
Milestone 4 Bonus Share cost amortization	**574**	954
Shares and warrants issued in Wetlands Credit Intangible transaction	**$ 3,900**	$ -

11. Related Party Transactions

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

	Nine months ended October 31, **2012**	2011
Wages and other short-term benefits	**$ 1,081**	**$** 711
Other long-term benefits	**38**	26
Termination benefits	**279**	-
Share-based compensation *(Note 8c)*	**1,886**	738
Total	**$ 3,284**	**$** 1,475

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

As a result of Glencore's ownership of 25.7% of the Company it is also a related party. Transactions with Glencore are described in notes 7, 8e, and 13b.

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

12. Segmented Information

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

October 31, 2012		**Canada**		**U.S.**		**Consolidated**
Cash and equivalents	**$**	**10,923**	**$**	**135**	**$**	**11,058**
Wetland Credit Intangible	**$**	**-**	**$**	**5,992**	**$**	**5,992**
Mineral Property, Plant & Equipment	**$**	**93**	**$**	**221,675**	**$**	**221,768**
Identifiable assets	**$**	**11,317**	**$**	**229,022**	**$**	**240,339**
Total liabilities	**$**	**30,472**	**$**	**65,022**	**$**	**95,494**
Segment operating loss (9 months ended)	**$**	**4,099**	**$**	**386**	**$**	**4,485**
Segment operating loss (3 months ended)	**$**	**1,165**	**$**	**88**	**$**	**1,253**

October 31, 2011		Canada		U.S.		Consolidated
Cash and equivalents	$	7,006	$	147	$	7,153
Mineral Property, Plant & Equipment	$	21	$	163,906	$	163,927
Identifiable assets	$	7,371	$	167,826	$	175,197
Total liabilities	$	39,406	$	23,270	$	62,676
Segment operating loss (9 months ended)	$	1,453	$	1,099	$	2,552
Segment operating loss (3 months ended)	$	(265)	$	311	$	46

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

13. Commitments and Contingencies

a) The Company has instituted a share bonus plan as part of its employment, management and consulting contracts for key directors, management and project personnel. This bonus plan adds incentive for key personnel to reach certain prescribed milestones required to reach commercial production at the NorthMet Project. As at October 31, 2012, the Company had received shareholder approval of the Bonus Shares for Milestones 1 to 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval. To October 31, 2012, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3.

The summary of the share bonus plan is as follows:

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

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

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

During the nine months ended October 31, 2012, the Company recorded $574,000 amortization related to Milestone 4 (October 31, 2011 – $954,000), these amounts were capitalized to Mineral Property, Plant and Equipment. The fair value of these unissued bonus shares is being amortized, over its expected life, until the estimated date of issuance.

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 October 31, 2012, the Company had outstanding commitments related to the environmental review process, wetland credit intangibles, rent, and consultants of approximately $3.4 million with the majority due over the next year and the remainder due over seven years.

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

14. Wetland Credit Intangible

Details of Wetland Credit Intangibles are as follows:

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

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

The Company paid AG initial consideration of $2.0 million cash and issued 2,788,902 of the Company's common shares (of which 371,854 held in escrow pending Phase 1 completion) 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 AG. In addition to the initial consideration, performance commitments for Phase 1 totaling $0.68 million will be due over the seven years following wetland construction completion for ongoing maintenance by AG. Performance payments totaling $1.063 million per phase for completion and maintenance of Phase 2 to 5 will only be incurred if and when the Company initiates development of those phases, and will be due over seven years from the completion of each phase. If wetland credits are issued before the seven-year anniversary, any unpaid amounts are due upon issuance of the wetland credits.

The transaction was negotiated between unrelated parties and therefore the Company has concluded the fair value of the services should be allocated between the $2.0 million cash payment, the $3.9 million equity instruments, and $4.933 million in future performance payments. 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. Since there is a market for wetland credits, the Company could sell some or all to third parties. To date the company has recorded the shares, warrants and cash paid, including transaction costs, as a charge of $5.992 million to Wetland Credit Intangibles, which will be tested for impairment indicators at each reporting date and amortized on a systematic basis over their useful lives, once they are completed and available for use.

General

The following information, prepared as at December 6, 2012 should be read in conjunction with the condensed interim consolidated financial statements of PolyMet Mining Corp. (the "Company" or "PolyMet") for the three and nine months ended October 31, 2012 and related notes attached thereto, which are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34") and in conjunction with the audited consolidated financial statements for the year ended January 31, 2012 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in United States dollars unless otherwise indicated.

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

Forward Looking Statements

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

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

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

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

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

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

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

Description of Business and Summary of Recent Events

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

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

<u>Asset Acquisitions</u>

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

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

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

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

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency ("MPCA") relating to alleged violations on the Cliffs Erie Property. This consent decree required submission of Field

Study Plan Outlines and Short Term Mitigation Plans, which have been approved by the MPCA. In April 2012, long-term mitigation plans were submitted to the MPCA for its review and approval. In October 2012, a response was received from the MPCA approving plans for pilot tests of various treatment options to determine the best course of action. Although there is substantial uncertainty related to applicable water quality standards, engineering scope, and responsibility for the financial liability, the October response from the MPCA provides sufficient guidance to allow the Company to make a reliable estimate of the liability for the Long Term Mitigation Plan. The Company has included its best estimate of the liabilities related to this consent decree in its environmental rehabilitation provision for the period ended October 31, 2012 in the amount of $35.5 million.

Feasibility Study, Mineral Resources and Mineral Reserves

With publication of the Definitive Feasibility Study (“DFS”) in September 2006, summarized in a Technical Report under National Instrument 43-101 (“NI 43-101”), PolyMet established SEC-standard mineral reserves. Proven and probable mineral reserves were estimated at 181.7 million short tons grading 0.31% copper, 0.09% nickel and 0.01 ounces per ton ("opt") of precious metals.

PolyMet filed an updated Technical Report under NI 43-101 on the NorthMet Project on October 31, 2012 which summarized the 2006 DFS, subsequent increases in proven and probable mineral reserves and the measured and indicated mineral resources, and the DFS Update and Project Improvements described below.

In September 2007, PolyMet reported an expansion in these proven and probable mineral reserves to 274.7 million short tons grading 0.28% copper, 0.08% nickel and 0.01 opt of precious metals (palladium, platinum and gold). These mineral reserves lie within measured and indicated mineral resources of 694 million tons grading 0.3% copper, 0.08% nickel and 0.01 opt of precious metals. In addition, inferred mineral resources total 230 million tons grading 0.3% copper, 0.08% nickel and 0.01 opt of precious metals.

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

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

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

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

- Phase I: produce and market concentrates containing copper, nickel, cobalt and precious metals; and

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

Previous plans included a second autoclave and a copper solvent extraction/electro-winning ("SX-EW") circuit to produce copper metal along with value added nickel-cobalt hydroxide and precious metals precipitate products. The changes reflect continued metallurgical process and other project improvements as well as improved environmental controls that are being incorporated into the environmental review process. The advantages, compared with the earlier plan, include a better return on capital investment, reduced financial risk, lower energy consumption, and reduced waste disposal and emissions at site. Approximately $127 million of the total $602 million capital costs estimated in the May 2008 DFS Update will not be incurred in this revised plan.

Environmental Review

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

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

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

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

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

On October 13, 2010 the USACE and the USFS published a Notice of Intent to complete the SDEIS, which:

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

Public review of the scope of the land exchange ended on November 29, 2010. The Notice of Intent stated that the proposed land exchange would eliminate conflicts between the United States and private mineral ownership and consolidate land ownership to improve Superior National Forest management effectiveness and public access to federal lands. The proposed exchange is in accordance with Forest Service Strategic Plan Goals to provide and sustain long-term socioeconomic benefits to the American people, conserve open space, and sustain and enhance outdoor recreation activities.

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

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

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

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

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

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

Prior to receipt of the permits, the Company intends to secure construction financing that would be available upon receipt of key permits, with construction slated to start upon availability of construction finance. Construction of NorthMet is expected to be made up of four major components:

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

Key Recent Developments – Environmental Review

Since February 1, 2012 PolyMet's focus has continued to be advancing the NorthMet environmental review. The EIS Consultant has completed a significant amount of work on the SDEIS. Much of the document, which will comprise nine chapters, has been drafted and the Lead Agencies had reviewed the first four chapters. Most of the remaining work depends on agency review of the groundwater, surface water and air dispersion model results.

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

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

On November 19, 2012 the Company announced completion of engineering control designs as well as the design of and inputs to groundwater, surface water and air dispersion models to assess potential environmental impacts from the NorthMet Project. Following extensive quality assurance/quality control review by Foth Infrastructure & Environment and Barr Engineering, PolyMet has delivered these results to the state regulatory agencies and the EIS Contractor for review. PolyMet expects the review of these results to be completed in early 2013.

The results will then be incorporated into the supplemental draft EIS which will then be reviewed by the federal Lead Agencies, the EPA and other governmental and cooperating agencies prior to publication for public review.

Other Key Developments

On March 9, 2012 PolyMet entered into an option agreement over certain land that it plans to have restored to wetlands through an agreement with AG for Waterfowl, LLP ("AG"). PolyMet paid AG $2.0 million cash and issued 2,788,902 of its common shares and warrants to purchase 1,083,333 of its common shares at $1.50 per share at any time until December 31, 2015. AG has provided the Company security over its requirement to perform the wetlands conversion work in the form of a $5.9 million face value five year zero interest rate mortgage over land currently in agricultural use that AG will restore to wetlands in order to earn wetland credits. The mortgage will be proportionately released as part of the lands are fully restored to approved wetland status, at which time PolyMet will receive formal wetland credits. Any lands that PolyMet has not requested be restored to wetland will revert to AG and the remaining mortgage, if any, will be released on February 28, 2017. PolyMet is committed to pay AG an additional $0.680 million over seven years as compensation for the work AG is continuing to undertake.

On June 14, 2012 PolyMet reported that the British Columbia Securities Commission (the “BCSC”) has reviewed select matters related to the Company’s continuous disclosure record. As a result of that review, the Company received comments from the BCSC identifying certain technical disclosure issues, in particular in the Company’s National Instrument 43-101 (“NI 43-101”) Technical Report on the NorthMet Deposit, Minnesota, USA, dated September 2007. In order to address these issues, PolyMet filed a new Technical Report on SEDAR October 31, 2012 under the latest form of NI 43-101, which fully supports the Company's previous disclosure of mineral reserves.

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

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

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

On October 31, 2012 PolyMet filed a new Technical Report under the latest form of NI 43-101, which fully supports the Company's previous disclosure of mineral reserves. PolyMet intends to complete a full project update, incorporating project improvements and final environmental engineering design controls as well as capital and operating costs, once detailed engineering design has been finalized. These environmental engineering designs include modular RO water treatment facilities and other engineering controls that demonstrate NorthMet meets state and federal standards. PolyMet will incorporate these changes into a new Technical Report under 43-101, which it expects to publish in early 2013.

On November 20, 2012 the Company filed a renewed universal shelf registration on Form F-3 with the U.S. Securities and Exchange Commission ("SEC") which allows PolyMet to have the option to offer and sell, from time to time in one or more offerings, up to $500 million of its debt securities, common shares, warrants and units.

During the nine month period ended October 31, 2012, the Company granted 4,075,000 options to directors and management. This compares with 750,000 options granted during the nine month period ended October 31, 2011.

Results of Operations

For the three months ended October 31, 2012 compared to the three months ended October 31, 2011

a) Loss for the Period:

During the three months ended October 31, 2012, the Company incurred a loss of $1.253 million ($0.01 loss per share) compared to a loss of $0.046 million ($0.00 loss per share) during the three months ended October 31, 2011. The increase in the net loss for the period was primarily attributable to the following:

- a decrease in the non-cash future income tax recovery in the current year period to $nil (prior year period - $657,000) relating to expiration of stock purchase warrants previously issued;
- an increase in office expenses and corporate wages in the current year period to $668,000 (prior year period - $214,000) relating to restructuring and termination benefits incurred; and
- an increase in share based compensation in the current year period to $214,000 (prior year period - $29,000) relating to the amortization of share options, bonus shares, and RSU's previously issued.

This item was partially offset by the following:

- a decrease in finance income and costs in the current year period to $2,000 (prior year period - $172,000) primarily due to the reduction in ARO accretion as a result of the decrease in the discount rate.

b) Cash Flows:

Cash used in operating activities in the three months ended October 31, 2012 was $0.948 million compared to cash used in the three months ended October 31, 2011 of $0.283 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted operating variances.

Cash provided by financing activities for the three months ended October 31, 2012 was $9.982 million compared to cash used in the three months ended October 31, 2011 of $0.432 million. The variance in cash is primarily due to current year period Glencore financing whereas the prior year period included scheduled repayment of debt to Cliffs.

Cash used in investing activities for the three months ended October 31, 2012 was $3.797 million compared to cash used in the three months ended October 31, 2011 of with $3.624 million. The increase was primarily due to the timing of payments to EIS consultants.

Total cash for the three months ended October 31, 2012 increased by $5.237 million for a balance of $11.058 million compared to the three months ended October 31, 2011 where cash decreased $4.339 million to a balance of $7.153 million.

c) Capital Expenditures:

During the three months ended October 31, 2012 the Company capitalized $38.913 million (prior year period - $8.820 million) of mineral property, plant, and equipment costs related to the NorthMet project (draft EIS and permitting) and other fixed assets. The current year period includes an increase of $35.503 million to the environmental rehabilitation asset related to the Cliffs Purchase Agreements. See further discussion in the Asset Acquisitions section above. This was partially offset by a decrease of $1.270 million in the environmental rehabilitation asset due to an increase in the risk-free interest rate used to discount the liability from 2.21% to 2.46% during the period (prior year period increase of $4.343 million).

For the nine months ended October 31, 2012 compared to the nine months ended October 31, 2011

a) Loss for the Period:

During the nine months ended October 31, 2012, the Company incurred a loss of $4.485 million ($0.03 loss per share) compared to a loss of $2.552 million ($0.02 loss per share) during the nine months ended October 31, 2011. The increase in the net loss for the period was primarily attributable to the following:

- an increase in share based compensation in the current year period to $1,951,000 (prior year period - $597,000) relating to the shareholder approved option extension impact and grants to directors and management; and
- an increase in office expenses and corporate wages in the current year period to $1,284,000 (prior year period - $746,000) relating to restructuring and termination benefits incurred.

This item was partially offset by the following:

- a decrease in finance income and costs in the current year period to $36,000 (prior year period - $515,000) primarily due to the reduction in ARO accretion as a result of the decrease in the discount rate; and
- a decrease in professional fees in the current year period to $223,000 (prior year period - $478,000) primarily due to transition to IFRS in FY2012.

b) Cash Flows:

Cash used in operating activities in the nine months ended October 31, 2012 was $2.493 million compared to cash used in the nine months ended October 31, 2011 of $2.204 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted operating variances.

Cash provided by financing activities for the nine months ended October 31, 2012 was $10.131 million compared to cash provided in the nine months ended October 31, 2011 of $13.380 million. The variance in cash is primarily due to prior year period IRRRB loan which was partially offset by the $1.500 million scheduled repayment of debt to Cliffs.

Cash used in investing activities for the nine months ended October 31, 2012 was $14.058 million compared to cash used in the nine months ended October 31, 2011 of $14.384 million. The decrease was primarily due to prior year USFS land exchange purchases with funds received from the IRRRB loan partially offset by current year wetland credit option purchases.

Total cash for the nine months ended October 31, 2012 decreased by $6.420 million for a balance of $11.058 million compared to the nine months ended October 31, 2011 where cash decreased $3.208 million to a balance of $7.153 million.

c) Capital Expenditures:

During the nine months ended October 31, 2012 the Company capitalized $51.079 million (prior year period - $22.114 million) of mineral property, plant, and equipment costs related to the NorthMet project (draft EIS and permitting) and other fixed assets. The current year period includes an increase of $35.503 million to the environmental rehabilitation asset related to the Cliffs Purchase Agreements. See further discussion in the Asset Acquisitions section above. This was partially offset by an increase of $0.665 million in the environmental rehabilitation asset due to a decrease in the risk-free interest rate used to discount the liability from 2.55% to 2.46% during the period (prior year period increase of $5.851 million). In addition, the Company capitalized $5.992 million (prior year period - $nil) of wetland credit intangible costs related to the wetland credit options and development agreements.

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

Three Months Ended	Oct. 31 2012 $	July 31 2012 $	Apr. 30 2012 $	Jan. 31 2012 $	Oct. 31 2011 $	July 31 2011 $	Apr 30 2011 $	Jan. 31 2011 $
Total Revenues	-	-	-	-	-	-	-	-
General and Administrative	(1,261)	(1,958)	(1,283)	(704)	(520)	(962)	(1,183)	(746)
Other Income (Expenses)	8	(24)	33	211	474	(225)	(136)	(2,277)
Net Loss	(1,253)	(1,982)	(1,250)	(493)	(46)	(1,187)	(1,319)	(3,023)
Loss per share	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)	(0.02)

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

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

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

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

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

1. October 31, 2012 - $214,000
2. July 31, 2012 - $1,121,000
3. April 30, 2012 - $616,000
4. January 31, 2012 - $28,000
5. October 31, 2011 - $29,000
6. July 31, 2011 - $32,000
7. April 30, 2011 - $536,000
8. January 31, 2011 - $50,000

Financing Activities

On August 27, 2009 the Company announced that it had filed a universal shelf registration on Form F-3 with the U.S. Securities and Exchange Commission ("SEC"). This universal shelf registration allows PolyMet to have the option to offer and sell, from time to time in one or more offerings, up to $500 million of its debt securities, common shares, warrants and units. The universal shelf registration on Form F-3 was renewed on November 20, 2012 with the SEC for the same offering limit.

Since October 31, 2008 the Company and Glencore AG ("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 to shareholders the election of Stephen Rowland, a senior executive of Glencore, as a director and also appointed a senior member of Glencore's technical team to PolyMet's Technical Steering Committee. As a result of the series of financing transactions and the purchase by Glencore of PolyMet common shares previously owned by Cliffs, Glencore's current and potential ownership of PolyMet comprises:

- 46,967,842 shares representing 25.7% of PolyMet's issued shares;
- $25.0 million initial principal floating rate secured debentures due September 30, 2014. Including capitalized interest as at October 31, 2012, these debentures are exchangeable at $1.50 per share into 20,090,861 common shares of PolyMet upon PolyMet giving Glencore notice that it has received permits necessary to start construction of the NorthMet project and availability of senior construction finance in a form reasonably acceptable to Glencore; and
- Glencore holds warrants to purchase 5.6 million common shares at $1.50 per share at any time until December 31, 2015, subject to mandatory exercise if the 20-day Value Weighted Average Price ("VWAP") of PolyMet common shares is equal to or greater than 150% the exercise price and PolyMet provides notice to Glencore that it has received permits necessary to start construction of the North Met Project and availability of senior construction finance, in a form reasonably acceptable to Glencore.

If Glencore were to exercise all of its rights and obligations under these agreements, it would own 72,658,703 common shares of PolyMet, representing 34.9% on a partially diluted basis, that is, if no other options or warrants were exercised.

Proceeds from private placement financings with Glencore were used for Mineral PP&E investments, loan repayments, and general corporate expenditures. As at October 31, 2012, approximate proceed usage was as follows:

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

Financing	Gross Amount		Expenses	Mineral PP&E (5)	Loan Repayment (4)	General Corporate (5)	Cash at Oct 31, 2012
2009 common share private placement	$25.0	(1)	$0.3	$19.7	$2.0	$3.0	n/a
2010 common share private placement	$30.0	(2)	$0.3	$14.8	$2.0	$3.0	$9.9
2011 common share private placement	$20.0	(3)	$0.2	$9.3	$7.0	$2.3	$1.2
Total	$75.0		$0.8	$43.8	$11.0	$8.3	$11.1

Note:
(1) 9,433,962 common shares of the company issued on November 17, 2009 at $2.65 per share for gross proceeds of $25.0 million.

(2) 5,000,000 common shares of the company issued on January 17, 2011 at $2.00 per share for gross proceeds of $10.0 million; 5,000,000 common shares of the company issued on July 15, 2011 at $2.00 per share for gross proceeds of $10.0 million; 5,000,000 common shares of the company issued on October 15, 2012 at $2.00 per share for gross proceeds of $10.0 million.

(3) 13,333,333 common shares of the company issued on November 30, 2011 at $1.50 per share for gross proceeds of $20.0 million.

(4) Repayment of long-term loan to Cliffs.

(5) Capitalized PP&E amounts vary by year in relation to mineral property acquisitions, mine development plans, environmental, and permit work. Appx $3.0 million per year is expensed as general corporate.

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

On March 9, 2012 the Company acquired a secured interest in land owned by AG for Waterfowl, LLP ("AG") that is permitted for restoration to wetland. AG will restore the wetlands and, upon completion, wetland credits will be issued by the proper governmental authorities. The Company plans to use the wetland credits to offset wetlands disturbed during construction and operation of the NorthMet Project. The Company holds a first mortgage on the land, which will be proportionately released as wetland credits are transferred to the Company. The Company has the option to exercised individually five separate phases of wetland credit development. Any options not exercised by February 28, 2017 will expire and the remaining mortgage, if any, will be released. As at October 31, 2012, the Company had exercised the option on Phase 1.

The Company paid AG initial consideration of $2.0 million cash and issued 2,788,902 of the Company's common shares (of which 371,854 held in escrow pending Phase 1 completion) 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 AG. In addition to the initial consideration, performance commitments for Phase 1 totaling $0.68 million will be due over the seven years following wetland construction completion for ongoing maintenance by AG. Performance payments totaling $1.063 million per phase for completion and maintenance of Phase 2 to 5 will only be incurred if and when the Company initiates development of those phases, and will be due over seven years from the completion of each phase. If wetland credits are issued before the seven-year anniversary, any unpaid amounts are due upon issuance of the wetland credits.

The transaction was negotiated between unrelated parties and therefore the Company has concluded the fair value of the services should be allocated between the $2.0 million cash payment, the $3.9 million equity instruments, and $4.933 million in future performance payments. 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. Since there is a market for wetland credits, the Company could sell some or all to third parties. To date the company has recorded the shares, warrants and cash paid, including transaction costs, as a charge of $5.992 million to Wetland Credit Intangibles, which will be tested for impairment indicators at each reporting date and amortized on a systematic basis over their useful lives, once they are completed and available for use.

During the nine months ended October 31, 2012 the Company issued 185,000 shares (prior year period – 1,185,000) upon exercise of options for proceeds of $148,000 (prior year period - $902,000). During the nine months ended October 31, 2012, PolyMet also issued 60,000 shares (prior year period – 115,000) as partial payment for options to purchase land.

Liquidity and Capital Resources

As at October 31, 2012 the Company had working capital of $7.885 million compared with working capital of $16.375 million at January 31, 2012 consisting primarily of cash of $11.058 million (January 31, 2012 - $17.478 million), trade and other receivables of $0.797 million (January 31, 2012 - $0.440 million), prepaid expenses of $0.710 million (January 31, 2012 - $0.934 million), trade payables and accrued liabilities of $2.797 million (January 31, 2012 - $1.679 million), and the current portion of environmental rehabilitation provision of $1.897 million (January 31, 2012 - $0.828 million).

The Company expects to pay the $4.0 million IRRRB loan plus capitalized interest and convertible debt principal balance of $25.0 million plus capitalized interest from working capital, additional financing and funds from operations once commercial production has commenced. The Company's cash is primarily held in deposits and bearer deposits of a major Canadian bank and does not include any exposure to asset-backed commercial paper.

As at October 31, 2012 the Company, has obligations to issue 3,640,000 shares under the Company's Bonus Share Plan. The Company has received shareholder approval for the Bonus Shares of Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval. To October 31, 2012, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3. The bonus shares allocated for Milestones 1 through 3 are valued using the Company's closing trading price on May 28, 2004 of CDN$0.75 per share, the date of the approval of the bonus plan by the disinterested shareholders. The bonus shares allocated for Milestone 4 are valued using the Company's closing trading price on June 17, 2008 of US$3.80 per share, the date of the approval of the bonus plan by the disinterested shareholders.

As at December 4, 2012, the Company has outstanding commitments related to the environmental review process, wetland credit intangibles, rent, and consultants of approximately $3.1 million with the majority due over the next year and the remainder due over seven years.

While these condensed interim consolidated financial statements have been prepared on the basis that PolyMet Mining Corp. will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations, realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are conditions that cast substantial doubt on the validity of that assumption. The Company has incurred losses since inception and has an accumulated deficit of $86.3 million at October 31, 2012.

PolyMet Mining Corp. will need to raise sufficient funds to meet its current obligations as well as fund ongoing development, capital expenditures and administration expenses, in accordance with the Company's spending plans for the next year. While in the past the Company has been successful in closing financing agreements with Glencore and other parties, there can be no assurance it will be able to do so again in the future.

In order to meet all of its obligations for the period to October 31, 2013, PolyMet Mining Corp. will have to obtain additional financing.

Management believes that, based upon the underlying value of the NorthMet Project, it will be able to obtain the necessary financing to meet PolyMet Mining Corp.'s requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained. Factors that could affect the availability of financing include the state of international debt and equity markets, investor perceptions and expectations and the global metals markets.

These condensed interim consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities, reported expenses, and balance sheet classifications that would be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

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

Financial Instruments and Risk Management

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

	October 31, 2012	January 31, 2012
Loans and Receivables [(1)]	**11,058**	17,478
Available-for-sale	**14**	30
Other loans and receivables	**797**	440
Other financial liabilities [(2)]	**36,803**	34,369

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

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

Risks Arising from Financial Instruments and Risk Management

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

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

Currency Risk

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

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

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

	October 31, 2012	January 31, 2012
Loans and receivables [(1)]	**$ 54**	$ 305
Available-for-sale	**14**	30
Other loans and receivables	**184**	95
Other financial liabilities [(2)]	**(336)**	(239)
	$ (84)	$ 191

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

Based on the above net exposures, as at October 31, 2012, a 10% change in the Canadian / United States exchange rate would have impacted the Company's loss by approximately $8,000.

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

Credit Risk

Credit risk arises on cash and equivalents held with banks and financial institutions, as well as credit exposure on outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets of $11,855,000.

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

Liquidity Risk

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

Interest Rate Risk

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

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

	October 31, 2012	January 31, 2012
Loans and receivables [1]	**$ 11,058**	$ 17,478
Other financial liabilities [2]	**$ 34,006**	$ 32,690

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

Investment Risk

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

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

The Company was exposed to investment risk through the following assets:

	October 31, 2012	January 31, 2012
Available-for-sale [1]	**$ 14**	$ 30

(1) Includes investment.

Fair Value Measurements

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

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

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

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

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

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

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

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

Capital Management

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

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

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

PolyMet Mining Corp. will need to raise sufficient funds to meet its current obligations as well as fund ongoing development, capital expenditures and administration expenses, in accordance with the Company's spending plans for the next year. While in the past the Company has been successful in closing financing agreements with Glencore and other parties, there can be no assurance it will be able to do so again in the future. See additional discussion in the Liquidity and Capital Resources section above.

Critical Accounting Estimates

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

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

(i) Determination of mineral reserves

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

(ii) Asset values and impairment charges

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

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

(iii) Estimated Reclamation and Closure Costs

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

Recent Accounting Pronouncements

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

The following is a brief summary of these new standards:

IFRS 9 – Financial instruments - classification and measurement

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

IFRS 10 – Consolidation

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

IFRS 11 - Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

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

IFRS 13 - Fair Value Measurement

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

Shareholder Rights Plan

Effective May 25, 2007, the Company adopted an updated Shareholder Rights Plan ("Rights Plan"), which was approved by the Company's shareholders on June 27, 2007, and modified by the Company's shareholders on June 17, 2008, and reapproved by the Company's shareholders on July 13, 2011 and 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 October 11, 2012, the Board of Directors of the Company waived the Shareholder Rights Plan in connection with shares that Glencore has the right to acquire through Tranche 3 of the November 2010 private placement. This waiver does not apply to any additional purchases of PolyMet shares by Glencore on market or from third parties.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

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

Related Party Transactions

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

	October 31, 2012	October 31, 2011
Wages and other short-term benefits	**$ 1,081**	$ 711
Other long-term benefits	**38**	26
Termination benefits	**279**	-
Share-based compensation	**1,886**	738
Total	**$ 3,284**	$ 1,475

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

As a result of Glencore's ownership of 25.7% of the Company it is also a related party.

Proposed Transactions

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

Subsequent Events

There are no subsequent events that will materially affect the performance of the Company.

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

Other MD&A Requirements

Outstanding Share Data

Authorized Capital: Unlimited common shares without par value.

Issued and outstanding: 182,772,026 common shares as at December 4, 2012.

Outstanding options, warrants and convertible securities as at December 4, 2012**:**

Type of Security	Number	Exercise Price (US$)	Expiry Date
Share options	1,190,000	1.37*	September 19, 2015
Share options	200,000	1.21*	October 24, 2015
Share options	125,000	1.16*	December 5, 2015
Share options	2,100,000	2.78*	March 20, 2016
Share options	325,000	2.99*	June 19, 2016
Share options	300,000	3.85*	September 1, 2016
Share options	525,000	3.32*	January 5, 2017
Share options	1,250,000	2.99	February 13, 2017
Share options	250,000	2.92	March 12, 2017
Share options	50,000	2.89	March 23, 2017
Share options	360,000	3.00	September 4, 2017
Share options	205,000	3.05	December 12, 2017
Share options	70,000	3.03	January 11, 2018
Share options	100,000	2.87	January 31, 2018
Share options	500,000	2.72	February 15, 2018
Share options	100,000	3.92	June 2, 2018
Share options	175,000	3.22	July 30, 2018
Common share warrants	5,600,000	(Note 1) 1.50	December 31, 2018
Common share warrants	1,083,333	(Note 2) 1.50	December 31, 2018
Share options	585,000	0.82	January 30, 2019
Common share warrants	400,000	(Note 3) 2.50	June 20, 2019
Share options	910,000	0.82	February 17, 2019
Share options	115,000	2.67	October 15, 2019
Share options	60,000	3.54	January 8, 2020
Share options	300,000	2.17	January 25, 2021
Share options	750,000	2.04	March 10, 2021
Share options	1,150,000	1.19	March 8, 2022
Share options	100,000	1.16	April 2, 2022
Share options	2,500,000	0.88	June 21, 2022
Share options	125,000	0.84	July 9, 2022
Share options	150,000	0.95	July 11, 2022
Share options	50,000	1.00	July 25, 2022
Total Share Options Outstanding	**14,620,000**		

* For information purposes, those options granted with an exercise price in Canadian dollars have been translated to the Company's reporting currency using the exchange rate as at December 4, 2012 of 1.0000 US$ = 0.9932 CDN$.

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

Note 2: Each warrant entitles the holder to purchase one common share of PolyMet at $1.50 and expires on December 31, 2015, subject to mandatory exercise if the 20-day volume weighted average price ("VWAP") of PolyMet shares is equal to or greater than $3.00 and PolyMet provides notice to the holder that it has received permits necessary to start construction of the North Met Project. Following satisfaction of the conditions for mandatory exercise, if the holder does not elect to exercise these warrants, the warrants will expire.

Note 3: Each warrant entitles the holder to purchase one common share of PolyMet at $2.50 and expires on the earlier of June 20, 2016 and one year after the Company receives its permits for the NorthMet Project.

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

Effective May 25, 2007, the Company adopted an Omnibus Share Compensation Plan (“Omnibus Plan”), which was approved by the Company’s shareholders’ on June 27, 2007, modified by the Company’s shareholders on June 17, 2008, ratified and reconfirmed by the Company’s shareholders on July 7, 2010, and modified, ratified and reconfirmed by the Company’s shareholders on July 10, 2012. The Omnibus Plan covers the Company’s employees, directors, officers and consultants. The awards are granted for varying terms ranging from two to ten years.

20,455,908 common shares, comprising 17,773,202 common shares representing 10% of the common shares issued and outstanding on June 1, 2012 (the record date for the July 10, 2012 shareholders' meeting) plus 2,682,706 common shares pursuant to an exemption under Section 613(c) of the Toronto Stock Exchange Company Manual have been reserved for issuance pursuant to the Omnibus Plan and approved by the Toronto Stock Exchange. 3,640,000 of these common shares have been reserved for issuance of Bonus Shares.

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

Risks and Uncertainties

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

Disclosure controls and procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted by the Company under U.S. and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules, including providing reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to permit timely decisions regarding public disclosure. Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and15d-15(e) of the US Exchange Act and the rules of Canadian Securities Administration, as at January 31, 2012. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at January 31, 2012.

Management's Responsibility for Financial Statements

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

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

Management's report on internal control over financial reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Company's internal control over financial reporting during the three or nine month period ended October 31, 2012 that have materially affected, or are reasonably likely to material affect, its internal control over financial reporting.

Additional Information

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

Form 52-109F2
Certification of Interim Filings
Full Certificate

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

1. ***Review:*** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of PolyMet Mining Corp. (the "issuer") for the interim period ended October 31, 2012.

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

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

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

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings

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

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

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

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

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

5.2 N/A

5.3 N/A

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

Date: December 6, 2012

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

Form 52-109F2
Certification of Interim Filings
Full Certificate

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

1. ***Review:*** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of PolyMet Mining Corp. (the "issuer") for the interim period ended October 31, 2012.

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

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

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

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings

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

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

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

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

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

5.2 N/A

5.3 N/A

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

Date: December 6, 2012

"Jonathan Cherry" (signed)
Jonathan Cherry
President and Chief Executive Officer