



POLYMET
MINING

POLYMET MINING CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2021

PolyMet Mining Corp.

Management Discussion and Analysis

As at March 31, 2021 and for the three months ended March 31, 2021
Tabular amounts in thousands of U.S. Dollars, except for shares and per share amounts

General

The following information, prepared as at May 6, 2021 should be read in conjunction with the unaudited condensed interim consolidated financial statements of PolyMet Mining Corp. and its subsidiaries (together “PolyMet” or the “Company”) as at March 31, 2021 and for the three months ended March 31, 2021 and related notes attached thereto, which are prepared in accordance with IAS 34, Interim Financial Reporting and in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 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 (“U.S.”) dollars unless otherwise indicated.

Cautionary Note Regarding Forward Looking Statements

This Management Discussion and Analysis (“MD&A”) contains “forward-looking statements” within the meaning of applicable Canadian securities legislation and Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934.

Forward-looking statements are not, and cannot be, a guarantee of future results or events. Forward looking statements are based on, among other things, opinions, assumptions, estimates and analyses that are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to be materially different from those expressed or implied by the forward-looking statement.

All statements in this MD&A that address events or developments that PolyMet expects to occur in the future are forward-looking statements and are generally, although not always, identified by words such as “expect”, “plan”, “anticipate”, “project”, “target”, “potential”, “schedule”, “forecast”, “budget”, “estimate”, “intend” or “believe” and similar expressions or their negative connotations, or that events or conditions “will”, “would”, “may”, “could”, “should” or “might” occur. These forward-looking statements include, but are not limited to, PolyMet’s objectives, strategies, intentions, expectations, production, costs, capital and exploration expenditures, including estimated economics of future financial and operating performance. All forward-looking statements in this MD&A are qualified by this cautionary note.

The material factors or assumptions applied in drawing the conclusions or making forecasts or projections set in the forward-looking statements include, but are not limited to:

- various economic assumptions, in particular, metal price estimates;
- certain operational assumptions, including mill recovery, operating scenarios;
- construction schedules and timing issues; and
- assumptions concerning timing and certainty regarding the environmental review and permitting process.

The risks, uncertainties, contingencies and other factors that may cause actual results and events to differ materially from those expressed or implied by the forward-looking statement may include, but are not limited to, risks generally associated with the mining industry, such as: economic factors (including future commodity prices, currency fluctuations, inflation rates, energy prices and general cost escalation); uncertainties related to the development of the NorthMet Project; dependence on key personnel and employee relations; risks relating to political and social unrest or change, operational risk and hazards, including unanticipated environmental, industrial and geological events and developments and the inability to insure against all risks; failure of plant, equipment, processes, transposition and other infrastructure to operate as anticipated; compliance with governmental and environmental regulations, including permitting requirements; the outcome of ongoing litigation in connection with PolyMet’s permits for the NorthMet Project; the potential impact of COVID-19 on PolyMet, as well as other factors identified and as described in more detail under the heading “Risk Factors” in Item 5 of the Annual Information Form. The list is not exhaustive of the factors that may affect the forward-looking statements. There can be no assurance that such statements will prove to be accurate, and actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Accordingly, no assurance can be given that any events

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anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits or liabilities PolyMet will derive therefrom. The forward-looking statements reflect the current expectations regarding future events and operating performance and speak only as of the date hereof and PolyMet does not assume any obligation to update the forward-looking statements if circumstances or management's beliefs, expectations or opinions should change other than as required by applicable law. For the reasons set forth above, undue reliance should not be placed on forward-looking statements.

Cautionary Note to United States Readers Regarding Resource and Reserve Estimates

Mineral reserves and mineral resources presented in this MD&A have been estimated in accordance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“**NI 43-101**”), as required by Canadian securities regulatory authorities. In accordance with NI 43-101, the Company uses the terms mineral reserves and resources as they are defined in accordance with the CIM Definition Standards on mineral reserves and resources (“CIM”) adopted by the Canadian Institute of Mining, Metallurgy and Petroleum.

The United States Securities and Exchange Commission (“**SEC**”) has adopted amendments to its disclosure rules to modernize the mineral property disclosure requirements for issuers whose securities are registered with the SEC under the U.S. Securities Exchange Act of 1934, as amended. These amendments became effective February 25, 2019 (the “**SEC Modernization Rules**”) with compliance required for the first fiscal year beginning on or after January 1, 2021. The SEC Modernization Rules replace the historical property disclosure requirements for mining registrants that were included in SEC Industry Guide 7 (“**Guide 7**”), which will be rescinded from and after the required compliance date of the SEC Modernization Rules. As a foreign private issuer that files its annual report on Form 40-F with the SEC pursuant to the multi-jurisdictional disclosure system (“MJDS”), the Company is not required to provide disclosure on its mineral properties under the SEC Modernization Rules and will continue to provide disclosure under NI 43-101. However, if the Company either ceases to be a “foreign private issuer” or ceases to be entitled to file reports under the MJDS and the CIM Definition Standards, then the Company will be required to provide disclosure on its mineral properties under the SEC Modernization Rules. Accordingly, United States investors are cautioned that the disclosure the Company provides on its mineral properties in this annual report on Form 40-F and under its continuous disclosure obligations under the Exchange Act may be different from the disclosure that the Company would otherwise be required to provide as a U.S. domestic issuer or a non-MJDS foreign private issuer under the SEC Modernization Rules.

The SEC Modernization Rules include the adoption of terms describing mineral reserves and mineral resources that are substantially similar to the corresponding terms under the CIM. As a result of the adoption of the SEC Modernization Rules, the SEC now recognizes estimates of “measured”, “indicated” and “inferred” mineral resources. In addition, the SEC has amended its definitions of “proven mineral reserves” and “probable mineral reserves” to be substantially similar to the corresponding CIM definitions, as required by NI 43-101.

United States investors are also cautioned that while the SEC will now recognize “measured mineral resources”, “indicated mineral resources” and “inferred mineral resources”, investors should not assume that any part or all of the mineral deposits in these categories will ever be converted into a higher category of mineral resources or into mineral reserves. These terms have a great amount of uncertainty as to their economic and legal feasibility. Accordingly, United States investors are cautioned not to assume that any “measured mineral resources”, “indicated mineral resources”, or “inferred mineral resources” of PolyMet are or will be economically or legally mineable. Further, “inferred mineral resources” have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. In accordance with Canadian rules, estimates of “inferred mineral resources” cannot form the basis of feasibility or other economic studies, except in limited circumstances where permitted under NI 43-101.

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Summary of Business

PolyMet is a TSX and NYSE American listed Issuer engaged in the exploration and development of natural resource properties. The Company's primary mineral property and principal focus is the commercial development of its NorthMet Project ("NorthMet" or "Project"), a polymetallic project in northeastern Minnesota, United States of America, which hosts copper, nickel, cobalt, gold, silver and platinum group metal mineralization.

The NorthMet ore body is at the western end of a series of known copper-nickel-precious metals deposits in the Duluth Complex, one of the largest undeveloped mineral resources in the world. An updated technical report and feasibility study published in March 2018 confirmed the technical and economic viability, positioning NorthMet as the most advanced of the four large scale deposits in the Duluth Complex: namely, from west to east, NorthMet, Mesaba, Serpentine and Maturi.

The Company acquired a former taconite processing facility in 2005 which is located about six miles west of the NorthMet ore body and comprises a crushing and milling facility, railroad and access rights connecting the plant site to the NorthMet ore body, tailings storage facilities, locomotive fueling and maintenance facilities, water rights and pipelines, administrative offices and lands to the east and west of the existing tailings storage facilities.

PolyMet completed a land exchange with the U.S. Forest Service ("USFS") on June 28, 2018 and now controls approximately 30 square miles of contiguous surface rights stretching from west of the processing facility to east of the proposed East Pit at NorthMet.

PolyMet received its Permit to Mine from the State of Minnesota on November 1, 2018, a crucial permit for construction and operation of the Project. The Minnesota Department of Natural Resources ("MDNR") issued all other permits for which the Company applied including dam safety, water appropriations, endangered and threatened species takings, and public waters work permits, along with Wetlands Conservation Act approval. In addition, PolyMet received air and water permits from the Minnesota Pollution Control Agency ("MPCA") on December 18, 2018 and the federal Record of Decision ("ROD") and Section 404 Wetlands Permit from the U.S. Army Corps of Engineers ("USACE") on March 21, 2019, which was the last key permit or approval needed to construct and operate the Project. Legal challenges contesting various aspects of the MDNR, MPCA, and USACE decisions are ongoing and have led to court rulings that have delayed the Project timeline. Those legal challenges that have reached a final determination have been in favor of the Company.

See additional discussion below.

Summary of Recent Events and Outlook

Highlights and Recent Events

The Company received all key permits and approvals required to construct and operate NorthMet (subject to the ongoing legal challenges summarized below under "Environmental Review and Permitting") and secured title to the surface rights over and around the NorthMet mineral rights. PolyMet also completed geotechnical investigations, implemented its environmental management system and strengthened its financial position.

More specifically:

- In April 2021, the Minnesota Supreme Court overturned a decision by the Court of Appeals that had remanded the Permit to Mine back to the MDNR for an open-ended contested case hearing and instead limited the contested case hearing to one specific, narrow, issue, regarding the effectiveness of bentonite clay capping for eventual closure of the tailings basin. The Supreme Court also reversed the Court of Appeals' decision to require contested case hearings on the dam safety permits;

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- In February 2021, the Minnesota Supreme Court overturned a decision by the Court of Appeals that had remanded the air permit back to the MPCA. The Supreme Court ruled in favor of the Company on the most significant legal issue and returned the case to the Court of Appeals to resolve a limited number of items the lower court had not specifically addressed in its original decision. This resolution is anticipated during the second or third quarter of 2021;
- In November 2019, mineral resources and reserves for the NorthMet deposit were updated based on results of the 2018-2019 drilling program resulting in a Proven and Probable Reserve increase of 14% to 290 million tons and a Measured and Indicated Resource increase of 22% to 795 million tons;
- In June 2019, a \$265.0 million rights offering was completed with the proceeds used to fully repay outstanding debt and strengthen the Company's financial position. The rights offering resulted in Glencore, AG ("Glencore") owning 71.6% of the Company's issued shares;
- In March 2019, the federal ROD and wetlands permit were received from the USACE, which was the last key permit or approval needed to construct and operate the Project; and
- As noted in the "Environmental Review and Permitting" section below, a number of challenges have been filed contesting various aspects of federal and state permitting decisions. The Company continues to litigate these challenges and has received favorable decisions in all final rulings to date.

Net cash used in operating and investing activities during the three months ended March 31, 2021 was \$3.882 million. Primary activities during the period related to studies and evaluation of the Project, maintaining existing infrastructure, site monitoring and compliance, legal defense of permits, financing and general corporate purposes.

Goals and Objectives for the Next Twelve Months

PolyMet's objectives include:

- Successfully defend against legal challenges to permits;
- Maintain political, social and regulatory support for the Project; and
- Continue engineering and optimization of the Project.

The Company is in discussions with various sources of debt and equity financing sufficient to fund ongoing permit litigation, Project optimization and construction. Construction and ramp-up to commercial production is anticipated to take approximately thirty months from receipt of construction funding. As noted in the "Environmental Review and Permitting" section below, legal challenges contesting various aspects of the MDNR, MPCA, and USACE decisions are ongoing and have led to court rulings which adversely affect the Project timeline; however, the Company continues to make preparations to act on those permits as appropriate and assuming positive legal outcomes.

See additional discussion in the sections below.

Detailed Description of Business

Asset Acquisition

In November 2005, the Company acquired from Cliffs Erie LLC, a subsidiary of Cleveland-Cliffs Inc. (together "Cliffs"), a former taconite processing facility located approximately six miles west of the NorthMet deposit which includes crushing and milling equipment, plant site buildings, real estate, tailings storage facilities and mine workshops, as well as access to extensive mining infrastructure including roads, rail, water and power.

Plans are to refurbish, reactivate and, as appropriate, update the crushing, concentrating and tailings storage facilities to produce concentrates containing copper, nickel, cobalt and precious metals – platinum, palladium, gold and silver. Once commercial operations are established, the Company may install an autoclave to upgrade nickel concentrates to produce a nickel-cobalt hydroxide and a precious metals precipitate.

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In December 2006, additional property and associated rights were acquired from Cliffs sufficient to provide a railroad connection linking the NorthMet deposit and processing facilities. The transaction also included railcars, locomotive fueling and maintenance facilities, water rights and pipelines, administrative offices and land to the east and west of the existing tailings storage facilities.

PolyMet indemnified Cliffs for reclamation and remediation associated with the property under both transactions and long-term mitigation plans are included in the Company's environmental rehabilitation provision.

In June 2018, the Company acquired surface rights over the NorthMet deposit through a land exchange with the USFS using land the Company previously owned. With the exchange, PolyMet has total surface rights, including ownership and other use and occupancy rights, to approximately 30 square miles of land including the land at the mine and processing sites, the transportation corridor connecting those sites and buffer lands.

Mineral rights in and around the NorthMet orebody are held through mineral leases with RGGGS Land & Minerals Ltd., L.P. ("RGGGS") and LMC Minerals ("LMC"). The RGGGS lease covers 5,123 acres. Provided the Company continues to make annual lease payments, the lease period continues until June 12, 2048 with an option to extend the lease for up to five additional ten-year periods on the same terms and further extend as long as there are commercial mining operations. The LMC lease covers 120 acres that are encircled by the RGGGS property. Provided the Company continues to make annual lease payments, the lease period continues until December 1, 2028 with an option to extend the lease for up to four additional five-year periods on the same terms. Lease payments to both lessors are considered advance royalty payments and will be deducted from future production royalties payable to the lessor, which range from 3% to 5% based on the net smelter return per ton received by the Company.

Feasibility Study, Mineral Resources and Mineral Reserves

PolyMet published an updated Technical Report under NI 43-101 on the NorthMet Project dated March 26, 2018 (the "Technical Report") incorporating process improvements, project improvements and environmental controls described in the Final Environmental Impact Statement ("EIS") and draft permits. The update also included detailed capital costs, operating costs and economic valuations for the mine plan being permitted. Preliminary economic assessments for higher production scenarios were also presented. Proven and Probable mineral reserves were estimated to be 254.7 million short tons grading 0.294% copper, 0.084% nickel, 80 ppb platinum, 268 ppb palladium, 39 ppb gold, 74.42 ppm cobalt, and 1.06 ppm silver. These mineral reserves lie within Measured and Indicated mineral resources of an estimated 649.3 million short tons grading 0.245% copper, 0.074% nickel, 65 ppb platinum, 221 ppb palladium, 33 ppb gold, 71 ppm cobalt, and 0.91 ppm silver. See additional details in the Company's most recent Annual Information Form or the Technical Report, both filed on SEDAR and EDGAR.

In November 2019, PolyMet published an updated Mineral Resource and Reserve statement which increased Proven and Probable mineral reserves by 14% to 290 million short tons grading 0.288% copper, 0.083% nickel, 75 ppb platinum, 264 ppb palladium, 39 ppb gold, 73.95 ppm cobalt and 1.06 ppm silver. These mineral reserves lie within Measured and Indicated mineral resources of an estimated 795.2 million short tons grading 0.234% copper, 0.071% nickel, 62 ppb platinum, 214 ppb palladium, 31 ppb gold, 69 ppm cobalt and 0.87 ppm silver. The mineral reserve estimates are based on metal prices of \$2.91 per pound copper, \$5.54 per pound nickel, \$28.82 per pound cobalt, \$1,058 per ounce palladium, \$889 per ounce platinum, \$1,274 per ounce gold and \$16.19 per ounce silver. The mineral resource estimates are based on metal prices of \$3.34 per pound copper, \$6.37 per pound nickel, \$33.14 per pound cobalt, \$1,216 per ounce palladium, \$1,023 per ounce platinum, \$1,465 per ounce gold and \$18.62 per ounce silver. Metal recovery factors were applied to each metal based on recovery curves developed. The net smelter return cutoff was set at \$7.98 per ton for mineral reserves and \$6.34 per ton for mineral resources and include processing, general and administrative, and water treatment costs.

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Environmental Review and Permitting

In November 2015, the MDNR, USACE, and USFS published the Final Environmental Impact Statement and in March 2016, the MDNR issued its decision that the Final EIS met the requirements under the Minnesota Environmental Policy Act.

In November 2018, the Company received all final MDNR permits for which the Company had applied, including the Permit to Mine, dam safety, water appropriations, endangered and threatened species takings, and public waters work permits, along with Wetlands Conservation Act approval.

In December 2018, the Company received all final MPCA permits for which the Company had applied, including the water quality permit, air emission quality permit, and Section 401 Certification.

In March 2019, the Company received the federal ROD and Section 404 Wetlands Permit from the USACE, which was the last key permit or approval needed to construct and operate the Project. In September 2019, two lawsuits were filed in Minnesota federal court challenging the USACE permits. In one case, the Environmental Protection Agency in March 2021 sought and the Company agreed to a voluntary remand to conduct a 90-day review of downstream water quality under section 401(a)(2) of the Clean Water Act and supplement the record. Because EPA's downstream water quality determination is a prerequisite for the Company's federal section 404 wetlands permit, the USACE subsequently notified the Company it had suspended the permit for the duration of EPA's review.

Legal challenges were filed in the Minnesota Court of Appeals contesting various aspects of the MDNR and MPCA decisions. PolyMet is a co-respondent in all suits.

- During 2019, the Court of Appeals ruled in favor of PolyMet in two state court actions, one which sought to force a supplemental environmental review and the other which challenged the rules used to permit the Project. These rulings are final.
- In June 2019, the Court of Appeals transferred challenges to the MPCA water quality permit to Ramsey County District Court for the limited purpose of an evidentiary hearing. In September 2020, the District Court found that PolyMet's water quality permit was issued with proper procedures; the ruling will be incorporated into the broader challenge to that permit currently pending before the Court of Appeals. The case is expected to be heard during the second or third quarter of 2021.
- In January 2020, the Court of Appeals remanded the Permit to Mine and dam safety permits to the MDNR for a contested case hearing. In April 2021, the Minnesota Supreme Court overturned a decision by the Court of Appeals that had remanded the Permit to Mine back to the MDNR for an open-ended contested case hearing and instead limited the contested case hearing to one specific, narrow, issue, regarding the effectiveness of bentonite clay capping for eventual closure of the tailings basin. The Supreme Court also reversed the Court of Appeals' decision to require contested case hearings on the dam safety permits.
- In March 2020, the Court of Appeals remanded the air permit to the MPCA with instructions to provide more information to the court in support of its decision to issue the permit. In February 2021, the Minnesota Supreme Court overturned the decision by the Court of Appeals to remand the air permit back to the MPCA. The Supreme Court ruled in favor of the Company on the most significant legal issue and returned the case to the Court of Appeals to resolve a limited number of items the lower court had not specifically addressed in its original decision. This resolution is anticipated during the second or third quarter of 2021.

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USFS Land Exchange

In January 2017, the USFS issued its Final ROD authorizing the land exchange. In June 2018, the Company and USFS exchanged titles to federal and private lands, completing the land exchange giving the Company control over both surface and mineral rights in and around the NorthMet ore body and consolidating the Superior National Forest's land holdings in northeast Minnesota.

Four legal challenges were filed contesting various aspects of the land exchange Final ROD. Motions were filed by PolyMet to dismiss each of these suits for lack of standing. On October 1, 2019, the U.S. District Court for the District of Minnesota dismissed all lawsuits challenging the land exchange Final ROD. These rulings were not appealed and stand as final.

Glencore Financing

Since October 2008, the Company and Glencore have entered into a series of financing agreements resulting in the following financial interests as at March 31, 2021:

- Equity – 72,008,404 common shares of the Company acquired between 2009 and 2019 which represent 71.4% of the Company's issued shares;
- Convertible debt – \$30.0 million initial principal unsecured convertible debentures due March 31, 2023; and
- Promissory note – \$15.0 million initial principal note due December 31, 2021.

Summary of Quarterly Results

| | Mar 31, 2021 | Dec 31, 2020 | Sep 30, 2020 | Jun 30, 2020 | Mar 31, 2020 | Dec 31, 2019 | Sep 30, 2019 | Jun 30, 2019 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Loss from operations | (3,576) | (3,992) | (4,296) | (6,582) | (5,207) | (2,818) | (1,287) | (1,021) |
| Other income (expense) | 121 | (37) | 955 | 531 | (2,202) | (46,779) | (291) | 111 |
| Loss for the period | (3,697) | (4,029) | (3,341) | (6,051) | (7,409) | (49,597) | (1,578) | (910) |
| Loss for the period (\$/share) ⁽¹⁾ | (0.04) | (0.04) | (0.03) | (0.06) | (0.07) | (0.50) | (0.02) | (0.03) |
| Cash (used in) provided by operating activities | (2,124) | (4,239) | (3,976) | (6,156) | (3,569) | (2,393) | (1,415) | 1,640 |
| Cash (used in) provided by financing activities | 6,791 | (119) | 9,000 | 6,915 | 6,888 | - | 14,997 | 2,713 |
| Cash used in investing activities | (1,758) | (1,907) | (1,682) | (2,450) | (2,553) | (5,189) | (4,749) | (4,488) |

⁽¹⁾ Loss per share amounts may not reconcile due to rounding differences and share issuances during the year.

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

| | |
|--------------------------------------|--------------------------------------|
| March 31, 2021 - \$0.400 million | March 31, 2020 - \$0.511 million |
| December 31, 2020 - \$0.361 million | December 31, 2019 - \$0.140 million |
| September 30, 2020 - \$0.322 million | September 30, 2019 - \$0.120 million |
| June 30, 2020 - \$0.648 million | June 30, 2019 - \$0.109 million |

Results fluctuate from period to period based on NorthMet development, corporate activities, and non-cash items. Additional discussion of significant items is included below.

Three months ended March 31, 2021 compared to three months ended March 31, 2020

Focus during the current year period was on legal defense of Project permits, engineering and optimization opportunities, site monitoring and permit compliance, and maintenance of existing infrastructure.

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a) Loss for the Period:

During the current year period, the Company incurred a loss of \$3.697 million (\$0.04 per share) compared to a loss of \$7.409 million (\$0.07 per share) during the prior year period. The decreased loss was primarily due to lower spend on additional studies and further evaluation of the mineral resource, gains on restricted deposits, and a non-cash gain on financial asset fair value.

b) Cash Flows for the Period:

Cash used in operating activities during the current year period was \$2.124 million compared to cash used during the prior year period of \$3.569 million. The decrease was primarily due to lower spend on additional studies and further evaluation of the mineral resource as noted above.

Cash provided by financing activities during the current year period was \$6.791 million compared to cash provided during the prior year period of \$6.888 million.

Cash used in investing activities during the current year period was \$1.758 million compared to cash used during the prior year period of \$2.553 million. The decrease was primarily due to lower capitalized spend following receipt of permits in March 2019 as the Company awaits resolution of legal challenges to permits.

Including the effect of foreign exchange, cash increased during the current year period by \$2.909 million to \$6.463 million compared to the prior year period where cash increased by \$0.762 million to \$8.163 million.

c) Capital Expenditures for the Period:

During the current year period, mineral property, plant, and equipment costs were capitalized in the amount of \$1.750 million as compared to \$2.908 million during the prior year period. The decrease was primarily due to lower capitalized spend as noted above.

Liquidity and Capital Resources

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over financial assets due at any point in time.

In the normal course of business, the Company enters into contracts that give rise to firm commitments for future minimum payments. In addition to items described elsewhere in these financial statements, as at March 31, 2021, the Company had firm commitments of approximately \$0.436 million with approximately \$0.064 million due over the next year and the remainder due over the following three years.

The Company is involved in various claims, litigation and other matters arising in the ordinary course and conduct of business. While it is not possible to determine the ultimate outcome of such actions at this time, and inherent uncertainties exist in predicting such outcomes, it is the Company's belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on its consolidated financial position or results of operations. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. As a result of the assessment, no significant contingent liabilities were recorded as at March 31, 2021.

Given the ongoing development of the Project, the Company has experienced recurring losses from operations and net cash outflows for operating and investing activities, which are expected to continue until the Project is constructed and operational. As at March 31, 2021, the Company had cash of \$6.463 million, a working capital deficiency of \$13.417 million, primarily due to the \$16.889 million promissory note with Glencore being due December 31, 2021.

The Company believes it is probable it will continue to receive funding from Glencore or other financing sources allowing the Company to satisfy future financial obligations, complete development of the Project and to conduct future profitable operations. Management's belief is based upon the underlying value of the

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Project, progress on obtaining and maintaining permits, ongoing discussions with potential financiers and the majority shareholder relationship with Glencore. Glencore has committed to provide financial support to enable the Company to continue its business operations for the next twelve months from the date of the consolidated financial statements.

The Company is in discussions with various sources of debt and equity finance sufficient to fund ongoing permit litigation, Project optimization and construction. Construction and ramp up to commercial production is anticipated to take approximately thirty months from receipt of construction funding.

In late December 2019, a novel coronavirus ("COVID-19") was identified and subsequently spread worldwide. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic creating an unprecedented global health and economic crisis. COVID-19's impact on global markets has been significant. The duration and magnitude of COVID-19's effects on the economy, movement of goods and services, the copper market, and on the Company's financial and operational performance remains uncertain at this time. As of the date of these statements, there has not been any direct impact on the Company's operations as a result of COVID-19.

The Company will continue to closely monitor the potential impact of COVID-19 on its business. Should the duration, spread or intensity of the COVID-19 pandemic deteriorate in the future, there could be a potentially material and negative impact on the Company's business, including the market for its securities, the ability to raise capital, and the valuation of its non-financial assets including mineral property, plant and equipment and intangibles due to sustained decreases in metal prices. Impacts from COVID-19 could also include a temporary cessation of operations due to a localized outbreak amongst Company personnel or in the Company's supply chain.

Financial Instruments and Risk Management

Fair Value Measurements

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

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

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

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

Financial instruments measured at fair value subsequent to recognition include restricted deposits measured at fair value through profit or loss using Level 1 inputs resulting in a carrying value of \$12.834 million (December 31, 2020 - \$12.401 million), amounts receivable measured at fair value through profit or loss using Level 3 inputs resulting in a carrying value of \$2.220 million (December 31, 2020 - \$2.382 million) and accruals for expected payments to settle restricted share units measured at fair value through profit or loss using Level 2 inputs resulting in a carrying value of \$0.726 million (December 31, 2020 - \$0.772 million).

The fair values of the convertible debt and promissory note approximate the carrying amount at amortized cost using the effective interest method. The fair values of other financial assets and other financial liabilities approximate their carrying amounts due to their short-term nature.

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Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due and arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time and is achieved by maintaining sufficient cash and managing debt. While in the past the Company has been successful in closing financing agreements, there can be no assurance it will be able to do so in the future. See additional discussion in the "Liquidity and Capital Resources" section above.

Related Party Transactions

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

| | Three months ended | |
|--|----------------------------------|----------------------------------|
| | March 31, 2021 ⁽¹⁾ | March 31, 2020 ⁽²⁾ |
| Salaries and other short-term benefits | \$ 1,035 | \$ 1,344 |
| Other long-term benefits | 16 | 20 |
| Share-based payment ⁽³⁾ | 298 | 594 |
| Total | \$ 1,349 | \$ 1,958 |

- (1) Three months ended March 31, 2021 includes Directors (Nathan Bullock, Jonathan Cherry, David Dreisinger, David Fermo, Alan Hodnik, Roberto Huby and Stephen Rowland) and senior management (Jonathan Cherry, Patrick Keenan and Richard Lock).
- (2) Three months ended March 31, 2020 includes Directors (Jonathan Cherry, David Dreisinger, W. Ian L. Forrest, Peter Freyberg, Helen Harper, Alan Hodnik, Hilmar Rode, Stephen Rowland and Michael Sill) and senior management (Jonathan Cherry, Patrick Keenan, Bradley Moore and Richard Lock).
- (3) Share-based payment represents the amount capitalized or expensed during the period.

Agreements with senior management contain severance provisions in certain circumstances, including for example, for termination without cause by the Company, termination by the employee for good reason (as defined in the agreement) or in connection with a change of control. Other than Jonathan Cherry, no PolyMet director has an agreement providing for benefits upon termination.

As a result of Glencore's ownership and majority shareholder relationship, it is also a related party. In addition to the transactions described elsewhere in these financial statements, the Company is a party to a Technical Services Agreement with Glencore whereby the Company reimburses Glencore for Project technical support costs requested under an agreed scope of work, primarily in detailed project design and mineral processing. During the three months ended March 31, 2021, the Company recorded \$0.020 million (March 31, 2020 - \$0.083 million) for services under this agreement.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Proposed Transactions

There are no proposed asset or business acquisition/disposal transactions that will materially affect the performance of the Company.

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Critical Accounting Estimates

The Company's significant accounting policies as well as significant judgment and estimates are presented in Note 2 of the audited consolidated financial statements for the year ended December 31, 2020.

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

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

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, metal prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. In addition, management will form a view of forecast prices for its products, based on current and long-term historical average price trends. Changes in the proven and probable reserve estimates may impact the carrying value of property, plant and equipment, rehabilitation provisions, deferred tax amounts and depreciation, depletion and amortization.

Provision for Environmental Rehabilitation Costs

Provisions for environmental rehabilitation costs associated with mineral property, plant and equipment, are recognized when there is a present legal or constructive obligation that can be estimated reliably, and it is probable an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate reflecting current market assessments of the time value of money. The provision for environmental rehabilitation obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability.

The estimates of environmental rehabilitation liabilities could be affected by changes in regulations, changes in the extent of environmental rehabilitation required, changes in the means of rehabilitation, changes in the extent of responsibility for the financial liability, changes in operating plans, or changes in cost estimates. Operations may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. The likelihood of new regulations and overall effect upon the Company may vary greatly and are not predictable.

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Other MD&A Requirements

Outstanding Share Data

Authorized Capital: Unlimited common shares without par value.

The following table summarizes the outstanding share information as at April 30, 2021:

| Type of Security | Number Outstanding | Weighted Average Exercise Price |
|---|--------------------|---------------------------------|
| Issued and outstanding common shares ⁽¹⁾ | 100,877,320 | \$ - |
| Restricted share units | 1,014,408 | \$ - |
| Share options | 1,935,300 | \$ 7.19 |
| Share purchase warrants | 3,137,918 | \$ 8.04 |

(1) Includes 9,550 of restricted shares which vest upon production.

As at March 31, 2021, the Company had obligations to issue up to 364,000 shares under the Company's bonus share incentive plan upon achievement of Milestone 4 representing commencement of commercial production at NorthMet. At the Company's Annual General Meeting of shareholders held in June 2008, the disinterested shareholders approved issuance of these shares upon achievement of Milestone 4. Regulatory approval is also required prior to issuance of these shares.

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 Annual Information Form for the year ended December 31, 2020 and other information filed with both the Canadian and United States securities regulators before investing in the Company's common shares. The risks described in PolyMet's 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 Annual Information Form for the year ended December 31, 2020 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

Management's Responsibility for Consolidated Financial Statements

The information provided in this report and the accompanying Consolidated Financial Statements are the responsibility of management. The Consolidated Financial Statements have been prepared by management in accordance with IFRS as issued by the IASB and include certain estimates that reflect management's best judgments.

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

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13(a)-15(e) and 15(d)-15(e) under the US Exchange Act and the rules of the Canadian Securities Administrators as at December 31,

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2020 (the "Evaluation Date"). Based on such evaluation, such officers concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective. Such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in reports that it files or submits to the US Securities and Exchange Commission and the Canadian Securities Administrators is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and includes controls and procedures designed to ensure information relating to the Company required to be included in reports filed or submitted under Canadian and United States securities legislation is accumulated and communicated to the Company's management to allow timely decision regarding disclosure.

There have been no changes in the Company's disclosure controls and procedures during the three month period ended March 31, 2021 that have materially affected, or are reasonably likely to material affect, its disclosure controls and procedures.

Management's Report on Internal Control over Financial Reporting

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

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

There have been no changes in the Company's internal control over financial reporting during the three month period ended March 31, 2021 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 on SEDAR and EDGAR, respectively, at www.sedar.com and at www.sec.gov, and on the Company's website www.polymetmining.com.