

POLYMET MINING CORP.
(a development stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

31 July 2009

U.S. Funds

Suite 1003 – 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2K3

E-MAIL: info@polymetmining.com OR VISIT OUR WEBSITE AT: www.polymetmining.com

PolyMet Mining Corp.
(a development stage company)
Interim Consolidated Balance Sheets

As at 31 July and 31 January
All figures in Thousands of U.S. Dollars

	31 July 2009 <i>(unaudited)</i>	31 January 2009 <i>(restated – Note 2)</i>
ASSETS		
Current		
Cash and equivalents	\$ 3,252	\$ 7,354
Accounts receivable and advances	94	69
Investment <i>(Note 12)</i>	129	57
Prepaid expenses	318	470
	<u>3,793</u>	7,950
Deferred Financing Costs <i>(Note 11c)</i>	1,764	1,739
Mineral Property, Plant and Equipment <i>(Notes 2, 3 and 4)</i>	103,620	91,910
	<u>\$ 109,177</u>	<u>\$ 101,599</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,247	\$ 2,797
Current portion of long term debt <i>(Note 5)</i>	1,750	1,250
Current portion of asset retirement obligation <i>(Note 6)</i>	321	321
	<u>5,318</u>	4,368
Long term		
Long term debt <i>(Note 5)</i>	9,306	10,063
Convertible debt <i>(Note 7)</i>	19,471	13,943
Asset retirement obligation <i>(Note 6)</i>	3,036	2,890
	<u>37,131</u>	<u>31,264</u>
SHAREHOLDERS' EQUITY		
Share Capital - <i>(Note 8)</i>	105,890	104,768
Contributed Surplus - <i>(Note 8d)</i>	30,096	27,549
Accumulated Other Comprehensive Income	59	-
Deficit	<u>(63,999)</u>	<u>(61,982)</u>
	<u>72,046</u>	<u>70,335</u>
	<u>\$ 109,177</u>	<u>\$ 101,599</u>

Nature of Business and Liquidity Risk *(Note 1)*
Contingent Liabilities and Commitments *(Notes 4 and 11)*

ON BEHALF OF THE BOARD:

"William Murray" Director

"David Dreisinger" Director

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Interim Consolidated Statements of Loss, Other Comprehensive Loss and Deficit

For the Periods Ended 31 July

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

	Three months ended 31 July 2009	Three months ended 31 July 2008 <i>(restated – Note 2)</i>	Six months ended 31 July 2009	Six months ended 31 July 2008 <i>(restated – Note 2)</i>
General and Administrative				
Amortization	\$ 7	\$ 9	\$ 14	\$ 17
Asset retirement obligation accretion	101	111	196	214
Consulting fees	9	10	18	27
Investor relations and financing	86	72	121	98
Office and corporate wages	295	256	581	547
Professional fees	83	71	99	183
Shareholders' information	92	163	139	226
Stock-based compensation <i>(Notes 8 b and c)</i>	332	172	785	334
Transfer agent and filing fees	16	23	25	118
Travel	68	130	120	271
	1,089	1,017	2,098	2,035
Other Expenses (Income)				
Interest income, net	(2)	(52)	(3)	(149)
Loss (gain) on foreign exchange	(13)	22	-	58
Investment loss <i>(Note 12)</i>	-	724	-	903
Rental income	(39)	(45)	(78)	(104)
	(54)	649	(81)	708
Loss for the Period	\$ 1,035	1,666	\$ 2,017	\$ 2,743
Other Comprehensive Income				
Unrealized gain on investment	51	-	59	-
Comprehensive Loss	984	1,666	1,958	2,743
Loss for the Period	1,035	1,666	2,017	2,743
Deficit – Beginning of the Period	62,964	58,080	61,982	57,003
Deficit – End of the Period	\$ 63,999	\$ 59,746	\$ 63,999	\$ 59,746
Basic and Fully Diluted Loss per Share				
	\$ (0.01)	(0.01)	\$ (0.01)	\$ (0.02)
Weighted Average Number of Shares				
	138,711,484	137,204,418	138,163,682	137,103,190

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Interim Consolidated Statements of Changes in Shareholders' Equity

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

	<u>Common Shares (Note 8)</u>							Total
	Authorized Shares	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit (restated – Note 2)		
Balance – 31 January 2008	Unlimited	136,991,075	\$ 104,615	\$ 20,825	\$ -	\$ (57,003)	\$ 68,437	
Loss for the period	-	-	-	-	-	(4,979)	(4,979)	
Shares and warrants issued:								
Exercise of options	-	312,800	452	-	-	-	452	
Fair value of stock options exercised	-	-	245	(245)	-	-	-	
Convertible debt – conversion factors and warrants (Note 7)	-	-	-	691	-	-	691	
Accrual of Milestones 2 and 4 Bonus Shares	-	-	-	3,912	-	-	3,912	
Amendment to previously issued warrants (Note 8e))	-	-	(544)	544	-	-	-	
Stock-based compensation	-	-	-	1,822	-	-	1,822	
Balance – 31 January 2009	Unlimited	137,303,875	\$ 104,768	\$ 27,549	\$ -	\$ (61,982)	\$ 70,335	
Loss for the period	-	-	-	-	-	(2,017)	(2,017)	
Other comprehensive income for the period	-	-	-	-	59	-	59	
Shares and warrants issued:								
Exercise of options	-	475,000	231	-	-	-	231	
Fair value of stock options exercised	-	-	170	(170)	-	-	-	
Convertible debt – conversion factor (Note 7)	-	-	-	159	-	-	159	
Accrual of Milestones 2 and 4 Bonus Shares	-	-	-	2,279	-	-	2,279	
Issuance of Milestone 2 Bonus Shares (Note 11a))	-	1,300,000	721	(721)	-	-	-	
Stock-based compensation (Note 8c))	-	-	-	1,000	-	-	1,000	
Balance – 31 July 2009	Unlimited	139,078,875	\$ 105,890	\$ 30,096	\$ 59	\$ (63,999)	\$ 72,046	

Figures since 31 January 2009 unaudited, prepared by management

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Interim Consolidated Statements of Cash Flows

For the Periods Ended 31 July

All figures in Thousands of U.S. Dollars

(unaudited)

	Three months ended 31 July 2009	Three months ended 31 July 2008 <i>(restated – Note 2)</i>	Six months ended 31 July 2009	Six months ended 31 July 2008 <i>(restated – Note 2)</i>
Operating Activities				
Loss for the period	(1,035)	(1,666)	(2,017)	(2,743)
Items not involving cash				
Amortization	7	9	14	17
Asset retirement obligation accretion	101	111	196	214
Investment loss	-	724	-	903
Stock-based compensation	332	172	785	334
Changes in non-cash working capital				
Accounts receivable and advances	(28)	115	25	101
Prepaid expenses	51	17	152	202
Accounts payable and accrued liabilities	(152)	1,262	234	275
Net cash provided by (used in) operating activities	(724)	744	(611)	(697)
Financing Activities				
Share capital – for cash	-	407	231	420
Convertible debt	4,984	-	4,956	-
Deferred financing costs	(10)	(15)	(25)	(20)
Long-term debt repayment	(250)	(400)	(500)	(900)
Net cash provided by (used in) financing activities	4,724	(8)	4,662	(500)
Investing Activities				
Purchase of mineral property, plant and equipment	(3,798)	(6,362)	(8,153)	(12,491)
Net cash used in investing activities	(3,798)	(6,362)	(8,153)	(12,491)
Net Increase (Decrease) in Cash and Cash Equivalents Position	202	(5,626)	(4,102)	(13,688)
Cash and Cash Equivalents Position – Beginning of Period	3,050	12,022	7,354	20,084
Cash and Cash Equivalents Position – End of Period	3,252	6,396	3,252	6,396
Non-Cash Financing and Investing Activities				
Changes in accounts payable and accrued liabilities related to investing activities	(265)	477	(235)	(611)

Notes to Consolidated Financial Statements

31 July 2009

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

Unaudited – prepared by management

1. Nature of Business and Liquidity Risk

PolyMet Mining Corp. (“PolyMet” or the “Company”) was incorporated in British Columbia, Canada on 4 March 1981 under the name Fleck Resources Ltd. The Company changed its name from Fleck Resources Ltd. to PolyMet Mining Corp. on 10 June 1998. The Company is engaged in the exploration and development, when warranted, of natural resource properties. The Company’s only 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 dependant upon various factors, including the existence of economically recoverable mineral reserves, the ability to obtain the necessary financing to complete the exploration and development of the NorthMet Project, future profitable operations, or alternatively upon disposal of the investment on an advantageous basis.

On 25 September 2006, the Company received the results of the Definitive Feasibility Study (“DFS”) prepared by Bateman Engineering (Pty) Ltd. that confirms the economic and technical viability of the NorthMet Project and, as such, the Project has moved from the exploration stage to the development stage.

Liquidity Risk

The consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due.

The Company has taken steps to fund its operations through the issuance of equity and debt. It plans to meet its financial obligations to the point at which all regulatory approvals for its NorthMet project have been obtained and which will allow the Company to raise capital to construct its mine and commence commercial production. Management believes that the negotiation of a convertible debenture for \$50 million in 2008 will be sufficient to meet its obligations until it is able to raise capital to construct its mine. Three tranches of the convertible debenture (Note 7) amounting to \$20 million were advanced to the Company by 31 July 2009 with an additional \$5 million being advanced on 31 August 2009. Further advances require the Company to achieve certain milestones and conditions. One of these conditions is for the Company to obtain the consent of RGGGS Land & Minerals Ltd., L.P. (“RGGGS”) and Cliffs Natural Resources Inc. (“Cliffs”) to allow the debenture holder to obtain a mortgage over certain of the Company’s assets (Notes 3, 4 and 5). In the event that the milestones and conditions laid out in the convertible debenture are not met or waived by the Debenture holder, or their achievement is delayed, the Company may be forced to curtail or delay expenditures, sell assets or seek additional financing sources. All of these circumstances may delay the progress of or affect the ultimate success of the Company’s plans.

Management of the Company has developed plans which, in the event of delays of the achievement of milestones or conditions under the convertible debenture, involve the curtailment or postponement of certain activities, the sale of assets and the provision of additional sources of finance. However, there is no assurance that management will be successful in achieving any or all of the opportunities it has identified or obtain sufficient liquidity to execute its business plans.

PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

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

Unaudited – prepared by management

2. Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements of PolyMet have been prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods consistent with those used in the preparation of the most recent annual audited financial statements. The unaudited interim consolidated financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended 31 January 2009.

Recent Accounting Pronouncements

The Company has adopted the following CICA standards effective for the Company commencing February 1, 2009:

- (i) Section 3064 - Goodwill and Intangible Assets. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and other intangible assets. As a result of this standard, the CICA withdrew EIC 27, Revenue and Expenses during the pre-operating period. With the withdrawal of EIC 27, the Company is no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted in the Company retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in its consolidated financial statements.

The company has restated its financial statements for the items above and the impacts on certain line items of the financial statements with significant changes were as follows:

Line Item	Year Ended 31 January 2009		Six months ended 31 July 2008		Year Ended 31 January 2008	
	As Previously Reported	Restated	As Previously Reported	Restated	As Previously Reported	Restated
Mineral Property Plant and Equipment	93,067	91,910	78,242	77,314	65,019	64,305
Loss for the period	4,536	4,979	2,529	2,743	3,690	4,124
Deficit	60,825	61,982	58,818	59,746	56,289	57,003
Loss per share	0.03	0.04	0.02	0.02	0.03	0.03

- (ii) EIC – 173 – Credit Risk and Fair Value of Financial Assets and Liabilities. This standard provides guidance on how to take into account credit risk of an entity and counterparty when determining fair value of financial assets and financial liabilities. The adoption of this standard did not have any effect on the Company's financial statements.
- (iii) EIC – 174 – Mining Exploration Costs. This standard provides guidance on the accounting and impairment review of exploration costs. The adoption of this standard did not have any effect on the Company's financial statements.

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3. Resource Property Agreements

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

Pursuant to an agreement dated 4 January 1989, subsequently amended and assigned, the Company's wholly owned subsidiary Poly Met Mining, Inc. ("PolyMet US") leases certain lands in St. Louis County, Minnesota from RGGS. During the year ended 31 January 2005, United States Steel Corporation assigned the lease to RGGS. The initial term of the renewable lease was 20 years and called for total lease payments of \$1,475,000. The lease is indefinitely renewable by making annual lease payments of \$150,000 on the anniversary of the original agreement and PolyMet US made such payment prior to 4 January 2009. All lease payments have been paid to 31 July 2009.

PolyMet US 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.

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 PolyMet US. PolyMet US'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 US holds mineral rights and the right to mine. PolyMet US intends to acquire surface rights through a land exchange with or direct acquisition of surface rights from the United States Forest Service, which costs have been included in the capital cost estimate of the Project.

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Unaudited – prepared by management

4. Mineral Property, Plant and Equipment

Details are as follows:

31 July 2009	Cost	Accumulated Amortization	31 July 2009 Net Book Value	31 January 2009 Net Book Value
NorthMet Project	103,399	-	103,399	91,707
Leasehold improvements	47	25	22	26
Computers	328	195	133	99
Furniture and equipment	140	74	66	78
	103,914	294	103,620	91,910

Erie Plant, Minnesota, U.S.A.

On 15 November 2005, the Company exercised an option to acquire 100% ownership of large portions of the former LTV Steel Mining Company ore processing plant in northeastern Minnesota under the Asset Purchase Agreement with Cliffs.

The consideration for the purchase was \$1 million in cash, \$2.4 million in notes payable and the issuance of 6,200,547 common shares (at fair market value of \$7,564,000) in the capital stock of the Company. The final instalment was paid on 30 June 2008 (Note 5).

On 20 December 2006, the Company closed a transaction (the "Asset Purchase Agreement II") in which it acquired, from Cliffs, property and associated rights sufficient to provide it with a railroad connection linking the mine development site and the Erie Plant. The transaction also included a 120-railcar fleet, locomotive fuelling and maintenance facilities, water rights and pipelines, large administrative offices on site and an additional 6,000 acres to the east and west of and contiguous to its existing tailing facilities.

The purchase price totalling 2 million shares and \$15 million in cash and debt was in four tranches:

- 2 million shares of PolyMet, paid at closing;
- \$1 million in cash, paid at closing;
- \$7 million in cash, payable in quarterly instalments of \$250,000 commencing 31 December 2006 with the balance payable upon receipt of production financing. Interest is payable quarterly starting 31 December 2006 at the *Wall Street Journal* Prime Rate, and
- \$7 million in cash, payable in quarterly instalments of \$250,000 commencing on 31 December 2009. No interest will be payable until 31 December 2009 after which it will be payable quarterly at the *Wall Street Journal* Prime Rate, accordingly the debt has been fair valued, for balance sheet purposes, by discounting it at 8.25%.

The Company has assumed certain ongoing site-related environmental and reclamation obligations as a result of the above purchases. These environmental and reclamation obligations are presently contracted under the terms of the purchase agreements with Cliffs. Once the Company obtains its permit to mine and Cliffs is released from its obligations by the State agencies, the environmental and reclamation obligations will be direct with the governing bodies. The present value of the asset retirement obligation in the amount of \$3,357,000 (Note 6) less accretion of \$1,347,000 charged to retained earnings has been recorded as an increase in the carrying amount of the NorthMet Project assets and will be amortized over the life of the asset.

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Unaudited – prepared by management

4. Property, Plant and Equipment - continued

Interest and loan accretion to 31 July 2009 in the amount of \$2,287,000 (31 January 2009 - \$1,957,000) related to the transactions with Cliffs has been capitalized as part of the cost of the NorthMet Project assets.

As the above assets are not in use no amortization of these assets has been recorded to 31 July 2009.

5. Long Term Debt

Pursuant to the Asset Purchase Agreements (Note 4) the Company's wholly owned subsidiary Poly Met Mining, Inc. ("PolyMet US") signed three notes payable to Cliffs in the amounts of \$2,400,000, \$7,000,000 and \$7,000,000, respectively. The first note was interest bearing at the annual simple rate of four percent (4%) and the final payment was made on June 2008. The second note is interest bearing at the *Wall Street Journal* Prime Rate and is being paid in quarterly instalments equal to \$250,000 commencing 31 December 2006, with the balance repayable upon receipt of commercial financing, for total repayment of \$7,000,000. The third note is interest bearing at the *Wall Street Journal* Prime Rate and shall be paid in quarterly instalments equal to \$250,000 commencing on 31 December 2009 for total repayment of \$7,000,000. No interest will be payable on the third note until 31 December 2009. Accordingly it has been fair valued, for balance sheet purposes, by discounting it at 8.25%. If PolyMet were to default on individual elements of the transactions with Cliffs, the assets associated with the default could revert to Cliffs' control. As at 31 July 2009 the outstanding long term debt was as follows:

	31 July 2009	31 January 2009
Notes payable	\$ 11,044	\$ 11,299
Accrued interest	12	14
Total debt	<u>11,056</u>	<u>11,313</u>
Less current portion	<u>(1,750)</u>	<u>(1,250)</u>
Long term debt	\$ 9,306	\$ 10,063

6. Asset Retirement Obligation

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.

The Company's provisions for future site closure and reclamation costs are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments. The Company's estimate of the present value of the obligation to reclaim the NorthMet Project is based upon existing reclamation standards at 31 July 2009 and Canadian GAAP. Once the Company obtains its permit to mine the environmental and reclamation obligations will be direct with the governing bodies. The Company's estimate of the fair value of the asset retirement obligation at 31 July 2009 was \$3,357,000 (31 January 2009 - \$3,211,000). These were based upon a 31 July 2009 undiscounted future cost of \$21.5 million for the first Cliffs transaction and \$2.0 million for Cliffs II, an annual inflation rate of 2.00%, a credit-adjusted risk free interest rate of 12.00%, a mine life of 20 years and a reclamation period of 9 years.

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Unaudited – prepared by management

7. Convertible Debt

On 31 October 2008, the Company entered into a financing with Glencore AG ("Glencore") for an aggregate of US\$50 million floating rate secured debentures due on 30 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%. Interest is payable in cash or by increasing the principal amount of the Debentures, at PolyMet's option, for payments on or before 30 September 2009, and at Glencore's option thereafter. At 31 July 2009, \$691,000 of interest had been added to the principal amount of the debt. The Debentures are secured by all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet's 100% shareholding in PolyMet US.

The Debentures are exchangeable into common shares of PolyMet at Glencore's option at US\$4.00 per share. The Issuer can, at its option, prepay the Debentures if PolyMet's shares trade at a 20-day volume weighted average price equal to or exceeding US\$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 1 October 2009 and 30 September 2010 would be at 105% of the then outstanding principal of the Debentures, repayment between 1 October 2010 and 30 September 2011 would be at 102.5% of the outstanding principal.

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

The final US\$25 million of the Debentures, to be used primarily for detailed engineering and procurement, are to be issued upon publication of the Final Environmental Impact Statement in the State of Minnesota's Environmental Quality Board Monitor, receipt by the Company of a bona fide term sheet for construction financing and are subject to expenditures being in material compliance with budget and other customary conditions as well as agreement between Glencore and Cliffs on terms and conditions whereby Cliffs will provide its consent to Glencore as mortgagee of those parts of the Erie Plant acquired by PolyMet under Asset Agreement II.

On 31 October 2008, PolyMet issued to Glencore warrants to purchase 6.25 million common shares of PolyMet at US\$5.00 if exercised before the NorthMet Project has produced a total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter. The warrants expire on 30 September 2011. If the volume-weighted 20-day average price of PolyMet's common shares trade at a 50% premium to the then applicable exercise price, Glencore must exercise the warrants within 30 days or the warrants will expire.

The Company has accounted for the initial US\$7.5 million of the Debentures and the 6.25 million common share warrants by allocating the \$7.5 million between the debt, the exchangeable feature of the debt and the warrants based on their pro rata fair values. The debt has been fair valued using the difference between 9% and 12 month LIBOR at 31 October 2008 (3.2075%) plus 4%. Costs related to the financing of \$652,000 have been recorded against the convertible debt.

The Company has accounted for the second US\$7.5 million of the Debentures by allocating the \$7.5 million between the debt and the exchangeable feature of the debt based on their pro rata fair values. The debt has been fair valued using the difference between 9% and 12 month LIBOR at 31 October 2008 (3.2075%) plus 4%. Costs related to the financing of \$43,000 have been recorded against the convertible debt.

The Company has accounted for the US\$5 million of the Debentures issued on 18 June 2009 by allocating the \$5 million between the debt and the exchangeable feature of the debt based on their pro rata fair values. The debt has been fair valued using the difference between 9% and 12 month LIBOR at 31 October 2008 (3.2075%) plus 4%. Costs related to the financing of \$16,000 have been recorded against the convertible debt.

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Unaudited – prepared by management

8. Share Capital

a) Share Issuances for Cash

During the six months ended 31 July 2009, the Company issued 475,000 shares (31 July 2008 – 250,300) pursuant to the exercise of stock options for total proceeds of \$231,000 (31 July 2008 - \$420,000).

b) Stock Options

The Company's Omnibus Share Compensation Plan covers PolyMet's employees, directors, officers and consultants. Options are granted for varying terms ranging from two to five years. During the six month period ended 31 July 2009, the Company granted 1,410,000 options. The maximum number of common shares under the plan shall not exceed (i) 10% of the outstanding common shares of the Company at the time of granting of the options and (ii) 18,592,888 common shares of the Company, of which 3,640,000 common shares are reserved for issuance as awards other than options (Note 11a)).

Details of stock option activity is as follows:

	Six months ended 31 July 2009	Year ended 31 January 2009
Outstanding - Beginning of period	12,615,000	11,312,800
Granted	1,410,000	1,690,000
Forfeited	(350,000)	(75,000)
Exercised	(475,000)	(312,800)
Outstanding - End of period	<u>13,200,000</u>	<u>12,615,000</u>

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

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Unaudited – prepared by management

8. Share Capital - continued

As at 31 July 2009, the following director, officer, consultant and employee stock options were outstanding:

Expiry Date	Exercise Price (US\$)	Exercise Price (CDN\$)	Number of options outstanding
5 July 2011	0.61	0.66	825,000
18 October 2011	0.73	0.79	50,000
30 March 2012	0.60	0.65	85,000
1 May 2012	0.78	0.85	350,000
15 June 2012	0.87	0.94	40,000
19 September 2012	1.25	1.36	1,540,000
24 October 2012	1.11	1.20	200,000
5 December 2012	1.06	1.15	200,000
20 March 2013	2.54	2.76	2,900,000
19 June 2013	2.73	2.97	325,000
1 September 2013	3.52	3.82	300,000
22 September 2013	3.23	3.51	75,000
5 January 2014	3.04	3.30	525,000
13 February 2014	2.99	3.25	1,250,000
8 March 2014	2.88	3.13	400,000
12 March 2014	2.92	3.17	250,000
23 March 2014	2.89	3.14	50,000
4 September 2014	3.00	3.26	360,000
12 December 2014	3.05	3.31	205,000
11 January 2015	3.03	3.29	70,000
31 January 2015	2.87	3.12	100,000
15 February 2015	2.72	2.95	500,000
2 June 2015	3.92	4.26	100,000
30 July 2015	3.22	3.50	175,000
30 January 2016	0.82	0.89	915,000
17 February 2016	0.82	0.89	1,410,000
	1.89	2.32	13,200,000

As at 31 July 2009 all options had vested and were exercisable, with the exception of 1,752,500 which vest upon completion of specific targets.

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

Unaudited – prepared by management

8. Share Capital - continued

c) Stock-Based Compensation

During the six month period ended 31 July 2009, the Company issued 1,410,000 options to directors, officers, consultants and employees with an average exercise price of USD\$0.82 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	1.39%
Expected dividend yield	Nil
Expected stock price volatility	81.97%
Expected option life in years	2.33

The weighted fair value of options granted during the period was US\$0.37. 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.

During the six month period ended 31 July 2009, the Company recorded \$1,000,000 for stock based compensation in its accounts as an expense of \$785,000 and a debit to mineral property, plant and equipment of \$215,000, with the offsetting entries going to contributed surplus. The balance for the six months included the amortization of the fair value cost of existing stock options and the impact of the two year extension of the term of all options outstanding at 24 June 2009 (\$339,000).

d) Contributed Surplus

Contributed surplus represents accumulated stock-based compensation costs and warrants issued as well as the debt conversion features, reduced by the fair value of the stock options and warrants exercised.

Details are as follows:

	31 July 2009	31 January 2009
Balance – Beginning of period	\$ 27,549	\$ 20,825
Current period fair value of stock-based compensation	1,000	1,822
Fair value of exchangeable warrants and debt conversion	159	691
Change in fair value of warrants amended	-	544
Issuance of Milestone 2 Bonus Shares (<i>Note 11a</i>)	(721)	-
Accrual of bonus shares for Milestones 2 and 4 (<i>Note 11a</i>)	2,279	3,912
Fair value of stock options exercised during the period	(170)	(245)
Balance – End of period	\$ 30,096	\$ 27,549

PolyMet Mining Corp.
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31 July 2009

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

Unaudited – prepared by management

8. Share Capital - continued

e) Share Purchase Warrants

Details of stock purchase warrant activity is as follows:

	31 July 2009		31 January 2009	
	Warrants	Weighted Average Exercise Price (US\$)	Warrants	Weighted Average Exercise Price (US\$)
Warrants outstanding - beginning of period	15,370,000	4.74	9,120,000	4.00
Cancelled	-	-	(8,020,000)	4.00
Issued	-	-	4,010,000	3.00
Issued	-	-	4,010,000	5.50
Issued (Note 7)	-	-	6,250,000	5.50
Warrants outstanding – end of period	15,370,000	4.74	15,370,000	4.74

On 17 April 2007, the Company issued 7,500,000 warrants in connection with a non-brokered private placement financing of 15 million units at US\$2.75 per unit, with each unit comprising one common share and one-half of one warrant. Each whole warrant was exercisable into a common share at a price of US\$4.00 at any time until 13 October 2008 subject to an early trigger if the 20-day volume weighted average price of the common shares is US\$6.00 or more. 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.

On 10 October 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 stock at US\$3.00 per share at any time until the sooner of 30 calendar days after publication of the draft Environmental Impact Statement by the State of Minnesota in the state's Environmental Quality Board Monitor and October 13, 2009, and
- 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$5.00 if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter and prior to August 31, 2011. PolyMet can accelerate the expiration of the warrants if PolyMet's volume-weighted 20-day average stock price trades at a 50% premium to the exercise price applicable at any time.

The incremental \$544,000 increase in the fair value of the warrants due to the warrant exchange was debited to share capital and credited to contributed surplus in the year ended 31 January 2009.

On 31 October 2006, the Company issued 600,000 warrants to BNP Paribas Loan Services as partial consideration under the agreement described in Note 11c). These warrants have an exercise price of US\$4.00 per share and expire on 30 October 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of US\$4.00 per share at any time prior to 30 October 2010 will vest.

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Unaudited – prepared by management

8. Share Capital - continued

All of the warrants are exercisable as at 31 January 2009, except for 500,000 which vest upon delivery of a bona fide offer of project financing.

9. Related Party Transactions

In addition to transactions disclosed elsewhere in these financial statements, the Company has conducted transactions with officers, directors and persons or companies related to directors and paid or accrued amounts as follows:

	31 July 2009	31 July 2008
Consulting fees paid to David Dreisinger, a Director of the Company	\$ 28	\$ 33
Rent and charges paid to a company of which the Executive Chairman is a director	-	6
	\$ 28	\$ 39

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

During the six months ended 31 July 2009, the Company paid \$28,000 (31 July 2008 - \$33,000) to Dr. Dreisinger for consulting fees primarily in connection with activities related to the processing / technical side of the NorthMet project and related expenses (the latter were supported by invoices and receipts). The consulting fees were based on a monthly fee of Canadian \$5,500 plus general sales tax. Throughout the term of his engagement, Dr. Dreisinger has conducted in-person and telephonic meetings with Mr. William Murray, the Company's Executive Chairman, and other members of management at which he provided both verbal and written updates on the status of test work and made recommendations for future activities. These meetings occurred approximately every two to three weeks for the past five years.

The agreement with Dr. Dreisinger was entered into at a time when the Company's current business plans were being formulated and it was month to month and oral in nature. The agreement was approved by Mr. William Murray. It was discussed with the Company's board of directors who did not consider that a formal approval and written contract was necessary at that time. The Company believes that the contract was at terms at least as good as could be obtained from third parties.

During the six months ended 31 July 2009, the Company paid \$nil (31 July 2008 - \$6,000) to Baja Mining Corp. ("Baja") primarily for health insurance plan costs. The agreement between Baja and the Company was oral in nature. Mr. Murray ceased being a Director of Baja in June 2008. Effective 1 September 2008, the Company ceased paying the health insurance plan costs to Baja.

The Company believes that the contract with Baja was at terms that were fair to the parties involved.

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31 July 2009

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Unaudited – prepared by management

10. Segmented Information

The Company is in the permitting stage of developing its mineral property in the U.S. and provides for its financing and administrative functions at the Executive Chairman's office located in Canada. Segmented information on a geographic basis is as follows:

31 July 2009	Canada	U.S.	Consolidated
Segment operating loss (income) (6 months ended)	1,716	301	2,017
Segment operating loss (3 months ended)	885	150	1,035
Identifiable assets	3,097	106,080	109,177

31 July 2008	Canada	U.S.	Consolidated
Segment operating loss (6 months ended)	2,552	191	2,743
Segment operating loss (3 months ended)	1,549	117	1,666
Identifiable assets	5,423	81,173	86,596

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11. Contingent Liabilities and Commitments

- a) The Company has instituted a share bonus plan as part of its employment, management and consulting contracts for key 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 31 July 2009, the Company had received shareholder approval of the Bonus Shares for Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval, which will be sought in 2009. To 31 July 2009, 5,240,000 shares have been issued for the achievement of Milestones 1 and 3.

The summary of the share bonus plan is as follows:

	Bonus Shares	
Milestone 1	1,590,000	issued
Milestone 2	1,300,000	(i) issued in May 2009
Milestone 3	2,350,000	issued
Milestone 4	3,640,000	(ii) and (iii)

- (i) Milestone 2 – Negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity investment in the Company by such a producer or producers. The bonus shares allocated to Milestone 2 are valued at C\$0.75. During the six months ended 31 July 2009, the Company accrued \$357,000 related to Milestone 2 (31 July 2008 - \$nil), these amounts were capitalized to Mineral Property, Plant and Equipment. This milestone was deemed to have been achieved in May 2009 and therefore the Company issued the shares to certain directors and insiders.
- (ii) Milestone 4 – Commencement of commercial production at the NorthMet Project at a time when the Company has not less than 50% ownership interest.

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Unaudited – prepared by management

11. Contingent Liabilities and Commitments - *continued*

- (iii) At the Annual General Meeting of shareholders of the Company, held on 17 June 2008, the disinterested shareholders approved the bonus shares for Milestone 4. The bonus shares allocated to Milestone 4 are valued at US\$3.80, the Company's closing trading price on 17 June 2008. During the six months ended 31 July 2009, the Company accrued \$1,922,000 related to Milestone 4 (31 July 2008 - \$nil), these amounts were capitalized to Mineral Property, Plant and Equipment.
 - b) Pursuant to the Company's Asset Purchase Agreement with Cliffs (Note 4), for as long as Cliffs owns 1% or more of the Company's issued shares, Cliffs will have the right to participate on a pro-rata basis in future cash equity financings. This agreement also includes a first right of refusal in favour of the Company should Cliffs wish to dispose of its interest.
 - c) On 31 October 2006 the Company entered into an agreement with BNP Paribas Loan Services ("BNPP") whereby BNPP will advise and assist PolyMet in all aspects of preparation for construction finance. As part of this agreement, BNPP was issued warrants to purchase 600,000 shares of the Company's common stock at a price of US\$4.00 per share at any time prior to 30 October 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of US\$4.00 per share at any time prior to 30 October 2010 will vest. As part of the agreement, PolyMet will also pay BNPP a monthly fee for its advice and assistance and pay the costs for BNPP's independent engineers.
 - d) On 13 October 2008, the Company entered into a collateral pledge agreement wherein it pledged a used drill rig which it owned against payments made by a supplier for parts that will be used in rebuilding the drill rig. The drill rig has a book value of \$2,518,000 including the amount that the Company has capitalized related to an account payable of \$1,443,000 for the full value of the parts.
 - e) On 31 October 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.
 - f) On 31 July 2009, the Company had outstanding commitments related to equipment, consultants and the environmental review process of \$1,100,000.
-

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

Unaudited – prepared by management

12. Investment

During the quarter ended 31 July 2007, the Company acquired, for cash, common shares of a publicly traded Canadian mining company whose primary business is the operation of a recommissioned base metal mine. This investment represents less than 5% of the public mining company's outstanding common shares and was designated as available-for-sale and, as such, had been marked-to-market with the change in the fair value of the investment from acquisition to quarterly financial statements being recorded in Other Comprehensive Loss.

As at 31 January 2008, the Company determined that the investment has had an other than temporary decline in value. This determination was based on, among other factors, a significant drop in market price for the investment company's main product and a continued decline in the share price of the investment company. The initial acquisition cost of the investment was US\$2,495,000 (C\$2,618,000) and the fair value of the investment at 31 January 2008 was US\$1,445,000 (C\$1,440,000). As a result, the Company recorded an investment loss of \$1,050,000 in its income statement and reversed the amounts that had previously been recorded in Other Comprehensive Loss.

As at 30 April 2008, the Company determined that the investment has had an additional other than temporary decline in value. This determination was based on, among other factors, a significant drop in market price for the investment company's main product and a continued decline in the share price of the investment company. The fair value of the investment at 30 April 2008 was US\$1,244,000 (C\$1,260,000). As a result, the Company has recorded an investment loss of \$179,000 in its income statement.

As at 31 July 2008, the Company has determined that the investment has had an additional other than temporary decline in value. This determination was based on, among other factors, a continued drop in market price for the investment company's main product and a continued decline in the share price of the investment company. The fair value of the investment at 31 July 2008 was US\$518,000 (C\$530,000). As a result, the Company has recorded an investment loss of \$724,000 in its income statement. The fair market value of the investment at 10 September 2008 was US\$344,000 (C\$370,000).

As at 31 January 2009, the Company determined that the investment has had an additional other than temporary decline in value. This determination was based on, among other factors, a continued drop in market price for the investment company's main product and a continued decline in the share price of the investment company. The fair value of the investment at 31 January 2009 was US\$57,000. During the year the Company recorded investment losses totaling \$1,365,000 due to declines in value.

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13. Financial Instruments and Risk Management

Categories of financial assets and liabilities

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for-trading; held to maturity investment; loans and receivables; available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	31 July 2009	31 January 2009
Held-for-trading (1)	\$ 3,252	\$ 7,354
Available-for-sale	129	57
Loans and receivables	94	69
Other financial liabilities (2)	33,774	28,053

(1) Includes cash and equivalents.

(2) Includes accounts payable 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. The fair values of the Company's financial instruments are not materially different from their carrying values.

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange), 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.

Foreign exchange risk

The Company incurs expenditures in Canada and in the United States. The functional and reporting currency of the Company is the United States dollar. Foreign exchange risk arises because the amount of Canadian dollar cash and equivalents, receivables, investment or payables 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.

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13. Financial Instruments and Risk Management - continued

As at 31 July 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	31 July 2009	31 January 2009
Held-for-trading (1)	\$ 376	\$ 155
Available-for-sale	129	57
Loans and receivables	49	34
Other financial liabilities (2)	<u>(58)</u>	<u>(255)</u>
	\$ 496	\$ (9)

(1) Includes cash and equivalents.

(2) Includes accounts payable and accrued liabilities.

Based on the above net exposures, as at 31 July 2009, a 10% change in the Canadian / United States exchange rate would impact the Company's earnings by \$50,000.

Credit risk

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

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.

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.

As at 31 July 2009, the Company is exposed to interest rate risk through the following assets and liabilities:

	31 July 2009	31 January 2009
Held-for-trading (1)	\$ 3,252	\$ 7,354
Other financial liabilities (2)	30,527	25,256

(1) Includes cash and equivalents.

(2) Represents long-term debt (Note 5) and convertible debt (note 7).

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Unaudited – prepared by management

13. Financial Instruments and Risk Management - *continued*

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.

As at 31 July 2009, the Company is exposed to investment risk through the following assets:

	31 July 2009	31 January 2009
Available-for-sale (1)	\$ 129	\$ 57

(1) Includes investment.

POLYMET MINING CORP.
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FORM 51-102F1

For the period ended 31 July, 2009

US Funds

General

The following information, prepared as at 14 September 2009, should be read in conjunction with the unaudited interim consolidated financial statements of PolyMet Mining Corp. (the "Company" or "PolyMet") for the period ended 31 July 2009 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 contains certain forward-looking statements concerning anticipated developments in PolyMet's operations in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. These forward-looking statements may include statements regarding exploration results and budgets, mineral resource and mineral reserve estimates, work programs, capital expenditures, timelines including timelines for third-party studies and issuance of permit to operate by various government agencies, strategic plans, the market price of metals, costs, or other statements that are not a statement of fact. Forward-looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated in such statements due to a variety of risks, uncertainties and other factors. PolyMet's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and PolyMet does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations and opinions should change.

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

Specific reference is made to PolyMet's most recent Form 20-F/Annual Information Form on file with the SEC and Canadian securities authorities for a discussion of some of the factors underlying forward-looking statements.

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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 only mineral property and principal focus is the commercial development of its NorthMet Project, a polymetallic project in northeastern Minnesota, USA which hosts copper, nickel, cobalt and platinum group metal mineralization.

Asset Acquisitions

On 15 November 2005 the Company, through its Minnesota subsidiary (Poly Met Mining, Inc.), completed the early exercise of PolyMet's option with Cleveland Cliffs, Inc. (NYSE:CLF) ("Cliffs") to acquire the Erie Plant, which is located 10 kilometers (6 miles) west of the 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 when 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 capacity, comprehensive spare parts, plant site buildings, real estate, tailings impoundments and mine workshops, as well as access to extensive mining infrastructure including roads, rail, water, and power. A new hydrometallurgical plant is planned to be installed adjacent to the existing mill on surplus land.

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

On 20 December 2006 the Company acquired from Cliffs, property and associated rights sufficient to provide it with a railroad connection linking the mine development site and the Erie Plant. This transaction also included 120 railcars, locomotive 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.

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

Feasibility Study, Mineral Resources and Mineral Reserves

With publication of the Definitive Feasibility Study ("DFS") in September 2006, summarized in a Technical Report under National Instrument 43-101 ("NI 43-101"), PolyMet established SEC-standard mineral reserves. Proven and probable mineral reserves were estimated at 181.7 million short tons grading 0.31% copper, 0.09% nickel, and 0.01 ounces per ton ("opt") of precious metals. In September 2007, PolyMet reported an expansion in these proven and probable mineral reserves to 274.7 million short tons grading 0.28% copper, 0.08% nickel, and 0.01 opt of precious metals (palladium, platinum and gold).

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

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The reserves lie within measured and indicated mineral resources that were expanded to 638.2 million tons grading 0.27% copper, 0.08% nickel and 0.01 opt of precious metals (palladium, platinum and gold). In addition, inferred mineral resources total 251.6 million tons grading 0.28% copper, 0.08% nickel, and 0.01 opt of precious metals.

PolyMet has transitioned into detailed engineering in preparation for the start of construction. This includes detailed planning for the construction phase, commencement of detailed design work, and scheduling long lead-time equipment. As a result of continuing economic and financial market instability which started in mid 2008, there is some uncertainty about commodity prices, which could have an effect on both capital and operating costs as well as revenues, and delivery times for long lead-time equipment have shortened. In light of these developments, the Company has scaled back detailed engineering and design work that is not needed for permitting and has deferred placing orders for equipment.

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 (under twelve months) and reduced capital costs prior to first revenues (\$312 million versus \$380 million) despite the inclusion of an estimated \$65 million of additional measures to protect the environment;
- 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, including \$20 million of additional environmental measures, 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.

Environment and Schedule

In January 2007, the Company submitted a Detailed Project Description (“DPD”) to state and federal regulators. The DPD lays out the Company’s development plans and proposed environmental safeguards. Since then, the Company has submitted a supplemental DPD as well as more than 100 supporting research studies. Independent environmental contractors (“the EIS Contractor”) retained by the Minnesota Department of Natural Resources (“MDNR”) are preparing the Environmental Impact Statement (“EIS”) for the Project.

The draft EIS will be an assessment of potential environmental, social and economic effects of the proposed project, comprising 19 chapters and major subchapters. On December 22, 2008, the MDNR provided a preliminary version of the draft EIS to PolyMet and various government agencies. These groups completed their reviews and submitted extensive comments to the MDNR.

The MDNR is working with the EIS contractor to incorporate comments and analysis to ensure that the draft EIS meets the MDNR’s standard of thoroughness and accuracy. Significant

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progress has been made completing the final revisions. The MDNR is expected to complete the draft EIS and have it available for publication before the end of the third quarter of 2009.

Once the draft EIS is published, non-government organizations, government agencies and the public will have an opportunity to comment. The final EIS will incorporate analysis and appropriate responses to comments. The issuance of a final EIS would allow the MDNR to issue environmental and operating permits. Prior to receipt of these permits, the Company intends to secure production debt financing that would be available upon receipt of key permits, with construction slated to start upon availability of construction finance.

Construction of NorthMet is expected to be made up of four major components:

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

Key Developments

On 5 May 2009, the Company announced that in completing the draft EIS, the MDNR and the U.S. Army Corps of Engineers (jointly the "Lead Agencies"), working with other government agencies and PolyMet, are completing a final review of options to minimize the potential environmental impacts of the proposed NorthMet project. As part of this final review, PolyMet has undertaken some additional confirmatory analysis leading to final determinations on mitigation measures to be proposed in the draft EIS. The draft EIS is expected to be completed and available for publication in the third quarter of 2009.

In May 2009, the Company determined that Milestone 2 of its Bonus Share Plan, the negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity investment in the Company by such a producer or producers, had been achieved. As a result, the Company issued the related 1,300,000 common shares to certain Directors and insiders in June 2009.

On 18 June 2009 the Company received \$5 million under an existing convertible debenture agreement. On 31 August 2009 PolyMet received an additional \$5 million under the convertible debentures agreement.

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

On 27 August 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"). After this universal shelf registration is declared effective by the SEC and approved by Canadian regulatory authorities, PolyMet will 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.

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For the period ended 31 July, 2009

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Results of Operations

For the three months ended 31 July 2009 (the “2010 second quarter”) compared to the three months ended 31 July 2009 (the “2009 second quarter”)

a) Loss for the Period:

During the three months ended 31 July 2009, the Company incurred a loss of \$1,035,000 (\$0.01 loss per share) compared to a loss of \$1,666,000 (\$0.01 loss per share) in the fiscal 2009 second quarter. The decrease in the net loss for the period was primarily attributable to:

- An other than temporary impairment of investment loss of \$724,000 in the prior year period (current year period - \$nil), partially offset by
- An increase in stock based compensation expense to \$332,000 (prior year period - \$172,000) predominantly due to the extension of the term of all PolyMet stock options outstanding at 24 June 2009 by two years which was approved by the disinterested shareholders at the Company's Annual and Special of shareholders on 24 June 2009.

Effective 1 February 2009, the Company adopted CICA Section 3064 - Goodwill and Intangible Assets. As a result of this standard, the CICA withdrew EIC 27, Revenue and Expenses during the pre-operating period. With the withdrawal of EIC 27, the Company is no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted in the Company retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in its consolidated financial statements. The impact on the financial statements was a reduction in the mineral property book value and a corresponding increase in deficit of \$1,157,000 at 31 January 2009. The impact in the quarter ended 31 July 2009 was an asset retirement accretion expense of \$101,000 (31 July 2008 - \$111,000).

b) Cash Flows:

Cash used in operating activities in the three months ended 31 July 2009 was \$724,000 compared to cash provided in the three months ended 31 July 2008 of \$744,000. The variance in cash related to operating activities is primarily due to changes in non-cash working capital balances.

Cash provided by financing activities for the three months ended 31 July 2009 was \$4,724,000 (prior year period – use of \$8,000). The 2010 first quarter activity was primarily due to net funding from issuance of convertible debentures of \$4,984,000 (prior year period - \$nil) and the scheduled repayment of \$250,000 of debt (prior year period - \$400,000). In the prior year period \$407,000 was raised (current year period - \$nil) from the issuance of common shares on the exercise of stock options.

Cash used in investing activities for the three months ended 31 July 2009 was \$3.798 million compared with \$6.362 million in the three months ended 31 July 2008, with the decrease being primarily the result of lower engineering and project costs in the current year period as the Company scaled back detailed engineering and design work that is not needed for permitting.

Total cash for the three months ended 31 July 2009 increased by \$202,000 for a balance of \$3,252,000 compared to the three months ended 31 July 2008 where cash decreased \$5,626,000 to a balance of \$6,396,000.

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c) Capital Expenditures:

During the three months ended 31 July 2009 the Company capitalized \$5.672 million (2008 - \$7.400 million) of costs primarily directly related to site activity, bonus share accrual, the draft EIS and permitting as well as engineering and project planning costs.

For the six months ended 31 July 2009 compared to the six months ended 31 July 2008

a) Loss for the Period:

During the six months ended 31 July 2009, the Company incurred a loss of \$2,017,000 (\$0.01 loss per share) compared to a loss of \$2,743,000 (\$0.02 loss per share) in the prior year period. The decrease in the net loss for the period was primarily attributable to:

- An other than temporary impairment of investment loss of \$903,000 in the prior year period (current year period - \$nil), partially offset by
- An increase in stock based compensation expense to \$785,000 (prior year period - \$334,000) predominantly due to the granting of additional stock options in the first quarter and the extension of the term of all PolyMet stock options outstanding at 24 June 2009 by two years which was approved by the disinterested shareholders at the Company's Annual and Special of shareholders on 24 June 2009.

b) Cash Flows:

Cash used in operating activities in the six months ended 31 July 2009 was \$611,000 compared to cash used in the six months ended 31 July 2008 of \$697,000.

Cash provided by financing activities for the six months ended 31 July 2009 was \$4,662,000 compared with cash used of \$500,000 in the prior year period. The activity in the first six months of 2009 was primarily due to the net funding from issuance of convertible debentures of \$4,956,000 (prior year period - \$nil), \$231,000 from the issuance of common shares on exercise of stock options (prior year period - \$420,000) and scheduled repayment of \$500,000 of debt (prior year period - \$900,000).

Cash used in investing activities for the six months ended 31 July 2009 was \$8.153 million compared with \$12.491 million in the six months ended 31 July 2008, with the increase being primarily the result of higher engineering, project and environmental / permitting costs in the current year period as the Company scaled back detailed engineering and design work that is not needed for permitting.

Total cash for the six months ended 31 July 2009 decreased by \$4.102 million for a balance of \$3.252 million compared to the prior year period where cash decreased \$13.688 million to a balance of \$6.396 million.

c) Capital Expenditures:

During the six months ended 31 July 2009 the Company capitalized \$11.710 million (2008 - \$13.009 million) of costs primarily directly related to site activity, bonus share accrual, the draft EIS and permitting as well as engineering and project planning costs.

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Summary of Quarterly Results

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

Three Months Ended	July 31 2009 \$	Apr. 30 2009 \$	Jan. 31 2009 \$	Oct. 31 2008 \$	July 31 2008 \$	Apr. 30 2008 \$	Jan. 31 2008 \$	Oct. 31 2007 \$
Total Revenues	-	-	-	-	-	-	-	-
General and Administrative	(1,089)	(1,009)	(894)	(898)	(1,017)	(1,018)	(1,225)	(1,096)
Other Income (Expenses)	54	27	(7)	(437)	(649)	(59)	(798)	611
Net Loss	(1,035)	(982)	(901)	(1,335)	(1,666)	(1,077)	(2,023)	(485)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)

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

Investment losses of \$93,000, \$369,000, \$724,000, \$179,000 and \$1,050,000 were recorded in the quarters ended 31 January 2009, 31 October 2008, 31 July 2008, 30 April 2008 and 31 January 2008, respectively. There were no investment losses recorded in the other quarters.

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

1. 31 July 2009 - \$332,000
2. 30 April 2009 - \$453,000
3. 31 January 2009 - \$73,000
4. 31 October 2008 - \$80,000
5. 31 July 2008 - \$172,000
6. 30 April 2008 - \$162,000
7. 31 January 2008 - \$39,000
8. 31 October 2007 - \$80,000

Each of the quarterly results from 31 January 2009 to 31 October 2007 have been restated to reflect the adoption of CICA 3064 and the related withdrawal of EIC 27. As a result of the withdrawal, asset retirement obligation accretion expenses which the Company had previously capitalized to mineral property have been expensed. As a result, the general and administrative expense and net loss in the periods have increased by the following amounts:

1. 31 January 2009 - \$115,000
2. 31 October 2008 - \$114,000
3. 31 July 2008 - \$111,000
4. 30 April 2008 - \$103,000
5. 31 January 2008 - \$114,000
6. 31 October 2007 - \$111,000

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Financing Activities

During the six months ended 31 July 2009 the Company issued 475,000 shares (prior year period – 250,300) upon exercise of options for proceeds of \$231,000 (prior year period - \$420,000).

On 18 June 2009 the Company received \$5 million under an existing convertible debenture agreement. On 31 August 2009 PolyMet received an additional \$5 million under the convertible debentures agreement.

On 27 August 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”). After this universal shelf registration is declared effective by the SEC, PolyMet will 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.

Liquidity and Capital Resources

As at 31 July 2009 the Company had a working capital deficiency of \$1.525 million compared with working capital of \$3.582 million at 31 January 2009 consisting primarily of cash of \$3.252 million (31 January 2009 - \$7.354 million), prepaids of \$318,000 (31 January 2009 - \$470,000), accounts payable and accrued liabilities of \$3.247 million (31 January 2009 - \$2.797 million), the current portion of the notes to Cliffs of \$1.750 million (31 January 2009 - \$1.250 million) and the current portion of asset retirement obligations of \$321,000 (31 January 2009 - \$321,000). The Company expects to pay the remaining balance of \$9.306 million (31 January 2009 - \$10.063 million) long term notes to Cliffs and the convertible debt principal balance of \$20 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 31 July 2009 the Company, in addition to its obligation to Cliffs and Glencore as described herein, has obligations to issue shares under the Company’s Bonus Share Plan. The Company has received shareholder approval for the Bonus Shares of Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval, which will be sought in 2009. To 31 July 2009, 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 28 May 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 17 June 2008 of US\$3.80 per share, the date of the approval of the bonus plan by the disinterested shareholders. The Company also has outstanding firm commitments of \$1,100,000.

In May 2009, the Company determined that Milestone 2 of its Bonus Share Plan, the negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity investment in the Company by such a producer or producers, had been achieved. As a result, the Company issued the related 1,300,000 common shares to certain directors and insiders.

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

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operations. Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due.

The Company has taken steps to fund its operations through the issuance of equity and debt. It plans to meet its financial obligations to the point at which all regulatory approvals for its NorthMet project have been obtained and which will allow the Company to raise capital to construct its mine and commence commercial production. Management believes that the negotiation of a convertible debenture for \$50 million in 2008 will be sufficient to meet its obligations until it is able to raise capital to construct its mine. Three tranches of the convertible debenture amounting to \$20 million were advanced to the Company by 31 July 2009. On 31 August 2009 PolyMet received an additional \$5 million under the convertible debentures agreement. Funding of the fifth tranche of \$25 million requires the Company to achieve certain milestones and conditions. One of these conditions is for the Company to obtain the consent of RGGGS Land & Minerals Ltd., L.P. and Cliffs to allow the debenture holder to obtain a mortgage over certain of the Company's assets. In the event that the milestones and conditions laid out in the convertible debenture are not met, or waived by the Debenture holder, or their achievement is delayed the Company may be forced to curtail or delay expenditures, sell assets or seek additional financing sources. All of these circumstances may delay the progress of or affect the ultimate success of the Company's plans.

Management of the Company has developed plans which, in the event of delays of the achievement of milestones under the convertible debenture, involve the curtailment or postponement of certain activities, the sale of assets and the provision of additional sources of finance. However, there is no assurance that management will be successful in achieving any or all of the opportunities it has identified or obtain sufficient liquidity to execute its business plans.

Should the Company wish to continue to further advance the NorthMet Project to commercial production PolyMet will require additional funds. As the Company has no operating revenues, the only source of liquidity consists primarily of cash from proceeds of project debt, other debt and equity financing.

Shareholder Rights Plan

Effective 25 May 2007, the Company adopted an updated Shareholder Rights Plan ("Rights Plan"), which was approved by the Company's shareholders on 27 June 2007 and modified by the Company's shareholders on 17 June 2008. 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 4 December 2003. All common shares subsequently issued by the Company during the term of the Rights Plan will have one right represented for each common share held by the shareholder of the Company. The term of the Rights Plan is 10 years, unless the rights are earlier redeemed or exchanged. The Rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of the Company's common shares without complying with the Rights Plan or without the approval of the Board of Directors of the Company.

Each Right entitles the registered holder thereof to purchase from the Company on the occurrence of certain events, one common share of the Company at the price of CDN\$50 per share, subject to adjustment (the "Exercise Price"). However, if a Flip-in Event (as defined in the Rights Plan) occurs, each Right would then entitle the registered holder to receive, upon payment of the Exercise Price, that number of common shares that have a market value at the

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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.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Related Party Transactions

The Company has conducted transactions with officers, directors and persons or companies related to directors and paid or accrued amounts as follows:

(All figures in thousands of U.S. dollars)

	Six months ended 31 July 2009	Six months ended 31 July
Consulting fees paid to David Dreisinger, a Director of the Company	28	33
Rent and charges paid to a company of which the Executive Chairman is a director	-	6
	28	39

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

During the six months ended 31 July 2009, the Company paid \$28,000 (31 July 2008 - \$33,000) to Dr. Dreisinger for consulting fees primarily in connection with activities related to the processing / technical side of the NorthMet project and related expenses (the latter were supported by invoices and receipts). The consulting fees were based on a monthly fee of Canadian \$5,500 plus general sales tax. Throughout the term of his engagement, Dr. Dreisinger has conducted in-person and telephonic meetings with Mr. William Murray, the Company's Executive Chairman, and other members of management at which he provided both verbal and written updates on the status of test work and made recommendations for future activities. These meetings occurred approximately every two to three weeks for the past five years.

The agreement with Dr. Dreisinger was entered into at a time when the Company's current business plans were being formulated and it was month to month and oral in nature. The agreement was approved by Mr. William Murray. It was discussed with the Company's board of directors who did not consider that a formal approval and written contract was necessary at that time. The Company believes that the contract was at terms at least as good as could be obtained from third parties.

During the six months ended 31 July 2009, the Company paid \$nil (31 July 2008 - \$6,000) to Baja Mining Corp. ("Baja") primarily for health insurance plan costs. The agreement between Baja and the Company was oral in nature. Mr. Murray ceased being a Director of Baja in June 2008. Effective 1 September 2008, the Company ceased paying the health insurance plan costs to Baja.

The Company believes that the contract with Baja was at terms that were fair to the parties involved.

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Proposed Transactions

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

Subsequent Events

On 27 August 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"). After this universal shelf registration is declared effective by the SEC, PolyMet will 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.

On 31 August 2009 PolyMet received an additional \$5 million under the convertible debentures agreement.

Changes in Accounting Policies Including Initial Adoption

The Company has adopted the following CICA standards effective for the Company commencing February 1, 2009:

- (i) Section 3064 - Goodwill and Intangible Assets. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and other intangible assets. As a result of this standard, the CICA withdrew EIC 27, Revenue and Expenses during the pre-operating period. With the withdrawal of EIC 27, the Company is no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted in the Company retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in its consolidated financial statements. The impact on the financial statements was a reduction in the mineral property book value and a corresponding increase in deficit of \$1,157,000 at 31 January 2009. The impact in the quarter ended 31 July 2009 was an asset retirement accretion expense of \$101,000 (31 July 2008 - \$111,000).
- (ii) EIC – 173 – Credit Risk and Fair Value of Financial Assets and Liabilities. This standard provides guidance on how to take into account credit risk of an entity and counterparty when determining fair value of financial assets and financial liabilities. The adoption of this standard did not have any effect on the Company's financial statements.
- (iii) EIC – 174 – Mining Exploration Costs. This standard provides guidance on the accounting and impairment review of exploration costs. The adoption of this standard did not have any effect on the Company's financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require the restatement for

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comparative purposes of amounts reported by the Company for the year ended 31 January 2011.

In preparation for the changeover from GAAP to IFRS, the Company commenced the planning process during the second quarter of fiscal 2009. Specific initiatives are underway and others have been planned for transitioning from GAAP to IFRS. Current status of the project is as follows:

Resources

- Management has retained the service of a major public accounting firm to provide advisory technical assistance for the project, and
- The Company will continue to invest in training and resources to ensure a timely and effective conversion.

Process

- A diagnostic assessment of the key impact areas was completed;
- A detailed assessment of accounting and measurement differences between IFRS and Canadian GAAP on current accounting policies, as well as new policies anticipated to be implemented as the Company transitions to becoming a producer is currently underway;
- Initial findings and observations for the work completed to date will serve as an input in establishing the key parameters to develop solutions during the design phase of the project;
- An initial assessment of exemptions available under IFRS 1, "First-time Adoption of IFRS" is underway;
- The Company's audit committee is monitoring progress and is kept informed of issues identified, and
- The Company's external auditor is advised of the progress status and issues identified.

Management anticipates that there will be changes in accounting policies and these changes may materially impact the financial statements.

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Other MD&A Requirements

Outstanding Share Data

Authorized Capital:

Unlimited common shares without par value.

Issued and outstanding:

As at 8 September 2009, 139,078,875 common shares were issued and outstanding.

Outstanding options, warrants and convertible securities as at 8 September 2009:

Type of Security	Number	Exercise Price (US\$)	Expiry Date
Common share warrants	4,010,000	3.00	13 October 2009 (Note1)
Common share warrants	1,100,000	4.00	30 October 2010
Common share warrants	4,010,000	(Note 1)	August 31, 2011
Stock options	825,000	0.61	05 July 2011
Common share warrants	6,250,000	(Note 2)	30 September 2011
Stock options	50,000	0.73	18 October 2011
Stock options	85,000	0.60	30 March 2012
Stock options	350,000	0.79	1 May 2012
Stock options	40,000	0.87	15 June 2012
Stock options	1,540,000	1.26	19 September 2012
Stock options	200,000	1.11	24 October 2012
Stock options	200,000	1.06	5 December 2012
Stock options	2,900,000	2.55	20 March 2013
Stock options	325,000	2.75	19 June 2013
Stock options	300,000	3.54	1 September 2013
Stock options	75,000	3.25	22 September 2013
Stock options	525,000	3.05	5 January 2014
Stock options	1,250,000	2.99	13 February 2014
Stock options	400,000	2.88	8 March 2014
Stock options	250,000	2.92	12 March 2014
Stock options	50,000	2.89	23 March 2014
Stock options	360,000	3.00	4 September 2014
Stock options	205,000	3.05	12 December 2014
Stock options	70,000	3.03	11 January 2015
Stock options	100,000	2.87	31 January 2015
Stock options	500,000	2.72	15 February 2015
Stock options	100,000	3.92	2 June 2015
Stock options	175,000	3.22	30 July 2015
Stock options	915,000	0.82	30 January 2016
Stock options	1,410,000	0.82	17 February 2016

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Note 1: On 10 October 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 its April 2007 private placement to exchange those warrants into:

- 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share at any time until the sooner of 30 calendar days after publication of the draft Environmental Impact Statement by the State of Minnesota in the state's Environmental Quality Board Monitor and October 13, 2009, and
- 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$5.00 if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter and prior to August 31, 2011. PolyMet can accelerate the expiration of the warrants if PolyMet's volume-weighted 20-day average stock price trades at a 50% premium to the exercise price applicable at any time.

Note 2: Each warrant entitles the holder to purchase one share of PolyMet common stock at US\$5.00 if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter and prior to August 31, 2011. PolyMet can accelerate the expiration of the warrants if PolyMet's volume-weighted 20-day average stock price trades at a 50% premium to the exercise price applicable at any time.

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

Effective 25 May 2007, the Company adopted a new Omnibus Share Compensation Plan ("Stock Option Plan"), which was approved by the Company's shareholders' on 27 June 2007. The Stock Option Plan covers the Company's employees, directors, officers and consultants. The options are granted for varying terms ranging from two to five years. The maximum number of common shares under the stock option plan shall not exceed (i) 10% of the outstanding common shares of the Company at the time of granting of the options and (ii) 18,592,888 common shares of the Company, of which 3,640,000 common shares are reserved for issuance as awards other than options.

Risks and Uncertainties

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described in PolyMet's Form 20-F/Annual Information Form for the year ended 31 January 2009 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 31 January 2009 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

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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 months ended 31 July 2009 that have materially affected, or are reasonably likely to materially affect, 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 www.sec.gov, and at the Company's website www.polymetmining.com.

FORM 52 – 109F2
CERTIFICATION OF INTERIM FILINGS

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

1. **Review:** I have reviewed the interim financial statements and interim MD & A, (together, the “interim filings”) of PolyMet Mining Corp. (the “issuer”) for the interim period ended July 31, 2009.
2. **No Misrepresentations:** Based on my knowledge, having exercised all 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 all reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations 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 and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls 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 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 of the issuer’s other certifying officer 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 MD&A any change in the issuer's ICFR that occurred during the period beginning on February 1, 2009 and ended on July 31, 2009 that materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: September 14, 2009

"Joseph Scipioni" (signed)

Joseph Scipioni

President & Chief Executive Officer

FORM 52 – 109F2
CERTIFICATION OF INTERIM FILINGS

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

1. **Review:** I have reviewed the interim financial statements and interim MD & A, (together, the “interim filings”) of PolyMet Mining Corp. (the issuer) for the interim period ended July 31, 2009.
2. **No Misrepresentations:** Based on my knowledge, having exercised all 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 all reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations 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 and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls 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 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 of the issuer’s other certifying officer 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 MD&A any change in the issuer's ICFR that occurred during the period beginning on February 1, 2009 and ended on July 31, 2009 that materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: September 14, 2009

“*Douglas Newby*” (signed)
Douglas Newby
Chief Financial Officer