

POLYMET MINING CORP.
(a development stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

31 October 2010

U.S. Funds

Suite 390 – 3600 Lysander Lane, Richmond, British Columbia, Canada, V7B 1C3

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

As at 31 October and 31 January

All figures in Thousands of U.S. Dollars
(unaudited)

ASSETS	31 October 2010	31 January 2010
Current		
Cash and equivalents	\$ 4,994	\$ 21,282
Accounts receivable and advances	96	88
Investment	88	140
Prepaid expenses	746	512
	5,924	22,022
Deferred Financing Costs (Note 11c)	-	1,794
Mineral Property, Plant and Equipment (Notes 3 and 4)	128,993	115,832
	\$ 134,917	\$ 139,648
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,876	\$ 2,953
Current portion of long term debt (Note 5)	2,000	2,000
Current portion of asset retirement obligation (Note 6)	992	756
	4,868	5,709
Long term		
Long term debt (Note 5)	7,050	8,529
Convertible debt (Note 7)	26,730	25,253
Asset retirement obligation (Note 6)	2,492	2,590
	41,140	42,081
SHAREHOLDERS' EQUITY		
Share Capital - (Note 8)	132,881	132,066
Contributed Surplus - (Note 8d))	35,991	36,979
Accumulated Other Comprehensive Income	17	71
Deficit	(75,112)	(71,549)
	93,777	97,567
Total Liabilities and Shareholders' Equity	\$ 134,917	\$ 139,648

Nature of Business and Liquidity Risk (Note 1)

Subsequent Events (Notes 3, 7 and 8e))

Contingent Liabilities and Commitments (Notes 4, 6 and 11)

ON BEHALF OF THE BOARD:

"William Murray" Director

"David Dreisinger" Director

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

For the Periods Ended 31 October

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

	Three months ended 31 October 2010	Three months ended 31 October 2009	Nine months ended 31 October 2010	Nine months ended 31 October 2009
General and Administrative				
Amortization	\$ 8	\$ 9	\$ 23	\$ 23
Asset retirement obligation accretion	97	104	283	300
Consulting fees	16	7	32	25
Exploration	-	-	193	-
Financing costs write-off (Note 11c))	-	-	1,830	-
Investor relations and financing	4	156	63	277
Office and corporate wages	297	299	947	880
Professional fees	36	22	135	121
Shareholders' information	48	68	255	207
Stock-based compensation (Notes 8 b) and c))	(203)	97	(169)	882
Transfer agent and filing fees	25	17	87	42
Travel	50	104	204	224
	<u>378</u>	<u>883</u>	<u>3,883</u>	<u>2,981</u>
Other Expenses (Income)				
Interest income, net	29	(1)	27	(4)
Loss (gain) on foreign exchange	(8)	(12)	(40)	(12)
Future income tax recovery (Note 8e))	(171)	-	(171)	-
Rental income	(18)	(29)	(136)	(107)
	<u>(168)</u>	<u>(42)</u>	<u>(320)</u>	<u>(123)</u>
Loss for the Period	\$ 210	\$ 841	\$ 3,563	\$ 2,858
Other Comprehensive Income				
Unrealized gain (loss) on investment	19	37	(54)	96
Comprehensive Loss	<u>191</u>	<u>804</u>	<u>3,617</u>	<u>2,762</u>
Loss for the Period	210	841	3,563	2,858
Deficit – Beginning of the Period	<u>74,902</u>	<u>63,999</u>	<u>71,549</u>	<u>61,982</u>
Deficit – End of the Period	\$ 75,112	\$ 64,840	\$ 75,112	\$ 64,840
Basic and Diluted Loss per Share	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.02
Weighted Average Number of Shares	149,463,703	139,078,875	149,167,531	138,467,337

- 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

Common Shares (Note 8)

	Authorized Shares	Shares	Amount	Contributed Surplus	Other Comprehensive Income	Deficit	Total
Balance – 31 January 2009	Unlimited	137,303,875	\$ 105,312	\$ 27,549	\$ -	\$ (62,526)	\$ 70,335
Loss for the year	-	-	-	-	-	(9,023)	(9,023)
Other comprehensive income for the period	-	-	-	-	71	-	71
Shares and warrants issued:							
Equity offering and issuance costs	-	9,433,962	24,501	-	-	-	24,501
Exercise of options	-	775,000	477	-	-	-	477
Fair value of stock options exercised	-	-	307	(307)	-	-	-
Exercise of warrants	-	167,954	494	-	-	-	494
Fair value of warrants exercised	-	-	254	(254)	-	-	-
Convertible debt – conversion factor and warrants (Note 7)	-	-	-	352	-	-	352
Accrual of Milestones 2 and 4 Bonus Shares (Note 11)	-	-	-	4,200	-	-	4,200
Amendment to previously issued warrants (Notes 7 and 8e))	-	-	-	4,920	-	-	4,920
Issuance of Milestone 2 Bonus Shares (Note 11)	-	1,300,000	721	(721)	-	-	-
Stock-based compensation (Note 8c))	-	-	-	1,240	-	-	1,240
Balance – 31 January 2010	Unlimited	148,980,791	\$ 132,066	\$ 36,979	\$ 71	\$ (71,549)	\$ 97,567
Loss for the period	-	-	-	-	-	(3,563)	(3,563)
Other comprehensive income for the period	-	-	-	-	(54)	-	(54)
Shares and warrants issued:							
Exercise of options	-	545,000	516	-	-	-	516
Fair value of stock options exercised	-	-	299	(299)	-	-	-
Milestone 4 Bonus Share cost amortization (Note 11)	-	-	-	(457)	-	-	(457)
Future income tax recovery (Note 8e))	-	-	-	(171)	-	-	(171)
Stock-based compensation (Note 8c))	-	-	-	(61)	-	-	(61)
Balance – 31 October 2010	Unlimited	149,525,791	\$ 132,881	\$ 35,991	\$ 17	\$ (75,112)	\$ 93,777

Figures since 31 January 2010 unaudited, prepared by management

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)
Consolidated Statements of Cash Flows

For the Periods Ended 31 October

All figures in Thousands of U.S. Dollars
(unaudited)

	Three months ended 31 October 2010	Three months ended 31 October 2009	Nine months ended 31 October 2010	Nine months ended 31 October 2009
Operating Activities				
Loss for the period	(210)	(841)	(3,563)	(2,858)
Items not involving cash				
Amortization	8	9	23	23
Asset retirement obligation accretion	97	104	283	300
Financing costs write-off	-	-	1,830	-
Stock-based compensation	(203)	97	(169)	882
Future income tax recovery	(171)	-	(171)	-
Changes in non-cash working capital				
Accounts receivable and advances	6	(26)	(8)	(51)
Prepaid expenses	(47)	(14)	(234)	138
Accounts payable and accrued liabilities	(155)	281	(525)	515
Net cash (used in) operating activities	(675)	(390)	(2,534)	(1,051)
Financing Activities				
Share capital – for cash	321	-	516	231
Convertible debt	-	4,988	-	9,944
Deferred financing costs	-	(224)	(36)	(249)
Long-term debt repayment	(500)	(250)	(1,500)	(750)
Net cash provided by (used in) financing activities	(179)	4,514	(1,020)	9,176
Investing Activities				
Purchase of mineral property, plant and equipment	(3,771)	(4,450)	(12,734)	(12,553)
Net cash used in investing activities	(3,771)	(4,450)	(12,734)	(12,553)
Net Decrease in Cash and Cash Equivalents Position	(4,625)	(326)	(16,288)	(4,428)
Cash and Cash Equivalents Position – Beginning of Period	9,619	3,252	21,282	7,354
Cash and Cash Equivalents Position – End of Period	4,994	2,926	4,994	2,926

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

31 October 2010

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 primary mineral property is the NorthMet Project, a polymetallic project in northeastern Minnesota, USA. The realization of the Company’s investment in the NorthMet Project and other assets is 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.

Liquidity Risk

These interim unaudited 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.

In the past the Company has taken steps to fund its operations through the issuance of equity and debt. It plans to meet its ongoing financial obligations to the point at which all regulatory approvals for its NorthMet project have been obtained, which will allow the Company to raise additional capital to construct its mine and commence commercial production. In the event that currently available resources are not sufficient to meet these obligations, 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.

Subsequent to the end of the quarter, the Company entered into an agreement with Glencore AG (“Glencore”) whereby Glencore will purchase \$30 million of the Company’s common stock in three tranches, the exact timing to reflect the Company’s funding requirements under a budget that has yet to be finalized (Note 7). Glencore has previously invested \$50 million into PolyMet in the form of equity and debt in a total of six separate tranches.

Notes to Consolidated Financial Statements

31 October 2010

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. In the opinion of management, all of the adjustments necessary to fairly present the consolidated financial statement set forth herein have been made. 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 2010. Significant differences from United States generally accepted accounting principles are disclosed in Note 13.

3. Resource Property Agreements

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

Pursuant to an agreement dated 4 January 1989, subsequently amended and assigned, the Company leases certain lands in St. Louis County, Minnesota from RGGGS Land & Minerals Ltd., L.P. The original term of the renewable lease was 20 years and called for total lease payments of \$1,475,000. The Company has renewed the lease by making annual payments of \$150,000 on or before each anniversary through January 2011.

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

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

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

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

31 October 2010

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4. Mineral Property, Plant and Equipment

Details are as follows:

	31 October 2010 Net Book Value	31 January 2010 Net Book Value
31 October 2010		
Mineral Property Acquisition and Interest Costs	\$40,361	\$38,613
Mine Plan and Development	28,660	25,470
Environmental	24,322	19,537
Consulting and Wages	20,628	18,788
Operations	9,041	7,641
Mine Equipment	4,071	3,790
Asset Retirement Obligation	1,637	1,781
NorthMet Project	128,720	115,620
Leasehold improvements	10	17
Computers	220	142
Furniture and equipment	43	53
	128,993	\$115,832

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 Cleveland Cliffs Inc. (NYSE:CLF) (“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 of the notes payable 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 was payable until 31 December 2009 after which it is payable quarterly at the *Wall Street Journal* Prime Rate. Accordingly the debt was fair valued, for balance sheet purposes, by discounting it at 8.25%.

PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

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4. Property, Plant and Equipment - continued

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 \$3,484,000 (Note 6) less accretion of \$1,842,000 charged to deficit 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.

Interest and loan accretion on the long-term and convertible debt to 31 October 2010 in the amount of \$6,324,000 (31 January 2010 - \$4,608,000) 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 October 2010.

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 is being paid in quarterly instalments equal to \$250,000 commencing on 31 December 2009 for total repayment of \$7,000,000. No interest was 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 October 2010 the outstanding long term debt was as follows:

	31 October 2010	31 January 2010
Notes payable	\$ 9,000	\$ 10,499
Accrued interest	50	30
Total debt	9,050	10,529
Less current portion	(2,000)	(2,000)
Long term debt	\$ 7,050	\$ 8,529

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Notes to Consolidated Financial Statements

31 October 2010

Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
Unaudited – prepared by management

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 October 2010 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 October 2010 was \$3,484,000 (31 January 2010 - \$3,346,000). These were based upon a 31 October 2010 undiscounted future cost of \$21.5 million for the first Cliffs transaction and \$1.9 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.

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency ("MPCA") relating to alleged violations on the Cliffs Erie Property. This consent decree required submission of Field Study Plan Outlines, which has been approved by the MPCA, and Short Term Mitigation Plans which have not yet been formally approved. As part of its prior transactions with Cliffs (Note 4), PolyMet has agreed to indemnify Cliffs for certain on-going site environmental liabilities. As such, the Company has included its best estimate of the liabilities related to this consent decree in its asset retirement obligation for the period ended 31 October 2010.

7. Convertible Debt

	Nine Months ended 31 October 2010	Year ended 31 January 2010
Balance - Beginning of period	25,253	13,943
Issued	-	10,000
Discount	-	(301)
Financing costs	-	(56)
Accretion and capitalized interest	1,477	1,667
Balance - End of period	26,730	25,253

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 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 October 2010, \$2,239,000 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.

Notes to Consolidated Financial Statements

31 October 2010

Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
Unaudited – prepared by management

7. Convertible Debt – continued

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 have been 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, US\$5 million of the Debentures were issued on 18 June 2009 and 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, were 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 ("Glencore Warrants") to purchase 6.25 million common shares of PolyMet at US\$5.00 if exercised before the NorthMet Project had produced a total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter. The Glencore Warrants were to expire on 30 September 2011. If the volume-weighted 20-day average price of PolyMet's common shares traded at a 50% premium to the then applicable exercise price, Glencore would have had to exercise the warrants within 30 days or the warrants would have expired.

The Company has accounted for the initial US\$7.5 million of the Debentures and the Glencore Warrants by allocating the US\$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, third and fourth advances of US\$7.5 million, US\$5 million and US\$5 million, respectively, of the Debentures by allocating the principal amounts 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 financings of \$43,000, \$16,000 and \$12,000, respectively, have been recorded against the convertible debt.

On 17 November 2009, the Company announced that it agreed to modify certain terms of the above transaction. Under the revised terms the Glencore Warrants entitle Glencore to purchase 6.25 million common shares of PolyMet at US\$3.00 at any time on or before 30 September 2011. If the 20-day volume weighted average price of PolyMet's shares had been 150% of the exercise price or more (\$4.50), and the Final EIS had been published in the Minnesota Department of Natural Resources EQB Monitor, PolyMet could have accelerated the expiration of the Glencore Warrants to not less than 21 business days after the notice of acceleration. The incremental \$158,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

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

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On 12 November 2010, the Company announced that it had renegotiated its debenture financing from Glencore. The agreed amendments to the debenture financing are as follows:

- The maturity date and, therefore accounting for accretion, of the Tranche A-D Debentures has been extended from September 30, 2011 to September 30, 2012. The Issued Debentures were issued in four tranches between October 2008 and September 2009. The total initial principal of the Debentures is US\$25 million with US\$2.334 million of accrued interest as of October 31, 2010. The Issued Debentures continue to be exchangeable into common shares of PolyMet at US\$4.00 per share, as agreed to in 2008.
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, US\$25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact Statement, receipt of a term sheet for construction financing, and other customary conditions.
- Cancellation of warrants to purchase 6.25 million common shares of PolyMet at US\$3.00 at any time until September 30, 2011 issued to Glencore in connection with Debentures.
- Issuance of warrants to purchase 3 million common shares of PolyMet at US\$2.00 at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above.

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

- Tranche 1 of US\$10 million is expected to close no later than January 17th, 2011;
- Tranche 2 of US\$10 million is expected to close no later than October 17th, 2011; and
- Tranche 3 of US\$10 million is expected to close on the earlier of a) within ten business days following receipt by PolyMet of key permits, in a form reasonably acceptable to Glencore, that will enable the start of construction of the Project, and b) October 15th, 2012.

Notes to Consolidated Financial Statements

31 October 2010

Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
Unaudited – prepared by management

8. Share Capital

a) Share Issuances for Cash

During the nine months ended 31 October 2010, the Company issued 545,000 shares (31 October 2009 – 475,000) pursuant to the exercise of stock options for total proceeds of \$516,000 (31 October 2009 - \$231,000).

b) Stock Options

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 (re-approved on 7 July 2010). The Stock Option Plan covers the Company’s employees, directors, officers and consultants. The options are granted for varying terms ranging from two to seven 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 (Note 11a)).

Details of stock option activity is as follows:

	Nine Months ended 31 October 2010	Year ended 31 January 2010
Outstanding - Beginning of period	13,075,000	12,615,000
Granted	-	1,585,000
Forfeited	(650,000)	(350,000)
Exercised	(545,000)	(775,000)
Outstanding - End of period	11,880,000	13,075,000

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

Unaudited – prepared by management

8. Share Capital - continued

As at 31 October 2010, 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	0.65	0.66	800,000
18 October 2011	0.77	0.79	50,000
30 March 2012	0.64	0.65	85,000
1 May 2012	0.83	0.85	350,000
15 June 2012	0.92	0.94	40,000
19 September 2012	1.33	1.36	1,390,000
24 October 2012	1.18	1.20	200,000
5 December 2012	1.13	1.15	200,000
20 March 2013	2.71	2.76	2,650,000
19 June 2013	2.91	2.97	325,000
1 September 2013	3.75	3.82	300,000
22 September 2013	3.44	3.51	75,000
5 January 2014	3.24	3.30	525,000
13 February 2014	2.99	3.05	1,250,000
12 March 2014	2.92	2.98	250,000
23 March 2014	2.89	2.95	50,000
4 September 2014	3.00	3.06	360,000
12 December 2014	3.05	3.11	205,000
11 January 2015	3.03	3.09	70,000
31 January 2015	2.87	2.93	100,000
15 February 2015	2.72	2.77	500,000
2 June 2015	3.92	4.00	100,000
30 July 2015	3.22	3.28	175,000
30 January 2016	0.82	0.84	595,000
17 February 2016	0.82	0.84	1,060,000
15 October 2016	2.67	2.72	115,000
8 January 2017	3.54	3.61	60,000
	2.14	2.19	11,880,000

As at 31 October 2010 all options had vested and were exercisable, with the exception of 1,522,500 which vest upon completion of specific targets.

PolyMet Mining Corp.
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Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
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8. Share Capital - continued

c) Stock-Based Compensation

During the nine month period ended 31 October 2010, the Company granted no options to directors, officers, consultants and employees (31 October 2009 – 1,525,000).

During the nine month period ended 31 October 2010, the Company recorded \$151,000 for stock based compensation in its accounts as an expense of \$43,000 and a debit to mineral property, plant and equipment of \$108,000, with the offsetting entries going to contributed surplus. During the three month period ended 31 October 2010, the Company also recorded a debit to contributed surplus and a credit to stock based compensation expense of \$212,000 to reverse prior accounting for stock options which had yet to vest and were forfeited in the period.

During the nine month period ended 31 October 2009, the Company recorded \$1,116,000 for stock based compensation in its accounts as an expense of \$882,000 and a debit to mineral property, plant and equipment of \$234,000, with the offsetting entries going to contributed surplus. The balance for the nine 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:

	Nine Months ended 31 October 2010	Year ended 31 January 2010
Balance – Beginning of period	\$ 36,979	\$ 27,549
Current period fair value of stock-based compensation	(61)	1,240
Fair value of exchangeable warrants and debt conversion (Note 7)	-	352
Change in fair value of warrants amended (Notes 7 and 8e)	-	4,920
Issuance of Milestone 2 Bonus Shares (Note 11a))	-	(721)
Bonus Shares for Milestones 2 and 4 cost amortization (Note 11a))	(457)	4,200
Future income tax recovery (Note 11c))	(171)	-
Fair value of stock options and warrants exercised during the period	(299)	(561)
Balance – End of period	\$ 35,991	\$ 36,979

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Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
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8. Share Capital - continued

e) Share Purchase Warrants

Details of stock purchase warrant activity are as follows:

	31 October 2010		31 January 2010	
	Warrants	Weighted Average Exercise Price (US\$)	Warrants	Weighted Average Exercise Price (US\$)
Warrants outstanding - beginning of period	15,034,092	3.74	15,370,000	4.74
Cancelled (Notes 7, 8e) and 11c))	(1,100,000)	4.00	(10,260,000)	4.52
Exercised	-	-	(335,908)	3.00
Issued	-	-	4,010,000	3.00
Issued (Note 8a))	-	-	-	-
Issued (Note 7)	-	-	6,250,000	3.00
Warrants outstanding – end of period	13,934,092	3.72	15,034,092	3.74

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 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 warrant amendment expense and credited to contributed surplus in the year ended 31 January 2009.

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Unaudited – prepared by management

8. Share Capital - continued

e) **Share Purchase Warrants - continued**

In October 2009, the Company received the consent from holders of more than two-thirds of the above warrants to exchange the 4,010,000 warrants due to expire on October 13, 2009 for 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common 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 31 December, 2009. The incremental \$1,005,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

In November 2009, the Company received the consent from holders of more than two-thirds of the above warrants to exchange the 4,010,000 warrants due to expire the earlier 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 31 December, 2009 for 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 21 business days after publication of the final Environmental Impact Statement by the State of Minnesota in the state's Environmental Quality Board Monitor and 31 December 2010. The incremental \$3,757,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

Warrants to purchase 335,908 shares of PolyMet common stock had been exercised prior to August 1, 2010 and, on 31 December 2010 warrants to purchase 3,674,092 shares of PolyMet common stock at \$3.00 per share expired.

On 31 October 2008, the Company issued 6,250,000 warrants ("Purchase Warrants") to Glencore as partial consideration under the financing agreement described in Note 7. The warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at 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 would have expired on September 30, 2011.

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

On 12 November 2010, the Company cancelled warrants giving Glencore the right to purchase 6,250,000 common shares of PolyMet at US\$3.00 at any time until September 30, 2011 and issued warrants giving Glencore the right to purchase 3,000,000 common shares of PolyMet at US\$2.00 at any time until December 31, 2015, in consideration of the amendments to the debenture agreements (Note 7).

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Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
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8. Share Capital - continued

e) **Share Purchase Warrants - continued**

On December 16, 2010 the Board of the Iron Range Resources ('IRR'), a Minnesota State regional economic development agency, approved a \$4 million loan to Poly Met Mining, Inc. The loan is awaiting approval by the Governor of the State of Minnesota. Subject to regulatory approval, the Company has also agreed to issue warrants giving the IRR the right to purchase up to 400,000 shares of PolyMet common stock at US\$2.50 per share at any time until the earlier of December 31, 2015 and one year after PolyMet receives permits.

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 had an exercise price of US\$4.00 per share and expired 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 would have vested. All of the warrants expired on 30 October 2010. The Company recorded a future income tax recovery as the expiration of the warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$171,000.

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
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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 October 2010	31 October 2009
Consulting fees paid to David Dreisinger, a Director of the Company	\$ 48	\$ 36

During the nine months ended 31 October 2010, the Company paid \$48,000 (31 October 2009 - \$36,000) 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.

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 October 2010	Canada	U.S.	Consolidated
Segment operating loss (9 months ended)	2,731	832	3,563
Segment operating (income) loss (3 months ended)	(36)	246	210
Identifiable assets	4,868	130,049	134,917

31 October 2009	Canada	U.S.	Consolidated
Segment operating loss (9 months ended)	2,258	600	2,858
Segment operating loss (3 months ended)	542	299	841
Identifiable assets	3,708	111,647	115,355

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

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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 October 2010, 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 the future. To 31 October 2010, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3.

The summary of the share bonus plan is as follows:

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

- (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. This milestone was deemed to have been achieved in May 2009 and therefore the Company issued the shares to certain directors and insiders and capitalized \$714,000 to Property, Plant and Equipment.
- (ii) Milestone 3 – Completion of a “bankable feasibility study” which indicates that commercial production from the NorthMet Project is viable. This milestone was achieved on 25 September 2006 and therefore, during the year ended 31 January 2007, the Company expensed a C\$1,762,500 (\$1,289,000) bonus as consulting fees and allotted 2,350,000 shares. These shares were issued in October 2006.
- (iii) Milestone 4 – Commencement of commercial production at the NorthMet Project at a time when the Company has not less than 50% ownership interest.

Notes to Consolidated Financial Statements

31 October 2010

Tabular amounts in Thousands of U.S. Dollars, except for price per share, shares and options
Unaudited – prepared by management

11. Contingent Liabilities and Commitments - continued

- (iv) 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 nine months ended 31 October 2010, the Company recorded a negative \$457,000 related to Milestone 4 (31 October 2009 - \$2,882,000), these amounts were credited to Mineral Property, Plant and Equipment. The current period reversal includes \$1,682,000 representing the forfeiture of entitlement to bonus shares by individuals upon resignation or not continuing to stand as Directors of the Company.
- 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 advised and assisted 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 would have vested. These warrants expired on 30 October 2010.

The Company decided to review alternatives for construction financing and decided not to renew its current agreement with BNPP which expired on 31 July 2010. As such, the \$1,830,000, of which \$1,197,000 was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset has been written off to the consolidated statement of loss in the second quarter of this year. On 30 October, 2010 the warrants expired. As such, PolyMet recorded a future income tax recovery relating to the transfer of the tax benefit of the warrants from the former holders to the Company of \$171,000 in the third quarter of this year.

- 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 \$2,668,000 including the amount that the Company has capitalized related to an account payable of \$447,000 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 October 2010, the Company had outstanding commitments related to equipment, consultants and the environmental review process of \$1,300,000 predominantly due over the next year.
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31 October 2010

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12. 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 October 2010	31 January 2010
Held-for-trading (1)	\$ 4,994	21,282
Available-for-sale	88	140
Loans and receivables	96	88
Other financial liabilities (2)	37,656	38,735

(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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12. Financial Instruments and Risk Management - continued

As at 31 October 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	31 October 2010	31 January 2010
Held-for-trading (1)	\$ 142	\$ 157
Available-for-sale	88	140
Loans and receivables	53	25
Other financial liabilities (2)	<u>(136)</u>	<u>(302)</u>
	\$ 147	\$ 20

(1) Includes cash and equivalents.

(2) Includes accounts payable and accrued liabilities.

Based on the above net exposures, as at 31 October 2010, a 10% change in the Canadian / United States exchange rate would impact the Company's loss by \$15,000.

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 of \$4,994,000.

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

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Additional information relating to liquidity risk is disclosed in Note 1.

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 October 2010, the Company is exposed to interest rate risk through the following assets and liabilities:

	31 October 2010	31 January 2010
Held-for-trading (1)	\$ 4,994	\$ 21,282
Other financial liabilities (2)	35,780	35,782

(1) Includes cash and equivalents.

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

Notes to Consolidated Financial Statements

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12. 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 which is immaterial.

As at 31 October 2010, the Company is exposed to investment risk through the following assets:

	31 October 2010	31 January 2010
Available-for-sale (1)	\$ 88	\$ 140

(1) Includes investment.

Fair Value Measurements

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

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

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

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

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

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

PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

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Unaudited – prepared by management

12. Financial Instruments and Risk Management - Continued

The fair values of our financial assets and liabilities at 31 October 2010 are summarized in the following table:

	Fair Value – Quoted in active markets for identical assets (Level 1)	Fair Value - Significant other observable inputs (Level 2)	Fair Value - Significant unobservable inputs (Level 3)	Fair Value - Total	Book Value
Assets					
Cash and equivalents	-	4,994	-	4,994	4,994
Accounts receivable and advances	-	96	-	96	96
Investment	88	-	-	88	88
	88	5,090	-	5,178	5,178
Liabilities					
Accounts payable and accrued liabilities	-	1,876	-	1,876	1,876
Current portion of long term debt	-	2,000	-	2,000	2,000
Long term debt	-	7,050	-	7,050	7,050
Convertible debt	-	26,730	-	26,730	26,730
	-	37,656	-	37,656	37,656

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12. Financial Instruments and Risk Management - Continued

Capital Management

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

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

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

Although the Company plans to have the resources to carry out its plans and operations through 31 October 2011 (Note 1), it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is currently in discussions to arrange sufficient capital to meet these requirements.

13. Differences Between Canadian and United States Generally Accepted Accounting Principles

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The U.S. Securities and Exchange Commission requires that financial statements of foreign registrants contain a reconciliation presenting the statements on the basis of accounting principles generally accepted in the U.S. U.S. GAAP also requires additional disclosures which are set out in this financial statement note. Any differences in accounting principles as they pertain to the accompanying consolidated financial statements are not material except as follows:

- a) Under Canadian GAAP, all of the elements of the convertible debt transaction are fair valued and then allocated book value on a pro-rated basis. The conversion feature on the debt is treated as equity. Under US GAAP the conversion feature is treated as debt. This resulted in a \$250,000 difference between convertible debt and shareholders' equity as at 31 October 2010 and 31 January 2010.

PolyMet Mining Corp.
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Unaudited – prepared by management

13. Differences Between Canadian and United States Generally Accepted Accounting Principles -

Continued

The effects of the above difference in accounting principle on convertible debt and shareholders' equity are as follows:

	31 October 2010	31 January 2010
Convertible Debt – Canadian GAAP basis	\$ 26,730	\$ 25,253
Convertible Debt – US GAAP basis	\$ 26,980	\$ 25,503
Shareholders' Equity – Canadian GAAP basis	\$ 93,777	\$ 97,567
Shareholders' Equity – US GAAP basis	\$ 93,527	\$ 97,317

(b) Development Stage Company

The Company meets the definition of a development stage enterprise under United States Accounting Standard Codification ("ASC") 915 (formerly Statement of Financial Accounting Standards ("SFAS") No. 7), Accounting and Reporting by Development Stage Enterprises. The following additional disclosures are required under this standard. Management has determined, in accordance with ASC 915, that the Company was dormant for a period to 31 January 2002, as such the required disclosures have been included commencing from 1 February 2003.

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13. Differences Between Canadian and United States Generally Accepted Accounting Principles -
Continued

Consolidated Statements of Loss, Other Comprehensive Loss and Deficit

Cumulative from 1 February 2003 to 31 October 2010

	Cumulative from 1 February 2003 to 31 October 2010
Pre-feasibility Costs	<u>21,679</u>
General and Administrative	
Amortization	154
Asset retirement obligation accretion	1,848
Consulting fees	3,068
Exploration	193
Financing costs write-off	1,830
Investor relations and financing	1,325
Office and corporate wages	7,225
Professional fees	2,769
Shareholders' information	1,405
Stock-based compensation	11,162
Transfer agent and filing fees	817
Travel	2,568
Warrant amendment	5,464
	<u>39,828</u>
Other Expenses (Income)	
Interest income, net	(1,878)
Loss (gain) on foreign exchange	(201)
Gain on sale of resource properties	(220)
Loss on sale of property, plant and equipment	9
Future income tax recovery	(171)
Investment loss	2,415
Rental income	(563)
	<u>(609)</u>
Cumulative Loss for the Period	<u>60,898</u>
Other Comprehensive Income	
Unrealized gain (loss) on investment	(17)
Comprehensive Loss	<u>60,881</u>
Deficit Beginning of the Period	<u>14,214</u>
Deficit End of the Period	<u>75,112</u>

PolyMet Mining Corp.
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13. Differences Between Canadian and United States Generally Accepted Accounting Principles - Continued

Consolidated Statements of Changes in Shareholder's Equity (unaudited)

Cumulative from 1 February 2003 to 31 October 2010

	Issue Price Per Share	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance – 31 January 2003		32,657,526	14,183	-	-	(14,214)	(31)
Loss for the year		-	-	-	-	(147)	(147)
Shares issued for cash:							
Private placements, net of finders' fees and issuance costs	0.09	11,708,318	999	-	-	-	999
Share subscriptions received	-	-	763	-	-	-	763
Exercise of warrants	0.08	486,610	41	-	-	-	41
Exercise of options	0.06	89,600	5	-	-	-	5
Shares issued to settle debt	0.07	50,000	4	-	-	-	4
Stock-based compensation		-	-	55	-	-	55
Balance 31 January 2004		44,992,054	15,995	55	-	(14,361)	1,689
Loss for the year		-	-	-	-	(4,416)	(4,416)
Shares issued for cash:							
Private placements, net of finders' fees and issuance costs	0.58	2,955,626	1,715	-	-	-	1,715
Share subscriptions received	-	-	(763)	-	-	-	(763)
Exercise of warrants	0.16	5,277,573	829	-	-	-	829
Exercise of options	0.07	1,088,400	81	-	-	-	81
Shares issued for property	0.23	1,000,000	229	-	-	-	229
Stock-based compensation		-	-	993	-	-	993
Fair value of stock options exercised		-	42	(42)	-	-	-
Shares allotted for exercise of warrants	0.12	224,925	26	-	-	-	26
Shares allotted for bonus	0.55	1,590,000	873	-	-	-	873
Balance 31 January 2005		57,128,578	19,027	1,006	-	(18,777)	1,256

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

31 October 2010

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

Unaudited – prepared by management

13. Differences Between Canadian and United States Generally Accepted Accounting Principles - Continued

Consolidated Statements of Changes in Shareholder's Equity (unaudited) (continued)
Cumulative from 1 February 2003 to 31 October 2010

	Issue Price Per Share	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance 31 January 2005 (brought forward)		57,128,578	19,027	1,006	-	(18,777)	1,256
Loss for the year	-	-	-	-	-	(15,976)	(15,976)
Shares issued for cash:							
Private placements, net of finders' fees and issuance costs	0.66	29,347,568	15,827	3,653	-	-	19,480
Exercise of warrants	0.58	5,700,628	3,296	-	-	-	3,296
Exercise of options	0.11	1,795,852	197	-	-	-	197
Shares issued for property	1.22	6,200,547	7,564	-	-	-	7,564
Stock-based compensation	-	-	-	3,523	-	-	3,523
Fair value of stock options exercised	-	-	98	(98)	-	-	-
Balance 31 January 2006		100,173,173	46,009	8,084	-	(34,753)	19,340
Loss for the year	-	-	-	-	-	(18,126)	(18,126)
Issuance of shares for bonus	0.55	2,350,000	1,289	-	-	-	1,289
Shares issued for cash:							
Exercise of warrants	0.98	14,662,703	17,963	(3,653)	-	-	14,310
Exercise of options	0.35	2,193,000	765	-	-	-	765
Shares issued for property	3.08	2,000,000	6,160	-	-	-	6,160
Stock-based compensation	-	-	-	4,723	-	-	4,723
Warrants issued for deferred financing costs	-	-	-	1,197	-	-	1,197
Fair value of stock options exercised	-	-	737	(737)	-	-	-
Balance – 31 January 2007		121,378,876	72,923	9,614	-	(52,879)	29,658

PolyMet Mining Corp.
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Unaudited – prepared by management

13. Differences Between Canadian and United States Generally Accepted Accounting Principles - Continued

Consolidated Statements of Changes in Shareholder's Equity (unaudited) (continued)

Cumulative from 1 February 2003 to 31 October 2010

	Issue Price Per Share	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance – 31 January 2007 (brought forward)		121,378,876	72,923	9,614	-	(52,879)	29,658
Loss for the year	-	-	-	-	-	(4,124)	(4,124)
Shares and warrants issued:							
Exercise of options	0.66	462,200	303	-	-	-	303
Fair value of stock options exercised	-	-	212	(212)	-	-	-
Private placement, net of finders' fees and issuance costs	2.61	15,149,999	31,177	8,346	-	-	39,523
Stock-based compensation	-	-	-	3,077	-	-	3,077
Balance – 31 January 2008		136,991,075	104,615	20,825	-	(57,003)	68,437
Loss for the year	-	-	-	-	-	(5,523)	(5,523)
Shares and warrants issued:							
Exercise of options	1.45	312,800	452	-	-	-	452
Fair value of stock options exercised	-	-	245	(245)	-	-	-
Convertible debt – conversion factor and warrants	-	-	-	441	-	-	441
Milestones 2 and 4 Bonus Shares cost amortization	-	-	-	3,912	-	-	3,912
Amendment to previously issued warrants	-	-	-	544	-	-	544
Stock-based compensation	-	-	-	1,822	-	-	1,822
Balance – 31 January 2009		137,303,875	105,312	27,299	-	(62,526)	70,085

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

Unaudited – prepared by management

13. Differences Between Canadian and United States Generally Accepted Accounting Principles - *Continued*

Consolidated Statements of Changes in Shareholder's Equity (unaudited) (continued)

Cumulative from 1 February 2003 to 31 October 2010

	Issue Price Per Share	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance – 31 January 2009 (brought forward)		137,303,875	105,312	27,299	-	(62,526)	70,085
Loss for the year	-	-	-	-	-	(9,023)	(9,023)
Other comprehensive income for the year	-	-	-	-	71	-	71
Shares and warrants issued:							
Equity offering and issuance costs	2.60	9,433,962	24,501	-	-	-	24,501
Exercise of options	0.62	775,000	477	-	-	-	477
Fair value of stock options exercised	-	-	307	(307)	-	-	-
Exercise of warrants	2.94	167,954	494	-	-	-	494
Fair value of warrants exercised	-	-	254	(254)	-	-	-
Convertible debt – conversion factor	-	-	-	352	-	-	352
Milestones 2 and 4 Bonus Shares cost amortization	-	-	-	4,200	-	-	4,200
Amendment to previously issued warrants	-	-	-	4,920	-	-	4,920
Issuance of Milestone 2 Bonus Shares	0.55	1,300,000	721	(721)	-	-	-
Stock-based compensation	-	-	-	1,240	-	-	1,240
Balance – 31 January 2010		148,980,791	132,066	36,729	71	(71,549)	97,317
Loss for the period	-	-	-	-	-	(3,563)	(3,563)
Other comprehensive income for the period	-	-	-	-	(54)	-	(54)
Shares and warrants issued:							
Exercise of options	0.95	545,000	516	-	-	-	516
Fair value of stock options exercised	-	-	299	(299)	-	-	-
Milestone 4 Bonus Shares cost amortization	-	-	-	(457)	-	-	(457)
Future income tax recovery	-	-	-	(171)	-	-	(171)
Stock-based compensation	-	-	-	(61)	-	-	(61)
Balance – 31 October 2010		149,525,791	132,881	35,741	17	(75,112)	93,527

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31 October 2010

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

Unaudited – prepared by management

13. Differences Between Canadian and United States Generally Accepted Accounting Principles - *Continued*

Consolidated Statements of Cash Flows

Cumulative from 1 February 2003 to 31 October 2010

	Cumulative from 1 February 2003 to 31 October 2010 (unaudited)
Operating Activities	
Loss for the period	\$ (60,898)
Items not involving cash	
Consulting fees and Office and Corporate wages	2,161
Amortization	154
Asset retirement obligation	1,848
Financing costs write-off	1,830
Future income tax recovery	(171)
Investment loss	2,415
Stock-based compensation	11,162
Warrant amendment	5,464
Gain on sale of resource properties	(220)
Loss on sale of property, plant and equipment	9
Changes in non-cash working capital items	
Accounts receivable and advances	(90)
Prepaid expenses	(746)
Accounts payable and accrued liabilities	185
Net cash used in operating activities	<u>(36,897)</u>
Financing Activities	
Share capital - for cash	107,246
Long-term debt repayment	(7,400)
Convertible debt	24,277
Share subscriptions received	763
Deferred financing costs	(633)
Net cash provided by financing activities	<u>124,253</u>
Investing Activities	
Purchase of investment	(2,495)
Proceeds on disposal of equipment	33
Proceeds on sale of resource property	220
Purchase of mineral property, plant and equipment	(80,123)
Net cash used in investing activities	<u>(82,365)</u>
Net Increase (Decrease) in Cash and Cash Equivalents Position	4,991
Cash and Cash Equivalents Position - Beginning of Period	<u>3</u>
Cash and Cash Equivalents Position - End of Period	<u>\$ 4,994</u>

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

13. Differences Between Canadian and United States Generally Accepted Accounting Principles - *Continued*

Consolidated Schedules of Pre-Feasibility Costs

Cumulative from 1 February 2003 to 31 October 2010

	Cumulative from 1 February 2003 to 31 October 2010 (unaudited)
Direct	
Camp and general	\$ 298
Consulting fees	1,846
Drilling	3,169
Engineering	1,441
Environmental	6,130
Geological and geophysical	303
Land lease, taxes and licenses	469
Metallurgical	2,275
Mine planning	3,597
Permitting	321
Plant maintenance and repair	725
Sampling	1,001
Scoping study	104
Cumulative Total Costs for the Period	\$ 21,679

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

Unaudited – prepared by management

13. Differences Between Canadian and United States Generally Accepted Accounting Principles - Continued

(c) Mineral Rights

The total amount paid for mineral rights to 31 October 2010 was \$1,775,000.

(d) Accounts Payable

The components of accounts payable and accrued liabilities as at 31 October are as follows:

	<u>31 October</u> <u>2010</u>	<u>31 January</u> <u>2010</u>
Operating payables	92	376
Project development payables	1,337	1,561
Equipment payables	447	1,016
	<hr/>	<hr/>
Total	1,876	\$2,953

(e) Stock-Based Compensation

As at 31 January 2010, there were 1,855,000 unvested stock options with an average grant date fair value of \$1.24 per option. As at 31 October 2010, there were 1,522,500 unvested stock options with an average grant date fair value of \$1.12 per option. During the nine month period ended 31 October 2010, 102,500 additional stock options vested.

The intrinsic value of a stock option is the difference between the current market price for PolyMet's common shares and the exercise price of the option. At 31 October 2010, the aggregate intrinsic value of vested and unvested stock options, based on the 29 October 2010 closing price for PolyMet's common shares of US\$1.85 was \$1,754,000.

The weighted average remaining contractual term of all stock options outstanding as at 31 October 2010 is 3.02 years. The weighted average remaining contractual term of all stock options vested as at 31 October 2010 was 2.91 years.

The unrecognized compensation cost for non-vested stock options at 31 October 2010 was \$251,000. The weighted average period over which it is expected to be recognized is 2.75 years.

PolyMet records stock-based compensation expense as a separate line item in the Company's consolidated statements of loss, other comprehensive loss and deficit. If stock-based compensation had been recorded on the same line as cash compensation for the individuals who received the stock options, negative \$169,000 for the nine months ended 31 October 2010 and \$882,000 for the nine months ended 31 October 2009 would have been recorded under office and corporate wages expense.

The Company has estimated the expected life of incentive stock options to be 2.3 years based on historic option exercise patterns and the timeline for material developments in the past and anticipated in future.

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13. Differences Between Canadian and United States Generally Accepted Accounting Principles - *Continued*

- f) Recent U.S. Accounting Pronouncements, which relate to the Company's current operations are summarized as follows:

None.

POLYMET MINING CORP.
MANAGEMENT DISCUSSION AND ANALYSIS

FORM 51-102F1

For the period ended 31 October 2010

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General

The following information, prepared as at 12 January 2011, 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 October 2010 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 three directors, has reviewed this document pursuant to its mandate and charter.

Forward Looking Statements

This Management Discussion and Analysis ("MD&A") contains certain forward-looking statements concerning anticipated developments in PolyMet's operations in the future. These forward-looking statements appear in a number of different places in this MD&A and can frequently, but not always, be identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", "projects", "plans" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved or their negatives or other comparable words. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause PolyMet's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Forward-looking statements include statements regarding the outlook for the Company's future operations, plans and timing for PolyMet's exploration and development programs, statements about future market conditions, supply and demand conditions, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The Company's actual results may differ materially from those in the forward-looking statements due to risks facing PolyMet or due to actual facts differing from the assumptions underlying the Company's predictions. Some of these risks and assumptions include: general economic and business conditions, including changes in interest rates; prices of natural resources, costs associated with mineral exploration and development, and other economic conditions; natural phenomena; actions by governments and authorities including changes in government regulation; uncertainties associated with legal proceedings; changes in the resource market; future decisions by management in response to changing conditions; future decisions by management in response to changing conditions; the Company's ability to execute prospective business plans, and misjudgments in the course of preparing forward-looking statements.

The Company advises you that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to PolyMet or persons acting on its behalf. The Company expressly disclaims any obligation to update publicly, or otherwise, these statements, whether as a result of new information, future events or otherwise except to the extent required by law. Readers should carefully review the cautionary statements and risk factors contained in this and all other documents that the Company files from time to time with regulatory authorities.

Cautionary note to U.S. investors: the terms "measured and indicated mineral resource", "mineral resource", and "inferred mineral resource" used in this Management Discussion and Analysis are Canadian geological and mining terms as defined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves. U.S. investors are advised that while such terms are recognized and required under Canadian regulations, the SEC does not recognize these terms. Mineral Resources do not have demonstrated economic viability. It cannot be assumed that all or any part of a Mineral Resource will 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 primary mineral property and principal focus is the commercial development of its NorthMet Project, a polymetallic project in northeastern Minnesota, USA which hosts copper, nickel, cobalt and platinum group metal mineralization.

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 Cliffs Natural Resources, Inc. (formerly Cleveland Cliffs, Inc.) (NYSE:CLF) ("Cliffs") to acquire the Erie Plant, which is located 10 kilometers (6 miles) west of PolyMet's NorthMet deposit. The plant was operated by Cliffs for many years and was acquired by Cliffs in early 2001 from LTV Steel Mining Company after that company's bankruptcy at which time the plant was placed on care-and-maintenance with a view to a potential restart. With minor modification, the crushing and milling circuits can be used for the NorthMet ore. The plant assets now owned by PolyMet include crushing and milling equipment, comprehensive spare parts, plant site buildings, real estate, tailings impoundments and mine workshops, as well as access to extensive mining infrastructure including roads, rail, water, and power. 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 fueling and maintenance facilities, water rights and pipelines, large administrative offices on site and an additional 6,000 acres of land to the east and west of and contiguous to its existing tailing facilities.

PolyMet 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).

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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.

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, and until there is greater certainty on the timeline to complete permitting, 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 20 May 2008 PolyMet reported revised plans and cost estimates for construction and operating costs. The revised plans include:

- the sale of concentrate during the construction and commissioning of new metallurgical facilities resulting in a shorter pre-production construction period (12-15 months) and reduced capital costs prior to first revenues (\$312 million versus \$380 million);
- the new metallurgical facilities to be constructed during initial production and sales of concentrate. PolyMet anticipates that much of the additional \$290 million of capital costs, 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 26 September 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.

Environmental Review

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

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

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environmental safeguards including a mine plan, a wetland mitigation plan, air and water quality monitoring plans and a closure plan with closure estimate. Since then, the Company has submitted a supplemental DPD as well as more than 100 supporting research studies, including comprehensive mine waste characterization studies, water quality modeling and air quality modeling.

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

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

The Lead Agencies received more than 3,700 submissions containing approximately 22,000 separate comments, including an extensive comment letter from the US Environmental Protection Agency ("EPA") in its role as reviewer of projects that could impact the environment. Many of the comments related to alternative plans that the Company and the Lead Agencies had already recognized would not be incorporated into the final "preferred" alternative. In general, the preferred alternative would be a combination of PolyMet proposals, alternatives and mitigations that meet the purpose and need of the project, are technically and economically feasible, and provide the best environmental outcomes.

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

On 13 October 2010 the USACE and the USFS published a Notice of Intent to complete the Supplemental Draft EIS, which will:

- Supplement and supersede the Draft EIS and respond to concerns identified by the US Environmental Protection Agency ("EPA") and other comments on the Draft EIS.
- Incorporate potential effects from the proposed land exchange between the USFS Superior National Forest and PolyMet.

Public review of the scope of the land exchange ended on 29 November 2010. The USACE and the USFS stated that they expect to complete the Supplemental Draft EIS in the summer of 2011, with the final EIS anticipated six to nine months later.

The Notice of Intent stated that the proposed land exchange would eliminate conflicts between the United States and private mineral ownership and consolidate land ownership to improve Superior National Forest management effectiveness and public access to federal lands. The

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proposed exchange is in accordance with Forest Service Strategic Plan Goals to provide and sustain long-term socioeconomic benefits to the American people, conserve open space, and sustain and enhance outdoor recreation activities.

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

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

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

Prior to receipt of the permits, the Company intends to secure construction financing that would be available upon receipt of key permits, with construction slated to start upon availability of construction finance.

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

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

Key Developments

In April 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency ("MPCA") relating to alleged violations on the Cliffs Erie Property. This consent decree required submission of Field Study Plan Outlines, which have been approved by the MPCA, and Short Term Mitigation Plans, which have not yet been formally approved. As part of its prior transactions with Cliffs, PolyMet has agreed to indemnify Cliffs for certain on-going site environmental liabilities.

At the annual shareholders' meeting on 7 July 2010, Messrs. Corneliuson and Swearingen did not stand for re-election to the Company's Board of Directors owing to other personal commitments. The Board thanked them for their contributions to the Company during their tenure.

On 31 October 2010, 1,100,000 warrants to purchase shares of PolyMet common stock at \$4.00 per share that had been issued to BNP Paribas Loan Services ("BNPP") expired.

On 12 November 2010, PolyMet announced that Glencore AG ("Glencore") had agreed to purchase 15 million shares of PolyMet common stock at \$2.00 per share in three tranches over the next two years. In addition, Glencore has agreed to extend the maturity date of the \$25 million (initial principal) debentures issued to Glencore under the 2008 financing to 30

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September 2012 and has cancelled the final \$25 million debenture financing commitment and the 6.25 million share purchase warrants issued as part of the 2008 financing. PolyMet has issued warrants to purchase 3 million shares at \$2 per share at any time until December 31, 2015 as compensation for the other changes.

On 16 December 2010 the Board of the Iron Range Resources (“IRR”) approved, on the commissioner’s recommendation, a secured loan to Poly Met Mining, Inc. of up to \$4 million. The IRR board is composed of five members of the Minnesota Senate, five members of the Minnesota House, and three citizen members. The loan is awaiting approval from the Governor of the State of Minnesota. Proceeds from the loan will be used to purchase forest land, wetlands, and lakes with high recreational value that would become available for public use and enjoyment. These properties, which PolyMet currently has under purchase option, would be purchased for future use as part of a proposed land exchange for surface rights at the proposed NorthMet mine site currently controlled by the U.S. Forest Service.

The loan will be secured by the land to be acquired from proceeds of the loan, carry a fixed interest rate of 5% per annum, and will be repayable on 31 December 2015. Subject to regulatory approval, the Company has also agreed to issue warrants giving the IRR the right to purchase up to 400,000 shares of PolyMet common stock at US\$2.50 per share at any time until the earlier of 31 December 2015 and one year after PolyMet receives permits.

With effect from 31 December 2010, William Murray stepped down as Executive Chairman and George Molyviatis resigned his board membership. Mr. Murray will continue to serve as a non-management director of the Company. Ian Forrest and Frank Sims, both independent directors, will serve as independent co-Chairmen. Mr. Forrest will continue as Chair of the Audit Committee and Mr. Sims will continue as Chair of the Corporate Governance Committee.

On 31 December 2010, warrants to purchase 3,674,092 shares of PolyMet common stock at \$3.00 per share, which had been issued in connection with the April 2007 financing, expired.

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Results of Operations

For the three months ended 31 October 2010 (the “2011 third quarter”) compared to the three months ended 31 October 2009 (the “2010 third quarter”)

a) Loss for the Period:

During the three months ended 31 October 2010, the Company incurred a loss of \$210,000 (\$0.00 loss per share) compared to a loss of \$841,000 (\$0.01 loss per share) in the fiscal 2010 third quarter. The decrease in the net loss for the period was primarily attributable to a general reduction in costs, the fact that the prior period included \$150,000 of expenses related to filing an F-3 registration statement, to the non-cash reversal of previously recorded stock-based compensation costs relating to board and other management changes of \$212,000 (31 October 2009 – nil) and a non-cash future income tax recovery related to expiration of stock purchase warrants previously issued of \$171,000 (31 October 2009 – nil).

b) Cash Flows:

Cash used in operating activities in the three months ended 31 October 2010 was \$675,000 compared to cash used in the three months ended 31 October 2009 of \$390,000. The variance in cash is primarily due to changes in non-cash working capital balances and the above mentioned F-3 registration statement costs.

Cash used in financing activities for the three months ended 31 October 2010 was \$179,000 (prior year period cash provided by - \$4,514,000). The 2011 third quarter activity was primarily due to the scheduled repayment of \$500,000 of debt (prior year period - \$250,000) and the issuance of share capital on the exercise of stock options for \$321,000 (prior year period - \$nil). Cash provided for the three month period ended 31 October 2009 included a net of \$4.988 million from the issuance of convertible debentures (current year period - \$nil) and \$224,000 in deferred financing costs (current year period - \$nil).

Cash used in investing activities for the three months ended 31 October 2010 was \$3.771 million compared with \$4.450 million in the three months ended 31 October 2009, with the decrease being primarily the result of slightly reduced environmental related spending in the current year period.

In summary, total cash for the three months ended 31 October 2010 decreased by \$4.625 million for a balance of \$4.994 million compared to the three months ended 31 October 2009 where cash decreased \$326,000 to a balance of \$2.926 million.

c) Capital Expenditures:

During the three months ended 31 October 2010 the Company capitalized \$3.030 million (2009 - \$6.425 million) of costs primarily directly related to site activity, the draft EIS and permitting as well as engineering and project planning costs.

For the nine months ended 31 October 2010 compared to the nine months ended 31 October 2009

a) Loss for the Period:

During the nine months ended 31 October 2010, the Company incurred a loss of \$3.563 million (\$0.02) loss per share) compared to a loss of \$2.858 million (\$0.02 loss per share) in

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the prior year period. The increase in the net loss for the period was primarily attributable to the Company's decision to review alternatives for construction financing and not to renew its agreement with BNP Paribas Loan Services, to advise and assist PolyMet in all aspects of preparation for construction finance, which expired on 31 July 2010. As such, the \$1.830 million, \$1.197 million of which was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset was written off to the consolidated statement of loss in the second quarter of the current year. During the current year period the Company expensed exploration costs of \$193,000 (31 October 2009 - \$nil). The above items were offset by a non-cash reversal of previously recorded stock-based compensation costs relating to board and other management changes of \$169,000 (31 October 2009 - expense of \$882,000) and a non-cash future income tax recovery related to expiration of stock purchase warrants previously issued of \$171,000 (31 October 2009 - nil).

b) Cash Flows:

Cash used in operating activities in the nine months ended 31 October 2010 was \$2.534 million compared to cash used in the nine months ended 31 October 2009 of \$1.051 million. The variance in cash is primarily due to changes in non-cash working capital balances and the above noted exploration expense.

Cash used in financing activities for nine months ended 31 October 2010 was \$1.020 million (prior year period cash provided by - \$9.176 million). The current period activity was primarily due to the scheduled repayment of \$1.500 million of debt (prior year period - \$750,000) and the issuance of share capital on the exercise of stock options for \$516,000 (prior year period - \$231,000). Cash provided for the period ended 31 October 2009 included a net of \$9.944 million from the issuance of convertible debentures (current year period - \$nil) and deferred financing costs of \$249,000 (current year period - \$36,000).

Cash used in investing activities for the nine months ended 31 October 2010 was \$12.734 million compared with \$12.553 million in the nine months ended 31 October 2009.

In summary, total cash for the nine months ended 31 October 2010 decreased by \$16.288 million for a balance of \$4.994 million compared to the period ended 31 October 2009 where cash decreased \$4.428 million to a balance of \$2.926 million.

c) Capital Expenditures:

During the nine months ended 31 October 2010 the Company capitalized \$13.161 million (2009 - \$18.160 million) of costs primarily directly related to site activity, definition drilling, 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	Oct. 31 2010 \$	July 31 2010 \$	Apr 30 2010 \$	Jan 31 2010 \$	Oct. 31 2009 \$	July 31 2009 \$	Apr. 30 2009 \$	Jan. 31 2009 \$
Total Revenues	-	-	-	-	-	-	-	-
General and Administrative	(378)	(2,563)	(942)	(5,172)	(883)	(1,089)	(1,009)	(894)
Other Income (Expenses)	168	69	83	12	42	54	27	(7)
Net Loss	(210)	(2,494)	(859)	(5,160)	(841)	(1,035)	(982)	(901)
Loss per share	(0.00)	(0.02)	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)

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

A recovery of previously expensed stock based compensation costs of \$212,000 due to the forfeiture of unvested stock options was recorded in the quarter ended 31 October 2010. There were no similar stock based compensation recoveries recorded in the other quarters.

The Company recorded a future income tax recovery as the expiration of warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$171,000 in the quarter ended 31 October 2010. There were no similar tax recoveries recorded in the other quarters.

A financing cost write-off of \$1.830 million was recorded in the quarter ended 31 July 2010. There were no similar financing cost write-offs recorded in the other quarters.

Exploration expense of \$193,000 was recorded in the quarter ended 30 April 2010. There were no exploration expenses recorded in the other quarters.

Investment losses of \$93,000 were recorded in the quarter ended 31 January 2009. There were no investment losses recorded in the other quarters.

Warrant amendment expenses of \$3.757 million and \$1.005 million were recorded in the quarters ended 31 January 2010 and 31 October 2009, respectively. There were no warrant amendment expenses recorded in the other quarters.

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

1. 31 October 2010 - \$(203,000)
2. 31 July 2010 - \$24,000
3. 30 April 2010 - \$10,000
4. 31 January 2010 - \$31,000
5. 31 October 2009 - \$97,000
6. 31 July 2009 - \$332,000
7. 30 April 2009 - \$453,000
8. 31 January 2009 - \$73,000

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Financing Activities

During the nine months ended 31 October 2010 the Company issued 545,000 shares (prior year period – 475,000) upon exercise of options for proceeds of \$516,000 (prior year period - \$231,000).

Liquidity and Capital Resources

As at 31 October 2010 the Company had working capital of \$1.056 million compared with working capital of \$16.313 million at 31 January 2010 consisting primarily of cash of \$4.994 million (31 January 2010 - \$21.282 million), prepaid expenses of \$746,000 (31 January 2010 - \$512,000), accounts payable and accrued liabilities of \$1.876 million (31 January 2010 - \$2.953 million), the current portion of the notes to Cliffs of \$2.000 million (31 January 2010 - \$2.000 million) and the current portion of asset retirement obligations of \$992,000 (31 January 2010 - \$756,000). The Company expects to pay the remaining balance of \$7.050 million (31 January 2010 - \$8.529 million) long term notes to Cliffs and the convertible debt principal balance of \$25 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 October 2010 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. To 31 October 2010, 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 approximately \$1,100,000.

These interim unaudited 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.

In the past the Company has taken steps to fund its operations through the issuance of equity and debt. It plans to meet its ongoing 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 additional capital to construct its mine and commence commercial production. In the event that currently available resources are not sufficient to meet these obligations, 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.

Subsequent to the end of the quarter, the Company entered into an agreement with Glencore AG ("Glencore") whereby Glencore will purchase \$30 million of the Company's common stock in three tranches, the exact timing to reflect the Company's funding requirements under a

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budget that has yet to be finalized. Glencore has previously invested \$50 million into PolyMet in the form of equity and debt in a total of six separate tranches.

Should the Company wish to continue to further advance the NorthMet Project to commercial production PolyMet would require additional funding. 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 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.

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Related Party Transactions

During the nine months ended 31 October 2010, the Company paid \$48,000 (31 October 2009 - \$36,000) to Dr. Dreisinger, a Director of PolyMet, 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.

Proposed Transactions

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

Subsequent Events

On 12 November 2010, the Company announced that it had renegotiated its debenture financing from Glencore. The agreed amendments to the debenture financing are as follows:

- The maturity date of the Tranche A-D Debentures has been extended from September 30, 2011 to September 30, 2012. The Issued Debentures were issued in four tranches between October 2008 and September 2009. The total initial principal of the Debentures is US\$25 million with US\$2.334 million of accrued interest as of October 31, 2010. The Issued Debentures continue to be exchangeable into common shares of PolyMet at US\$4.00 per share, as agreed to in 2008.
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, US\$25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact Statement, receipt of a term sheet for construction financing, and other customary conditions.
- Cancellation of warrants to purchase 6.25 million common shares of PolyMet at US\$3.00 at any time until September 30, 2011 issued to Glencore in connection with Debentures.
- Issuance of warrants to purchase 3 million common shares of PolyMet at US\$2.00 at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above.

Separately, on 12 November 2010, the Company announced that it had entered into a definitive agreement with Glencore to sell in a private placement 15 million common shares at US\$2.00 per share for gross proceeds of US\$30 million, before deducting estimated offering expenses. Consummation of the sale of the New Shares and funding are expected to occur in the following three tranches subject, in each case, to certain closing conditions:

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- Tranche 1 of US\$10 million is expected to close no later than January 17th, 2011;
- Tranche 2 of US\$10 million is expected to close no later than October 17th, 2011; and
- Tranche 3 of US\$10 million is expected to close on the earlier of a) within ten business days following receipt by PolyMet of key permits, in a form reasonably acceptable to Glencore, that will enable the start of construction of the Project, and b) October 15th, 2012.

As part of this agreement, Glencore has, for a period of five business days following notification of a financing offer, the right of first refusal to provide all material financings of PolyMet that occur at any time when Glencore is the beneficial owner of 10% or more of the issued and outstanding Common Shares of PolyMet. Glencore also has the right to participate in all sales by PolyMet the Company of its equity securities or any securities convertible into or exchangeable or exercisable for such securities in a capital raising transaction, that occur at any time when Glencore or any of its affiliates are the beneficial owner of 5% or more of the issued and outstanding Common Shares of PolyMet. Under this participation right, Glencore can maintain its beneficial ownership of PolyMet allowing for exercise of warrants and exchange of debt into Common Shares of PolyMet. The Company and Glencore have agreed certain provisions in the case of either a Canadian bought deal financing or an underwritten public offering.

The off take and marketing agreements whereby Glencore will market all of PolyMet's products for a minimum of five years from the start of commercial production at NorthMet are unaffected by the amendments to the financing agreements.

On December 16, 2010 the Board of the IRR approved, on the commissioner's recommendation, a secured loan to Poly Met Mining, Inc. of up to \$4 million. The IRR board is composed of five members of the Minnesota Senate, five members of the Minnesota House, and three citizen members. The loan is awaiting approval from the Governor of the State of Minnesota. PolyMet plans to use proceeds from the loan to purchase forest land, wetlands, and lakes as part of a proposed land exchange for surface rights at the proposed NorthMet mine site currently controlled by the U.S. Forest Service.

The loan will be secured by the land to be acquired from proceeds of the loan, carry a fixed interest rate of 5% per annum, and will be repayable on December 31, 2015. Subject to regulatory approval, the Company has also agreed to issue warrants giving the IRR the right to purchase up to 400,000 shares of PolyMet common stock at US\$2.50 per share at any time until the earlier of December 31, 2015 and one year after PolyMet receives permits.

With effect from 31 December 2010, William Murray stepped down as Executive Chairman and George Molyviatis resigned his board membership. Mr. Murray will continue to serve as a non-management director of the Company. Ian Forrest and Frank Sims, both independent directors, will serve as independent co-Chairmen. Mr. Forrest will continue as Chair of the Audit Committee and Mr. Sims will continue as Chair of the Corporate Governance Committee.

On 31 December 2010, warrants to purchase 3,674,092 shares of PolyMet common stock at \$3.00 per share, which had been issued in connection with the April 2007 financing, expired.

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Changes in Accounting Policies Including Initial Adoption

There were no new accounting standards issued during the period that are expected to impact the Company.

International Financial Reporting Standards ("IFRS") and update on plan to transition to 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. Since the Company is required to present full comparative financial information under IFRS for the year ended 31 January 2012, the transition date to IFRS will effectively be February 1, 2010. The transition will require the restatement of the opening balance sheet at the transition date, as well as the results reported under Canadian GAAP for the year ended 31 January 2011.

Management is in the process of assessing the implications of IFRS transitions. This includes the completion of a high level diagnostic review, identifying significant GAAP differences that will impact the Company's financial statements.

Management is adding to its IFRS resources in order to position it to carry out the IFRS transition.

Management is performing detailed component evaluations for the balances and totals that existed at 31 January 2010. On a preliminary basis, management has identified the following potential areas of major differences between the Company's current accounting policies and those that the Company expects to apply in preparing IFRS financial statements:

- Impairment of Assets – Under IFRS the Company is to compare the carrying value of assets to the present value of the recoverable amount to determine whether any impairments are required. Impairments may be reversed in subsequent periods.
- Convertible Debt – Under IFRS, the Company would use the residual method to allocate proceeds to the various elements of its convertible debt transactions and expense the portion relating to warrants.
- Asset Retirement Obligations – IFRS requires estimates of provisions to be revisited at every reporting date. This includes re-assessing the appropriateness of assumptions used in estimating the carrying value of the provisions. The Company expects that the estimate of asset retirement obligations will have to be updated at every reporting date, including updates to the discount rate used in determining the present value of the obligations.

Management expects to complete the detailed component evaluations in the first few months of calendar 2011. This process will allow it to determine the major differences between IFRS and the Company's current accounting policies and quantify said differences.

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IFRS 1 contains various elective exemptions which are intended to provide relief from fully retrospective application of specific IFRS standards. Not all of the available exemptions currently apply to the Company, however, management is evaluating the following elections with regards to the applicable exemptions:

Share based payments – a first-time adopter is not required to apply IFRS 2 to equity instruments that were granted after 7 November 2002 and vested before the date of transition to IFRS.

Fair valuation of property plant and equipment at deemed cost – an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. The Company does not expect to make use of this exemption.

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Other MD&A Requirements

Outstanding Share Data

Authorized Capital: Unlimited common shares without par value.

Issued and outstanding: As at 12 January 2011, 149,525,791 common shares were issued and outstanding.

Outstanding options, warrants and convertible securities as at 12 January, 2011:

Type of Security	Number	Exercise Price (US\$)	Expiry Date
Common share warrants	4,010,000	(Note 1)	August 31, 2011
Stock options	800,000	0.66	05 July 2011
Stock options	50,000	0.80	18 October 2011
Stock options	85,000	0.65	30 March 2012
Stock options	350,000	0.86	1 May 2012
Stock options	40,000	0.95	15 June 2012
Stock options	1,390,000	1.37	19 September 2012
Stock options	200,000	1.21	24 October 2012
Stock options	200,000	1.16	5 December 2012
Stock options	2,650,000	2.78	20 March 2013
Stock options	325,000	2.99	19 June 2013
Stock options	300,000	3.85	1 September 2013
Stock options	75,000	3.54	22 September 2013
Stock options	525,000	3.32	5 January 2014
Stock options	1,250,000	2.99	13 February 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
Common share warrants	3,000,000	(Note 2) 2.00	31 December 2015
Stock options	595,000	0.82	30 January 2016
Stock options	1,060,000	0.82	17 February 2016
Stock options	115,000	2.67	15 October 2016
Stock options	60,000	3.54	8 January 2017

Note 1: 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,

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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 common share of PolyMet at US\$2.00 and expire on 31 December 2011.

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 (re-approved on 7 July 2010). 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 2010 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 2010 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

Management's Responsibility for 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.

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During the quarter ended 31 October 2010, the Company experienced difficulties moving to a new accounting and financial reporting system. These difficulties were primarily in the input and review of transactions and in particular concerned the accurate recording of foreign exchange and intercompany transactions. As a result of experiencing these difficulties the Company was unable to meet its filing deadline to provide consolidated financial statements, management's discussion and analysis and CEO and CFO certifications for its quarter ended October 31, 2010. As a result of these difficulties, management of the Company undertook a rigorous process to ensure that all transactions were recorded completely and accurately in the accounting records. Management is committed to implementing changes to the Company's internal control over financial reporting to enhance internal controls relating to the input and review of all transactions, including those relating to foreign exchange and intercompany transactions, as well as segregation of duties. Furthermore management is committed to ensuring the timely provision of financial information to its shareholders in future in accordance with the filing deadlines established by regulators.

Additional Information

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

FORM 52 – 109F2
CERTIFICATION OF INTERIM FILINGS

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 October 31, 2010.

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 August 1, 2010 and ended on October 31, 2010 that materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: January 17, 2010

"Douglas Newby" (signed)

Douglas Newby
Chief Financial Officer

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 October 31, 2010.

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 August 1, 2010 and ended on October 31, 2010 that materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: January 17, 2010

"Joseph Scipioni" (signed)

Joseph Scipioni

President & Chief Executive Officer