

**POLYMET MINING CORP.**  
(a development stage company)

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**31 October 2009**

**U.S. Funds**

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

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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*

	<b>31 October 2009</b> <i>(unaudited)</i>	31 January 2009 <i>(restated – Note 2)</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 2,926	\$ 7,354
Accounts receivable and advances	120	69
Investment (Note 12)	168	57
Prepaid expenses	332	470
	<b>3,546</b>	7,950
<b>Deferred Financing Costs</b> (Note 11c))	<b>1,988</b>	1,739
<b>Mineral Property, Plant and Equipment</b> (Notes 2, 3 and 4)	<b>109,821</b>	91,910
	<b>\$ 115,355</b>	\$ 101,599
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 3,740	\$ 2,797
Current portion of long term debt (Note 5)	2,000	1,250
Current portion of asset retirement obligation (Note 6)	321	321
	<b>6,061</b>	4,368
<b>Long term</b>		
Long term debt (Note 5)	8,929	10,063
Convertible debt (Note 7)	24,714	13,943
Asset retirement obligation (Note 6)	3,140	2,890
	<b>42,844</b>	31,264
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> - (Note 8)	<b>104,885</b>	104,768
<b>Contributed Surplus</b> – (Note 8d))	<b>32,370</b>	27,549
<b>Accumulated Other Comprehensive Income</b>	<b>96</b>	-
<b>Deficit</b>	<b>(64,840)</b>	(61,982)
	<b>72,511</b>	70,335
	<b>\$ 115,355</b>	\$ 101,599

**Contingent Liabilities and Commitments** (Notes 4 and 11)

**Subsequent Events** (Notes 7 and 8)

ON BEHALF OF THE BOARD:

"William Murray" Director

"David Dreisinger" Director

- See Accompanying Notes -

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

**For the Periods Ended 31 October**

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

	Three months ended 31 October 2009	Three months ended 31 October 2008 <i>(restated – Note 2)</i>	Nine months ended 31 October 2009	Nine months ended 31 October 2008 <i>(restated – Note 2)</i>
<b>General and Administrative</b>				
Amortization	\$ 9	\$ 7	\$ 23	\$ 24
Asset retirement obligation accretion	104	114	300	328
Consulting fees	7	9	25	36
Investor relations and financing	156	29	277	127
Office and corporate wages	299	412	880	959
Professional fees	22	71	121	254
Shareholders' information	68	58	207	284
Stock-based compensation <i>(Notes 8 b and c)</i>	97	80	882	414
Transfer agent and filing fees	17	24	42	142
Travel	104	94	224	365
	<b>883</b>	898	<b>2,981</b>	2,933
<b>Other Expenses (Income)</b>				
Interest income, net	(1)	(8)	(4)	(157)
Loss (gain) on foreign exchange	(12)	137	(12)	195
Investment loss <i>(Note 12)</i>	-	369	-	1,272
Rental income	(29)	(61)	(107)	(165)
	<b>(42)</b>	437	<b>(123)</b>	1,145
<b>Loss for the Period</b>	<b>\$ 841</b>	\$ 1,335	<b>\$ 2,858</b>	\$ 4,078
<b>Other Comprehensive Income</b>				
Unrealized gain on investment	37	-	96	-
<b>Comprehensive Loss</b>	<b>804</b>	1,335	<b>2,762</b>	4,078
<b>Loss for the Period</b>	<b>841</b>	1,335	<b>2,858</b>	4,078
Deficit – Beginning of the Period	<b>63,999</b>	59,746	<b>61,982</b>	57,003
<b>Deficit – End of the Period</b>	<b>\$ 64,840</b>	\$ 61,081	<b>\$ 64,840</b>	\$ 61,081
<b>Basic and Fully Diluted Loss per Share</b>				
	<b>\$ 0.01</b>	\$ 0.01	<b>\$ 0.02</b>	\$ 0.03
<b>Weighted Average Number of Shares</b>				
	<b>139,078,875</b>	137,253,739	<b>138,467,337</b>	137,153,740

- See Accompanying Notes -

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

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

	<u>Common Shares (Note 8)</u>							
	Authorized Shares	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit (restated – Note 2)	Total	
Balance – 31 January 2008	Unlimited	136,991,075	\$ 104,615	\$ 20,825	\$ -	\$ (57,003)	\$ 68,437	
Loss for the period	-	-	-	-	-	(4,979)	(4,979)	
Shares and warrants issued:								
Exercise of options	-	312,800	452	-	-	-	452	
Fair value of stock options exercised	-	-	245	(245)	-	-	-	
Convertible debt – conversion factors and warrants (Note 7)	-	-	-	691	-	-	691	
Accrual of Milestones 2 and 4 Bonus Shares	-	-	-	3,912	-	-	3,912	
Amendment to previously issued warrants (Note 8e))	-	-	(544)	544	-	-	-	
Stock-based compensation	-	-	-	1,822	-	-	1,822	
<b>Balance – 31 January 2009</b>	<b>Unlimited</b>	<b>137,303,875</b>	<b>\$ 104,768</b>	<b>\$ 27,549</b>	<b>\$ -</b>	<b>\$ (61,982)</b>	<b>\$ 70,335</b>	
Loss for the period	-	-	-	-	-	(2,858)	(2,858)	
Other comprehensive income for the period	-	-	-	-	96	-	96	
Shares and warrants issued:								
Exercise of options	-	475,000	231	-	-	-	231	
Fair value of stock options exercised	-	-	170	(170)	-	-	-	
Convertible debt – conversion factor (Note 7)	-	-	-	352	-	-	352	
Accrual of Milestones 2 and 4 Bonus Shares	-	-	-	3,239	-	-	3,239	
Amendment to previously issued warrants (Note 8e))	-	-	(1,005)	1,005	-	-	-	
Issuance of Milestone 2 Bonus Shares (Note 11a))	-	1,300,000	721	(721)	-	-	-	
Stock-based compensation (Note 8c))	-	-	-	1,116	-	-	1,116	
<b>Balance – 31 October 2009</b>	<b>Unlimited</b>	<b>139,078,875</b>	<b>\$ 104,885</b>	<b>\$ 32,370</b>	<b>\$ 96</b>	<b>\$ (64,840)</b>	<b>\$ 72,511</b>	

Figures since 31 January 2009 unaudited, prepared by management.

- See Accompanying Notes -

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

**For the Periods Ended 31 October**

*All figures in Thousands of U.S. Dollars*

(unaudited)

	Three months ended 31 October 2009	Three months ended 31 October 2008 <i>(restated – Note 2)</i>	Nine months ended 31 October 2009	Nine months ended 31 October 2008 <i>(restated – Note 2)</i>
<b>Operating Activities</b>				
<b>Loss for the period</b>	<b>(841)</b>	(1,335)	<b>(2,858)</b>	(4,078)
<b>Items not involving cash</b>				
Amortization	9	7	23	24
Asset retirement obligation accretion	104	114	300	328
Investment loss	-	369	-	1,272
Stock-based compensation	97	80	882	414
<b>Changes in non-cash working capital</b>				
Accounts receivable and advances	(26)	5	(51)	106
Prepaid expenses	(14)	(9)	138	193
Accounts payable and accrued liabilities	281	(1,343)	515	(1,068)
<b>Net cash provided by (used in) operating activities</b>	<b>(390)</b>	(2,112)	<b>(1,051)</b>	(2,809)
<b>Financing Activities</b>				
Share capital – for cash	-	6	231	426
Convertible debt	4,988	7,239	9,944	7,239
Deferred financing costs	(224)	(15)	(249)	(35)
Long-term debt repayment	(250)	(250)	(750)	(1,150)
<b>Net cash provided by (used in) financing activities</b>	<b>4,514</b>	6,980	<b>9,176</b>	6,480
<b>Investing Activities</b>				
Purchase of mineral property, plant and equipment	(4,450)	(5,779)	(12,553)	(18,270)
<b>Net cash used in investing activities</b>	<b>(4,450)</b>	(5,779)	<b>(12,553)</b>	(18,270)
<b>Net (Decrease) in Cash and Cash Equivalents Position</b>	<b>(326)</b>	(911)	<b>(4,428)</b>	(14,599)
<b>Cash and Cash Equivalents Position – Beginning of Period</b>	<b>3,252</b>	6,396	<b>7,354</b>	20,084
<b>Cash and Cash Equivalents Position – End of Period</b>	<b>2,926</b>	5,485	<b>2,926</b>	5,485
<b>Non-Cash Financing and Investing Activities</b>				
Changes in accounts payable and accrued liabilities related to investing activities	212	571	428	(40)
Changes in accounts payable and accrued liabilities relating to financing activities	326	365	326	365

- See Accompanying Notes -

**PolyMet Mining Corp.**  
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**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

**1. Nature of Business**

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

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

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**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 consolidation financial statements 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 2009. Significant differences from United States generally accepted accounting principles are disclosed in Note 14.

Recent Accounting Pronouncements

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

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

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**31 October 2009**

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

Line Item	Year Ended 31 January 2009		Nine months ended 31 October 2008		Year Ended 31 January 2008	
	As Previously Reported	Restated	As Previously Reported	Restated	As Previously Reported	Restated
Mineral Property Plant and Equipment	93,067	91,910	86,959	85,917	65,019	64,305
Loss for the period	4,536	4,979	3,750	4,078	3,690	4,124
Deficit	60,825	61,982	60,039	61,081	56,289	57,003
Loss per share	0.03	0.04	0.03	0.03	0.03	0.03

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

(iii) EIC – 174 – Mining Exploration Costs. This standard provides guidance on the accounting and impairment review of exploration costs. The adoption of this standard did not have any effect on the Company's financial statements.

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

## **Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

### **3. Resource Property Agreements**

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

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

PolyMet US can, at its option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination date.

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

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

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**PolyMet Mining Corp.**  
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**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

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

Details are as follows:

<b>31 October 2009</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>31 October 2009 Net Book Value</b>	<b>31 January 2009 Net Book Value</b>
NorthMet Project	109,680	-	<b>109,680</b>	91,707
Leasehold improvements	47	(28)	<b>19</b>	26
Computers	297	(234)	<b>63</b>	99
Furniture and equipment	140	(81)	<b>59</b>	78
	<u>110,164</u>	<u>(343)</u>	<b>109,821</b>	91,910

**Erie Plant, Minnesota, U.S.A.**

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

The consideration for the purchase was \$1 million in cash, \$2.4 million in notes payable and the issuance of 6,200,547 common shares (at fair market value of \$7,564,000) in the capital stock of the Company. The final instalment 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 will be payable until 31 December 2009 after which it will be payable quarterly at the *Wall Street Journal* Prime Rate, accordingly the debt has been fair valued, for balance sheet purposes, by discounting it at 8.25%.

The Company has assumed certain ongoing site-related environmental and reclamation obligations as a result of the above purchases. These environmental and reclamation obligations are presently contracted under the terms of the purchase agreements with Cliffs. Once the Company obtains its permit to mine and Cliffs is released from its obligations by the State agencies, the environmental and reclamation obligations will be direct with the governing bodies. The present value of the asset retirement obligation in the amount of \$3,461,000 (Note 6) less accretion of \$1,451,000 charged to retained earnings has been recorded as an increase in the carrying amount of the NorthMet Project assets and will be amortized over the life of the asset.

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**Notes to Consolidated Financial Statements**

**31 October 2009**

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Unaudited – prepared by management

**4. Property, Plant and Equipment - continued**

Interest and loan accretion to 31 October 2009 in the amount of \$2,447,000 (31 January 2009 - \$1,957,000) related to the transactions with Cliffs has been capitalized as part of the cost of the NorthMet Project assets.

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

**5. Long Term Debt**

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

	<b>31 October 2009</b>		31 January 2009
Notes payable	\$ 10,917	\$	11,299
Accrued interest	12		14
Total debt	<b>10,929</b>		11,313
Less current portion	<b>(2,000)</b>		(1,250)
Long term debt	<b>\$ 8,929</b>	\$	10,063

**6. Asset Retirement Obligation**

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

The Company's provisions for future site closure and reclamation costs are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments. The Company's estimate of the present value of the obligation to reclaim the NorthMet Project is based upon existing reclamation standards at 31 October 2009 and Canadian GAAP. Once the Company obtains its permit to mine the environmental and reclamation obligations will be direct with the governing bodies. The Company's estimate of the fair value of the asset retirement obligation at 31 October 2009 was \$3,461,000 (31 January 2009 - \$3,211,000). These were based upon a 31 October 2009 undiscounted future cost of \$21.5 million for the first Cliffs transaction and \$2.0 million for Cliffs II, an annual inflation rate of 2.00%, a credit-adjusted risk free interest rate of 12.00%, a mine life of 20 years and a reclamation period of 9 years.

## **Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

### **7. Convertible Debt**

On 31 October 2008, the Company entered into a financing with Glencore AG (“Glencore”) for an aggregate of US\$50 million floating rate secured debentures due on 30 September 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 2009, \$963,000 of interest had been added to the principal amount of the debt. The Debentures are secured by all of the assets of PolyMet and PolyMet US, including a pledge of PolyMet’s 100% shareholding in PolyMet US.

The Debentures are exchangeable into common shares of PolyMet at Glencore’s option at US\$4.00 per share. The Issuer can, at its option, prepay the Debentures if PolyMet’s shares trade at a 20-day volume weighted average price equal to or exceeding US\$6.00, at which time, and at Glencore’s option, Glencore could exchange the Debentures for common shares of PolyMet within 30 days in lieu of payment. Repayment between 1 October 2009 and 30 September 2010 would be at 105% of the then outstanding principal of the Debentures, repayment between 1 October 2010 and 30 September 2011 would be at 102.5% of the outstanding principal.

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

The final US\$25 million of the Debentures, to be used primarily for detailed engineering and procurement, may 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 has produced a total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter. The Glencore Warrants expire on 30 September 2011. If the volume-weighted 20-day average price of PolyMet’s common shares trade at a 50% premium to the then applicable exercise price, Glencore must exercise the warrants within 30 days or the warrants will expire.

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

The Company has accounted for the second, 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 new terms the Glencore Warrants entitle Glencore to purchase 6.25 million common shares of PolyMet at US\$3.00 and expire on September 30, 2011. If the 20-day volume

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Unaudited – prepared by management

**7. Convertible Debt - *continued***

weighted average price of PolyMet's shares is 150% of the exercise price or more (\$4.50), and the Final EIS has been published in the Minnesota Department of Natural Resources EQB Monitor,

PolyMet can accelerate the expiration of the Glencore Warrants to not less than 21 business days after the notice of acceleration.

Separately in November 2009, PolyMet has 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, can be exchanged at US\$2.65 per share. The first four tranches totaling US\$25 million (excluding capitalized interest) that have already been drawn will continue to be exchangeable at US\$4.00 per share.

**8. Share Capital**

**a) Share Issuances for Cash**

During the nine months ended 31 October 2009, the Company issued 475,000 shares (31 October 2008 – 262,800) pursuant to the exercise of stock options for total proceeds of \$231,000 (31 October 2008 - \$426,000).

On 24 November 2009, the Company announced that it had closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. The Company has also entered into a definitive agreement with Glencore to issue an additional 5,660,377 common shares to Glencore at \$2.65 per common share for gross proceeds of \$15 million with closing to occur on or before 29 January 2010.

**b) Stock Options**

The Company's Omnibus Share Compensation Plan covers PolyMet's employees, directors, officers and consultants. Options are granted for varying terms ranging from two to seven years. During the nine month period ended 31 October 2009, the Company granted 1,525,000 options. The maximum number of common shares under the plan shall not exceed (i) 10% of the outstanding common shares of the Company at the time of granting of the options and (ii) 18,592,888 common shares of the Company, of which 3,640,000 common shares are reserved for issuance as awards other than options (Note 11a)).

Details of stock option activity is as follows:

	<b>Nine months ended 31 October 2009</b>	Year ended 31 January 2009
Outstanding - Beginning of period	12,615,000	11,312,800
Granted	1,525,000	1,690,000
Forfeited	(350,000)	(75,000)
Exercised	(475,000)	(312,800)
Outstanding - End of period	<u>13,315,000</u>	<u>12,615,000</u>

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**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

**8. Share Capital - continued**

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.

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

Expiry Date	Exercise Price (US\$)	Exercise Price (CDN\$)	Number of options outstanding
5 July 2011	0.62	0.66	825,000
18 October 2011	0.74	0.79	50,000
30 March 2012	0.61	0.65	85,000
1 May 2012	0.79	0.85	350,000
15 June 2012	0.88	0.94	40,000
19 September 2012	1.27	1.36	1,540,000
24 October 2012	1.12	1.20	200,000
5 December 2012	1.07	1.15	200,000
20 March 2013	2.57	2.76	2,900,000
19 June 2013	2.77	2.97	325,000
1 September 2013	3.56	3.82	300,000
22 September 2013	3.27	3.51	75,000
5 January 2014	3.08	3.30	525,000
13 February 2014	2.99	3.21	1,250,000
8 March 2014	2.88	3.09	400,000
12 March 2014	2.92	3.13	250,000
23 March 2014	2.89	3.10	50,000
4 September 2014	3.00	3.22	360,000
12 December 2014	3.05	3.27	205,000
11 January 2015	3.03	3.25	70,000
31 January 2015	2.87	3.08	100,000
15 February 2015	2.72	2.92	500,000
2 June 2015	3.92	4.20	100,000
30 July 2015	3.22	3.45	175,000
30 January 2016	0.82	0.88	915,000
17 February 2016	0.82	0.88	1,410,000
15 October 2016	2.67	2.86	115,000
	2.03	2.18	13,315,000

As at 31 October 2009 all options had vested and were exercisable, with the exception of 1,752,500 which vest upon completion of specific targets and 57,500 which vest over the next 12 months.

## **Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

### **8. Share Capital - continued**

#### **c) Stock-Based Compensation**

During the nine month period ended 31 October 2009, the Company issued 1,525,000 options to directors, officers, consultants and employees with an average exercise price of USD\$0.96 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following ranges of assumptions:

Risk-free interest rate	1.39% to 1.69%
Expected dividend yield	Nil
Expected stock price volatility	81.97% to 96.03%
Expected option life in years	2.33

The weighted fair value of options granted during the period was US\$0.45. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

During the 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:

	<b>31 October 2009</b>	31 January 2009
Balance – Beginning of period	\$ 27,549	\$ 20,825
Current period fair value of stock-based compensation	1,116	1,822
Fair value of exchangeable warrants and debt conversion	352	691
Change in fair value of warrants amended	1,005	544
Issuance of Milestone 2 Bonus Shares ( <i>Note 11a</i> )	(721)	-
Accrual of bonus shares for Milestones 2 and 4 ( <i>Note 11a</i> )	3,239	3,912
Fair value of stock options exercised during the period	(170)	(245)
Balance – End of period	\$ 32,370	\$ 27,549

**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**

**e) Share Purchase Warrants**

Details of stock purchase warrant activity is as follows:

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

On 17 April 2007, the Company issued 7,500,000 warrants in connection with a non-brokered private placement financing of 15 million units at US\$2.75 per unit, with each unit comprising one common share and one-half of one warrant. Each whole warrant was exercisable into a common share at a price of US\$4.00 at any time until 13 October 2008 subject to an early trigger if the 20-day volume weighted average price of the common shares is US\$6.00 or more. In connection with the private placement, the Company has paid finders' fees including an additional 520,000 broker warrants having the same terms as the warrants described above.

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

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

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

In October 2009, the Company received the consent from holders of more than two-thirds of the above warrants to exchange those 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

## **Notes to Consolidated Financial Statements**

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### **8. Share Capital - *continued***

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 share capital and credited to contributed surplus in the nine months ended 31 October 2009.

In November 2009, the Company's Board of Directors approved a proposal 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. This exchange is subject to the approval of two-thirds of the holders of the warrants.

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

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

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**PolyMet Mining Corp.**  
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Unaudited – prepared by management

**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:

	<b>31 October 2009</b>	31 October 2008
Consulting fees paid to David Dreisinger, a Director of the Company	\$ 36	42
Rent and charges paid to a company of which the Executive Chairman is a director	-	5
	<b>\$ 36</b>	<b>\$ 47</b>

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

During the nine months ended 31 October 2009, the Company paid \$36,000 (31 October 2008 - \$42,000) to Dr. Dreisinger for consulting fees primarily in connection with activities related to the processing / technical side of the NorthMet project and related expenses (the latter were supported by invoices and receipts). The consulting fees were based on a monthly fee of Canadian \$5,500 plus general sales tax. Throughout the term of his engagement, Dr. Dreisinger has conducted in-person and telephonic meetings with Mr. William Murray, the Company's Executive Chairman, and other members of management at which he provided both verbal and written updates on the status of test work and made recommendations for future activities. These meetings occurred approximately every two to three weeks for the past five years.

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

During the nine months ended 31 October 2009, the Company paid \$nil (31 October 2008 - \$5,000) to Baja Mining Corp. ("Baja") primarily for health insurance plan costs. The agreement between Baja and the Company was oral in nature. Mr. Murray ceased being a Director of Baja in June 2008. Effective 1 September 2008, the Company ceased paying the health insurance plan costs to Baja.

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

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

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**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 2009	Canada	U.S.	Consolidated
Segment operating loss (income) (9 months ended)	2,258	600	2,858
Segment operating loss (3 months ended)	542	299	841
<b>Identifiable assets</b>	<b>3,708</b>	<b>111,647</b>	<b>115,355</b>

  

31 October 2008	Canada	U.S.	Consolidated
Segment operating loss (9 months ended)	3,769	309	4,078
Segment operating loss (3 months ended)	1,217	118	1,335
<b>Identifiable assets</b>	<b>1,276</b>	<b>92,662</b>	<b>93,938</b>

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## **Notes to Consolidated Financial Statements**

**31 October 2009**

*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**

- 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 2009, the Company had received shareholder approval of the Bonus Shares for Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval, which will be sought in 2010. To 31 October 2009, 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:

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

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- (i) Milestone 2 – Negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity investment in the Company by such a producer or producers. The bonus shares allocated to Milestone 2 are valued at C\$0.75. During the nine months ended 31 October 2009, the Company accrued \$357,000 related to Milestone 2 (31 October 2008 - \$nil), these amounts were capitalized to Mineral Property, Plant and Equipment. This milestone was deemed to have been achieved in May 2009 and therefore the Company issued the shares to certain directors and insiders.
- (ii) Milestone 4 – Commencement of commercial production at the NorthMet Project at a time when the Company has not less than 50% ownership interest.
- (iii) At the Annual General Meeting of shareholders of the Company, held on 17 June 2008, the disinterested shareholders approved the bonus shares for Milestone 4. The bonus shares allocated to Milestone 4 are valued at US\$3.80, the Company's closing trading price on 17 June 2008. During the nine months ended 31 October 2009, the Company accrued \$2,882,000 related to Milestone 4 (31 October 2008 - \$2,041,000), these amounts were capitalized to Mineral Property, Plant and Equipment.

## **Notes to Consolidated Financial Statements**

**31 October 2009**

*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***

- b) Pursuant to the Company's Asset Purchase Agreement with Cliffs (Note 4), for as long as Cliffs owns 1% or more of the Company's issued shares, Cliffs will have the right to participate on a pro-rata basis in future cash equity financings. This agreement also includes a first right of refusal in favour of the Company should Cliffs wish to dispose of its interest.
  - c) On 31 October 2006 the Company entered into an agreement with BNP Paribas Loan Services ("BNPP") whereby BNPP will advise and assist PolyMet in all aspects of preparation for construction finance. As part of this agreement, BNPP was issued warrants to purchase 600,000 shares of the Company's common stock at a price of US\$4.00 per share at any time prior to 30 October 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of US\$4.00 per share at any time prior to 30 October 2010 will vest. As part of the agreement, PolyMet will also pay BNPP a monthly fee for its advice and assistance and pay the costs for BNPP's independent engineers.
  - d) On 13 October 2008, the Company entered into a collateral pledge agreement wherein it pledged a used drill rig which it owned against payments made by a supplier for parts and outside services that will be used in rebuilding the drill rig. The drill rig has a book value of \$2,841,000 including the amount that the Company has capitalized related to an account payable of \$1,466,000 for the parts and outside services.
  - 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 2009, the Company had outstanding commitments related to equipment, consultants and the environmental review process of \$1,300,000.
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## **Notes to Consolidated Financial Statements**

**31 October 2009**

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### **12. Investment**

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

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

As at 31 October 2008, the Company determined that the investment had an additional other than temporary decline in value. This determination was based on, among other factors, a continued drop in market price for the investment company's main product and a continued decline in the share price of the investment company. The fair value of the investment at 31 October 2008 was US\$149,000 (C\$180,000). In the first two quarters of the fiscal year ended 31 January 2009, the Company recorded investment losses of \$903,000 due to declines in values in those quarters. In the third quarter, as a result of the additional decline in value, the Company recorded an additional investment loss of \$369,000 in its consolidated statement of loss.

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

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**PolyMet Mining Corp.**  
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**13. Financial Instruments and Risk Management**

Categories of financial assets and liabilities

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

	<b>31 October 2009</b>	31 January 2009
Held-for-trading (1)	\$ <b>2,926</b>	\$ 7,354
Available-for-sale	<b>168</b>	57
Loans and receivables	<b>120</b>	69
Other financial liabilities (2)	<b>39,383</b>	28,053

(1) Includes cash and equivalents.

(2) Includes accounts payable and accrued liabilities, convertible debt and long-term debt.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. The fair values of the Company's financial instruments are not materially different from their carrying values.

Risks arising from financial instruments and risk management

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

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

Foreign exchange risk

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

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

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**13. Financial Instruments and Risk Management - continued**

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

	<b>31 October 2009</b>	31 January 2009
Held-for-trading (1)	\$ 379	155
Available-for-sale	168	57
Loans and receivables	67	34
Other financial liabilities (2)	<u>(149)</u>	<u>(255)</u>
	<b>\$ 465</b>	<b>\$ (9)</b>

(1) Includes cash and equivalents.

(2) Includes accounts payable and accrued liabilities.

Based on the above net exposures, as at 31 October 2009, a 10% change in the Canadian / United States exchange rate would impact the Company's earnings by \$47,000.

Credit risk

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

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

Liquidity risk

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

Interest rate risk

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

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

	<b>31 October 2009</b>	31 January 2009
Held-for-trading (1)	\$ 2,926	\$ 7,354
Other financial liabilities (2)	<b>35,643</b>	25,256

(1) Includes cash and equivalents.

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

## Notes to Consolidated Financial Statements

31 October 2009

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### 13. Financial Instruments and Risk Management - *continued*

#### Investment risk

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

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

	31 October 2009	31 January 2009
Available-for-sale (1)	\$ 168	\$ 57

(1) Includes investment.

### 14. 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 2009 and 31 January 2009.

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**Notes to Consolidated Financial Statements**

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Unaudited – prepared by management

**14. 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:

	<b>31 October 2009</b>	31 January 2009
Convertible Debt – Canadian GAAP basis	<b>\$ 24,714</b>	\$ 13,943
Convertible Debt – US GAAP basis	<b>\$ 24,964</b>	\$ 14,193
Shareholders' Equity – Canadian GAAP basis	<b>\$ 72,511</b>	\$ 70,335
Shareholders' Equity – US GAAP basis	<b>\$ 72,261</b>	\$ 70,085

**(b) Development Stage Company**

The Company meets the definition of a development stage enterprise under Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises (codified within ASC 915). 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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**14. 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 2009**

	Cumulative from 1 February 2003 to 31 October 2009
<b>Pre-feasibility Costs</b>	<u>21,679</u>
<b>General and Administrative</b>	
Amortization	123
Asset retirement obligation accretion	1,457
Consulting fees	2,998
Investor relations and financing	1,119
Office and corporate wages	5,771
Professional fees	2,384
Shareholders' information	1,109
Stock-based compensation	11,298
Transfer agent and filing fees	709
Travel	2,256
	<u>29,224</u>
<b>Other Expenses (Income)</b>	
Interest income, net	(1,904)
Loss (gain) on foreign exchange	(197)
Gain on sale of resource properties	(220)
Loss on sale of property, plant and equipment	9
Investment loss	2,415
Rental income	(380)
	<u>(277)</u>
<b>Cumulative Loss for the Period</b>	<u>50,626</u>
<b>Other Comprehensive Income</b>	
Unrealized gain on investment	(96)
<b>Comprehensive Loss</b>	<u>50,530</u>
<b>Deficit Beginning of the Period</b>	<u>14,214</u>
<b>Deficit End of the Period</b>	<u>64,840</u>

**PolyMet Mining Corp.**  
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**14. 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 2009**

	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 2009**

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

Unaudited – prepared by management

**14. 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 2009**

	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.**  
**(a development stage company)**

**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

**14. 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 2009**

	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	-	-	-	-	-	(4,979)	(4,979)
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
Accrual of Milestones 2 and 4 Bonus Shares	-	-	-	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	104,768	27,299	-	(61,982)	70,085

**PolyMet Mining Corp.**  
**(a development stage company)**

**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

**14. 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 2009**

	Issue Price Per Share	Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance – 31 January 2009 (brought forward)		137,303,875	104,768	27,299	-	(61,982)	70,085
Loss for the period	-	-	-	-	-	(2,858)	(2,858)
Other comprehensive income for the period	-	-	-	-	96	-	96
Shares and warrants issued:							
Exercise of options	0.49	475,000	231	-	-	-	231
Fair value of stock options exercised	-	-	170	(170)	-	-	-
Convertible debt – conversion factor	-	-	-	352	-	-	352
Accrual of Milestones 2 and 4 Bonus Shares	-	-	-	3,239	-	-	3,239
Amendment to previously issued warrants	-	-	(1,005)	1,005	-	-	-
Issuance of Milestone 2 Bonus Shares	0.55	1,300,000	721	(721)	-	-	-
Stock-based compensation	-	-	-	1,116	-	-	1,116
Balance – 31 October 2009		139,078,875	104,885	32,120	96	(64,840)	72,261

**PolyMet Mining Corp.**  
**(a development stage company)**  
**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

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

**Consolidated Statements of Cash Flows**

**Cumulative from 1 February 2003 to 31 October 2009**

	Cumulative from 1 February 2003 to 31 October 2009 (unaudited)
<b>Operating Activities</b>	
<b>Loss for the period</b>	\$ (50,626)
<b>Items not involving cash</b>	
Consulting fees and Office and Corporate wages	2,161
Amortization	123
Asset retirement obligation	1,457
Investment loss	2,415
Stock-based compensation	11,298
Gain on sale of resource properties	(220)
Loss on sale of property, plant and equipment	9
<b>Changes in non-cash working capital items</b>	
Accounts receivable and advances	(114)
Prepaid expenses	(332)
Accounts payable and accrued liabilities	844
<b>Net cash used in operating activities</b>	<u>(32,985)</u>
<b>Financing Activities</b>	
Share capital - for cash	81,489
Long-term debt repayment	(5,400)
Convertible debt	24,277
Share subscriptions received	763
Deferred financing costs	(791)
<b>Net cash provided by financing activities</b>	<u>100,338</u>
<b>Investing Activities</b>	
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	(62,188)
<b>Net cash used in investing activities</b>	<u>(64,430)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents Position</b>	2,923
<b>Cash and Cash Equivalents Position - Beginning of Period</b>	<u>3</u>
<b>Cash and Cash Equivalents Position - End of Period</b>	<u>\$ 2,926</u>

**PolyMet Mining Corp.**  
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**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

**14. 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 2009**

	Cumulative from 1 February 2003 to 31 October 2009 (unaudited)
<hr/>	
<b>Direct</b>	
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	<u>104</u>
<b>Cumulative Total Costs for the Period</b>	<b>\$ <u>21,679</u></b>

(c) 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.

**PolyMet Mining Corp.**  
**(a development stage company)**  
**Notes to Consolidated Financial Statements**

**31 October 2009**

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

Unaudited – prepared by management

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

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.

The fair values of our financial assets and liabilities at 31 October 2009 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
<b>Assets</b>					
Cash and equivalents	-	-	2,926	2,926	2,926
Accounts receivable and advances			120	120	120
Investment	168		-	168	168
	168	-	3,046	3,214	3,214
<b>Liabilities</b>					
Accounts payable and accrued liabilities	-	-	3,740	3,740	3,740
Current portion of long term debt	-	-	2,000	2,000	2,000
Long term debt	-	-	8,929	8,929	8,929
Convertible debt	-	-	24,730	24,730	24,964
	-	-	39,399	39,399	39,633

**PolyMet Mining Corp.**  
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**31 October 2009**

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

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

(d) Mineral Rights

The total amount paid for mineral rights to 31 October 2009 was \$1,625,000.

(e) Accounts Payable

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

	<u>October 31,</u> <u>2009</u>	<u>January 31,</u> <u>2009</u>
Operating payables	88	192
Financing payables	326	-
Project development payables	1,860	1,162
Equipment payables	1,466	1,443
	<hr/>	<hr/>
Total	\$3,740	\$2,797

(f) Stock-Based Compensation

As at 31 January 2009, there were 1,752,500 unvested stock options with an average grant date fair value of \$1.21 per option. As at 31 October 2009, there were 1,810,000 unvested stock options with an average grant date fair value of \$1.22 per option. During the nine month period ended 31 October 2009, no 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 2009, the aggregate intrinsic value of vested and unvested stock options, based on the 30 October 2009 closing price for PolyMet's common shares of \$2.64 was \$8,634,000.

The weighted average remaining contractual term of all stock options outstanding as at 31 October 2009 is 4.35 years. The weighted average remaining contractual term of all stock options vested as at 31 October 2009 was 4.24 years.

The unrecognized compensation cost for non-vested stock options at 31 October 2009 was \$458,000. The weighted average period over which it is expected to be recognized is 1.88 years.

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.

(g) Recent U.S. Accounting Pronouncements

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

**POLYMET MINING CORP.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

FORM 51-102F1

For the period ended 31 October, 2009

*US Funds*

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***General***

The following information, prepared as at 9 December 2009, should be read in conjunction with the unaudited interim consolidated financial statements of PolyMet Mining Corp. (the "Company" or "PolyMet") for the period ended 31 October 2009 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in United States dollars unless otherwise indicated.

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

***Forward Looking Statements***

This Management Discussion and Analysis contains certain forward-looking statements concerning anticipated developments in PolyMet's operations in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. These forward-looking statements may include statements regarding exploration results and budgets, mineral resource and mineral reserve estimates, work programs, capital expenditures, timelines including timelines for third-party studies and issuance of permit to operate by various government agencies, strategic plans, the market price of metals, costs, or other statements that are not a statement of fact. Forward-looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated in such statements due to a variety of risks, uncertainties and other factors. PolyMet's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and PolyMet does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations and opinions should change.

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

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

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**MANAGEMENT DISCUSSION AND ANALYSIS**

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***Description of Business and Summary of Recent Events***

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

Asset Acquisitions

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

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

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

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

Feasibility Study, Mineral Resources and Mineral Reserves

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

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

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**MANAGEMENT DISCUSSION AND ANALYSIS**

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

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

*DFS Update*

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

- the sale of concentrate during the construction and commissioning of new metallurgical facilities resulting in a shorter pre-production construction period (under twelve months) and reduced capital costs prior to first revenues (\$312 million versus \$380 million) despite the inclusion of an estimated \$65 million of additional measures to protect the environment;
- the new metallurgical facilities to be constructed during initial production and sales of concentrate. PolyMet anticipates that much of the additional \$290 million of capital costs, including \$20 million of additional environmental measures, will be funded from cash flow from initial operations;
- mine plans (based on copper at \$1.25 per pound) reflect the increase in reserves and decrease in stripping ratio reported on September 26, 2007, the use of 240-ton trucks, and owner versus contract mine operations, and
- \$77 million of mining equipment, which was assumed to be provided by a mining contractor in the DFS has been incorporated as an operating lease in updated operating costs.

Environment and Schedule

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

The EIS process is designed to provide information to government agencies for permitting. PolyMet expects that the required permits will be issued six to nine months after notification of publication of the draft EIS in the State’s EQB Monitor and the Federal Register on November 2 and November 6, 2009, respectively.

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For the period ended 31 October, 2009

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

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

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

Key Developments

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

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

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

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

In October 2009, the Company received the consent of more than two-thirds of the warrant holders to exchange 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share until October 13, 2009 for 4,010,000 warrants at the same price exercisable 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 draft EIS on the Company's NorthMet Project was published in the state of Minnesota's EQB Monitor and the Federal Register on 2 November and 6 November 2009, respectively.

In November 2009, the Company's Board of Directors approved a proposal to exchange the 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share 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, exercisable at the above price 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

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For the period ended 31 October, 2009

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state's Environmental Quality Board Monitor and 31 December, 2010. This exchange is subject to the approval of two-thirds of the holders of the warrants.

On 17 November 2009, the Company announced that it agreed to modify certain terms of PolyMet's October 2008 convertible debenture transaction with Glencore. Under the initial terms, PolyMet issued warrants entitling Glencore to purchase 6.25 million common shares of the Company at US\$5.00 if exercised before the NorthMet Project has produced a total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter. The warrants expire on 30 September 2011. Under the new terms the warrants entitle Glencore to purchase 6.25 million common shares of PolyMet at US\$3.00 and expire on September 30, 2011. If the 20-day volume weighted average price of PolyMet's shares is 150% of the exercise price or more (\$4.50), and the Final EIS has been published in the Minnesota Department of Natural Resources EQB Monitor, PolyMet can accelerate the expiration of the warrants to not less than 21 business days after the notice of acceleration.

Separately, PolyMet has agreed to modify the terms of the final \$25 million undrawn Tranche E of the \$50 million debenture transaction with Glencore. The original terms allowed Glencore to exchange the debentures at \$4.00 per share. The revised terms allowed Glencore to exchange funds drawn under Tranche E at US\$2.65 per share. To date, no funds have been drawn under Tranche E. The first four tranches totaling US\$25 million (excluding capitalized interest) that have already been drawn will continue to be exchangeable at US\$4.00 per share.

On 24 November 2009, the Company announced that it had closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. The Company has also entered into a definitive agreement with Glencore to sell an additional 5,660,377 common shares to Glencore at \$2.65 per common share for gross proceeds of \$15 million with closing to occur on or before 29 January 2010.

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***Results of Operations***

**For the three months ended 31 October 2009 (the “2010 third quarter”) compared to the three months ended 31 October 2008 (the “2009 third quarter”)**

a) Loss for the Period:

During the three months ended 31 October 2009, the Company incurred a loss of \$841,000 (\$0.01 loss per share) compared to a loss of \$1,335,000 (\$0.01 loss per share) in the fiscal 2009 third quarter. The decrease in the net loss for the period was primarily attributable to:

- An other than temporary impairment of investment loss of \$369,000 in the prior year period (current year period - \$nil), and
- A foreign exchange loss of \$137,000 in the prior year quarter due to the strengthening of the U.S. dollar versus the Canadian dollar, compared to a gain of \$12,000 in the current year quarter.

This was partially offset by an increase in investor relations and financing expenses of \$127,000 due to the filing of an F-3 registration statement during the 2010 third quarter.

Effective 1 February 2009, the Company adopted CICA Section 3064 - Goodwill and Intangible Assets. As a result of this standard, the CICA withdrew EIC 27, Revenue and Expenses during the pre-operating period. With the withdrawal of EIC 27, the Company is no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted in the Company retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in its consolidated financial statements. The impact on the financial statements was a reduction in the mineral property book value and a corresponding increase in deficit of \$1,157,000 at 31 January 2009. The impact in the quarter ended 31 October 2009 was an asset retirement accretion expense of \$104,000 (31 October 2008 - \$114,000).

b) Cash Flows:

Cash used in operating activities in the three months ended 31 October 2009 was \$390,000 compared to cash used in the three months ended 31 October 2008 of \$2,112,000. The variance in cash related to operating activities is primarily due to changes in non-cash working capital balances.

Cash provided by financing activities for the three months ended 31 October 2009 was \$4,514,000 (prior year period – \$6,980,000). The 2010 third quarter activity was primarily due to net funding from issuance of convertible debentures of \$4,988,000 (prior year period - \$7,239,000), the scheduled repayment of \$250,000 of debt (prior year period - \$250,000) and deferred financing costs of \$224,000 (prior year period - \$15,000) primarily related to the Glencore equity offering which closed after quarter end.

Cash used in investing activities for the three months ended 31 October 2009 was \$4,450,000 compared with \$5,779,000 in the three months ended 31 October 2008, with the decrease being primarily the result of lower engineering and project costs in the current year period as the Company scaled back detailed engineering and design work that is not needed for permitting.

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Total cash for the three months ended 31 October 2009 decreased by \$326,000 for a balance of \$2,926,000 compared to the three months ended 31 October 2008 where cash decreased \$911,000 to a balance of \$5,485,000.

c) Capital Expenditures:

During the three months ended 31 October 2009 the Company capitalized \$6,425,000 (2008 - \$18,160,000) of costs primarily directly related to site activity, bonus share accrual, the draft EIS and permitting as well as engineering and project planning costs.

**For the nine months ended 31 October 2009 compared to the nine months ended 31 October 2008**

a) Loss for the Period:

During the nine months ended 31 October 2009, the Company incurred a loss of \$2,858,000 (\$0.02 loss per share) compared to a loss of \$4,078,000 (\$0.03 loss per share) in the prior year period. The decrease in the net loss for the period was primarily attributable to:

- An other than temporary impairment of investment loss of \$1,272,000 in the prior year period (current year period - \$nil);
- Interest income of \$4,000 (prior year period - \$157,000) with the decrease being due to lower cash balances and interest rates, and
- A foreign exchange loss of \$195,000 in the prior year period due to the strengthening of the U.S. dollar versus the Canadian dollar, compared to a gain of \$12,000 in the current year quarter.

This was partially offset by an increase in stock-based compensation to \$882,000 (prior year period - \$414,000) predominantly due to the granting of additional stock options in the first quarter and the extension of the term of all PolyMet stock options outstanding at 24 June 2009 by two years which was approved by the disinterested shareholders at the Company's Annual and Special of shareholders on 24 June 2009 and by an increase in investor relations and financing expenses of \$127,000 due to the filing of an F-3 registration statement during the 2010 third quarter.

Effective 1 February 2009, the Company adopted CICA Section 3064 - Goodwill and Intangible Assets. As a result of this standard, the CICA withdrew EIC 27, Revenue and Expenses during the pre-operating period. With the withdrawal of EIC 27, the Company is no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted in the Company retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in its consolidated financial statements. The impact on the financial statements was a reduction in the mineral property book value and a corresponding increase in deficit of \$1,157,000 at 31 January 2009. The impact in the nine month period ended 31 October 2009 was an asset retirement accretion expense of \$300,000 (31 October 2008 - \$328,000).

b) Cash Flows:

Cash used in operating activities in the nine months ended 31 October 2009 was \$1,051,000 compared to cash used in the nine months ended 31 October 2008 of \$2,809,000. The variance in cash related to operating activities is primarily due to changes in non-cash working capital balances.

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Cash provided by financing activities for the nine months ended 31 October 2009 was \$9,176,000 compared with \$6,480,000 in the prior year period. The activity in the first nine months of 2009 was primarily due to the net funding from issuance of convertible debentures of \$9,944,000 (prior year period - \$7,239,000), the scheduled repayment of \$750,000 of debt (prior year period - \$1,150,000) and deferred financing costs of \$249,000 (prior year period - \$35,000) primarily related to the Glencore equity offering which closed after quarter end. During the current year period, the Company received \$231,000 from the issuance of common shares on exercise of stock options (prior year period - \$426,000).

Cash used in investing activities for the nine months ended 31 October 2009 was \$12,553,000 compared with \$18,270,000 in the nine months ended 31 October 2008, with the decrease being primarily the result of lower engineering and project costs in the current year period as the Company scaled back detailed engineering and design work that is not needed for permitting.

Total cash for the nine months ended 31 October 2009 decreased by \$4,428,000 for a balance of \$2,926,000 compared to the prior year period where cash decreased \$14,599,000 to a balance of \$5,485,000.

c) Capital Expenditures:

During the nine months ended 31 October 2009 the Company capitalized \$18,160,000 (2008 - \$21,647,000) of costs primarily directly related to site activity, bonus share accrual, the draft EIS and permitting as well as engineering and project planning costs.

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**Summary of Quarterly Results**

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

<b>Three Months Ended</b>	<b>Oct. 31 2009</b>	<b>July 31 2009</b>	<b>Apr. 30 2009</b>	<b>Jan. 31 2009</b>	<b>Oct. 31 2008</b>	<b>July 31 2008</b>	<b>Apr. 30 2008</b>	<b>Jan. 31 2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Total Revenues</b>	-	-	-	-	-	-	-	-
<b>General and Administrative</b>	(883)	(1,089)	(1,009)	(894)	(898)	(1,017)	(1,018)	(1,225)
<b>Other Income (Expenses)</b>	42	54	27	(7)	(437)	(649)	(59)	(798)
<b>Net Loss</b>	(841)	(1,035)	(982)	(901)	(1,335)	(1,666)	(1,077)	(2,023)
<b>Loss per share</b>	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

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

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

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

1. 31 October 2009 - \$97,000
2. 31 July 2009 - \$332,000
3. 30 April 2009 - \$453,000
4. 31 January 2009 - \$73,000
5. 31 October 2008 - \$80,000
6. 31 July 2008 - \$172,000
7. 30 April 2008 - \$162,000
8. 31 January 2008 - \$39,000

Each of the quarterly results from 31 January 2009 to 31 January 2008 have been restated to reflect the adoption of CICA 3064 and the related withdrawal of EIC 27. As a result of the withdrawal, asset retirement obligation accretion expenses which the Company had previously capitalized to mineral property have been expensed. As a result, the general and administrative expense and net loss in the periods have increased by the following amounts:

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

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***Financing Activities***

During the nine months ended 31 October 2009 the Company issued 475,000 shares (prior year period – 262,800) upon exercise of options for proceeds of \$231,000 (prior year period - \$420,000).

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

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

On 24 November 2009, the Company announced that it had closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. The Company has also entered into a definitive agreement with Glencore to sell an additional 5,660,377 common shares to Glencore at \$2.65 per common share for gross proceeds of \$15 million with closing to occur on or before 29 January 2010.

***Liquidity and Capital Resources***

As at 31 October 2009 the Company had a working capital deficiency of \$2.515 million compared with working capital of \$3.582 million at 31 January 2009 consisting primarily of cash of \$2.926 million (31 January 2009 - \$7.354 million), prepaids of \$332,000 (31 January 2009 - \$470,000), accounts payable and accrued liabilities of \$3.740 million (31 January 2009 - \$2.797 million), the current portion of the notes to Cliffs of \$2.000 million (31 January 2009 - \$1.250 million) and the current portion of asset retirement obligations of \$321,000 (31 January 2009 - \$321,000). The Company expects to pay the remaining balance of \$8.929 million (31 January 2009 - \$10.063 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 2009 the Company, in addition to its obligation to Cliffs and Glencore as described herein, has obligations to issue shares under the Company's Bonus Share Plan. The Company has received shareholder approval for the Bonus Shares of Milestones 1 – 4 and regulatory approval for Milestones 1, 2 and 3. Milestone 4 is subject to regulatory approval, which will be sought in 2010. To 31 October 2009, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3. The bonus shares allocated for Milestones 1 through 3 are valued using the Company's closing trading price on 28 May 2004 of CDN\$0.75 per share, the date of the approval of the bonus plan by the disinterested shareholders. The bonus shares allocated for Milestone 4 are valued using the Company's closing trading price on 17 June 2008 of US\$3.80 per share, the date of the approval of the bonus plan by the disinterested shareholders. The Company also has outstanding firm commitments of \$1,300,000.

In May 2009, the Company determined that Milestone 2 of its Bonus Share Plan, the negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity

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investment in the Company by such a producer or producers, had been achieved. As a result, the Company issued the related 1,300,000 common shares to certain directors and insiders.

On 24 November 2009, the Company announced that it had closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. The Company has also entered into a definitive agreement with Glencore to sell an additional 5,660,377 common shares to Glencore at \$2.65 per common share for gross proceeds of \$15 million with closing to occur on or before 29 January 2010.

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

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

***Shareholder Rights Plan***

Effective 25 May 2007, the Company adopted an updated Shareholder Rights Plan ("Rights Plan"), which was approved by the Company's shareholders on 27 June 2007 and modified by the Company's shareholders on 17 June 2008. Under the Rights Plan, the Company has issued one right for no consideration in respect of each outstanding common share of the Company to all holders of record of common shares on 4 December 2003. All common shares subsequently issued by the Company during the term of the Rights Plan will have one right represented for each common share held by the shareholder of the Company. The term of the Rights Plan is 10 years, unless the rights are earlier redeemed or exchanged. The Rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of the Company's common shares without complying with the Rights Plan or without the approval of the Board of Directors of the Company.

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

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

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

	<b>Nine months ended 31 October 2009</b>	Nine months ended 31 October 2008
Consulting fees paid to David Dreisinger, a Director of the Company	<b>36</b>	42
Rent and charges paid to a company of which the Executive Chairman is a director	-	5
	<b>36</b>	47

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

During the nine months ended 31 October 2009, the Company paid \$36,000 (31 October 2008 - \$42,000) to Dr. Dreisinger for consulting fees primarily in connection with activities related to the processing / technical side of the NorthMet project and related expenses (the latter were supported by invoices and receipts). The consulting fees were based on a monthly fee of Canadian \$5,500 plus general sales tax. Throughout the term of his engagement, Dr. Dreisinger has conducted in-person and telephonic meetings with Mr. William Murray, the Company's Executive Chairman, and other members of management at which he provided both verbal and written updates on the status of test work and made recommendations for future activities. These meetings occurred approximately every two to three weeks for the past five years.

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

During the nine months ended 31 October 2009, the Company paid \$nil (31 October 2008 - \$5,000) to Baja Mining Corp. ("Baja") primarily for health insurance plan costs. The agreement between Baja and the Company was oral in nature. Mr. Murray ceased being a Director of Baja in June 2008. Effective 1 September 2008, the Company ceased paying the health insurance plan costs to Baja.

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

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***Proposed Transactions***

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

***Subsequent Events***

The draft EIS on the Company's NorthMet Project was published in the state of Minnesota's EQB Monitor and the Federal Register on 2 November and 6 November 2009, respectively.

In November 2009, the Company's Board of Directors approved a proposal to exchange the 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share 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, exercisable at the above price 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. This exchange is subject to the approval of two-thirds of the holders of the warrants.

On 17 November 2009, the Company announced that it agreed to modify certain terms of PolyMet's October 2008 convertible debenture transaction with Glencore. Under the initial terms, PolyMet issued warrants entitling Glencore to purchase 6.25 million common shares of the Company at US\$5.00 if exercised before the NorthMet Project has produced a total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter. The warrants expire on 30 September 2011. Under the new terms the warrants entitle Glencore to purchase 6.25 million common shares of PolyMet at US\$3.00 and expire on September 30, 2011. If the 20-day volume weighted average price of PolyMet's shares is 150% of the exercise price or more (\$4.50), and the Final EIS has been published in the Minnesota Department of Natural Resources EQB Monitor, PolyMet can accelerate the expiration of the warrants to not less than 21 business days after the notice of acceleration.

Separately, PolyMet has agreed to modify the terms of the final \$25 million undrawn Tranche E of the \$50 million debenture transaction with Glencore. The original terms allowed Glencore to exchange the debentures at \$4.00 per share. The revised terms allowed Glencore to exchange funds drawn under Tranche E at US\$2.65 per share. To date, no funds have been drawn under Tranche E. The first four tranches totaling US\$25 million (excluding capitalized interest) that have already been drawn will continue to be exchangeable at US\$4.00 per share.

On 24 November 2009, the Company announced that it had closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. The Company has also entered into a definitive agreement with Glencore to sell an additional 5,660,377 common shares to Glencore at \$2.65 per common share for gross proceeds of \$15 million with closing to occur on or before 29 January 2010.

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***Changes in Accounting Policies Including Initial Adoption***

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

- (i) Section 3064 - Goodwill and Intangible Assets. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and other intangible assets. As a result of this standard, the CICA withdrew EIC 27, Revenue and Expenses during the pre-operating period. With the withdrawal of EIC 27, the Company is no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted in the Company retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in its consolidated financial statements. The impact on the financial statements was a reduction in the mineral property book value and a corresponding increase in deficit of \$1,157,000 at 31 January 2009. The impact in the quarter ended 31 October 2009 was an asset retirement accretion expense of \$104,000 (31 October 2008 - \$114,000).
- (ii) EIC – 173 – Credit Risk and Fair Value of Financial Assets and Liabilities. This standard provides guidance on how to take into account credit risk of an entity and counterparty when determining fair value of financial assets and financial liabilities. The adoption of this standard did not have any effect on the Company's financial statements.
- (iii) EIC – 174 – Mining Exploration Costs. This standard provides guidance on the accounting and impairment review of exploration costs. The adoption of this standard did not have any effect on the Company's financial statements.

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

***International Financial Reporting Standards ("IFRS")***

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended 31 January 2011.

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

**Resources**

- Management has retained the service of a major public accounting firm to provide advisory technical assistance for the project, and

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- The Company will continue to invest in training and resources to ensure a timely and effective conversion.

Process

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

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

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**Other MD&A Requirements**

**Outstanding Share Data**

Authorized Capital: Unlimited common shares without par value.

Issued and outstanding: As at 7 December 2009, 142,952,460 common shares were issued and outstanding.

Outstanding options, warrants and convertible securities as at 7 December 2009:

Type of Security	Number	Exercise Price (US\$)	Expiry Date
Common share warrants	4,010,000	3.00	(Note1)
Common share warrants	1,100,000	4.00	30 October 2010
Common share warrants	4,010,000	(Note 1)	August 31, 2011
Stock options	825,000	0.62	05 July 2011
Common share warrants	6,250,000	(Note 2)	30 September 2011
Stock options	50,000	0.75	18 October 2011
Stock options	85,000	0.61	30 March 2012
Stock options	350,000	0.80	1 May 2012
Stock options	40,000	0.89	15 June 2012
Stock options	1,540,000	1.29	19 September 2012
Stock options	200,000	1.13	24 October 2012
Stock options	200,000	1.09	5 December 2012
Stock options	2,900,000	2.61	20 March 2013
Stock options	325,000	2.81	19 June 2013
Stock options	300,000	3.61	1 September 2013
Stock options	75,000	3.32	22 September 2013
Stock options	525,000	3.12	5 January 2014
Stock options	1,250,000	2.99	13 February 2014
Stock options	400,000	2.88	8 March 2014
Stock options	250,000	2.92	12 March 2014
Stock options	50,000	2.89	23 March 2014
Stock options	360,000	3.00	4 September 2014
Stock options	205,000	3.05	12 December 2014
Stock options	70,000	3.03	11 January 2015
Stock options	100,000	2.87	31 January 2015
Stock options	500,000	2.72	15 February 2015
Stock options	100,000	3.92	2 June 2015
Stock options	175,000	3.22	30 July 2015
Stock options	815,000	0.82	30 January 2016
Stock options	1,410,000	0.82	17 February 2016
Stock options	115,000	2.67	15 October 2016

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Note 1: On 10 October 2008, the Company announced that it had received the consent from the holders of more than two-thirds of the 8,020,000 warrants issued as part of its April 2007 private placement to exchange those warrants into:

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

In October 2009, the Company received the consent of more than two-thirds of the warrant holders to exchange 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share until October 13, 2009 for 4,010,000 warrants at the same price exercisable 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.

In November 2009, the Company's Board of Directors approved a proposal to exchange the 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share 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, exercisable at the above price 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. This exchange is subject to the approval of two-thirds of the holders of the warrants.

Note 2: Each warrant entitles the holder to purchase one share of PolyMet common stock at US\$5.00 if exercised before the NorthMet Project has produced a cumulative total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter and prior to August 31, 2011. PolyMet can accelerate the expiration of the warrants if PolyMet's volume-weighted 20-day average stock price trades at a 50% premium to the exercise price applicable at any time. On 17 November 2009, the Company announced that it agreed to modify certain terms of these warrants. Under the new terms the warrants entitle Glencore to purchase 6.25 million common shares of PolyMet at US\$3.00 and expire on September 30, 2011. If the 20-day volume weighted average price of PolyMet's shares is 150% of the exercise price or more (\$4.50), and the Final EIS has been published in the Minnesota Department of Natural Resources EQB Monitor, PolyMet can accelerate the expiration of the Glencore Warrants to not less than 21 business days after the notice of acceleration.

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

***Risks and Uncertainties***

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described in PolyMet's Form 20-F/Annual Information Form for the year ended 31 January 2009 on file with the SEC and Canadian securities regulators and other information filed with the Canadian and United States securities regulators before investing in the Company's common shares. The risks described in PolyMet's Form 20-F/Annual Information Form are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of the risks described in PolyMet's Form 20-F/Annual Information Form for the year ended 31 January 2009 occur, the Company's business, operating results and financial condition could be seriously harmed and investors could lose all of their investment.

***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.

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***Management's Report on Internal Control over Financial Reporting***

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

There have been no changes in the Company's internal control over financial reporting during the three months ended 31 October 2009 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

***Additional Information***

*Additional information related to the Company is available for view on SEDAR and EDGAR, respectively, at [www.sedar.com](http://www.sedar.com) and [www.sec.gov](http://www.sec.gov), and at the Company's website [www.polymetmining.com](http://www.polymetmining.com).*

**FORM 52 – 109F2**  
**CERTIFICATION OF INTERIM FILINGS**

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

1. **Review:** I have reviewed the interim financial statements and interim MD & A, (together, the “interim filings”) of PolyMet Mining Corp. (the “issuer”) for the interim period ended October 31, 2009.
2. **No Misrepresentations:** Based on my knowledge, having exercised all reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised all reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer and I have, as at the end of the period covered by the interim filings:
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that:
    - (i) material information relating to the issuer, is made known to us by others, particularly during the period in which the interim filings are being prepared, and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 **Control Framework:** The control framework of the issuer’s other certifying officer and I used to design the issuer’s ICFR is Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) framework.

5.2 N/A

5.3 N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its MD&A any change in the issuer's ICFR that occurred during the period beginning on August 1, 2009 and ended on October 31, 2009 that materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: December 11, 2009

*"Joseph Scipioni"* (signed)

Joseph Scipioni

President & Chief Executive Officer

**FORM 52 – 109F2**  
**CERTIFICATION OF INTERIM FILINGS**

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

1. **Review:** I have reviewed the interim financial statements and interim MD & A, (together, the “interim filings”) of PolyMet Mining Corp. (the issuer) for the interim period ended October 31, 2009.
2. **No Misrepresentations:** Based on my knowledge, having exercised all reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised all reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer and I have, as at the end of the period covered by the interim filings:
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that:
    - (i) material information relating to the issuer, is made known to us by others, particularly during the period in which the interim filings are being prepared, and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 **Control Framework:** The control framework of the issuer’s other certifying officer and I used to design the issuer’s ICFR is Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) framework.

5.2 N/A

5.3 N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its MD&A any change in the issuer's ICFR that occurred during the period beginning on August 1, 2009 and ended on October 31, 2009 that materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: December 11, 2009

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