

POLYMET MINING CORP
Form 20-F/A
May 31, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 20-F /A
(Amendment No. 1)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-18701

POLYMET MINING CORP.

(Formerly Fleck Resources Ltd.)

(Exact name of Registrant as specified in its charter)

British Columbia, Canada

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Common Shares, without par value
(Title of Class)

Name of each exchange on which registered

NYSE Amex
Toronto Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 154,825,191

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. []Yes []No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. []Yes []No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. []Yes []No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer [] Accelerated filer [] Non-accelerated filer []

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [] International Financial Reporting Standards as issued by the International Accounting Standards Board [] Other []

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 [] Item 18 []

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). []Yes []No

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Annual Report on Form 20-F for the fiscal year ended January 31, 2011 originally filed with the Securities and Exchange Commission on May 9, 2011 (the 'Original 2011 Form 20-F) to correct an administrative error in the Independent Auditor's Report to the audited financial statements included in the Original 2011 Form 20-F. We have added the name of the independent auditor to the Independent Auditors Report and included it in this Amendment No. 1.

We are including in the Amendment No.1 currently-dated certifications by our principal executive officer and our principal financial officer. Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the Original 2011 Form 20-F, or reflect any events that have occurred after the Original 2011 Form 20-F was originally filed.

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This Annual Report on Form 20-F (this Annual Report) contains statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements appear in a number of different places in this Annual Report and can be identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", "projects", "plans", and similar expressions, or statements that events, conditions or results will, may, could, or should occur or be achieved or their negatives or other comparable words. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. The statements, including the statements contained in Item 3D Risk Factors , Item 4B Business Overview , Item 5 Operating and Financial Review and Prospects and Item 11 Quantitative and Qualitative Disclosures About Market Risk , are inherently subject to a variety of risks and uncertainties that could cause actual results, performance or achievements to differ significantly. Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for our exploration and development programs, statements about future market conditions, supply and demand conditions, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. Our actual results may differ materially from those in the forward-looking statements due to risks facing us or due to actual facts differing from the assumptions underlying our predictions. Some of these risks and assumptions include:

- general economic and business conditions, including changes in interest rates and exchange rates;
- prices of natural resources, costs associated with mineral exploration and development, and other economic conditions;
- natural phenomena;
- actions by government authorities, including changes in government regulation;
- uncertainties associated with legal proceedings;
- changes in the resources market;
- future decisions by management in response to changing conditions;
- our ability to execute prospective business plans, and
- misjudgments in the course of preparing forward-looking statements.

All forward-looking statements included in this Annual Report are based on information available to us on the date of this Annual Report. We expressly disclaim any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law. You should carefully review the cautionary statements and risk factors contained in this and other documents that we file from time to time with the Securities and Exchange Commission (the SEC).

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not required.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The following selected financial information, as of and for the years ended January 31, 2011, 2010 and 2009 have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The selected financial data as of and for the years ended January 31, 2008 and 2007 have been derived from our audited consolidated financial statements not included in this Annual Report. Our consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"); the application of which conforms in all material respects for the periods presented with United States (US) GAAP, except as disclosed in the footnotes to the financial statements. The selected financial data should be read in conjunction with the consolidated financial statements and related notes thereto and other information included elsewhere in the Annual Report.

We are in the process of transitioning to reporting under International Financial Reporting Standards ("IFRS"). Our first quarter 2012, ending April 30, 2011, will include comparative information under IFRS.

Selected Financial Data
(US\$ in 000 s, except loss per share and weighted average shares)

| | Year Ended 1/31/11 | Year Ended 1/31/10 | Year Ended 1/31/09 | Year Ended 1/31/08 | Year Ended 1/31/07 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Revenue | \$ | \$ | \$ | \$ | \$ |
| Income (loss) from Operations | \$ | \$ | \$ | \$ | \$ |
| Net Loss | \$ (7,283) | \$ (9,023) | \$ (5,523) | \$ (4,124) | \$ (18,126) |
| Loss Per Share | \$ (0.05) | \$ (0.06) | \$ (0.04) | \$ (0.03) | \$ (0.16) |
| Diluted Net Loss Per Share | \$ (0.05) | \$ (0.06) | \$ (0.04) | \$ (0.03) | \$ (0.16) |
| Dividends Per Share | \$ | \$ | \$ | \$ | \$ |
| Weighted Average Shares | 149,444,955 | 139,456,827 | 137,187,927 | 133,697,572 | 114,754,213 |
| Working Capital | \$ 779 | \$ 16,313 | \$ 3,582 | \$ 16,558 | \$ 5,240 |
| Total Assets | \$ 145,032 | \$ 139,648 | \$ 101,599 | \$ 88,485 | \$ 48,451 |
| Long-Term and Convertible Debt | \$ 29,408 | \$ 33,782 | \$ 24,006 | \$ 10,834 | \$ 11,853 |
| US GAAP Long-Term and Convertible Debt ¹ | \$ 29,658 | \$ 34,032 | \$ 24,256 | \$ 10,834 | \$ 11,853 |
| Shareholders Equity | \$ 102,618 | \$ 97,567 | \$ 70,335 | \$ 68,437 | \$ 29,658 |
| US GAAP Shareholders Equity | \$ 102,368 | \$ 97,317 | \$ 70,085 | \$ 68,437 | \$ 29,658 |
| Capital Stock | \$ 142,373 | \$ 132,066 | \$ 105,312 | \$ 104,615 | \$ 72,923 |

1 Under Canadian GAAP, we include the fair value of the conversion ability as shareholders equity. Under US GAAP, this amount is included in convertible debt.

Unless otherwise indicated, all monetary amounts in this Annual Report are expressed in United States dollars, our reporting currency.

D. Risk Factors

Factors that could cause our actual results to differ materially from those described in the forward-looking statements contained in this Annual Report and other documents we file with the Securities and Exchange Commission include the risks described below. You should also refer to the other information in this Annual Report, including the consolidated financial statements and accompanying notes thereto.

RISKS RELATING TO OUR BUSINESS

We may experience delays, higher than expected costs, difficulties in obtaining environmental permits and other obstacles when implementing our capital expenditure projects.

We are investing heavily in various facets of our NorthMet Project. Our project is subject to a number of risks that may make it less successful than anticipated, including:

- delays or higher than expected costs completing the environmental review process necessary before construction and operating permits can be issued;
- delays in the issuance of permits after completion of the environmental review process;
- delays or higher than expected costs in obtaining the necessary equipment or services to build and operate our projects, and
- adverse mining conditions may delay and hamper our ability to produce the expected quantities of minerals.

Our future activities could be subject to environmental laws and regulations which may have a materially adverse effect on our future operations, in which case our operations could be suspended or terminated.

We are subject to a variety of federal, provincial, state and local statutes, rules and regulations designed to, among other things:

- protect the environment, including the quality of the air and water in the vicinity of exploration, development, and mining operations;
- remediate the environmental impacts of those exploration, development, and mining operations;
- protect and preserve wetlands and endangered species, and
- mitigate negative impacts on certain archeological and cultural sites.

We are required to obtain various governmental permits to conduct exploration, development, construction and mining activities at our properties. Obtaining the necessary governmental permits is often a complex and time-consuming process involving numerous U.S. or Canadian federal, provincial, state, and local agencies. The duration and success of each permitting effort is contingent upon many variables not within our control. In the context of obtaining permits or approvals, we must comply with known standards, existing laws, and regulations that may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the interpretation of the laws and regulations implemented by the permitting authority. The failure to obtain certain permits or the adoption of more stringent permitting requirements could have a material adverse effect on our business, operations, and properties and we may be unable to proceed with our exploration and development programs.

Federal legislation and implementing regulations adopted and administered by the U.S. Environmental Protection Agency, Army Corp of Engineers, Forest Service, Bureau of Land Management, Fish and Wildlife Service, Mine Safety and Health Administration, and other federal agencies, and legislation such as the Federal Clean Water Act, Clean Air Act, National Environmental Policy Act, Endangered Species Act, and Comprehensive Environmental Response, Compensation, and Liability Act, have a direct bearing on U.S. exploration, development and mining operations. Due to the uncertainties inherent in the permitting process, we cannot be certain that we will be able to obtain required approvals for proposed activities at any of our properties in a timely manner, or that our proposed

activities will be allowed at all.

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The process of obtaining federal and local regulatory approvals is increasingly cumbersome, time-consuming, and expensive, and the cost and uncertainty associated with the permitting process could have a material adverse effect on exploring, developing or mining our properties. Moreover, compliance with statutory environmental quality requirements described above may require significant capital outlays, significantly affect our earning power, or cause material changes in our intended activities. Environmental standards imposed by federal, state, or local governments may be changed or become more stringent in the future, which could materially and adversely affect our proposed activities.

Because the price of metals fluctuate, if the prices of metals in our ore body decrease below a specified level, it may no longer be profitable to develop our NorthMet Project for those metals and we will cease operations.

Prices of metals are determined by some of the following factors:

- expectations for inflation;
- the strength of the United States dollar;
- global and regional supply and demand, and
- political and economic conditions and production costs in major metals producing regions of the world.

The aggregate effect of these factors on metals prices is impossible for us to predict. In addition, the prices of metals are sometimes subject to rapid short-term and/or prolonged changes because of speculative activities. The current demand for and supply of various metals affect the prices of copper, nickel, cobalt, platinum, palladium and gold, but not necessarily in the same manner as current supply and demand affect the prices of other commodities. The supply of these metals primarily consists of new production from mining. If the prices of copper, nickel, cobalt, platinum, palladium and gold are, for a substantial period, below our foreseeable costs of production, we could cease operations.

We are dependent on our key personnel.

Our success depends on key members of our management. The loss of the services of one or more of such key management personnel could have a material adverse effect us. Our ability to manage exploration and development activities, and hence our success, will depend in large part on the efforts of these individuals. We face intense competition for qualified personnel, and we cannot be certain that we will be able to attract and retain such personnel.

We may not be able to raise the funds necessary to develop our mineral properties. If we are unable to raise such additional funds, we will have to suspend or cease operations.

We will need to seek additional financing to complete our development and construction of the NorthMet Project. Sources of such external financing include future equity offerings, advance payments by potential customers to secure long-term supply contracts, grants and low-cost debt from certain state financial institutions, and commercial debt secured by the NorthMet Project. The failure to obtain such additional financing could have a material adverse effect on our results of operations and financial condition. We may not be able to secure the financing necessary to sustain exploration and development activities in the future. If we cannot raise the money necessary to continue to explore and develop our property, we will have to suspend or cease operations.

Our metals exploration and development efforts are highly speculative in nature and may be unsuccessful.

As a development stage company, our work is speculative and involves unique and greater risks than are generally associated with operating businesses.

The development of mineral deposits involves uncertainties, which careful evaluation, experience, and knowledge cannot eliminate. Although the discovery of an ore body may result in substantial rewards, few properties explored are ultimately developed into producing mines. It is impossible to ensure that the current development program we have planned will result in a profitable commercial mining operation. Significant capital investment is required to achieve commercial production from successful exploration efforts.

We are subject to all the risks inherent to mineral industry, which may have an adverse affect on our business operations.

We are subject to all of the risks inherent in the mining industry, including, the following:

- Success in discovering and developing commercially viable quantities of minerals is the result of a number of factors, including the quality of management, the interpretation of geological data, the level of geological and technical expertise and the quality of land available for exploration;
- Exploration for minerals is highly speculative and involves substantial risks, even when conducted on properties known to contain significant quantities of mineralization, and most exploration projects do not result in the discovery of commercially mineable deposits of ore;
- Operations are subject to a variety of existing laws and regulations relating to exploration and development, permitting procedures, safety precautions, property reclamation, employee health and safety, air and water quality standards, pollution and other environmental protection controls, all of which are subject to change and are becoming more stringent and costly to comply with;
- A large number of factors beyond our control, including fluctuations in metal prices and production costs, inflation, the proximity and liquidity of precious metals and energy fuels markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection, and other economic conditions, will affect the economic feasibility of mining;
- Substantial expenditures are required to construct mining and processing facilities;
- Title to mining properties may be subject to other claims, and
- In the development stage of a mining operation, our mining activities could be subject to substantial operating risks and hazards, including metal bullion losses, environmental hazards, industrial accidents, labor disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave-ins, pit-wall failures, flooding, rock falls, periodic interruptions due to inclement weather conditions or other unfavorable operating conditions and other acts of God. Some of these risks and hazards are not insurable or may be subject to exclusion or limitation in any coverage which we obtain or may not be insured due to economic considerations.

As a result of all of these factors, we may run out of money, in which case we will have to suspend or cease operations.

Our actual mineral reserves and mineral resources may not conform to our established estimates.

The figures for mineral reserves and mineral resources stated in this Annual Report are estimates and no assurances can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations and the prices of metals may render reserves and mineral resources uneconomic. Moreover, short-term operating factors relating to the mineral deposits, such as the need for the orderly development of the deposits or the processing of new or different grades of ore, may cause a mining operation to be unprofitable in any particular accounting period.

There is no assurance that any of our mineral resources, not currently classified as mineral reserves, will ever be classified as mineral reserves under the disclosure standards of the SEC.

Item 4.D of this Annual Report discusses our mineral resources in accordance with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101). Resources are classified as measured resources , indicated resources and inferred resources under NI 43-101. However, U.S. investors are cautioned that the SEC does not recognize these resource classifications. There is no assurance that any of our mineral resources, not currently classified as mineral reserves, will be converted into mineral reserves under the disclosure standards of the SEC.

We have had no production history and we do not know if we will generate revenues in the future.

While we were incorporated in 1981, we have no history of producing minerals. We have not developed or operated any mines, and we have no operating history upon which an evaluation of our future success or failure can be made. We currently have no mining operations of any kind. Our ability to achieve and maintain profitable mining operations is dependent upon a number of factors, including our ability to either attract a partner to operate, or to successfully build and operate mines, processing plants and related infrastructure ourselves.

We are subject to all the risks associated with establishing new mining. We may not successfully establish mining operations or profitably produce metals at any of our properties. As such, we do not know if we will ever generate revenues.

We have a history of losses which we expect will continue for the future. If we do not begin to generate revenues or find alternate sources of capital, we may either have to suspend or cease operations.

As a development stage company with no holdings in any producing mines, we continue to incur losses and expect to incur losses in the future. As of January 31, 2011, we had an accumulated deficit of \$78.832 million. We may not be able to achieve or sustain profitability in the future. If we do not begin to generate revenues or find alternate sources of capital, we may either have to suspend or cease operations.

We may not have adequate or any insurance coverage for some business risks that could lead to economically harmful consequences to us.

Our businesses are generally subject to a number of risks and hazards, including:

- industrial accidents;
- railroad accidents;
- labor disputes;
- environmental hazards;
- electricity stoppages;
- equipment failure, and
- severe weather and other natural phenomena.

These occurrences could result in damage to, or destruction of, mineral properties, production facilities, transportation facilities, or equipment. They could also result in personal injury or death, environmental damage, waste of resources or intermediate products, delays or interruption in mining, production or transportation activities, monetary losses and possible legal liability. The insurance we maintain against risks that are typical in our business may not provide adequate coverage. Insurance against some risks (including liabilities for environmental pollution or certain hazards or interruption of certain business activities) may not be available at a reasonable cost or at all. As a result, accidents or other negative developments involving our mining, production or transportation facilities could have a material adverse effect on our operations.

The mining industry is an intensely competitive industry, and we may have difficulty effectively competing with other mining companies in the future.

We face intense competition from other mining and producing companies. In recent years, the mining industry has experienced significant consolidation among some of our competitors, as a result these companies may be more diversified than us. We cannot assure you that the result of current or further consolidation in the industry will not adversely affect us.

In addition, because mines have limited lives we must periodically seek to replace and expand our reserves by acquiring new properties. Significant competition exists to acquire properties producing or capable of producing copper, nickel and other metals.

If we are unable to successfully manage these risks, our growth prospects and profitability may suffer.

We may be subject to risks relating to the global economy.

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions could impede our access to capital or increase the cost of capital. Since 2008 the U.S. credit markets have experienced a serious disruption due to, among other things, deterioration in residential property values, defaults and delinquencies in the residential mortgage market and a decline in the credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions caused a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult us to obtain, or increase its cost of obtaining capital and financing for its operations. Our access to additional capital may not be available on terms acceptable to it or at all.

We are also exposed to liquidity risks in meeting our operating and capital expenditure requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact our ability to obtain loans and other credit facilities in the future and, if obtained, on terms favourable to us. If these increased levels of volatility and market turmoil continue, our operations could be adversely affected and the trading price of our shares could be adversely affected. As a result of current global financial conditions, numerous financial institutions have gone into bankruptcy or have been rescued by government authorities. As such, we are subject to the risk of loss of its deposits with financial institutions that hold our cash.

RISKS RELATED TO THE OWNERSHIP OF OUR SHARES

We may experience volatility in our share price.

Our common shares are listed for trading on the Toronto Stock Exchange and on the NYSE Amex. Our shareholders may be unable to sell significant quantities of our common shares into the public trading markets without a significant reduction in the price of the shares, if at all. The market price of our common shares may be affected significantly by factors such as changes in our operating results, the availability of funds, fluctuations in the price of metals, the

interest of investors, traders and others in development stage public companies such as us and general market conditions. In recent years the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small capitalization development companies similar to us, have experienced wide fluctuations, which have not necessarily been related to the operating performances, underlying asset values, or the future prospects of such companies. There can be no assurance that future fluctuations in the price of our shares will not occur.

A large number of shares will be eligible for future sale and may depress our share price.

Our shares that are eligible for future sale may have an adverse effect on the price of our common shares. As of January 31, 2011 there were 154,825,791 of our common shares outstanding. The average trading volume for the three months prior to January 31, 2011 was approximately 113,000 shares per day on the Toronto Stock Exchange and 519,000 shares per day on the NYSE Amex. Sales of substantial amounts of our common shares, or a perception that such sales could occur, and the existence of options or warrants to purchase common shares at prices that may be below the then current market price of our common shares, could adversely affect the market price of our common shares and could impair our ability to raise capital through the sale of our equity securities.

Your ownership interest, voting power and the market price of our common shares may decrease because we have issued, and may continue to issue, a substantial number of securities convertible or exercisable into our common shares.

We have issued common shares and options, and warrants to purchase our common shares to satisfy our obligations and fund our operations (see Item 5.A). Since we currently do not have a source of revenue, we will likely issue additional common shares, options, warrants or other securities exercisable for or convertible into our common shares to raise money for our continued operations or as non-cash incentives to our own and our subsidiaries' directors, officers, and key employees. If conversions of warrants and/or options into common shares or additional sales of equity occur, your ownership interest and voting power in us will be diluted and the market price of our common shares may decrease.

Under our 2007 Omnibus Share Compensation Plan (the Plan), the aggregate number of our common shares that may be issuable pursuant to the Plan may not at any time exceed the greater of (i) 10% of our issued and outstanding common shares and (ii) 18,592,888 common shares, representing 13.62% of our outstanding common shares at the time of the approval of the Plan, of which 4,640,000 common shares are reserved for issuance as awards other than options. As of January 31, 2011 the aggregate number of Common Shares issuable pursuant to the Plan was 13,952,888 shares. Our bonus share incentive plan (the Bonus Plan) was established for our directors and key employees. Under the Bonus Plan we may issue an additional 3,640,000 shares upon achieving certain milestones.

Upon any issuances or exercise of options issued, the ownership interests and voting power of existing shareholders may be further diluted.

We have a Shareholders Rights Plan Agreement and certain employment and management contracts that contain provisions designed to discourage a change of control.

A Shareholders Rights Plan between us and shareholders effective as of June 27, 2007 and modified on June 17, 2008 and certain employment and management agreements contain provisions that could discourage an acquisition or change of control without our board of directors approval. Under the Shareholders Rights Plan, if a shareholder individually or in concert with other shareholders acquires 20% or more of our outstanding common shares without complying with the Shareholders Rights Plan or without the approval of our board of directors, all holders of record will have a right to receive one common share for each common share owned. We have also entered into agreements with certain key employees and officers that contain severance provisions in the event of a take-over bid. The Shareholders Rights Plan and the preceding agreements may make it more difficult for a third party to acquire control of us, even if such a change of control is more beneficial to shareholders.

Conflicts of Interest

Certain of our directors, officers or promoters are directors, officers, significant shareholders or promoters of other U.S. and Canadian publicly traded companies. As a result, potential conflicts of interest may arise with respect to the exercise by such persons of their respective duties for us. In the event that such a conflict of interest arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In the appropriate cases, we will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. Other than as indicated, we have no other procedures or mechanisms to deal with conflicts of interest. We are not aware of any conflicts of interest at the present time.

Because we believe that we will be classified as a passive foreign investment company (a PFIC), U.S. holders of our common shares may be subject to United States federal income tax consequences that are worse than those that would apply if we were not a PFIC.

Because we believe that we will be classified as a passive foreign investment company, U.S. holders of our common shares may be subject to United States federal income tax consequences that are worse than those that would apply if we were not a PFIC, such as ordinary income treatment plus a charge in lieu of interest upon a sale or disposition of our common shares even if the shares were held as a capital asset. See Certain United States Federal Income Tax Consequences .

Absence of Dividends

We have never declared or paid cash dividends on our common shares and do not anticipate doing so in the foreseeable future. There can be no assurance that our board of directors will ever declare cash dividends, which action is exclusively within its discretion. Investors cannot expect to receive a dividend on our common shares in the foreseeable future, if at all.

Increased Costs and Compliance Risks as a Result of Being a Public Company

Legal, accounting and other expenses associated with public company reporting requirements have increased significantly in the past few years. We anticipate that general and administrative costs associated with regulatory compliance will continue to increase as a result of governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the SEC, Canadian Securities Administrators and the TSX. We expect these rules and regulations to significantly increase its legal and financial compliance costs and to make some activities more time consuming and costly. There can be no assurance that we will continue to effectively meet all of the requirements of these regulations, including Sarbanes-Oxley Section 404 and Canadian National Instrument 52-109 Financial Disclosure (NI 52-109). Any failure to effectively implement new or improved internal controls, or to resolve difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet reporting obligations or result in management being required to give a qualified assessment of our internal controls over financial reporting or our independent registered public accounting firm providing an adverse opinion regarding management's assessment. Any such result could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our share price. We also expect these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and it may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. If we fail to maintain the adequacy of our internal controls, our ability to provide accurate financial statements and comply with the requirements of the Sarbanes-Oxley Act and/or NI 52-109 could be impaired, which could cause our share price to decrease.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

PolyMet Mining Corp. was incorporated under the British Columbia *Companies Act* and continued under the *Business Corporations Act* (British Columbia) in British Columbia, Canada on March 4, 1981, under the name Fleck Resources Ltd., which we changed to PolyMet Mining Corp. on June 10, 1998.

Our principal executive office is situated at Suite 390 3600 Lysander Lane, Richmond, B.C. V7B 1C3. Our phone number is (604) 248-0939. Our registered and records office is located at our legal counsel's offices situated at 2500 700 West Georgia Street, Vancouver, B.C. V7Y 1B3, Canada. Our operational headquarters are located at P.O. Box 475, 6500 County Road 666, Hoyt Lakes, Minnesota 55750-0475, United States.

We are a reporting issuer in the following Canadian provinces: Alberta, British Columbia, and Ontario. Our common shares have been listed on the Toronto Stock Exchange (TSX) since February 1, 2007 and, formerly, on the TSX Venture Exchange (TSX-V) (formerly the Vancouver Stock Exchange) from April 13, 1984 to January 31, 2007 under the symbol "POM" and since June 26, 2006 our common shares have been listed on the NYSE Amex (formerly the American Stock Exchange) under the symbol PLM .

Our registrar and transfer agent is Computershare Investor Services Inc. of 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, Canada.

During the years ended January 31, 2011, 2010, and 2009 we spent \$16.519 million, \$17.754 million, and \$22.776 million, respectively to acquire property, advance the environmental review, and perform work following completion of our Definitive Feasibility Study on our NorthMet Project located in Minnesota, USA.

All of these expenses were incurred at our NorthMet Project and were funded from the proceeds of equity and convertible debt financings. Since completion of Definitive Feasibility Study in September 2006, these expenditures and the Erie Plant acquisition have been capitalized.

B. Business Overview

We are a development stage company engaged in the exploration and development of natural resource properties. Currently our sole mineral property is the NorthMet Project, a polymetallic deposit located in northeastern Minnesota, USA.

In the years ended January 31, 2011, 2010 and 2009, we conducted exploration, development and acquisition activities only and did not conduct any operations that generated revenues. Thus, we rely principally on equity or debt convertible into equity financings to fund our projects and expenditures.

Since 2003, we have focused on commencing commercial production on our NorthMet Project. We have focused our efforts on four main areas:

Acquisition of the Erie Plant. The Erie Plant is a large processing facility and associated infrastructure located approximately six miles west of our NorthMet deposit. On November 15, 2005 and December 20, 2006 we entered into a total of three Contracts for Deed with Cliffs Erie LLC, a subsidiary of Cliffs Natural Resources Inc. (formerly Cleveland Cliffs, Inc.) of Cleveland, Ohio (Cliffs), under which we now own a large processing facility, a tailings disposal facility, and extensive associated infrastructure located approximately six miles west of our NorthMet deposit. In combination, the Erie Plant includes a 100,000 ton-per-day crushing and milling facility, a railroad and railroad access rights connecting the Erie Plant to the NorthMet deposit, as well as 120 railcars, locomotive fueling and maintenance facilities, water rights and pipelines, large administrative offices on site and approximately 6,000 acres to the east and west of the Erie Plant, contiguous to the existing tailing facilities.

Environmental and permitting. To commence commercial production at NorthMet, various regulatory approvals are needed. In October 2005, the Minnesota Department of Natural Resources ("MDNR") published its Environmental Assessment Worksheet Decision Document establishing the MDNR as the lead state agency and the US Army Corps of Engineers (USACE") as the lead federal agency (together the Lead Agencies) for preparation of an Environmental Impact Statement (EIS) for the project.

In October 2009, the Lead Agencies published the PolyMet Draft EIS, which marked that start of a period for public review and comment that ended on February 3, 2010. During this period, the Lead Agencies held two public meetings and received more than 3,700 submissions containing approximately 22,000 separate comments, including an extensive comment letter from the US Environmental Protection Agency (EPA) in its role as reviewer of projects that could impact the environment.

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

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

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

Once the Supplemental Draft EIS is completed, it will be made available for public review prior to preparation of the Final EIS. Completion of the Final EIS and a subsequent Adequacy Decision by the MDNR and Record of Decision

by the federal agencies are necessary before the land exchange can occur and various permits required to construct and operate the NorthMet Project can be issued.

Prior to receipt of these permits, we intend to secure production debt financing that would be available upon receipt of key permits, with construction slated to start upon availability of construction finance.

Engineering and feasibility. We retained Bateman Engineering Pty. of Brisbane, Australia (Bateman) as the coordinating consultant to prepare a Definitive Feasibility Study (the DFS). In September 2006 we reported that the DFS confirmed the economic and technical viability of our NorthMet Project.

Bateman was responsible for completing the process design and detail engineering and cost estimates for the plant and infrastructure. This work was supported by other firms that provided geo-statistical reviews of the ore body, mine planning and scheduling of ore and waste, and assessment of the market for the metals and intermediate products planned to be produced.

Since September 2006 we have completed additional drilling and expanded the reserves. In May 2008 we completed an internal update of the DFS (the DFS Update) which contemplates an initial stage in which we would sell concentrate during completion of construction and commissioning of the hydrometallurgical plant that was contemplated in the DFS. This approach has the advantage of staging capital costs so that the hydrometallurgical plant can be funded in part from cash flow from sales of concentrate, and it reduces our reliance on delivery of long lead-time equipment before we start commercial production.

In February 2011 we announced that we plan to build the NorthMet Project in two phases, the first to produce and market concentrates containing copper, nickel, cobalt and precious metals, and the second to process the nickel concentrate through a single autoclave, resulting in production and sale of high grade copper concentrate, value added nickel-cobalt hydroxide, and precious metals precipitate products.

Financing and corporate development. Since 2003 we have raised approximately \$115 million from equity private placement financings.

In October 2008, we entered into a strategic partnership with Glencore AG (Glencore) whereby Glencore agreed (i) to purchase up to \$50 million of our floating rate secured debentures, of which \$25 million has been issued, which are exchangeable into our common shares, and (ii) to purchase all of our production of concentrates, metal, or intermediate products on market terms at the time of delivery, for at least the first five years of production. We also appointed a senior technical representative of Glencore to join our Technical Steering Committee and another officer of Glencore, Stephen Rowland, was appointed to our Board of Directors.

\$7.5 million of the Debentures were issued in October 2008, \$7.5 million were issued in December 2008, \$5.0 million were issued in June 2009, and \$5 million were issued in August 2009. The final \$25 million was not issued.

In November 2009 we entered into an agreement with Glencore whereby, in two installments, Glencore purchased \$25 million of our common shares at \$2.65 per share.

In November 2010, we entered into a further agreement with Glencore whereby Glencore agreed to purchase 15 million shares of our common stock at \$2.00 per share in three tranches over the next two years. In addition, Glencore agreed to extend the maturity date of the \$25 million (initial principal) debentures issued to Glencore under the 2008 financing to September 30, 2012 and cancelled the final \$25 million debenture financing commitment and the 6.25 million share purchase warrants issued as part of the 2008 financing. We issued warrants to purchase 3 million shares at \$2.00 per share at any time until December 31, 2015 as compensation for the other changes. On January 17, 2011 Glencore funded the first \$10 million tranche of the November 2010 financing agreement and we issued 5 million of our common shares to Glencore.

At our annual shareholders' meeting on July 7, 2010, Messrs. Corneliuson and Swearingen did not stand for re-election to our Board of Directors owing to personal commitments. Effective December 31, 2010, Mr. Murray stepped down as Executive Chairman and Mr. Molyviatis resigned from our Board. Mr. Murray continues to serve as a non-management director. Messrs. Forrest and Sims, both independent directors, now serve as our independent co-Chairmen. Mr. Forrest continues as Chair of the Audit and Compensation Committees and Mr. Sims continues as Chair of the Corporate Governance Committee.

C. Organizational Structure

Poly Met Mining, Inc., incorporated in Minnesota, USA on February 16, 1989, is our only material wholly owned operating subsidiary.

D. Property, Plant and Equipment

Property - NorthMet Project, Minnesota, USA

Our primary mineral property is the NorthMet Project, a polymetallic project located in northeastern Minnesota, USA. Our Erie Plant facility is located approximately six miles west of the NorthMet ore body.

In the years ended January 31, 2011, 2010 and 2009, we conducted exploration, development and acquisition activities only and did not conduct any operations.

(a) History

The NorthMet Project is located immediately south of the eastern end of the historic Mesabi Iron Range in northeastern Minnesota. Mining in the Iron Range dates back to the 1880 s when high grade iron ore known as hematite was first mined commercially. During the 1940 s and 1950 s, with reserves of hematite dwindling, the iron industry began to focus on taconite, a lower-grade iron ore. Eight large crushing, grinding, milling and pelletizing facilities were built by various iron and steel companies to process the taconite, including the Erie Plant that we acquired in November 2005.

In the 1940s, copper and nickel were discovered nearby, following which, in the 1960s, United States Steel Corporation (US Steel) drilled what is now our NorthMet property. US Steel investigated the deposit as a high-grade, underground copper-nickel resource, but considered it to be uneconomic based on its inability to produce separate, clean nickel and copper concentrates with the metallurgical processes available at that time. In addition, prior to the development of the autocatalyst market in the 1970s, there was little market for platinum group metals (PGMs) and there was no economic and reliable method to assay for low grades of these metals.

In 1987, the Minnesota Natural Resources Research Institute (NRRI) published data suggesting the possibility of a large resource of PGMs in the base of the Duluth Complex. In 1989, we acquired a 20-year renewable mining lease over the property from US Steel and commenced an investigation into the potential for mining and recovery of copper, nickel, and PGMs. We re-assayed pulps and rejects from the previous US Steel drilling to obtain data on the PGMs. Sequentially we entered into joint venture agreements with Nerco and Argosy Mining, which assisted in identifying and quantifying potential PGM values. However, the challenge of producing separate concentrates of saleable copper and nickel remained.

In the mid-90 s, we began investigating the use of alternative metallurgical processes, including bio-leaching and pressure oxidation. In 1998 we focused on a hydrometallurgical technology that uses autoclaves, which are vessels operating at high temperature, high pressure, and in an oxygen-enriched environment, to oxidize the sulfidic ores and leach the metals therein. This technology was developed in the 1950s and has been used commercially in the copper, nickel, cobalt, and gold mining industries since the 1980s.

In July 2000, we entered into a joint venture arrangement with North Limited (North), a major Australian mining company, to advance the NorthMet Project to commercial production. Under the joint venture arrangement, North had the opportunity to earn an 87.5% interest in the NorthMet Project by producing a feasibility study and funding 100% of the total capital costs to develop the project.

In August 2000, Rio Tinto Limited (Rio Tinto) acquired North. Subsequently, Rio Tinto decided not to proceed with the NorthMet Project and we exercised our 30-day pre-emptive right, under a change of control clause, to terminate the joint venture arrangement. As a result, we regained a 100% interest in the NorthMet Project.

Following completion of metallurgical pilot plant work in November 2000, we commissioned a pre-feasibility study on the project that was completed in April 2001. The pre-feasibility study contemplated a 50,000 metric tonne-per-day (55,000 short tpd) operation and anticipated the construction of a new, stand-alone processing plant to produce copper, nickel and cobalt metals on site. The study found the economics of the NorthMet Project were unacceptably low owing to the capital cost of building a new plant facility combined with low metal prices prevailing at that time. No further work was done until March 2003, when a new management team took over our company and commenced a detailed review of the project.

The new management team believed that acquisition of the Erie Plant had the potential to substantially reduce the capital cost and to simplify the permitting process which could improve the project economics.

By a Memorandum of Understanding dated December 5, 2003 and an option agreement dated February 14, 2004, we obtained an option (the Cliffs Option) to acquire certain property, plant, and equipment (Cliffs Assets) from Cliffs Erie LLC, a wholly owned subsidiary of Cliffs, located near our NorthMet Project. As consideration for the Cliffs Option, we paid \$500,000 prior to January 31, 2004 and issued to Cliffs 1,000,000 shares of our common stock on March 30, 2004, valued at \$229,320 to maintain our exclusive rights until June 30, 2006. On September 15, 2005 we reached an agreement with Cliffs on the terms for the early exercise of our option to acquire 100% ownership of large portions of the former LTV Steel Mining Company ore processing plant in northeastern Minnesota (the Asset Purchase Agreement). Under this agreement we agreed to pay Cliffs \$1 million in cash, 6.2 million of our shares, and make quarterly payments of \$250,000 starting on March 31, 2006 for a total of \$2.4 million plus interest at 4% per annum on the outstanding balance. The final payment was made on June 30, 2008.

On November 15, 2005, we consummated the Asset Purchase Agreement and completed the acquisition thereunder. The property, plant, and equipment assets we now own includes land, crushing and milling equipment, extensive spare parts, plant site buildings, real estate, tailings impoundments and workshops, as well as access to extensive mining infrastructure.

On September 14, 2006, we entered into an agreement through two separate contracts for deed with Cliffs whereby we would acquire property and associated rights (Cliffs II.) We closed the transaction on December 20, 2006. The transaction provides us with a railroad connection linking the mine development site and the Erie Plant as well as a 120-railcar fleet, locomotive fueling and maintenance facilities, water rights and pipelines, large administrative offices on site and approximately 6,000 acres to the east and west of and contiguous to our existing tailings facilities.

The purchase price for this additional infrastructure consisted of 2 million of our common shares and US\$15 million in cash to be issued and paid in four tranches:

- 2 million of our common shares;
- \$1 million in cash was paid at closing;
- \$7 million in cash is payable in quarterly installments of \$250,000 commencing December 31, 2006 with the balance payable upon receipt of commercial financing. Interest on the outstanding amount is payable quarterly from December 31, 2006 at the *Wall Street Journal* Prime Rate. As of March 31, 2011 the remaining balance was \$2.5 million; and

- \$7 million in cash is payable in quarterly installments of \$250,000 commencing on December 31, 2009 with a balloon payment of any unpaid balance due on December 31, 2011. Interest began to accrue on the outstanding amount beginning on December 31, 2009 and is now payable quarterly at the *Wall Street Journal* Prime Rate. As of March 31, 2010 the remaining balance was \$5.5 million.

We also assumed certain liabilities associated with the property.

As of January 31, 2011, we have expended \$130 million primarily on the acquisition of the Erie Plant and related infrastructure. Under the Asset Purchase Agreement we have paid \$3.4 million plus interest and owe Cliffs \$nil. Under Cliffs II we have paid \$5.5 million plus interest and owe \$8.5 million.

Since inception, we have a cumulative deficit of \$78.8 million, much of which has been incurred directly and indirectly in connection with our NorthMet Project. These expenditures supported drilling, sampling, assaying, environmental, metallurgical testing, and the pre-feasibility studies.

The following diagram illustrates the location of the NorthMet Project.

Figure No. 1
NorthMet Project Map

(b) Location / Access / Climate

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

The northern Minnesota climate is continental, characterized by wide variations in temperature. The temperature in the nearby town of Babbitt averages -14°C (7°F) in January and 19°C (66°F) in July. The average annual precipitation is 28 inches with approximately 30% during the months from November to April and 70% from May through October.

(c) Claims and ownership

(i) NorthMet Leases

Pursuant to two lease agreements, we lease certain lands covering 4,282 acres or 6.5 square miles located in St. Louis County, Minnesota, known as the NorthMet Project:

- Pursuant to an agreement dated January 4, 1989, subsequently amended and assigned, we lease 4,162 acres from RGGGS Land & Minerals Ltd., L.P (RGGGS). During the year ended January 31, 2005, US Steel assigned the lease to RGGGS. The initial term of the renewable lease was 20 years and called for total lease payments of \$1.450 million. We can indefinitely extend the 20-year term by continuing to make \$150,000 annual lease payments on each successive anniversary date. All lease payments have been paid or accrued to January 31, 2011.

We can, at our option, terminate the lease at any time by giving written notice to the lessor not less than 90 days prior to the effective termination. The lease payments are considered advance royalty payments and will be deducted from future production royalties payable to RGGGS, which range from 3% to 5% based on the net smelter return that we receive. Our 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 an agreement effective December 1, 2008, we lease 120 acres that are encircled by the RGGGS property from LMC Minerals (LMC). The initial term of the renewable lease is 20 years and calls for minimum annual lease payments of \$3,000 on each successive anniversary date until our project commences commercial production, or for the first four years, whichever is the shorter, after which the minimum annual lease payment increases to \$30,000. The initial term may be extended for up to four additional five-year periods on the same terms. All lease payments have been paid to January 31, 2011.

The lease payments are considered advance royalty payments and will be deducted from future production royalties payable to LMC, which range from 3% to 5% based on the net smelter return that we receive. Our 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.

(ii) The Erie Plant

The Erie Plant

As set forth under the Asset Purchase Agreement, we have assumed certain ongoing site-related environmental and reclamation obligations of Cliffs in connection with the Erie Plant. Once we obtain our permit to mine and Cliffs is released from its obligations by certain state agencies, we will be directly obligated to comply with applicable environmental and reclamation obligations. Prior to Cliffs' acquisition of the plant from LTV Steel and prior to our acquisition of the plant from Cliffs, both Cliffs and we undertook environmental assessments and concluded that there were no material liabilities other than the ultimate closure and reclamation of the site. Until operating permits are granted to us, Cliffs remains the Regulated Party for such obligations although, as part of the Asset Purchase Agreement, we have indemnified Cliffs for such costs.

The Erie Plant comprises a large crushing, grinding and milling facility that was built by a consortium of steel companies in the mid-1950s and processed low grade iron ore known as taconite that was transported to the facility by railroad from nearby mines. In the mid-1980 s, the consortium was consolidated into a single owner LTV Steel. Pickands-Mather and its successor Cliffs operated the plant on behalf of the owners, processing approximately 100,000 tons per day of taconite ore. The plant was shut down in 2001 when LTV Steel filed for bankruptcy protection. Since then it has been maintained initially by Cliffs and, since November 15, 2005, by us. The plant did not operate during the period ended January 31, 2011.

The plant is located approximately six miles west of our NorthMet ore body, about five miles north-northwest of the town of Hoyt Lakes, itself located about 25 miles west of Virginia, Minnesota. The plant site covers approximately 12,400 acres, or 19.4 square miles, and is powered by electricity from local power lines.

The plant facilities include two rail dump pockets, two primary 60 gyrotory crushers, eight secondary 36 gyrotory crushers, seven tertiary seven-foot standard cone crushers, 14 seven-foot short-head crushers, 30 mill circuits each comprising one 12 x 14' rod mill and one 12 x 14' ball mill, three 12'x 24' regrind mills, maintenance facilities and spare parts, extensive conveyors, feeders, bins, auxiliary facilities and offices, established infrastructure including a 225 MVA high voltage electrical substation, water supply, roads, tailings basins and rail facilities.

With the completion of Cliffs II, we also own a 120-railcar fleet, locomotive fueling and maintenance facilities, water rights and pipelines, and large administrative offices on site.

Until the plant was closed in 2001, Cliffs had undertaken numerous programs to update and modernize control systems. The plant is generally in good physical condition and was operating at or near full capacity prior to its closure. We are not yet utilizing the Erie Plant but we have examined the plant in detail and have restarted certain pieces of equipment and believe it to be serviceable.

We plan to use approximately one-third of the historic productive capacity to crush and grind material that we expect to mine from the NorthMet deposit. We intend to construct new facilities to recover copper metal, nickel and cobalt hydroxides, and precious metal precipitates.

On January 28, 2010, Cliffs received a notice of intent to sue pursuant to Section 505 of the Clean Water Act on behalf of the Center for Biological Diversity, Save Lake Superior Association and the Indigenous Environmental Network. Pursuant to the notice, these environmental groups intended to file a lawsuit in Federal court for alleged violations by Cliffs Erie of National Pollutant Discharge Elimination System ("NPDES") permits at three separate locations on the Cliffs Erie property. On March 25, 2010 Cliffs entered a consent decree under which it is obligated to proceed with both short- and long-term mitigation of the alleged violations. As the indemnifying party, we are working closely with Cliffs on fulfillment of Cliffs' obligations under the consent decree.

As of January 31, 2011 we estimate the total indemnification liability (including the additional liabilities associated with the consent decree) to be approximately \$28.2 million and, based on the expected timing of such payments, our cost of capital, and anticipated inflation rates, we made a provision of \$3.8 million in our financial statements at that date.

(d) Permitting and Environmental

We commenced the environmental review and permitting process in early 2004. In October 2005, the MDNR published its Environmental Assessment Worksheet Decision Document establishing the MDNR as the lead state agency and the USACE as the lead federal agency (together the Lead Agencies) for preparation of an EIS for the project. In 2006 these Lead Agencies selected an independent environmental contractor (the EIS Contractor) to prepare the EIS. The EIS Contractor is Environmental Resources Management, a leading global provider of environmental, health and safety, risk, and social consulting services. The EIS Contractor team included members with expertise and experience in mining sulfidic ores. Several other government agencies (including the USFS, the Bois Forte Band of Chippewa and the Fond Du Lac Band of Lake Superior Chippewa) joined the EIS preparation team as Cooperating Agencies, which brought their special expertise to the process.

In January 2007, we submitted a Detailed Project Description (DPD) to state and federal regulators. The DPD laid out our development plans and proposed environmental safeguards including a mine plan, a wetland mitigation plan, air and water quality monitoring plans and a closure plan with closure estimate. Since then, we have submitted a supplemental DPD as well as more than 100 supporting research studies, including comprehensive mine waste characterization studies, water quality modeling and air quality modeling.

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

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

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

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

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

- Supplement and supersede the Draft EIS and respond to concerns identified by the EPA and other comments on the Draft EIS, and
- Incorporate potential effects from the proposed land exchange between the USFS Superior National Forest and us.

Public review of the scope of the land exchange ended on November 29, 2010. The Notice of Intent stated that the proposed land exchange would eliminate conflicts between the United States and private mineral ownership and consolidate land ownership to improve Superior National Forest management effectiveness and public access to

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

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

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

On April 15, 2011 we reported that we and the Lead Agencies expect to finalize detailed modeling work plans by early May, 2011. Once final modeling confirms that the project meets state and federal standards required for it to be permitted, the third party contractor hired by the DNR will prepare a preliminary supplemental draft EIS, which will be reviewed by the lead agencies, cooperating agencies (including the US Environmental Protection Agency and tribal governments) and PolyMet, before being finalized for publication and public comment. The lead agencies anticipate publishing the supplemental draft EIS for public comment during the fall of 2011. A final EIS will incorporate comments, after which a subsequent Adequacy Decision by the DNR and Record of Decision by the federal agencies are necessary before the land exchange can occur and various permits required to construct and operate the project can be issued.

A number of permits will need to be issued by the MDNR, the Minnesota Pollution Control Agency (PCA) and the USACE before construction can begin - the major permits are:

U.S. Army Corps of Engineers

- Section 404 Individual Permit for Impacted Wetlands

Minnesota Department of Natural Resources

- Permit to Mine
- Water Appropriations Permit
- Dam Safety Permit
- Wetland Replacement Plan

Minnesota Pollution Control Agency

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

As of January 31, 2011, we had spent approximately \$31.9 million on environmental review and permitting activities.

(e) **History of Exploration**

Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources

This section uses the terms measured resources, indicated resources, and inferred resources. We advise United States investors that while these terms are recognized and required by Canadian regulations (under National Instrument 43-101 - Standards of Disclosure for Mineral Projects (NI-43-101)), the SEC does not recognize them. **United States investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted to reserves.** In addition, inferred resources have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian Rules, estimates of Inferred Mineral Resources may not form the basis of Feasibility or Pre-Feasibility Studies, or economic studies except for a Preliminary Assessment as defined under NI 43-101. **United States investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.**

Important Notes and Assumptions Throughout.

- 1. The terms Mineral Resources and Reserves as used herein conform to the definitions contained in NI 43-101.**
- 2. Reserves are contained within the envelope of Measured & Indicated Mineral Resource. Mineral Resources are not Reserves and do not have demonstrated economic viability.**
- 3. Mineral Resources and Reserves have been calculated using the following metal prices: Copper - \$1.25/lb, Nickel - \$5.60 per pound, Cobalt - \$15.25/lb, Palladium - \$210 per ounce, Platinum - \$800 per ounce and Gold - \$400 per ounce.**
- 4. Base Case economics for the purpose of the Technical Report to NI 43-101 standards are the weighted average of the three-year trailing (60%) and two-year forward (40%) market prices using July 31, 2006 as a reference for the three-year trailing price and average forward prices during July 2006 for forward prices. Specifically, these prices are: Copper - \$2.25/lb, Nickel - \$7.80 per pound, Cobalt - \$16.34/lb, Palladium - \$274 per ounce, Platinum - \$1,040 per ounce and Gold - \$540 per ounce.**
- 5. The copper equivalent grade is calculated by multiplying the grade of each metal by the metal price (in the same units) used in reserve and resource modeling (see note 3) and dividing the product by the copper price.**
- 6. The Net Metal Value (NMV) is calculated by summing the product of the grade of each metal, the metal price (in the same units) used in reserve and resource modeling (see note 3), the expected metal recovery, and the expected payment terms.**

Prospectors first discovered copper and nickel near Ely, Minnesota about 20 miles north of NorthMet in the 1940s. Subsequently, the Bear Creek Mining Company conducted a regional exploration program resulting in the discovery of the Babbitt deposit (northeast of NorthMet). US Steel began an exploration program in the Duluth Complex in the

late 1960 s and over the next few years drilled 114 core holes into the NorthMet property (then called Dunka Road).

From 1998 to present, we have conducted a series of drilling programs totaling 271 holes for approximately 162,000 feet of core and reverse circulation drilling. These holes, combined with earlier drilling by US Steel, bring the total to 418 diamond and reverse circulation holes aggregating to approximately 318,000 feet. In addition, we have meticulously recompiled all prior work started by US Steel in 1969. We have also recently drilled an additional 37 holes totaling approximately 6,300 feet of tightly-spaced grid drilling for detailed mine planning.

Mineral Resources and Reserves

Within the overall mineralized envelope defined by these exploration programs, the 2006 DFS defined measured and indicated mineral resources above the 500-foot elevation (approximately 1,120 feet below surface.) On August 9, 2007 we reported that measured and indicated mineral resources at the NorthMet Project had increased by 51% to 638 million short tons from the 422 million short tons reported in the DFS. The revised mineral resource estimates are based on the same cut-off grades used in the DFS – namely a Net Metal Value (NMV) of US\$7.42 per ton, reflecting mine planning at a copper price of US\$1.25 per pound and a nickel price of US\$5.60 per pound – see notes to the following table.

The increase in mineral resources reflects two changes:

- Data from the calendar 2007 drill program which confirmed the continuity of the main mineralized zone and the size of the Magenta Zone, which was extended down dip and to the west. These changes contributed 149 million short tons to the increase in measured and indicated mineral resources.
- Extension of the overall mineral envelope to approximately 1,620 feet below surface (0' elevation), compared with the prior cutoff at approximately 1,120 feet below surface (500' elevation). This change contributed 67 million short tons to the increase in measured and indicated mineral resources.

As a result, measured and indicated mineral resources have increased by 216 million short tons to 638 million short tons and inferred mineral resources have been expanded to 252 million short tons from 121 million short tons – all on the DFS cut-off grade. Details of the mineral resources are set out in the following table.

| Updated Mineral Resources compared with DFS | | | | | | |
|--|--------------------|---------------|---------------|---------------|----------------------------|--------|
| | Short (million) | Copper (%) | Nickel (%) | Cobalt (%) | Precious Metals (oz/st) | (g/mt) |
| Updated Mineral Resource Estimate | | | | | | |
| Measured | 187.0 | 0.287 | 0.084 | 0.007 | 0.010 | 0.359 |
| Indicated | 451.1 | 0.256 | 0.075 | 0.007 | 0.009 | 0.325 |
| Measured & Indicated | 638.2 | 0.265 | 0.078 | 0.007 | 0.010 | 0.334 |
| Inferred | 251.6 | 0.275 | 0.079 | 0.006 | 0.011 | 0.385 |
| DFS | | | | | | |
| Measured | 133.7 | 0.298 | 0.087 | 0.008 | 0.011 | 0.371 |
| Indicated | 288.4 | 0.266 | 0.078 | 0.007 | 0.010 | 0.330 |
| Measured & Indicated | 422.1 | 0.276 | 0.081 | 0.007 | 0.010 | 0.343 |
| Inferred | 120.6 | 0.247 | 0.074 | 0.007 | 0.009 | 0.315 |
| Change in M&I from DFS to Current | | | | | | |
| Infill drilling | 149.3 | | | | | |
| Extension to 0' elevation from 500' elevation | 66.7 | | | | | |
| Total change | 216.1 | | | | | |

1. Mineral resources have been calculated using the following metal prices: Copper - \$1.25/lb, Nickel - \$5.60 per pound, Cobalt - \$15.25/lb, Palladium - \$210 per ounce, Platinum - \$800 per ounce and Gold - \$400 per ounce.
2. The NMV is calculated by summing the product of the grade of each metal, the metal price (in the same units) used in resource modeling, the expected metal recovery, and the expected payment terms as set out in the DFS. The resource estimate update was completed by a team from the Toronto office of Wardrop Engineering working closely with PolyMet's chief geologist Richard Patelke. A NI 43-101 compliant report describing this increase was

issued in September 2007 and has been filed on PolyMet's website (www.polymetmining.com) and on SEDAR at www.sedar.com. Pierre Desautels of Wardrop and Richard Patelke of PolyMet are the Qualified Persons for this report.

On September 26, 2007 PolyMet reported that proven and probable mineable reserves at the NorthMet Project had increased by 51% to 275 million short tons from the 182 million short tons reported in the DFS.

These reserves are constrained to mineable blocks associated with material contained in the measured and indicated resource blocks in the DFS for which detailed mining cost estimates, infrastructure planning, and waste rock stockpile locations were prepared as part of a larger study supporting the DFS. It should be noted that the inferred resources were not included in the DFS or in this interim reserve update.

In conjunction with this increase in reserves, the strip (waste:ore) ratio for the revised mine plan declined to 1.46:1 from 1.66:1.

Updated Reserves compared with DFS

| | Short Tons (millions) | Copper (%) | Nickel (%) | Cobalt (%) | Precious Metals (oz/st) | (g/mt) |
|---------------------------------|-----------------------------|---------------|---------------|---------------|----------------------------|--------|
| Updated Reserve Estimate | | | | | | |
| Proven | 118.1 | 0.30 | 0.09 | 0.008 | 0.011 | 0.368 |
| Probable | 156.5 | 0.27 | 0.08 | 0.008 | 0.010 | 0.327 |
| Proven and Probable | 274.7 | 0.28 | 0.08 | 0.008 | 0.010 | 0.337 |
| Waste | 401.2 | | | | | |
| Strip Ratio | 1.46 | | | | | |
| DFS | | | | | | |
| Proven | 80.4 | 0.32 | 0.09 | 0.008 | 0.012 | 0.406 |
| Probable | 101.3 | 0.30 | 0.08 | 0.007 | 0.011 | 0.385 |
| Proven and Probable | 181.7 | 0.31 | 0.08 | 0.008 | 0.012 | 0.395 |
| Waste | 302.3 | | | | | |
| Strip Ratio | 1.66 | | | | | |

1. The terms Mineral Resources and Reserves as used herein conform to the definitions contained in NI 43-101.
2. Mineral Resources and Reserves have been calculated using the following metal prices: Copper - \$1.25/lb, Nickel - \$5.60 per pound, Cobalt - \$15.25/lb, Palladium - \$210 per ounce, Platinum - \$800 per ounce and Gold - \$400 per ounce.

The reserve estimate update was completed by a team from the Toronto office of Wardrop Engineering working closely with our team of Don Hunter and Richard Patelke. Gordon Zurowski of Wardrop and Don Hunter of PolyMet were the Qualified Persons.

f) Geology and Mineralization

The geology of northeastern Minnesota is predominantly Precambrian in age. Approximately 1.1 billion years ago, mid-continent rifting resulted in mafic volcanism and associated intrusions along a portion of the Midcontinent Rift System, which extends from Ohio, through the Lake Superior region to Kansas. The Midcontinent Rift consists of three parts: thick lava flows, intrusive rock and overlying sedimentary rock. There are three major intrusive complexes: the Coldwell Complex of Ontario, the Mellen Complex along the south shore of Lake Superior and the Duluth Complex along the north shore.

The Duluth Complex hosts the NorthMet mineralization. The Complex extends in an arcuate belt from Duluth to the northeastern tip of Minnesota. Emplacement of the intrusion appears to have been along a system of northeast-trending normal faults that form half-grabens stepping down to the southeast. The magma was intruded as

sheet-like bodies along the contact between the Early Proterozoic sedimentary rocks of the Animikie Group and the mafic lava flows of the North Shore Volcanic Group.

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The Duluth Complex is represented by the Partridge River intrusion which overlays the Biwabik Iron Formation the Partridge River intrusion is locally sub-divided into seven troctolitic units:

- Unit 7 and Unit 6 texturally homogeneous plagioclase-rich troctolite, each with a persistent ultramafic base. Units 6 and 7 are each about 400 ft. thick.
- Unit 5 coarse grained anorthositic troctolite (300 ft.) grading down to Unit 4.
- Unit 4 homogeneous augite troctolite and troctolite, with a less persistent ultramafic horizon. The contact between Unit 4 and Unit 5 is difficult to establish and the two units may actually be a single unit.
- Unit 3 the most easily recognized unit because of its mottled appearance due to olivine oikocrysts. It is fine grained troctolitic anorthosite to anorthositic troctolite. Average thickness is 250 ft. but locally can be up to 500 ft.
- Unit 2 homogeneous troctolite with abundant ultramafic units and a generally persistent basal ultramafic. This unit shows the most variation in thickness and may be locally absent. Units 2 & 3 are modeled as a single package for resource estimation.
- Unit 1 the most heterogeneous unit, both texturally and compositionally. Grain size is generally coarser at the top of the unit and fines downward. The unit contains abundant inclusions of the footwall rock and is noritic towards the base. This is the main sulfide mineral bearing unit. Two internal ultramafic layers are generally present. Unit 1 is probably the result of multiple pulses of magma injection. Average thickness is about 450 ft.

The general trend of the sedimentary rocks at the base of the NorthMet deposit is striking east-northeast and to dipping to the southeast about 15-25°, and the Partridge River intrusion appears to follow this general trend.

The majority of the rock at NorthMet is unaltered, with a minor alteration found along fractures and micro-fractures, consisting of serpentine, chlorite and magnetite replacing olivine, uralite and biotite replacing pyroxene, and saussurite and sericite replacing plagioclase. Sulfide mineralization does not appear to be directly related to the alteration.

The metals of interest at NorthMet are copper, nickel, cobalt, platinum, palladium, gold and lesser amounts of rhodium and ruthenium. In general, the metals are positively correlated with copper mineralization, cobalt being the main exception. Unit 1 mineralization is found throughout the deposit. A less extensive mineralized zone is found in Units 4, 5, and 6 in the western part of the deposit, it is copper-rich relative to sulfur, and moderately enriched in PGMs.

Sulfide mineralization consists of chalcopyrite, cubanite, pyrrhotite and pentlandite with minor bornite, violarite, pyrite, sphalerite, galena, talnakhite, mackinawite and valleriite. Sulfide minerals occur mainly as blebs interstitial with plagioclase, olivine and augite grains, but also occur within plagioclase and augite grains, as intergrowths with silicates, or as fine veinlets. The percentage of sulfides varies from trace to about 5%. Palladium, platinum and gold are associated with the sulfides.

The NorthMet deposit has been identified over a length of approximately 2.5 miles and has been found to a depth of more than 2,600 feet. It is covered by a thin layer of glacial till but otherwise reaches to the surface at the northern edge.

(g) Development Plans

Our development plans were set out in our Definitive Feasibility Study prepared by Bateman Engineering Pty. in September 2006. This contemplated the development of a new open pit mine at our NorthMet ore body, using rail infrastructure we acquired as part of Cliffs II to transport approximately 32,000 tons of ore per day from the mine site to our Erie Plant, where we would use our existing facilities to crush and mill the rock. The finely ground material would then pass to a new flotation circuit with waste material sent to existing waste tailings facilities and the concentrate being passed to a new hydrometallurgical plant that we plan to build at the Erie Plant site.

We believe that we have completed exploration work required for the initial phases of production at NorthMet, however, we may need to conduct further in-fill drilling during the anticipated life of the project. Since publication of the DFS, we have recognized the commercial potential to sell concentrates during the construction and commissioning of the new hydrometallurgical facilities.

DFS Update

On May 20, 2008 we reported revised plans and cost estimates for construction and operating costs. These revised plans included:

- 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. We anticipate that much of the additional \$290 million of capital costs, including \$20 million of additional environmental measures, will be largely 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.

On February 2, 2011 we reported a further refinement to the development plan whereby we propose to build the project in two phases:

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

The changes reflect continued metallurgical process and other project improvements as well as improved environmental controls that are being incorporated into the Supplemental Draft EIS. The analysis is based on likely metal market conditions. The advantages, compared with the earlier plan, include a better return on capital investment, reduced financial risk, lower energy consumption, and reduced waste disposal and emissions at site.

Approximately \$127 million of the total \$602 million in total capital costs, and of the \$290 million capital costs for the larger scale metallurgical facilities described in the 2008 DFS Update was attributed to the second autoclave and the copper circuit.

We plan to provide a detailed project update when the project development plans now being analyzed in the Supplemental Draft EIS are finalized. This detailed project update will include revised mine plans, process and project improvements, and will incorporate the latest environmental controls.

Saleable Products

The DFS describes three products from NorthMet. During construction and commissioning of the hydrometallurgical plant, we anticipate that we will sell separate copper and nickel concentrates. Once the smaller-scale hydrometallurgical plant is operational, our long term products will comprise copper concentrate, a mixed hydroxide of nickel and cobalt that will be shipped to a third-party processor to produce nickel and cobalt metals, and a precious metals precipitate that will be shipped to a third-party refiner for production of palladium, platinum and gold.

On September 4, 2008 we announced that we had reached an agreement with Glencore whereby Glencore would purchase our production of concentrates, metals, or intermediate products at prevailing market terms at the time of delivery for at least the first 5 years of production. We executed the agreement on October 31, 2008 as part of a strategic alliance between us and Glencore.

Capital Costs

Our May 2008 DFS Update set out that, on a like-for-like basis (excluding scope changes), the total capital cost had increased to \$516.8 million. This increase reflects both cost inflation and design scope changes since the DFS, including facilities needed to ship concentrate during the construction and commissioning of the new hydrometallurgical plant. This staged approach shortens the initial construction period, makes the project less sensitive to the delivery schedule for long lead time equipment such as autoclave vessels, and means that we can commence operations of the mine, the existing crushing and milling plant, the existing tailings disposal facilities, and the new flotation circuit, before starting the new hydrometallurgical plant.

In addition to these scope changes and the effect of inflation, we anticipate spending an additional \$85.1 million on measures to protect the environment, over and above the measures contemplated in the DFS. \$76.6 million for mining equipment that was assumed to be provided by a mining contract in the DFS has been incorporated as an operating lease in updated operating costs.

May 2008 DFS Update Capital Costs (US dollars, millions)

| | Full Project | <i>Change from DFS</i> | Initial Concentrate Sales |
|------------------------------------|--------------|----------------------------|------------------------------|
| Definitive Feasibility Study | 379.8 | | 138.7 |
| Escalation and other scope changes | 137.0 | 36% | 108.9 |
| Total | 516.8 | | 247.6 |
| Environmental measures | 85.1 | | 64.7 |
| Total change | 222.1 | 58% | 173.6 |
| TOTAL | 601.9 | | 312.3 |

In February 2011 we announced that we had simplified the metallurgical process whereby we plan to build one hydromet circuit to process nickel concentrate, and continue producing and marketing copper concentrate over the long term. This revised process eliminates the planned copper solvent-extraction/electro-winning circuit. These elements represented approximately \$127 million of the total \$602 million capital costs, but have no effect on the capital cost for the concentrates-only phase of the project.

May 2008 DFS Update Operating Plans and Costs

The overall mining and operating plan remains the same as that defined in the DFS and which forms the basis of the plan being analyzed in the environmental impact statement. We intend to mine 32,000 tons of ore per day for an operating life of twenty years, processing a total of 224 million tons of ore. The mine plan continues to be based on the following metal prices: copper - \$1.25/lb, nickel - \$5.60 per pound, cobalt - \$15.25/lb, palladium - \$210 per ounce, platinum - \$800 per ounce, and gold - \$400 per ounce.

Operating costs per ton of ore processed have increased to \$13.33 from \$11.02 in the DFS reflecting higher fuel, mine equipment, and other consumable costs, as well as general inflation. The cost of mining and delivering ore to the plant is now estimated at \$4.31 per ton compared with \$3.80 per ton in the DFS. The increase in mining costs has been partially offset by the lower strip ratio, larger mining equipment, and owner versus contractor operation.

The economic analysis is based on SEC-reserve standards, namely the three-year trailing average, which we calculated at April 30, 2008 (the end of our first fiscal quarter). This price deck is: copper - \$2.90/lb, nickel - \$12.20/lb, cobalt - \$23.50/lb, palladium - \$320/oz, platinum - \$1,230/oz, and gold - \$635/oz. While these prices are somewhat higher than those used on the economic analysis in the DFS, the price are slightly below the three-year average at the end of our fiscal 2009 year, namely: copper - \$3.13/lb, nickel - \$12.45/lb, cobalt - \$27.34/lb, palladium - \$342/oz, platinum - \$1,343/oz, and gold - \$733/oz.

The DFS Update prices translate into copper cash costs of \$1.05 per pound using a co-product basis to calculate costs, compared with the DFS estimate of \$0.81 per pound. Taking revenues from the other metals as a deduction against costs, the co-product basis shows a cost of \$(0.28) per pound compared with \$0.06 per pound in the DFS.

We plan to further update the DFS during the course of our current fiscal year to reflect all project changes that are being incorporated into the Supplemental Draft EIS.

Economic Summary

Key economic metrics include earnings before interest, tax, depreciation, and amortization (EBITDA) which is projected to increase to \$217.3 million on average over the first five years of operations from \$175.3 million estimated in the DFS. The net present value of future cash flow (after tax) discounted at 7.5% is estimated to be \$649.4 million compared with \$595.4 million in the DFS, and the after tax internal rate of return is now estimated at 30.6% compared with 26.7% in the DFS. The table below also sets out the affect on EBITDA of a 10% change in each metal price.

May 2008 DFS Update Key Economic Highlights

(h) Regulations and Government Rules

The mining industry has been subject to increasing government controls and regulations in recent years. We have obtained all necessary permits for exploration work performed to date and anticipate no material problems obtaining the necessary permits to proceed with further development.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

(a) Operating Results

This discussion and analysis should be read in conjunction with our consolidated financial statements. Our functional currency is the United States dollar and our financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which is in the process of transitioning to IFRS; however, the only significant difference between U.S. GAAP and Canadian GAAP with regard to our financial statements relates to the accounting for fair value of the conversion factor of convertible debt (see Item 3: Key Information A. Selected Financial Data for the impact of this difference). All amounts in this discussion and in the consolidated financial statements are expressed in United States dollars, unless identified otherwise.

Summary of Events During the Fiscal Year Ended January 31, 2011

During the year ended January 31, 2011, and through the date of the filing of this Annual Report, we continued to advance our NorthMet Project including the activities noted below.

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

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

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

On November 12, 2010, we announced that Glencore had agreed to purchase 15 million shares of our common stock at \$2.00 per share in three tranches over the next two years. In addition, Glencore agreed to extend the maturity date of the \$25 million (initial principal) debentures issued to Glencore under the 2008 financing to September 30, 2012 and cancelled the final \$25 million debenture financing commitment and the 6.25 million share purchase warrants issued as part of the 2008 financing. We have issued warrants to purchase 3 million shares at \$2.00 per share at any time until December 31, 2015 as compensation for the additional financing and other changes. On 17 January 2011 we closed the first tranche of this private placement, issuing 5 million of our common shares to Glencore at US\$2.00 per Share for gross proceeds of US\$10 million.

On December 16, 2010 the Board of the Iron Range Resources and Rehabilitation Board (IRRRB) approved, on the commissioner's recommendation, a secured loan to our wholly-owned subsidiary, Poly Met Mining, Inc. of up to \$4 million. A legal challenge as to whether the IRRRB was authorized to make such a loan was withdrawn following passage of state legislation that clarified that the IRRRB is an economic development agency with no regulatory oversight for mine permitting activities.

Proceeds from the loan will be used to purchase forest land, wetlands, and lakes with high natural resource and recreational value that would become available for public use and enjoyment. These properties, which we currently have under purchase option, would be purchased for future use as part of a proposed land exchange for surface rights at the proposed NorthMet mine site currently controlled by the USFS Superior National Forest.

With effect from December 31, 2010, William Murray stepped down as Executive Chairman and George Molyviatis resigned his board membership. Mr. Murray continues to serve as one of our directors. Ian Forrest and Frank Sims, both independent directors, serve as independent co-Chairmen. Mr. Forrest continues as Chair of the Audit and Compensation Committees and Mr. Sims continues as Chair of the Corporate Governance Committee.

On December 31, 2010, warrants to purchase 3,842,045 shares of our common stock at \$3.00 per share, which had been issued in connection with the April 2007 financing, expired.

On January 17, 2011 we closed the first tranche of the November 2010 private placement with Glencore, issuing 5 million common shares of the Company to Glencore at US\$2.00 per Share for gross proceeds of US\$10 million.

On January 24, 2011 Bradley H. (Brad) Moore was appointed Executive Vice-President, Environmental & Governmental Affairs. Mr. Moore has more than 25 years experience in environmental regulation and review and is

assuming overall responsibility for our effort to complete environmental review and obtain permits necessary for construction and operation of the NorthMet copper-nickel-precious metals project located in the established Mesabi mining district in northeastern Minnesota. Mr. Moore served as Commissioner of the Minnesota Pollution Control Agency ("MPCA") from 2006 to 2008, and as Assistant Commissioner for Operations of the Minnesota Department of Natural Resources (MDNR) from January 1999 to August 2006.

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

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

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

On March 10, 2011 we appointed Alan R. (Al) Hodnik and Michael M. (Mike) Sill to our Board of Directors.

In March 2011, we entered into an agreement with the MDNR committing to an additional \$2,818,000 work on environmental review through April 1, 2012.

On April 15, 2011 we reported that the Company and the Lead Agencies expect to finalize detailed work plans for the Supplemental Draft EIS by May, 2011. The detailed project, which includes the simplified metallurgical process and reduction in capital costs that we announced on February 2, 2011, will then be modeled to predict environmental impacts of the project. The third party contractor hired by the lead agencies will then prepare a preliminary supplemental draft Environmental Impact Statement, which will be reviewed by the Lead Agencies, cooperating agencies (including the US Environmental Protection Agency and tribal governments) and ourselves. Once that review process has been completed, the supplemental draft EIS will be finalized for publication and public comment. The lead agencies anticipate publishing the Supplemental Draft EIS during the fall of 2011.

On April 15, 2011 the Board of the IRRRB reapproved a secured loan to Poly Met Mining, Inc. of up to \$4 million, which is expected to close on or before 30 June, 2011. The loan will be secured by the land to be acquired from proceeds of the loan, carry a fixed interest rate of 5% per annum, and will be repayable on June 30, 2016. Subject to regulatory approval, we also agreed to issue warrants giving the IRRRB the right to purchase up to 400,000 shares of our common stock at US\$2.50 per share at any time until the earlier of June 30, 2016 and one year after we receive permits.

Summary of Operating Results

As of January 31, 2011, we operated in one segment, the exploration and development of the base and precious metals at our NorthMet Project in Minnesota, United States. Head office comprises general and administrative costs, stock based compensation expense, financing expenses, foreign exchange interest income, assets, purchase of property, plant and equipment and amortization reported by the Canadian head office.

| | NorthMet Project (US\$000 s) | Head Office (US\$000 s) | Consolidated (US\$000 s) |
|------------------------|------------------------------------|-------------------------------|-----------------------------|
| 2011 | | | |
| Segment operating loss | \$ 1,536 | \$ 5,747 | \$ 7,283 |

| | | | |
|---------------------------------------|------------|-----------|------------|
| Mineral property, plant and equipment | \$ 130,192 | \$ 39 | \$ 130,231 |
| Other assets | \$ 4,478 | \$ 10,323 | \$ 14,801 |
| Identifiable assets | \$ 134,670 | \$ 10,362 | \$ 145,032 |

2010

| | | | |
|---------------------------------------|------------|-----------|------------|
| Segment operating loss | \$ 892 | \$ 8,131 | \$ 9,023 |
| Mineral property, plant and equipment | \$ 115,781 | \$ 51 | \$ 115,832 |
| Other assets | \$ 2,466 | \$ 21,340 | \$ 23,806 |
| Identifiable assets | \$ 118,257 | \$ 21,391 | \$ 139,648 |

2009

| | | | |
|---------------------------------------|-----------|----------|------------|
| Segment operating loss | \$ 560 | \$ 4,963 | \$ 5,523 |
| Mineral property, plant and equipment | \$ 91,832 | \$ 78 | \$ 91,910 |
| Other assets | \$ 2,546 | \$ 7,143 | \$ 9,689 |
| Identifiable assets | \$ 94,378 | \$ 7,221 | \$ 101,599 |

On November 12, 2010, we announced that we had renegotiated our debenture financing with Glencore. The agreed amendments to the debenture financing are as follows:

- The maturity date, and therefore accounting for accretion, of the Tranche A-D Debentures was extended from September 30, 2011 to September 30, 2012. The Debentures were issued in four tranches between October 2008 and September 2009. The total initial principal of the Debentures is US\$25 million with US\$2.539 million of accrued interest as of December 31, 2011. The Debentures continue to be exchangeable into our common shares at US\$4.00 per share, as agreed to in 2008.
- Cancellation of Glencore's commitment to purchase, and our commitment to issue, US\$25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact Statement, receipt of a term sheet for construction financing, and other customary conditions.
- Cancellation of warrants to purchase 6.25 million of our common shares at US\$3.00 at any time until September 30, 2011 issued to Glencore in connection with the Debentures.
- Issuance of warrants to purchase 3 million of our common shares at US\$2.00 at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above.

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

- Tranche 1 of US\$10 million closed on January 17, 2011;
- Tranche 2 of US\$10 million will close on the earlier of (i) the date of the Company's funding requirement as set forth in the Company's three year operating budget to be approved by Glencore (the "Budget"), and (ii) 17 October 2011, and
- Tranche 3 of US\$10 million will close on the earlier of (i) the date of the Company's funding requirement as set forth in the Budget, ii) within ten business days following receipt by us of key permits, in a form reasonably acceptable to Glencore, that will enable the start of construction of the Project, and iii) 15 October 2012.

Glencore has a right of first refusal to provide all material financings, subject to regulatory approval, if it owns 10% or more of our issued and outstanding shares and, if it owns more than 5% of our issued and outstanding shares, Glencore has the right to participate in any equity-related financing to maintain its partially diluted ownership interest (19.7% as of 31 January 2011).

In accordance with both Canadian GAAP and US GAAP, the 12 November 2010 transactions, whereby our existing convertible debt at that date with a book value of \$26.730 million was deemed to have been extinguished and reissued, all of the costs associated with the transaction have been recorded as a non-cash expense of \$3.647 million

Year ended January 31, 2011 compared with the year ended January 31, 2010

Overall. Our focus for the fiscal year ended January 31, 2011 was to provide the Lead Agencies with input into the Supplemental Draft EIS and permit work at our NorthMet Project, obtain additional financing and to continue to develop the NorthMet Project including updating the mineral reserves and mineral resources estimates and preparing for construction.

Loss for the year. During the year ended January 31, 2011, we incurred a loss of \$7.283 million (\$0.05 loss per share) compared to a loss of \$9.023 million (\$0.06 loss per share) in 2010. The decrease in the net loss for the period was primarily attributable to:

- A non-cash future income tax recovery related to expiration of stock purchase warrants previously issued of \$1,390,000 (January 31, 2010 \$nil);
- A non-cash reversal of previously recorded stock-based compensation costs relating to board and other management changes resulting in a credit of \$119,000 in the current year (January 31, 2010 expense of \$915,000);
- A non-cash charge of \$4.920 million for the amendment of stock warrants in the prior year period (current year period - \$nil), and
- Investor relations and financing expenses of \$420,000 due to the filing of an F-3 registration statement during the prior year period (current year period - \$118,000).

These items were partially offset by the non-cash costs associated with extending the term of our debentures by a year, the fair value of the amendments to the Glencore warrants, which resulted in a non-cash charge of \$3,647 million to our income statement. A further offset to the decrease in reported net loss derived from our decision to review alternatives for construction financing and not to renew our agreement with BNP Paribas Loan Services, to advise and assist us in all aspects of preparation for construction finance, which expired on July 31, 2010. As such, the \$1.830 million, \$1.197 million of which was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset was written off to the consolidated statement of loss in the current year. In addition, we recorded a loss of \$520,000 in the current year period as a result of our decision to reclassify an asset as held for sale and write-down its carrying value to fair value less cost to sell.

Year ended January 31, 2010 compared with the year ended January 31, 2009

Overall. Our focus for the fiscal year ended January 31, 2010 was to provide the state of Minnesota with input into the environmental impact statement and permitting work at our NorthMet Project, obtain additional financing and to continue to develop the Project including updating the mineral reserves and mineral resources estimates and preparing for construction.

Loss for the year. During the year ended January 31, 2010 we incurred a loss of \$9.023 million (\$0.06 loss per share) compared to a loss of \$5.523 million (\$0.04 loss per share) in 2009. The increase in the net loss for the period was primarily attributable to:

- A non-cash charge of \$4.920 million for the amendment of warrants (prior year period - \$544,000);
- Stock-based compensation expense of \$915,000 (prior year period - \$487,000) with the increase being predominantly due to the granting of additional stock options in the first quarter and the extension of the term of all our stock options outstanding at June 24, 2009 by two years which was approved by the disinterested shareholders at our Annual and Special of shareholders on June 24, 2009;

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- Interest income of \$5,000 (prior year period - \$154,000) with the decrease being due to lower cash balances and interest rates;
- Investor relations and financing expenses of \$420,000 due to the filing of an F-3 registration statement during the 2010 third quarter and additional financing related activities, and
- A foreign exchange loss of \$156,000 in the prior year period due to the strengthening of the U.S. dollar versus the Canadian dollar, compared to a gain of \$24,000 in the current year quarter.

This was partially offset by an other-than-temporary impairment loss of \$1,365,000 in the prior year period (current year period - \$nil) and a foreign exchange loss of \$156,000 in the prior year period (current year period - \$24,000) due to the strengthening of the U.S. dollar versus the Canadian dollar.

Effective February 1, 2009, we 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, we are no longer able to defer operating costs and revenues incurred prior to commercial production at its development project. The adoption of this standard resulted us retroactively ceasing to capitalize to mineral property accretion related to asset retirement obligations in our consolidated financial statements.

We restated our 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 | |
|--------------------------------------|-------------------------------|----------|
| | As Previously Reported | Restated |
| Mineral Property Plant and Equipment | 93,067 | 91,910 |
| Loss for the period | 4,536 | 4,979 |
| Deficit | 60,825 | 61,982 |
| Loss per share | 0.03 | 0.04 |

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Effective November 1, 2009, we changed our accounting policy for accounting for amendments to warrants. Prior to this date, if the amendment related to warrants held by existing equity holders, we would debit the increase in fair value as a result of an amendment to the warrants to share capital. Under its new accounting policy, we record the debit to warrant amendment expense. This change in accounting policy has been applied retroactively, the impacts on certain line items of the financial statements with significant changes, after taking into account the above restatement with respect to Section 3064 / EIC 27, were as follows:

| Line Item | Year ended 31 January 2009 | |
|---------------------|----------------------------------|----------|
| | As Previously Reported | Restated |
| Share Capital | 104,768 | 105,312 |
| Loss for the period | 4,979 | 5,523 |
| Deficit | 61,982 | 62,526 |
| Loss per share | 0.04 | 0.04 |

(b) Liquidity And Capital Resources

Financing Activities

On November 12, 2010, we entered into an agreement with Glencore whereby Glencore agreed to purchase 15 million common shares at \$2.00 per share in three tranches to occur no later than certain agreed dates, and according to our needs based on a budget to be agreed. The first tranche of 5 million shares for gross proceeds of \$10 million was funded on schedule on January 17, 2010. The remaining tranches, both for gross proceeds of \$10 million, are scheduled to close on or before October 17, 2011 and the earlier of ten business days following receipt of key permits and October 15, 2012, respectively. Transaction costs for the first tranche totaled \$106,000.

On November 24, 2009 we closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. On January 26, 2010, we closed the second tranche of the previously announced equity financing with Glencore of an additional 5,660,377 common shares at \$2.65 per common share for gross proceeds of \$15 million. Transactions costs for these two financings totaled \$499,000.

During the year ended January 31, 2011 we issued 845,000 common shares (prior year period 775,000) upon exercise of options for proceeds of \$808,000 (prior year period - \$477,000) and nil common shares (prior year period 167,954) upon exercise of share warrants for proceeds of \$nil (prior year period -\$494,000).

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

On October 31, 2008, we entered into a financing with Glencore for an aggregate of US\$50 million floating rate secured debentures due on September 30, 2011 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 Glencore's option. The Debentures are secured by the assets of PolyMet and PolyMet US, including PolyMet's 100% shareholding in PolyMet US.

The Debentures are exchangeable into our common shares at Glencore's option at US\$4.00 per share. We can, at our option, prepay the Debentures if our 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 our common shares

within 30 days in lieu of payment. Repayment between October 1, 2010 and September 30, 2011 would be at 102.5% of the outstanding principal.

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On October 31, 2008, we issued to Glencore warrants (the "Purchase Warrants") to purchase 6.25 million our common shares 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.

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

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

On November 12, 2010, we announced that we had agreed additional modification of certain terms of the above transaction:

- the maturity date of the Debentures was extended from September 30, 2011 to September 30, 2012;
- Glencore's commitment to purchase, and our commitment to issue, US\$25 million of Tranche E Debentures, which were to be issued upon publication of the Final Environmental Impact Statement and other conditions, were cancelled;
- warrants to purchase 6.25 million of our common shares at US\$3.00 at any time until September 30, 2011 issued to Glencore were cancelled, and
- warrants to purchase 3 million of our common shares at US\$2.00 at any time until December 31, 2015, issued to Glencore in consideration of the amendments listed above (the "New Warrants") were issued.

During the year ended January 31, 2010 we issued 775,000 shares (prior year period 262,800) upon exercise of options for proceeds of \$477,000 and 167,954 shares upon exercise of share warrants for proceeds of \$494,000.

During the year ended January 31, 2008 we issued 15 million units at US\$2.75 per unit, with each unit comprising one common share and one-half of one warrant (for accounting purposes, the value of the units was bifurcated between the common shares and the warrants). Each whole warrant was exercisable into a common share at a price of US\$4.00 at any time until October 13, 2008 (see amendment below), subject to an early trigger if the 20-day volume weighted average price of the common shares is US\$6.00 or more. On October 10, 2008, we announced that we 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 of our common shares 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 of our common shares 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. We can accelerate the expiration of the warrants if our volume-weighted 20-day average share price trades at a 50% premium to the exercise price applicable at any time.

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

In November 2009, we received the consent from holders of more than two-thirds of the above warrants to exchange the 4,010,000 warrants due to expire the earlier of 30 calendar days after publication of the draft Environmental Impact Statement by the State of Minnesota in the state's Environmental Quality Board Monitor and December 31, 2009 for 4,010,000 warrants, each warrant entitling the holder to purchase one share of our 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 December 31, 2010. The incremental \$3,757,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

Warrants to purchase 167,954 shares of our common stock had been exercised prior to 31 January 2010 and, on 31 December 2010 warrants to purchase 3,842,046 shares of our common stock at \$3.00 per share expired. We recorded a future income tax recovery as the expiration of the warrants triggered a capital gain for tax purposes, which was offset by the application of tax losses carried forward resulting in a credit of \$1,219,000.

Year Ended January 31, 2011

Cash used in operating activities in the year ended January 31, 2011 was \$3.068 million compared to cash used in the prior year of \$2.429 million. The variance is primarily due to the cash based operating activity differences described above, \$193,000 of exploration expenses in the current year (prior year -\$nil) and changes in working capital balances.

Cash provided by financing activities for the year ended January 31, 2011 was \$8.666 million compared with \$34.111 million in the prior year. The activity in the current year was primarily due to net proceeds of \$9.894 million from a Glencore equity offering (prior year period \$24.501 million), the net funding from issuance of exchangeable secured debentures of \$nil (prior year period - \$9.944 million), the scheduled repayment of \$2,000,000 of debt (prior year period - \$1,250,000) This was offset by the net funding from issuance of exchangeable secured debentures of \$9,944,000 in the prior year (current year - \$nil). During the current year period, we received \$808,000 from the issuance of common shares on exercise of stock options (prior year period - \$477,000) and \$nil from the issuance of common shares on the exercise of share warrants (prior year period - \$494,000).

Cash used in investing activities for the year ended January 31, 2011 was \$16.519 million compared with \$17.754 million in the preceding year, with the decrease being primarily the result of lower engineering, project and environmental / permitting costs in the current year period as we continued to scale back detailed engineering and design work that is not needed for permitting.

Total cash for the year ended January 31, 2011 decreased by \$10.921 million for a balance of \$10.361 million compared to the year ended January 31, 2010 when cash increased by \$13.928 million to a balance of \$21.282 million.

Substantially all cash and equivalents are held in United States currency.

As at January 31, 2011 we had working capital of \$779,000 compared with working capital of \$16.313 million at 31 January 2010 consisting primarily of cash of \$10.361 million (January 31, 2010 - \$21.282 million), prepaid expenses of \$636,000 (January 31, 2010 - \$512,000), accounts payable and accrued liabilities of \$2.444 million (January 31, 2010 - \$2.953 million), the current portion of the notes to Cliffs of \$6.750 million (January 31, 2010 - \$2.000 million) and the current portion of asset retirement obligations of \$1.408 million (January 31, 2010 - \$756,000). We expect to

pay the remaining balance of \$1.775 million (January 31, 2010 - \$8.529 million) long term notes to Cliffs and the convertible debt principal balance of \$25 million plus capitalized interest from working capital and additional financing. Our 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.

Our consolidated financial statements have been prepared on the basis that we will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations, realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. However, there are conditions that cast significant doubt on the validity of that assumption. We have incurred losses since inception and have an accumulated deficit of \$78,832,000 at January 31, 2011.

We will need to raise sufficient funds to meet our current obligations as well as fund ongoing development, capital expenditures and administration expenses, in accordance with our spending plans.

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

- Tranche 1 of US\$10 million closed on January 17, 2011;
- Tranche 2 of US\$10 million to close on the earlier of (i) the date of our funding requirement as set forth in our three year operating budget approved by Glencore (the Budget), and (ii) October 17, 2011, and
- Tranche 3 of US\$10 million to close on the earlier of (i) the date of our funding requirement as set forth in the Budget, (ii) the tenth Business Day following receipt by us of key permits, in forms reasonably acceptable to Glencore, that enable us to begin construction of the Project, and (iii) October 15, 2012.

In order to meet all of its obligations for the period to January 31, 2012, including paying off the current portion of our long-term debt, we will have to successfully receive all of the remaining equity tranches, or obtain alternate financing. We are in the latter stage of discussions with Glencore with respect to the budget and believe that agreement will be reached by June 30, 2011, which will enable us to access the second and third \$10 million tranches of the equity funding in a timely manner that will enable us to meet our obligations. However, this cannot be assured.

We believe that, based upon the underlying value of the NorthMet Project, that it will be able to obtain the necessary financing from Glencore or other sources to meet our requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained. Factors that could affect the availability of financing include the state of international debt and equity markets, investor perceptions and expectations and the global metals markets.

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

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

Debt

Pursuant to Asset Purchase Agreements, our wholly owned subsidiary Poly Met Mining, Inc. signed three notes payable to Cliffs in the amounts of \$2,400,000, \$7,000,000 and \$7,000,000, respectively. The first note has been fully repaid. 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 December 31, 2006, with the balance repayable upon receipt of commercial financing, for total repayment of \$7,000,000. The third note is interest bearing at the *Wall Street Journal* Prime Rate and is being paid in quarterly instalments equal to \$250,000 commencing on December 31, 2009 for total repayment of \$7,000,000 with final payment due on December 31, 2011. No interest was payable on the third note until December 31, 2009, which accordingly had been fair valued, for balance sheet purposes, by discounting it at 8.25% .

Pursuant to a financing agreement with Glencore, we have entered into convertible debenture agreements for \$25 million. The Debentures, originally due September 30, 2011, were extended under the same terms to September 30, 2012, 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 Glencore's option.

As at January 31, 2011 the outstanding long term debt was as follows:

| | January 31, 2011 | January 31, 2010 |
|----------------------|-----------------------------|---------------------|
| Notes payable | \$ 8,500 | \$ 10,499 |
| Accrued interest | 25 | 30 |
| Convertible debt | 27,633 | 25,253 |
| Total debt | 36,158 | 35,782 |
| Less current portion | (6,750) | (2,000) |
| Long term debt | \$ 29,408 | \$ 33,782 |

We anticipate using working capital, additional financing and funds from operations once commercial production has commenced to meet the above payment obligations to Cliffs and Glencore.

(c) Research and Development, Patents and Licenses, Etc.

None.

(d) Trend Information

None.

(e) Off-Balance Sheet Arrangements

None.

(f) Tabular Disclosure of Contractual Obligations

The following table lists as of January 31, 2011 information with respect to the Company's known contractual obligations:

| | <i>Total</i> | <i>Less than 1 year</i> | <i>Payments due by period</i> | | | <i>More than 5 years</i> |
|--|---------------|-----------------------------|-------------------------------|------------------|----------------|----------------------------------|
| | | | <i>1</i> | <i>3 years 3</i> | <i>5 years</i> | |
| <i>Contractual Obligations</i> | | | | | | |
| Accounts payable and accrued liabilities | \$ 2,444,000 | \$ 2,444,000 | \$ - | \$ - | \$ - | \$ - |
| Long-term debt obligations | 38,720,000 | 8,340,000 | 30,380,000 | - | - | - |
| Asset retirement obligation | 26,495,000 | 1,469,000 | 615,000 | 537,000 | 23,874,000 | - |
| Total | \$ 67,659,000 | \$ 12,253,000 | \$ 30,995,000 | \$ 537,000 | \$ 23,874,000 | - |

Long-term debt obligations (including the current portion) are comprised of long-term and convertible debt balances, are set out in this table on an undiscounted basis and include anticipated interest. Asset retirement obligation represents the undiscounted obligation at January 31, 2011.

(g) Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada that require management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements. Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, expected economic lives of plant and equipment, anticipated costs of asset retirement obligations including the reclamation of mine site, valuation of options and share purchase warrants, and the assessment of impairment in value of long lived assets.

Mineral Property, Plant and Equipment

Mineral property costs, aside from mineral property acquisition costs, incurred prior to determination of the DFS are expensed as incurred and expenditures incurred subsequent to the DFS and mineral property acquisition costs are deferred/capitalized until the property is placed into production, sold, allowed to lapse or abandoned. Acquisition costs include cash and fair market value of common shares. As a result of the DFS on the NorthMet Project, the NorthMet Project entered the development stage effective October 1, 2006. We have deferred mineral property development expenditures related to the NorthMet Project from that date.

Plant and equipment are recorded at cost and depreciated over the estimated life of the related assets calculated on a unit of production or straight-line basis, as appropriate. Mineral property, plant and equipment related to the NorthMet Project will begin to be amortized at the time the project commences operations.

We perform impairment tests on our mineral property, plant and equipment when events or changes in circumstances indicate that the carrying values of assets may not be recoverable. These tests require the comparison of the undiscounted future cash flows to be derived from these assets with the carrying value of the assets. If a shortfall exists, the assets are written down to fair value, determined primarily using discounted cash flow models.

Stock-Based Compensation and Share Purchase Warrants

All stock-based awards made to directors, employees and non-employees are measured and recognized using a fair value based method. For directors and employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property plant and equipment, with the offsetting credit to contributed surplus, on a graded method over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

We issue share purchase warrants in connection with certain equity transactions. The fair value of the warrants, as determined using the Black-Scholes option pricing model, is credited to contributed surplus. The recorded value of share purchase warrants is transferred to share capital upon exercise.

When we amend the terms of either stock options or share purchase warrants, the incremental change in the fair value of the options or warrants due to the amendment is charged to warrant amendment expense and contributed surplus.

Asset Retirement Obligations

We follows CICA Handbook Section 3110, *Asset Retirement Obligations* which requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be

recognized at fair value, when a reasonable estimate of fair value can be estimated, in the year in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset.

Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting year-end. The estimates are based principally on legal and regulatory requirements. It is possible that our estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates.

Our operations may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon us may vary greatly and are not predictable.

Financial Instruments

Section 3855 of the CICA Handbook requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading, otherwise, they are measured at cost. Investments classified as held for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. All financial assets and liabilities have been classified as either held-to-maturity, available-for-sale, held for trading or loans and receivables effective February 1, 2007. Investments subject to significant influence are reported at cost and not adjusted to fair market value.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

Each Director serves until the next annual general meeting of shareholders or until his/her successor is duly elected, unless his/her office is vacated in accordance with our Articles of Incorporation.

Vacancies on the Board of Directors are filled by election from nominees chosen by the remaining Directors and the persons filling those vacancies will hold office until the next annual general meeting of shareholders, at which time they may be re-elected or replaced. (For more details on the process for nominating directors, see our Nominations Committee Charter, referenced hereto as Exhibit 11.2.)

The following is a list of the names and ages of our directors and executive officers:

| Name | Age | Position |
|-------------------|------------|--|
| W. Ian L. Forrest | 72 | Director, Co-Chairman |
| Frank L. Sims | 60 | Director, Co-Chairman |
| Joseph Scipioni | 57 | Director, President, and Chief Executive Officer |
| Douglas J. Newby | 52 | Chief Financial Officer |
| Bradley H. Moore | 50 | Executive Vice President, Environmental & Governmental Affairs |
| Niall Moore | 49 | Corporate Secretary and Group Controller |
| David Dreisinger | 53 | Director |
| Alan R. Hodnik | 51 | Director |
| William Murray | 62 | Director |
| Stephen Rowland | 49 | Director |
| Michael M. Sill | 49 | Director |

W. Ian L. Forrest has served as a member of our board of directors since October 2003, and as our Co-Chair since January 2011. Mr. Forrest previously served as Chairman of our board until February 5, 2008. He also serves on our audit, compensation, and nominating and corporate governance committees. Having played an important role in our revival in 2003, he was appointed Chairman in May 2004. Mr. Forrest is a member of the Institute of Chartered Accountants of Scotland and continues to practice as a public accountant in Geneva, Switzerland. Mr. Forrest has more than 30 years of experience with public companies in the resource sector. His experience encompasses the areas of promotion, financing, exploration, production and company management. He has also participated in several notable projects including Gulfstream's North Dome gas discovery, Qatar, Reunion Mining's Scorpion zinc, Namibia, which was subsequently developed by Anglo American, and Ocean Diamond Mining, which pioneered the independent diamond dredging industry off the west coast of southern Africa. He also serves as a director of MGold Resources Inc., Belmore Resources (Holdings) plc and Georex SA.. Mr. Forrest was a director of Viatrade plc, which was put into receivership in August 2009. Mr. Forrest currently resides in Vaud, Switzerland.

Frank L. Sims has served as a member of our board of directors since February 2008, and as our Co-Chair since January 2011. He also serves on our audit, compensation, nominating and corporate governance, and safety, health and environmental committees. Mr. Sims has held a series of progressively senior positions with Cargill, Incorporated between 1972 and his retirement in December 2007. Most recently he served as Corporate Vice President. Minnesota-headquartered Cargill is an international provider of food, agricultural and risk management products and services. Mr. Sims currently serves on the board of Piper Jaffray Companies. Mr. Sims has previously served on the board of Tennant Company, as Vice-Chair of the U.S. Marine Transportation System National Advisory Council, was a Chairman of the board of the North American Export Grain Association, and as Chairman of the Federal Reserve Bank of Minneapolis. Mr. Sims currently resides in Georgia, United States.

Joseph Scipioni has served as our President and Chief Executive Officer since February 5, 2008 and as a member of our board of directors since February 19, 2008. He also serves on our safety, health and environmental committee. Mr. Scipioni served as our Chief Operating Officer since March 2007 and as General Manager of our Minnesota operations since July 2006. Prior to June 2006, Mr. Scipioni's career spanned more than 30 years with United States Steel Corporation where he worked in a number of progressively senior positions in operations. His last position was Plant Manager at the Keewatin Taconite plant in Minnesota. Mr. Scipioni is an active advisor to the University of Minnesota Natural Resources Research Institute based in Duluth, Minnesota and is an officer of the Northern Minnesota Chapter of the Society of Mining, Metallurgy and Exploration. In addition, Mr. Scipioni has served in leadership positions with the Iron Mining Association of Minnesota, Central Iron Range Initiative, United Way of Northeastern Minnesota and Hibbing Chamber of Commerce. Mr. Scipioni currently resides in Minnesota, United States.

Douglas J. Newby has served as our Chief Financial Officer since November 2005. Mr. Newby has nearly 30 years of experience in the evaluation and financing of mining companies and projects around the world. Before coming to PolyMet, Mr. Newby served variously as a Director, Executive Vice President, interim Chairman, President and Chief Executive Officer of Western Goldfields, Inc. (now New Gold, Inc.) a US-based gold mining company. Mr. Newby has also been President of Proteus Capital Corp., a corporate advisory firm that specializes in the natural resource industries, since July 2001. Mr. Newby served as Managing Director of Proteus Consultants Ltd. from January 1991 to July 2001 and Managing Partner of Moyes Newby & Co., Inc. from April 1994 to December 1998, both of which provided corporate advisory services primarily to the international energy and mining industries. From January 2004 to March 2006, Mr. Newby served as Vice-President of Cadence Resources Corporation, an oil and gas exploration and development company. Prior to January 1991, Mr. Newby held senior positions with the investment banking firms of S.G. Warburg & Co., Inc., Morgan Grenfell & Co., and James Capel & Co. Mr. Newby currently resides in New York, United States.

Bradley H Moore has served as our Executive Vice President, Environmental & Government Affairs since January 24, 2011. Mr. Moore has nearly 30 years experience in government and regulatory positions. He served as Commissioner of the Minnesota Pollution Control Agency from 2006 to 2008, and as Assistant Commissioner for Operations of the Minnesota Department of Natural Resources (MDNR) from January 1999 to August 2006. Prior to that, he worked in leadership and policy analyst positions with the MDNR and the Minnesota Department of Public Service (now the Department of Commerce). In December 2008, Mr. Moore joined Barr Engineering as Senior Advisor, Public and Governmental Affairs where he advised several companies, including PolyMet, on environmental strategy. Mr. Moore currently resides in Minnesota, United States.

Niall Moore has served as our Corporate Secretary since December 2006 and as our Group Controller since September 2006. Mr. Moore has over 25 years of experience with public companies in the resource sector. From November 2002 to May 2006, he was Director, Corporate Reporting for Placer Dome Inc. and from May 2006 until December 2006 he worked as a consultant to Barrick Gold, Inc. following that company's acquisition of Placer. Prior to November 2002, Mr. Moore was an audit partner at Ernst & Young LLP. Mr. Moore has extensive experience in financial reporting, compliance and valuation work. Mr. Moore currently resides in British Columbia, Canada.

Dr. David Dreisinger has served as a member of our board of directors since October 2003. Dr. Dreisinger also served on our audit committee prior to June 2006. Since 1988, Dr. Dreisinger has been a member of the faculty at the University of British Columbia in the Department of Materials Engineering and is currently Professor and Chairholder of the Industrial Research and Chair in Hydrometallurgy. He has published over 200 papers and has been extensively involved as a process consultant in industrial research programs with metallurgical companies. Dr. Dreisinger has participated in 14 U.S. patents for work in areas such as pressure leaching, ion exchange removal of impurities from process solutions, use of thiosulfate as an alternative to cyanide in gold leaching, and leach-electrolysis treatment of copper recovery from sulfide ores, and the Sepon Copper Process for copper recovery from sulfidic-clayey ores. Dr. Dreisinger serves as a director of Search Minerals, Inc. and as Vice President Metallurgy/Process for each of Baja Mining Corp and South American Silver Corp. Dr. Dreisinger currently resides in British Columbia, Canada.

Alan R. Hodnik has served as a member of our board of directors since March 9, 2011. He also serves on our compensation committee and our corporate governance and nominating committee. Mr. Hodnik was named President of ALLETE, Inc. in May 2009 and CEO of that company in May 2010. Since joining ALLETE in 1982, Mr. Hodnik has served as Vice President-Generation Operations, Senior Vice President of Minnesota Power Operations, and Chief Operating Officer. As Chief Operating Officer, he led transmission, distribution, generation, and engineering for all aspects of the Company. Mr. Hodnik was the elected mayor of the City of Aurora, MN from 1988 to 1998. He is a member of the board of Essentia Health - East Region and of the Area Partnership for Economic Expansion (APEX). Mr. Hodnik currently resides in Minnesota, United States.

William Murray served as our Executive Chairman from February 5, 2008 to December 31, 2010 and has served as a member of our board of directors since March 2003. He previously served as our President and Chief Executive Officer from March 2003 until February 2008. Mr. Murray is an engineer in the mining industry with more than 35 years of experience in construction management and project evaluation in North America and Africa. From April 1993 to 2003, Mr. Murray provided consulting services to the mining industry as a principal of Optimum Project Services Ltd. Prior to that, Mr. Murray was employed by Fluor Daniel, a large U.S. Engineering & Construction contractor, as the Director of New Business from October 1989 to April 1993. From September 1981 to May 1986, Mr. Murray was a Director of Project Services at Denison Mines where he was part of the core team that built the \$1.2 billion Quintette Coal project. From September 1970 to August 1981, Mr. Murray held a number of positions at Anglo American Corp in South Africa, principally in the Gold Division. Mr. Murray is also a director of South American Silver Corp., Aura Minerals, Inc., and Prospero Silver Corp. Mr. Murray currently resides in British Columbia, Canada.

Stephen Rowland has served as a member of our board of directors since October 30, 2008. He also serves on our audit and compensation committees. Mr. Rowland has been an executive with Glencore, a privately held diversified natural resources company, since 1988. Mr. Rowland has held various positions with responsibility for international trading in metals and minerals in London, Switzerland, and the United States. Prior to joining Glencore, Mr. Rowland started his career in 1985 with Cargill, Inc. in Minneapolis. Mr. Rowland currently resides in Connecticut, United States.

Michael M. Sill has served as a member of our board of directors since March 9, 2011. He also serves on our audit committee and our safety, health and environmental committee. Mr. Sill has served as President and CEO of Road Machinery & Supplies Co. since 1994, having joined the company in 1988. Road Machinery is a distributor of construction, mining and forestry equipment. Educated at Dartmouth College and J.L. Kellogg Graduate School of Management, Mr. Sill started his career as a financial analyst and commercial lending officer with The Northern Trust Company. He has served on the boards of the Equipment Distributors Association of MN, Associated General Contractors of MN, and the Twin Cities Regional Board of US Bank. Mr. Sill currently resides in Minnesota, United States.

B. Statement of Executive Compensation

The following table sets forth the compensation paid to our Named Executive Officers for the fiscal year ended January 31, 2011:

| | Salaries Commissions and Bonuses | Options | Pension, Retirement and Similar Benefits ⁽¹⁾ | Bonus Shares | Total Compensation |
|--|--|---------|---|-----------------|-----------------------|
| William Murray, Executive Chairman | \$ 256,035 | \$ nil | \$ nil | \$ nil | \$ 256,035 |
| Joseph Scipioni, President and Chief Executive Officer | \$ 275,100 | \$ nil | \$ 14,700 | \$ nil | \$ 289,800 |
| Douglas Newby Chief Financial Officer | \$ 220,200 | \$ nil | \$ 6,606 | \$ nil | \$ 226,806 |

⁽¹⁾ Balances represent Company contributions under 401k pension plans.

During the fiscal year ended January 31, 2011, we had three Named Executive Officers (NEOs) (for the purposes of applicable securities legislation), namely:

- (a) William Murray, Executive Chairman until 31 December 2010;
- (b) Joseph Scipioni, President and Chief Executive Officer; and
- (c) Douglas Newby, Chief Financial Officer

During the fiscal year ended January 31, 2011, no compensation was paid or is payable by us to the directors of the Company, other than the NEOs (the Other Directors), or our subsidiaries, if any, for their services in their capacity as directors, including any amounts payable for committee participation or special assignments pursuant to any standard or other arrangements; or

The Company has no pension plan or other arrangement for non-cash compensation to the Other Directors, except as follows:

| Name of Director | Consulting Fees |
|------------------|-----------------------|
| David Dreisinger | 59,000 ⁽¹⁾ |

⁽¹⁾ Consulting Fees paid in connection with the Company's NorthMet Project.

C. Board Practices

All of our directors hold office until the next annual meeting of shareholders and until their successors have been elected and qualified. Our officers are elected by the Board of Directors at the first Board of Directors meeting after each annual meeting of shareholders and hold office until death, resignation, or upon removal from office.

None of our directors have service contracts with us providing for benefits upon termination of their employment.

Our Audit Committee consists of W. Ian L. Forrest (Chair), Stephen Rowland, Michael M. Sill, and Frank L. Sims, all of whom are independent directors. All four members of the Audit Committee meet the criteria of an Audit Committee Financial Expert under the applicable rules and regulations of the SEC and such designation has been ratified by the Board of Directors. The Audit Committee oversees our auditing procedures, receives and accepts the reports of our independent certified public accountants, oversees our internal systems of accounting and management controls, and makes recommendations to the Board of Directors as to the selection and appointment of our auditors. The Audit Committee is governed by the terms of the Charter of the Audit Committee of the Board of Directors which

has previously been filed as Exhibit 16.1.

Our Compensation Committee consists of W. Ian L. Forrest (Chair), Alan R. Hodnik, Stephen Rowland, and Frank L. Sims. The function of the Compensation Committee is to administer the 2007 PolyMet Omnibus Share Compensation Plan and to have authority over the salaries, bonuses, and other compensation arrangements of our executive officers.

Our Nominating and Corporate Governance Committee consists of Frank L. Sims (Chair), W. Ian L. Forrest, and Alan R. Hodnik. The committee (1) identifies individuals qualified to become members of the Board, (2) selects, or recommends to the Board, the director nominees for the next annual shareholders meeting, (3) selects candidates to fill any vacancies on the Board, and (4) develops and recommends to the Board a set of corporate governance principles applicable to the corporation.

D. Employees

As of January 31, 2011 we had 21 full-time employees, with 3 located in our Vancouver office and 18 located in our Hoyt Lakes office. None of our employees are covered by a collective bargaining agreement. We believe that our relations with our employees are good.

During the fiscal year ended January 31, 2011, we employed an average of 6 consultants working out of our Vancouver and Minnesota offices.

E. Share Ownership

For the shareholdings of our directors and executive officers see Item 7(A).

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**A. Major Shareholders**

The following table sets forth, as of May 4, 2011, certain information regarding the ownership of our voting securities by each shareholder known to our management to be (i) the beneficial owner of more than 5% of our outstanding common shares, (ii) our directors, (iii) our current executive officers identified under Item 6(A), and (iv) all executive officers and directors as a group. We believe that, except as otherwise indicated, the beneficial owners of the common shares listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares.

| Name and Address of Beneficial Owner (1) | Amount and Nature of Beneficial Ownership | Percent of Outstanding Common Shares |
|---|--|---|
| W. Ian L. Forrest (2) | 2,453,000 | 1.6% |
| Frank Sims (3) | 939,100 | * |
| Joseph Scipioni (4) | 1,100,000 | * |
| Douglas J. Newby (5) | 1,015,000 | * |
| Bradley H. Moore (6) | 300,000 | |
| Niall Moore (7) | 525,000 | * |
| David Dreisinger (8) | 1,426,300 | * |
| Alan R. Hodnik (9) | 250,000 | * |
| William Murray (10) | 3,157,276 | 2.0% |
| Stephen Rowland | Nil | * |
| Michael M. Sill (11) | 250,000 | * |
| All executive officers and directors as a group (11 persons) (12) | 11,415,676 | 7.1% |
| 5% or more shareholders: | | |
| Glencore (13) Baarermattstrasse 3 CH-6341 Baar Switzerland | 14,433,962 | 9.3% |
| Cleveland-Cliffs, Inc. (14) 1100 Superior Avenue Cleveland, OH 44114-2589 | 9,200,547 | 5.9% |
| George Molyviatis (15) Sunion, Greece | 8,634,920 | 5.6% |

* Less than 1%.

1. The address of each person, unless otherwise noted, is c/o PolyMet Mining Corp., Suite 390-3600 Lysander Lane, Richmond, British Columbia V7B 1C3.

2. Includes 350,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$0.66 per share set to expire on July 5, 2011, 150,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$1.36 per share set to expire on September 19, 2012, 250,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$2.76 per share set to expire on March 20, 2013 and 150,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of US\$0.82 per share set to expire on February 17, 2016. Mr. Forrest has voting and dispositive control with respect to 1,178,000 common shares owned in the name of Micor Trading SA of which he is a director, 375,000 common shares owned in the name of Panares Resources Inc. of which he is a director, and Catherine L. Forrest, Mr. Forrest's wife, directly owns 932,380 common shares.
3. Includes 400,000 common shares issuable upon exercise of currently un-exercisable options, at an exercise price of US\$2.72 per share set to expire on February 15, 2015, 200,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of US\$0.82 per share set to expire on February 17, 2016 and 250,000 common shares issuable upon exercise of currently un-exercisable options, at an exercise price of US\$2.04 per share set to expire on March 10, 2018. Mr. Sims directly owns 89,100 common shares.
4. Includes 200,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$2.97 per share set to expire on June 19, 2013, 300,000 common shares issuable upon exercise of currently non-exercisable options, at an exercise price of CDN\$3.30 per share set to expire on January 5, 2014, 250,000 common shares issuable upon exercise of currently non-exercisable options, at an exercise price of USD\$2.92 per share set to expire on March 12, 2014 and 100,000 common shares issuable upon exercise of currently non-exercisable options, at an exercise price of USD\$2.72 per share set to expire on February 15, 2015, 200,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of US\$0.82 per share set to expire on February 17, 2016 held in Mr. Scipioni's name. Mr. Scipioni directly owns 50,000 common shares.
5. Includes 165,000 common shares held in the name of Proteus Capital Corp. of which he is the President and controlling shareholder, 100,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$1.15 per share set to expire on December 5, 2012, 500,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$2.76 per share set to expire on March 20, 2013 held in Mr. Newby's name; and 40,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$0.94 per share set to expire on June 15, 2012, and 210,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$1.36 per share set to expire on September 19, 2012 held in the name of Proteus Capital Corp. of which he is the President and controlling shareholder.
6. Includes 300,000 common shares issuable upon exercise of currently un-exercisable options, at an exercise price of USD \$2.17 per share set to expire on January 25, 2018.
7. Includes 275,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$3.82 per share set to expire on September 1, 2013, 175,000 common shares issuable upon exercise of currently non-exercisable options, at an exercise price of CDN\$3.30 per share set to expire on January 5, 2014 and 75,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of US\$0.82 per share set to expire on January 30, 2016 held in Mr. Moore's name.
8. Includes 300,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$0.66 per share set to expire on July 5, 2011, 150,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$1.36 per share set to expire on September 19, 2012, 250,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$2.76 per share set to expire on March 20, 2013 and 150,000 common shares issuable upon exercise of currently

exercisable options, at an exercise price of US\$0.82 per share set to expire on February 17, 2016. Dr. Dreisinger directly owns 576,300 common shares.

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9. Includes 250,000 common shares issuable upon exercise of currently un-exercisable options, at an exercise price of USD \$2.04 per share set to expire on March 10, 2018.
 10. Includes 100,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$0.66 per share set to expire on July 5, 2011, 300,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of CDN\$1.36 per share set to expire on September 19, 2012, 450,000 common shares issuable upon exercise of currently exercisable options at an exercise price of CDN\$2.76 per share set to expire on March 20, 2013 and 200,000 common shares issuable upon exercise of currently exercisable options, at an exercise price of US\$0.82 per share set to expire on February 17, 2016. Mr. Murray directly owns 1,120,100 common shares and has voting and dispositive control over 987,176 common shares owned in the name of Group 4 Ventures of which he is the sole shareholder.
 11. Includes 250,000 common shares issuable upon exercise of currently un-exercisable options, at an exercise price of USD \$2.04 per share set to expire on March 10, 2018.
 12. Includes 6,125,000 common shares issuable upon exercise of currently exercisable options and also includes 750,000 common shares of currently un-exercisable options.
 13. This shareholder acquired 9,433,962 of our common shares from us during our fiscal 2010 fourth quarter and an additional 5 million of our common shares from us during our fiscal 2011 fourth quarter. This shareholder also holds convertible debentures convertible into 6,887,783 of our common shares and warrants to acquire 3 million of our common shares at \$2.00 per share.
 14. This shareholder held 1,000,000 shares as of January 31, 2005, 7,200,547 as of January 31, 2006 and 9,200,547 as of January 31, 2007, January 31, 2008 and January 31, 2009.
 15. This shareholder held 8,334,920 as of January 31, 2010 and exercised 300,000 options in January 2011.
- Our shareholders who beneficially own more than 5% of our common shares outstanding do not have voting rights different from any other shareholders of common shares.

As of May 4, 2011, there were 325 holders of record of our common shares of which 249 were U.S. residents owning 27.3% of our outstanding common shares.

B. Related Party Transactions

We have conducted transactions with officers, directors and persons or companies related to directors and paid or accrued amounts as follows:

| | 2011 (in \$'000's) | 2010 (in \$'000's) | 2009 (in \$'000's) |
|---|-----------------------|-----------------------|-----------------------|
| Consulting fees paid to David Dreisinger, a Director of the Company | \$ 59 | \$ 59 | \$ 56 |
| | \$ 59 | \$ 59 | \$ 56 |

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

During the year ended January 31, 2011, we paid \$59,000 (2010 - \$59,000 and 2009 - \$56,000) 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 then Executive Chairman and formerly its President and Chief Executive Officer, 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 six years.

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

C. Interests of experts and counsel.

Not applicable.

ITEM 8. FINANCIAL INFORMATION**A. Consolidated Statements and Other Financial Information**

See Item 18.

Legal Proceedings

Neither we, nor our subsidiaries, is a party to, nor is our property or the property of our subsidiaries the subject of, any pending legal or arbitration proceeding that is material.

Dividend Policy

Since its incorporation, we have not declared or paid, and have no present intention to declare or to pay in the foreseeable future, any cash dividends with respect to our common shares. Earnings will be retained to finance further growth and development of our business. However, if our board of directors declares dividends, all common shares will participate equally, and, in the event of liquidation, in our net assets.

B. Significant Changes

On February 2, 2011 we announced that we had simplified the proposed metallurgical process and now plan to build the project in two phases:

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

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

On March 10, 2011 we appointed Alan R. (Al) Hodnik and Michael M. (Mike) Sill to our Board of Directors.

In March 2011, we entered into an agreement with the State of Minnesota's Department of Natural Resources committing us to an additional \$2.8 million of environmental and permitting review work through April 1, 2012.

On April 15, 2011 we reported that we and the Lead Agencies expect to finalize detailed work plans for the Supplemental Draft EIS by early May 2011. The detailed project, which includes the simplified metallurgical process and reduction in capital costs that we announced on February 2, 2011, will then be modeled to predict environmental impacts of the project. The third party contractor hired by the lead agencies will then prepare a preliminary supplemental draft Environmental Impact Statement, which will be reviewed by the lead agencies, cooperating agencies (including the US Environmental Protection Agency and tribal governments) and us. Once that review process has been completed, the supplemental draft EIS will be finalized for publication and public comment. The lead agencies anticipate that the public comment period will commence during the fall of 2011. A final EIS will incorporate comments, after which a subsequent Adequacy Decision by the DNR and Record of Decision by the federal agencies are necessary before the land exchange can occur and various permits required to construct and operate the project can be issued.

On April 15, 2011 the Board of the IRRRB reapproved a secured loan to our wholly owned subsidiary Poly Met Mining, Inc. of up to \$4 million. The loan will be secured by the land to be acquired from proceeds of the loan, carry a fixed interest rate of 5% per annum, and will be repayable on June 30, 2016. Subject to regulatory approval, we also agreed to issue warrants giving the IRRRB the right to purchase up to 400,000 shares of our common stock at US\$2.50 per share at any time until the earlier of June 30, 2016 and one year after we receive permits. The loan is expected to close on or before 30 June, 2011.

ITEM 9. THE OFFER AND LISTING

A. The Offer and Listing Details

The following table outlines the annual high and low market prices for the five most recent fiscal years:

The following table outlines the high and low market prices for each fiscal financial quarter for the two most recent fiscal periods:

The following table outlines the high and low market prices for each of the most recent six months:

1. On January 31, 2007 we ceased trading on the TSX Venture Exchange and on February 1, 2007, we commenced trading on the Toronto Stock Exchange.
2. On June 26, 2006, we began trading on the NYSE Amex.

B. Plan of Distribution

Not applicable.

C. Markets

In April 1984, our common shares commenced trading on the TSX Venture Exchange in British Columbia, Canada under the symbol "POM. On February 1, 2007, our common shares graduated to trading on the TSX Exchange in British Columbia under the symbol POM. In August 2000, our common shares began trading on the OTCBB under the symbol POMGF. On June 26, 2006, our common shares commenced trading on the NYSE Amex (formerly the American Stock Exchange) under the symbol PLM.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

Incorporation

We were incorporated under the name Fleck Resources Ltd. pursuant to the *Companies Act* (British Columbia) and continued under the *Business Corporations Act* (British Columbia) by registration of its memorandum in British Columbia, Canada, under Certificate of Incorporation #BC0228310 on March 4, 1981. We changed our name to PolyMet Mining Corp. on June 10, 1998. We do not have any stated objects or purposes as such that are not required by the corporate laws of the Province of British Columbia. Rather, we are, by such corporate laws, entitled to carry on any activities whatsoever that are not specifically precluded by other statutory provisions of the Province of British Columbia.

Powers and Functions of the Directors

The powers and functions of the directors are set forth in our Articles, the current version of which were adopted on October 6, 2004, and in the Business Corporations Act (British Columbia). They provide that:

- (a) a director who holds office or possesses any property, right, or interest that could result, directly or indirectly, in the creation of a duty of interest that materially conflicts with his duty or interest as a director must disclose the nature and extent of the conflict and abstain from voting on the approval of the proposed contract or transaction, unless all the directors have a disclosable interest, in which case the director may vote on such resolution, and moreover, may be liable to account to us for any profit that accrued under such an interest contract or transaction;
- (b) a director is not deemed to be interested in a proposed contract or transaction merely because it relates to the remuneration of a director in that capacity. The directors may, in the absence of an independent quorum, vote compensation to themselves;
- (c) there are no specific limitations on the exercise by the directors of our borrowing powers;

- (d) there are no provisions for the retirement or non-retirement of directors under an age limit, and
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(e) there is no requirement for a director to hold any shares in us.

Rights and Restrictions Attached to the Shares

As all of our authorized and issued shares are of one class of common shares, there are no special rights or restrictions of any nature or kind attached to any of the shares, including any dividend rights. All authorized and issued shares rank equally in respect to the declaration and receipt of dividends and rights to share in any profits or surplus upon our liquidation, dissolution or winding-up. Each share has attached to it one non-cumulative vote. Shareholders are not liable to further capital calls made by us. There is no specific sinking fund provision or any provision discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares.

Alteration of Share Rights

The rights of holders of our issued common shares may be altered by special resolution, which requires the approval of the holders of two-thirds or more of the votes cast at a meeting of our shareholders called and held in accordance with applicable law.

Annual General Meetings

Annual General Meetings are called and scheduled upon decision by the Board of Directors. Pursuant to the *Business Corporations Act* (British Columbia), we are required to hold an annual meeting in each year, not more than 15 months after the date of the most recent annual meeting. The directors may call a meeting of the shareholders whenever they see fit. All meetings of the shareholders may be attended by registered shareholders or persons who hold powers of attorney or proxies given to them by registered shareholders.

Foreign Ownership Limitations

Our Articles and charter documents do not contain limitations prohibiting non-residents, foreigners or any other group from holding or voting shares.

Change of Control

There are no provisions in our Articles or charter documents that currently have the effect of delaying, deferring or preventing a change in the control in us, or that would operate with respect to any proposed merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

Share Ownership Reporting Obligations

There are no provisions in our Articles requiring share ownership to be disclosed.

Securities legislation in Canada requires that shareholder ownership must be disclosed once a person owns beneficially or has control or direction over greater than 10% of the issued shares of a corporation, such as us. This threshold is higher than the 5% threshold under U.S. securities legislation at which shareholders must report their share ownership.

C. Material Contracts
Asset Purchase Agreements

For a complete description of the acquisition of the mine site lease, see Item 4(D)(c)(i).

For a complete description of the acquisition of the Erie Plant and associated infrastructure acquired in the Asset Purchase Agreements I and II, see Item 4(D)(c)(ii).

Purchase Agreement

For a complete description of the purchase agreement entered into with Glencore AG, see Item 5(a).

D. Exchange Controls

There are no governmental laws, decrees or regulations in Canada relating to restrictions on the export or import of capital, or affecting remittance of interest, dividends or other payments to non-resident holders of our common shares. Any remittances of dividends to United States residents are, however, subject to a 15% withholding tax (5% if the shareholder is a company owning at least 10% of the outstanding common shares) pursuant to the reciprocal tax treaty between Canada and the United States. See the section of this Form 20-F entitled Taxation.

Except as provided in the Investment Canada Act (the ICA), which has provisions which govern the acquisition of a control block of voting shares by a person who is not a Canadian resident (a non-Canadian) of a company carrying on a Canadian business, there are no limitations specific to the rights of non-Canadians to hold or vote the common shares under the laws of Canada or the Province of British Columbia or in our charter documents.

E. Taxation

The following summary of the material Canadian federal income tax considerations generally applicable to our common shares reflects our opinion. The tax consequences to any particular holder of common shares will vary according to the status of that holder as an individual, trust, corporation, or member of a partnership, the jurisdiction in which that holder is subject to taxation, the place where that holder is resident and, generally, according to that holder's particular circumstances. This summary is applicable only to holders who are residents of the United States, have never been a resident of Canada, deal at arm's length with us, hold their common shares as capital property, and who will not use or hold the common shares in carrying on business in Canada. Special rules, which are not discussed in this summary, may apply to a United States holder that is an issuer that carries on business in Canada and elsewhere.

This summary is based upon the provisions of the Income Tax Act of Canada and the regulations thereunder (collectively, the Tax Act, or ITA) and the Canada-United States Tax Convention as amended by the Protocols thereto (the Tax Convention) as of the date of the Annual Report and the current administrative practices of Revenue Canada, Customs, Excise and Taxation. This summary does not take into account Canadian provincial income tax consequences.

This summary is not exhaustive of all possible income tax consequences. It is not intended as legal or tax advice to any particular holder of common stock and should not be so construed. Each holder should consult his own tax advisor with respect to the income tax consequences applicable to him in his own particular circumstances.

North American Free Trade Agreement (Canada). The Investment Act was amended with the North American Free Trade Agreement (NAFTA) to provide for special review thresholds for Americans (including American-controlled entities as defined in the Investment Act). Under the Investment Act, as amended, an investment in our common shares by an American would be reviewable only if it was an investment to acquire control of us and the value of our assets was equal to or greater than a specified amount (the Review Threshold), which increases in stages. The Review Threshold is currently \$150 million.

Disposition of Common Shares. If a non-resident of Canada were to dispose of our common shares to a Canadian corporation which deals or is deemed to deal on a non-arm's length basis with the non-resident and that, and immediately after the disposition is connected with us (i.e. holds shares representing more than 10% of the voting power and more than 10% of the market value of all of our shares issued and outstanding), the amount by which the fair market value of any consideration (other than any shares of the purchaser corporation) exceeds the paid-up capital of the common shares sold will be deemed to be taxable as a dividend paid by the purchasing corporation, either immediately or eventually by means of a deduction in computing the paid-up capital of the purchasing corporation, and subject to withholding taxes as described below.

Under the Tax Act, a gain from the sale of common shares by a non-resident will not be subject to Canadian tax, provided the shareholder (and/or persons who do not deal at arm's length with the shareholder) has not held a substantial interest in us (25% or more of the shares of any class of our stock) at any time in the five years preceding the disposition. Generally, the Tax Convention will exempt from Canadian taxation any capital gain realized by a resident of the United States, provided that the value of the common shares is not derived principally from real property situated in Canada.

Dividend. In the case of any dividends paid to non-residents, we withhold the Canadian tax and remit only the net amount to the shareholder. By virtue of Article X of the Tax Convention, the rate of tax on dividends paid to residents of the United States is generally limited to 15% of the gross dividend (or 5% in the case of certain corporate shareholders owning at least 10% of our voting shares upon ratification of the Protocol amending the treaty. In the absence of the Tax Convention provisions, the rate of Canadian withholding tax imposed on non-residents is 25% of the gross dividend. Stock dividends received by nonresidents from us are taxable by Canada as ordinary dividends and therefore the withholding tax rates will be applicable.

Where a holder disposes of common shares to us (unless we acquired the common shares in the open market in the manner in which shares would normally be purchased by any member of the public), this will result in a deemed dividend to the U.S. holder equal to the amount by which the consideration we paid by exceeds the paid-up capital of such stock. The amount of such dividend will be subject to withholding tax as described above.

Capital Gains. A non-resident of Canada is not subject to tax under the ITA in respect of a capital gain realized upon the disposition of a share of a class that is listed on a prescribed stock exchange unless the share represents taxable Canadian property to the holder thereof. Our common shares will be taxable Canadian property to a non-resident holder if, at any time during the period of five years immediately preceding the disposition, the non-resident holder, persons with whom the non-resident holder did not deal at arm's length, or the non-resident holder and persons with whom he/she did not deal at arm's length owned 25% or more of our issued shares of any class or series. In the case of a non-resident holder to whom our shares represent taxable Canadian property and who is resident of the United States, no Canadian tax will be payable on a capital gain realized on such shares by reason of the Tax Convention unless the value of such shares is derived principally from real property situated in Canada or the nonresident holder previously held the shares while resident in Canada. We believe that the value of our common shares is not derived from real property situated inside Canada.

Certain United States Federal Income Tax Consequences. The following discussion is a summary of certain U.S. federal income tax consequences that may be relevant with respect to the ownership and disposition of our common shares by a U.S. Holder (as hereinafter defined). This discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the Code), Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, in each case as of the date hereof. These authorities are subject to differing interpretations and may be changed, perhaps retroactively, resulting in U.S. federal income tax consequences different from those discussed below. We have not sought any ruling from the U.S. Internal Revenue Service (IRS) with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

This discussion applies only to U.S. Holders who hold our common shares as capital assets within the meaning of Section 1221 of the Code. In addition, this summary does not address all U.S. federal income tax considerations that may be applicable to a U.S. Holder's particular circumstances or to U.S. Holders who may be subject to special tax rules, including, without limitation: tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, partnerships or other entities treated as partnerships for U.S. federal income tax purposes, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, U.S. Holders whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax, persons who hold our common shares as part of a straddle, hedging or conversion transaction, and persons who own, actually or constructively, 10% or more of our common shares.

For purposes of this discussion, a U.S. Holder means a holder of our common shares who is (i) a citizen or an individual resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S., any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if it is subject to the primary supervision of a court within the U.S. and one or more U.S. persons, as defined in the Code, have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our common shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner should consult its own tax advisors as to the U.S. federal income tax consequences of being a partner in a partnership that holds or disposes of our common shares.

This discussion addresses only certain aspects of U.S. federal income taxation to U.S. Holders. U.S. Holders should consult their own tax advisors regarding the U.S. federal, state, local, non-U.S. and other tax consequences of the ownership and disposition of our common shares.

Distributions on Our Common Shares. Subject to the discussion below under **Passive Foreign Investment Company**, U.S. Holders receiving dividend distributions (including constructive dividends) with respect to our common shares generally are required to include in gross income for U.S. federal income tax purposes the gross amount of such distributions (without reduction for any Canadian income or other tax withheld from such distributions), equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that we have current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated as a return of capital to the extent of a U.S. Holder's adjusted tax basis in our common shares and thereafter as capital gain from the sale or exchange of such common shares. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that the full amount of a distribution with respect to the common shares will be treated, and reported by us, as a dividend.

For taxable years beginning before January 1, 2011, dividends received by U.S. Holders that are individuals, estates or trusts from a qualified foreign corporation, as defined in Section 1(h)(11) of the Code, generally are taxed at the same preferential tax rates applicable to long-term capital gains. A corporation that is a PFIC, as defined below under **Passive Foreign Investment Company**, for its taxable year during which it pays a dividend, or for its immediately preceding taxable year, however, is not a qualified foreign corporation. We believe we will meet the definition of a PFIC and dividends received by U.S. Holders that are individuals, estates or trusts generally will be subject to U.S. federal income tax at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). Dividends paid on our common shares will not be eligible for the dividends received deduction provided to corporations receiving dividends from certain U.S. corporations.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss.

Disposition of Our Common Shares. Subject to the discussion below under Passive Foreign Investment Company, U.S. Holders will recognize gain or loss upon the sale of our common shares equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the U.S. Holder's tax basis in our common shares. A U.S. Holder's tax basis in the shares generally will be equal to the amount such U.S. Holder paid for the shares, subject to adjustments. Any gain or loss on disposition of our common shares generally will be U.S. source gain or loss and will be capital gain or loss. If, at the time of the disposition, a U.S. holder is treated as holding the common shares for more than one year, such gain or loss will be a long-term capital gain or loss. Long-term capital gain recognized by a non-corporate U.S. holder is currently subject to taxation at a reduced rate. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company. We believe that we will meet the definition of passive foreign investment company (PFIC) within the meaning of Sections 1291 through 1298 of the Code. A U.S. Holder who holds stock in a non-U.S. corporation during any year in which such corporation is a PFIC is subject to numerous special U.S. federal income tax rules. A non-U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (the income test), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the asset test).

For purposes of the income test and the asset test, respectively, we will be treated as earning our proportionate share of the income and owning our proportionate share of the assets of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock. In addition, for purposes of the income test, passive income does not include any interest, dividends, rents, or royalties received or accrued by us from a related person (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to income of such related person that is not passive.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the total value of our assets for purposes of the asset test will be calculated using the market price of our common shares (assuming that we continue to be a publicly traded corporation for purposes of the PFIC rules), our PFIC status will depend in large part on the market price of our common shares. Accordingly, fluctuations in the market price of our common shares may result in our being a PFIC for any year. If we are a PFIC for any year during which a U.S. Holder holds our common shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds the common shares, absent a special election. For instance, if we cease to be a PFIC, a U.S. Holder may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to our common shares pursuant to which such U.S. Holder recognizes gain (which will be taxed under the default PFIC tax rules discussed below) as if such common shares had been sold on the last day of the last taxable year for which we were a PFIC. If we are a PFIC for any taxable year and any of our non-U.S. subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors about the application of the PFIC rules to any of our subsidiaries.

If we are a PFIC for any taxable year during which a U.S. Holder holds our common shares, such U.S. Holder will be subject to special tax rules with respect to any excess distribution that it receives and any gain it realizes from a sale or other disposition (including a pledge) of the common shares, unless the U.S. Holder makes a mark-to-market election, as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions such U.S. Holder received during the shorter of the three preceding taxable years and its holding period for the common shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the common shares;
- the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we became a PFIC will be treated as ordinary income, and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the disposition of the common shares cannot be treated as capital, even if the U.S. Holder holds the common shares as capital assets.

Alternatively, a U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election with respect to shares of a PFIC to elect out of the tax treatment discussed above. If a U.S. Holder makes a valid mark-to-market election for the common shares, the U.S. Holder will include in income each year an amount equal to the excess, if any, of the fair market value of the common shares as of the close of its taxable year over its adjusted basis in such common shares. The U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of the common shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the common shares included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of the common shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the common shares, as well as to any loss realized on the actual sale or disposition of the common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such common shares. A U.S. Holder's basis in the common shares will be adjusted to reflect any such income or loss amounts. If a U.S. Holder makes such an election, the tax rules that ordinarily apply to distributions by corporations that are not PFICs would apply to distributions by us, except that the preferential tax rates applicable to long-term capital gains on dividends received from a qualified foreign corporation discussed above under Distributions on the Common Shares would not apply.

Although a U.S. Holder may be eligible to make a mark-to-market election with respect to our common shares, no such election may be made with respect to the stock of any of our non-U.S. subsidiaries that is also a PFIC and that a U.S. Holder is treated as owning, because such stock is not marketable. Hence, the mark-to-market election will not be effective to eliminate the interest charge described above with respect to deemed dispositions of subsidiary PFIC stock or distributions from a subsidiary PFIC.

The mark-to-market election is available only for marketable stock, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange, including the Toronto Stock Exchange and the NYSE Amex, or other market, as defined in applicable U.S. Treasury regulations. We expect that our common shares will continue to be listed on each of the Toronto Stock Exchange and the NYSE Amex on at least 15 days during each calendar quarter and traded in other than de minimis quantities, and, consequently, the mark-to-market election would be available to U.S. Holders of common shares if we were to be a PFIC.

If a non-U.S. corporation is a PFIC, a holder of shares in that corporation can avoid taxation under the rules described above by making a qualified electing fund election to include the holder's share of the corporation's income on a current basis in gross income. However, a U.S. Holder can make a qualified electing fund election with respect to its common shares only if we furnish the U.S. Holder annually with certain tax information, and we do not intend to prepare or provide such information.

Congress recently enacted the Hiring Incentives to Restore Employment Act (HIRE). Under HIRE, U.S. Holders of a PFIC are required to file an annual report containing any information that may be required by the Treasury. While these information requirements have not yet been specified by the Treasury, a U.S. Holder that holds common shares

in any year in which we are a PFIC generally will be required to file IRS Form 8621 regarding distributions received on the common shares and any gain realized on the disposition of the common shares.

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U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to their investment in our common shares.

Foreign Tax Credits. Subject to certain conditions and limitations, including potential limitations under the United States-Canada treaty, Canadian taxes paid on or withheld from distributions from us and not refundable to a U.S. Holder may be, at the election of such U.S. Holder, either credited against such U.S. Holder's U.S. federal income tax liability or deducted from such U.S. Holder's taxable income. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by or withheld from a U.S. Holder that year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's foreign source taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. In addition, this limitation is calculated separately with respect to specific categories of income. Dividends paid by us generally will constitute foreign source income and generally will be categorized as passive category income.

Because the rules governing foreign tax credits are complex, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Information Reporting: Backup Withholding. In general, payments made in the U.S. or through certain U.S. related financial intermediaries with respect to the ownership and disposition of our common shares will be required to be reported to the IRS unless the U.S. Holder is a corporation or other exempt recipient and, when required, demonstrates this fact. In addition, a U.S. Holder may be subject to a backup withholding tax (currently at a rate of 28%) on such payments unless the U.S. Holder (i) is a corporation or other exempt recipient and when required, demonstrates this fact or (ii) provides a taxpayer identification number and otherwise timely complies with applicable certification requirements. U.S. Holders should consult their tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability and such U.S. Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS FOR GENERAL INFORMATION PURPOSES ONLY, DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF THE POTENTIAL TAX CONSIDERATIONS RELATING TO OUR COMMON SHARES AND IS NOT TAX ADVICE. U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

All documents referred to in this Form 20-F are available for inspection at our office, listed below, during normal office hours.

PolyMet Mining Corp.
#390 3600 Lysander Lane
Richmond, British Columbia
V7B 1C3 Canada

We are subject to the informational requirements of the Exchange Act. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this annual report on Form 20-F and its exhibits, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional office at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the materials may be obtained from the Public Reference Room of the Commission at 100 F. Street, N.E., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330.

Our reports, registration statements and other information can also be inspected on EDGAR available on the SEC's website at www.sec.gov.

In Canada, additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our Management Information Circular for our most recent annual meeting of securityholders that involved the election of directors.

Additional financial information is provided in our financial statements and MD&A, copies of which can be obtained by contacting our Corporate Secretary in writing at 390 3600 Lysander Lane, Richmond, British Columbia V7B 1C3 or by e-mail at info@polymetmining.com. Copies of such documents will be provided to shareholders free of charge.

Additional information relating to PolyMet may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

I. Subsidiary Information

Not Applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We may be subject to foreign currency exchange rate risk, because we hold funds and financial instruments in Canadian dollars but report our financial information using the U.S. dollar. If we hold onto funds obtained from financings, currently our only means to obtain funds, in Canadian dollar accounts and the Canadian dollar depreciates in comparison to the U.S. the fair value of our funds will decrease and will be reported on our financial statements at this depressed conversion rate. If the Canadian dollar appreciates as compared to the U.S. dollar, however, fair value of any financial instruments or funds held will increase and be reported on our financial statements based on this favorable conversion rate. Our current exposure, however, is not sufficient to have a material effect on our results of operations and financial condition.

Moreover, we periodically access the capital markets with the issuance of new shares to fund operating expenses, and we do not maintain significant cash reserves over periods of time that could be materially affected by fluctuations in interest rates or foreign exchange rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

ITEM 13. DEFAULT, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHT OF SECURITY HOLDERS AND USE OF PROCEEDS

Shareholder Rights Plan

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

Each Right entitles the registered holder thereof to purchase from the Company on the occurrence of certain events, one common share of the Company at the price of CDN\$50 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.

The Shareholder Rights Plan has previously been filed as Exhibit 14.1.

ITEM 15. CONTROLS AND PROCEDURES

A. Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, an evaluation was performed under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Exchange Act). Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that at 31 January 2011 the Company s disclosure controls and procedures were effective in providing reasonable assurance that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. In reaching this conclusion, the Company recognizes two factors that must be and are present:

- a) the Company is dependent upon its advisors and consultants (primarily legal counsel) to assist in recognizing, interpreting and understanding and complying with the various securities regulations disclosure requirements, and
- b) an active board of directors and management with open lines of communication.

B. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements for external reporting purposes in accordance with GAAP.

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

Management has assessed the effectiveness of our internal control over financial reporting as at January 31, 2011. In making its assessment, management has used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the our internal control over financial reporting.

Management identified a material weakness in our internal control over financial reporting relating to timely preparation of financial statements and key schedules for internal review. The underlying cause of the material weakness was the implementation of a new accounting and financial reporting system during the third fiscal quarter. Termination of an outsource accounting service provider and use of non-accounting personnel to undertake accounting duties exacerbated the problems of timeliness. Prior to filing its financial statements for the year ended January 31, 2011, management had taken steps to address this weakness and plans further changes to our internal controls in the light of continued problems in the year-end reporting. Based on this assessment, management has concluded that we did not maintain, in all material respects, effective internal control over financial reporting as at January 31, 2011.

C. Attestation Report of the Registered Public Accounting Firm

The attestation report of PricewaterhouseCoopers with respect to the Company's internal control over financial reporting is filed with Item 18 of this Annual Report.

D. Changes in Internal Controls

During the quarter ended October 31, 2010, we experienced difficulties moving to a new accounting and financial reporting system. These difficulties were primarily in the input and review of transactions and in particular concerned the accurate recording of foreign exchange and intercompany transactions. Termination of an outsource accounting service provider and use of non-accounting personnel to undertake accounting duties exacerbated the problems.

Management undertook a rigorous process to ensure that all transactions were recorded completely and accurately in the accounting records. As a result of these difficulties and this review process, we were unable to meet our filing deadline to provide consolidated financial statements, management's discussion and analysis and CEO and CFO certifications for its quarter ended 31 October 2010.

Management recognized the need to implement changes to our internal control over financial reporting relating to the input and review of all transactions, including foreign exchange and intercompany transactions. Since filing the third quarter interim financials, Management has been implementing changes to our internal control over financial reporting including strengthening the segregation of duties, reallocating responsibilities, and strengthening the financial reporting team. We are in the process of engaging independent advise in connection with complex accounting issues and tax,

Management has made significant progress, but implementation of the changes was not sufficiently complete during preparation of year-end financial statements and, as a consequence, we were unable to meet our filing deadline to provide consolidated financial statements, management's discussion and analysis and CEO and CFO certifications for its year ended January 31, 2011.

Management recognizes the lack of timely preparation of financial information and key schedules to be a Material Weakness in its internal control over financial reporting. Management believes that the changes described, once more fully implemented, will ensure the timely provision of financial information to our shareholders in future, in accordance with the filing deadlines established by regulators.

There have been no other changes in our internal control over financial reporting during the year ended January 31, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

As of January 31, 2011, the audit committee consisted of three directors. All three members of the Audit Committee, W. Ian L. Forrest, Frank L. Sims, and Stephen Rowland meet the criteria of an Audit Committee Financial Expert under the applicable rules and regulations of the SEC, and each of their designation as an Audit Committee Financial Expert has been ratified by the Board. All three members of the Audit Committee are independent, as that term is defined in the New York Stock Exchange Amex listing standards.

ITEM 16B. CODE OF ETHICS

We have adopted Code of Ethics, effective April 5, 2006, which applies to all our employees, including our directors and executive officers, including our principal executive, financial and accounting officers, and persons performing similar functions. The Code of Ethics covers areas of professional and business conduct, and is intended to promote honest and ethical behavior, including fair dealing and the ethical handling of conflicts of interest, support full, fair, accurate, and timely disclosure in reports and documents we file with, or submit to, the SEC and other governmental authorities, and in its other public communications; deter wrongdoing; encourage compliance with applicable laws, rules, and regulations; and to ensure the protection of our legitimate business interests. We also encourage our directors, officers, employees and consultants to promptly to report any violations of the Code of Ethics.

The Code has previously been filed as Exhibit 11.1.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following outlines the expenditures for accounting fees billed and paid for the last two fiscal periods ended:

| <i>Financial Year Ending</i> | <i>Audit Fees</i> | <i>Audit Related Fees</i> | <i>Tax Fees¹</i> | <i>All Other Fees</i> |
|----------------------------------|-------------------|---------------------------|-----------------------------|-----------------------|
| January 31, 2011 | CDN \$225,000 | CDN \$111,000 | CDN \$14,400 | CDN \$Nil |
| January 31, 2010 | CDN \$231,392 | CDN \$126,500 | CDN \$13,906 | CDN \$Nil |

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- 1 Audit Related Fees are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees.
- 2 Tax fees consist of fees to prepare the Company's annual tax filings.

Pre-Approval Policies and Procedures

All of the fees paid to our auditors, PricewaterhouseCoopers LLP, were pre-approved by our Audit Committee. This pre-approval involved a submission by our auditors to our Audit Committee of a scope of work to complete the audit and prepare tax returns, an estimate of the time involved, and a proposal for the fees to be charged for the audit. The Audit Committee reviewed this proposal with our management and after discussion with our auditors, pre-approved the scope of work and fees.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Our corporate governance practices do not differ in any significant way from those followed by U.S. domestic companies listed on the NYSE Amex.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with Canadian Generally Accepted Accounting Principles; the application of which, in our case, conforms in all material respects for the periods presented with U.S. GAAP, except as disclosed in footnotes to the financial statements.

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POLYMET MINING CORP.
(a development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

31 January 2011, 2010 and 2009

U.S. Funds

Management Report

Management's Responsibility for Consolidated Financial Statements

The accompanying Consolidated Financial Statements of PolyMet Mining Corp. (the Company) are the responsibility of management. The Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and include certain estimates that reflect management's best judgments.

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

Management's Annual Report on Internal Control over Financial Reporting

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

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

Management has assessed the effectiveness of the Company's internal control over financial reporting as at 31 January 2011. In making its assessment, management has used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the Company's internal control over financial reporting.

Management identified a material weakness in its internal control over financial reporting relating to timely preparation of financial statements and key schedules for internal review. The underlying cause of the material weakness was the implementation of a new accounting and financial reporting system during the third fiscal quarter. Termination of an outsource accounting service provider and use of non-accounting personnel to undertake accounting duties exacerbated the problems of timeliness. Prior to filing its financial statements for the year ended 31 January 2011, management had taken steps to address this weakness and plans further changes to its internal controls in the light of continued problems in the year-end reporting. Based on this assessment, management has concluded that the Company did not maintain, in all material respects, effective internal control over financial reporting as at January 31, 2011.

The effectiveness of the Company's internal control over financial reporting as at 31 January 2011 has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report which appears herein.

Joseph Scipioni (signed)

Douglas Newby (signed)

Joseph Scipioni
President and Chief Executive Officer

Douglas Newby
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of PolyMet Mining Corp.

We have completed integrated audits of PolyMet Mining Corp.'s 2011, 2010 and 2009 consolidated financial statements and an audit of the effectiveness of the Company's internal control over financial reporting as at January 31, 2011. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of PolyMet Mining Corp., which comprise the consolidated balance sheets as at January 31, 2011 and January 31, 2010 and the consolidated statements of loss, other comprehensive loss and deficit, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2011, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PolyMet Mining Corp. as at January 31, 2011 and January 31, 2010 and the results of its operations and cash flows for each of the three years in the period ended January 31, 2011 in accordance with Canadian accepted accounting principles

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 1 in the consolidated financial statements which discloses conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Report on internal control over financial reporting

We have also audited PolyMet Mining Corp.'s internal control over financial reporting as at January 31, 2011, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control over Financial Reporting.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the Company's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual consolidated financial statements will not be prevented or detected on a timely basis. It was determined that the Company did not maintain effective internal control over financial reporting as at January 31, 2011, because of a material weakness identified in the timely reporting and review of financial information. This material weakness is described in the accompanying Management's Annual Report on Internal Control over Financial Reporting. We considered this material weakness in determining the nature, timing and extent of audit tests applied in our audit of the January 31, 2011 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Inherent limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, PolyMet Mining Corp. did not maintain, in all material respects, effective internal control over financial reporting as at January 31, 2011 based on criteria established in Internal Control - Integrated Framework, issued by COSO.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

May 6, 2011

Vancouver, British Columbia, Canada

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PolyMet Mining Corp.
(a development stage company)
Consolidated Balance Sheets
As at January 31
All figures in Thousands of U.S. Dollars

| ASSETS | 2011 | 2010 |
|--|-------------------|-------------------|
| Current | | |
| Cash and equivalents | \$ 10,361 | \$ 21,282 |
| Accounts receivable and advances | 318 | 88 |
| Investment (Note 13) | 66 | 140 |
| Prepaid expenses | 636 | 512 |
| | 11,381 | 22,022 |
| Asset Held for Sale (Notes 4 and 14d) | 3,420 | - |
| Deferred Financing Costs (Note 14c) | - | 1,794 |
| Mineral Property, Plant and Equipment (Notes 3 and 4) | 130,231 | 115,832 |
| | \$ 145,032 | \$ 139,648 |

LIABILITIES**Current**

| | | |
|---|---------------|--------------|
| Accounts payable and accrued liabilities | \$ 2,444 | \$ 2,953 |
| Current portion of long term debt (Note 5) | 6,750 | 2,000 |
| Current portion of asset retirement obligation (Note 6) | 1,408 | 756 |
| | 10,602 | 5,709 |

Long term

| | | |
|--------------------------------------|---------------|---------------|
| Long term debt (Note 5) | 1,775 | 8,529 |
| Convertible debt (Note 7) | 27,633 | 25,253 |
| Asset retirement obligation (Note 6) | 2,404 | 2,590 |
| Total Liabilities | 42,414 | 42,081 |

SHAREHOLDERS EQUITY

| | | |
|--|-------------------|-------------------|
| Share Capital - (Note 8) | 142,373 | 132,066 |
| Contributed Surplus (Note 8d) | 39,083 | 36,979 |
| Accumulated Other Comprehensive Income (Loss) | (6) | 71 |
| Deficit | (78,832) | (71,549) |
| | 102,618 | 97,567 |
| Total Liabilities and Shareholders Equity | \$ 145,032 | \$ 139,648 |

Nature of Business and Going Concern (Note 1)**Contingent Liabilities and Commitments (Notes 4, 6, 8 and 14)****Subsequent Event (Note 14f))**

ON BEHALF OF THE BOARD:

William Murray , Director

David Dreisinger , Director

- See Accompanying Notes

PolyMet Mining Corp.

(a development stage company)

Consolidated Statements of Loss, Other Comprehensive Loss and Deficit**For the Years Ended 31 January***All figures in Thousands of U.S. Dollars, except per share amounts*

| | 2011 | 2010 | 2009 |
|--|--------------------|--------------------|--------------------|
| General and Administrative | | | |
| Amortization | \$ 31 | \$ 31 | \$ 31 |
| Asset retirement obligation accretion | 383 | 408 | 443 |
| Consulting fees | 36 | 63 | 45 |
| Exploration | 193 | - | - |
| Financing costs write-off (Note 14c)) | 1,830 | - | - |
| Investor relations and financing | 118 | 420 | 169 |
| Office and corporate wages | 1,198 | 1,387 | 1,247 |
| Professional fees | 365 | 371 | 512 |
| Shareholders information | 330 | 248 | 311 |
| Stock-based compensation (Notes 8b) and c)) | (119) | 915 | 487 |
| Transfer agent and filing fees | 99 | 63 | 158 |
| Travel | 267 | 332 | 424 |
| Warrant amendment (Notes 2b), 7 and 8e)) | - | 4,920 | 544 |
| | 4,731 | 9,158 | 4,371 |
| Other Expenses (Income) | | | |
| Interest income, net | 19 | (5) | (154) |
| Loss (gain) on foreign exchange | (46) | 24 | 156 |
| Loss on asset held for sale (Note 4) | 520 | - | - |
| Loss on refinancing of convertible debt (Note 7) | 3,647 | - | - |
| Investment loss (Note 13) | - | - | 1,365 |
| Rental income | (198) | (154) | (215) |
| | 3,942 | (135) | 1,152 |
| Loss for the Year before tax | 8,673 | 9,023 | 5,523 |
| Future income tax recovery (Notes 8e) and 14c)) | (1,390) | - | - |
| Loss for the Year | 7,283 | 9,023 | 5,523 |
| Other Comprehensive Income | | | |
| Unrealized gain (loss) on investment | (77) | 71 | - |
| Comprehensive Income (Loss) | 7,360 | 8,952 | 5,523 |
| Loss for the Year | 7,283 | 9,023 | 5,523 |
| Deficit Beginning of the Year | 71,549 | 62,526 | 57,003 |
| Deficit End of Year | 78,832 | 71,549 | 62,526 |
| Basic and Diluted Loss per Share | \$ (0.05) | \$ (0.06) | \$ (0.04) |
| Weighted Average Number of Shares | 149,444,955 | 139,456,827 | 137,187,927 |

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Consolidated Statements of Changes in Shareholders' Equity

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

| | | Common Shares (Note 8) | | | Contributed | Other |
|---------|---|------------------------|-------------|------------|-------------|--------|
| | | Authorized | Issued | Amount | Surplus | Compre |
| | | Shares | Shares | | | Inc |
| Balance | 31 January 2008 | Unlimited | 136,991,075 | \$ 104,615 | \$ 20,825 | \$ |
| | Loss for the year | - | - | - | - | - |
| | Shares and warrants issued: | | | | | |
| | Exercise of options | - | 312,800 | 452 | - | - |
| | Fair value of stock options exercised | - | - | 245 | (245) | - |
| | Convertible debt conversion factor and warrants (Note 7) | - | - | - | 691 | - |
| | Accrual of Milestones 2 and 4 Bonus Shares (Note 14) | - | - | - | 3,912 | - |
| | Amendment to previously issued warrants (Note 8e)) | - | - | - | 544 | - |
| | Stock-based compensation | - | - | - | 1,822 | - |
| Balance | 31 January 2009 | Unlimited | 137,303,875 | \$ 105,312 | \$ 27,549 | \$ |
| | Loss for the year | - | - | - | - | - |
| | Other comprehensive income for the period | - | - | - | - | - |
| | Shares and warrants issued: | | | | | |
| | Equity offering and issuance costs | - | 9,433,962 | 24,501 | - | - |
| | Exercise of options | - | 775,000 | 477 | - | - |
| | Fair value of stock options exercised | - | - | 307 | (307) | - |
| | Exercise of warrants | - | 167,954 | 494 | - | - |
| | Fair value of warrants exercised | - | - | 254 | (254) | - |
| | Convertible debt conversion factor and warrants (Note 7) | - | - | - | 352 | - |
| | Accrual of Milestones 2 and 4 Bonus Shares (Note 14) | - | - | - | 4,200 | - |
| | Amendment to previously issued warrants (Notes 7 and 8e)) | - | - | - | 4,920 | - |
| | Issuance of Milestone 2 Bonus Shares (Note 14) | - | 1,300,000 | 721 | (721) | - |
| | Stock-based compensation (Note 8c)) | - | - | - | 1,240 | - |
| Balance | 31 January 2010 | Unlimited | 148,980,791 | \$ 132,066 | \$ 36,979 | \$ |
| | Loss for the year | - | - | - | - | - |
| | Other comprehensive loss for the period | - | - | - | - | - |
| | Shares and warrants issued: | | | | | |
| | Equity offering and issuance costs | - | 5,000,000 | 9,019 | 875 | - |
| | Exercise of options | - | 845,000 | 808 | - | - |
| | Fair value of stock options exercised | - | - | 480 | (480) | - |
| | Refinancing of convertible debt (Note 7) | - | - | - | 3,125 | - |
| | Milestone 4 Bonus Share cost amortization (Note 14) | - | - | - | (89) | - |
| | Future income tax charge (Notes 8e) and 14c)) | - | - | - | (1,390) | - |
| | Stock-based compensation (Note 8c)) | - | - | - | 63 | - |
| Balance | 31 January 2011 | Unlimited | 154,825,791 | \$ 142,373 | \$ 39,083 | \$ |

- See Accompanying Notes -

PolyMet Mining Corp.

(a development stage company)

Consolidated Statements of Cash Flows

For the Years Ended 31 January

All figures in Thousands of U.S. Dollars

| | 2011 | 2010 | 2009 |
|--|------------------|------------------|-----------------|
| Operating Activities | | | |
| Loss for the year | \$ (7,283) | \$ (9,023) | \$ (5,523) |
| Items not involving cash | | | |
| Amortization | 31 | 31 | 31 |
| Asset retirement obligation accretion | 383 | 408 | 443 |
| Financing costs write-off | 1,830 | - | - |
| Future income tax recovery (Notes 8e) and 14c)) | (1,390) | - | - |
| Investment loss (Note 13) | - | - | 1,365 |
| Loss on asset held for sale (Note 4) | 520 | - | - |
| Loss on refinancing of convertible debt (Note 7) | 3,647 | - | - |
| Stock-based compensation | (119) | 915 | 487 |
| Warrant amendment (Notes 7 and 8e)) | - | 4,920 | 544 |
| Changes in non-cash working capital items | | | |
| Accounts receivable and advances | (230) | (19) | 99 |
| Prepaid expenses | (124) | (42) | 323 |
| Accounts payable and accrued liabilities | (333) | 381 | (1,059) |
| Net cash used in operating activities | (3,068) | (2,429) | (3,290) |
| Financing Activities | | | |
| Share capital - for cash | 10,702 | 25,472 | 452 |
| Long-term debt repayment | (2,000) | (1,250) | (1,400) |
| Convertible debt | - | 9,944 | 14,333 |
| Deferred financing costs | (36) | (55) | (49) |
| Net cash provided by financing activities | 8,666 | 34,111 | 13,336 |
| Investing Activities | | | |
| Purchase of mineral property, plant and equipment | (16,519) | (17,754) | (22,776) |
| Net cash used in investing activities | (16,519) | (17,754) | (22,776) |
| Net Increase (Decrease) in Cash and Cash Equivalents Position | (10,921) | 13,928 | (12,730) |
| Cash and Cash Equivalents Position - Beginning of Year | 21,282 | 7,354 | 20,084 |
| Cash and Cash Equivalents Position - End of Year | \$ 10,361 | \$ 21,282 | \$ 7,354 |

- See Accompanying Notes -

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

1. Nature of Business and Going Concern

PolyMet Mining Corp. (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 to PolyMet Mining Corp. on 10 June 1998. The Company is engaged in the exploration and development, when warranted, of natural resource properties. The Company's primary mineral property is the NorthMet Project, a polymetallic project in northeastern Minnesota, USA. The realization of the Company's investment in the NorthMet Project and other assets is dependent 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 a Definitive Feasibility Study (DFS) prepared by Bateman Engineering (Pty) Ltd. (Bateman) that confirms the economic and technical viability of the NorthMet Project (the "Project") and, as such, the Project has moved from the exploration stage to the development stage.

Going Concern

While these consolidated financial statements have been prepared on the basis that PolyMet Mining Corp. will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations, realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are conditions that cast significant doubt on the validity of that assumption. The Company has incurred losses since inception and has an accumulated deficit of \$78,832,000 at January 31, 2011.

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

On 12 November 2010, PolyMet Mining Corp. announced that it had entered into a definitive agreement with Glencore AG (Glencore) to sell in a private placement 15 million common shares at US\$2.00 per share for gross proceeds of US\$30 million, before deducting estimated offering expenses. Completion of the sale of these shares and funding are expected to occur in three tranches subject, in each case, to certain closing conditions (Note 7).

In order to meet all of its obligations for the period to 31 January 2012, including paying off the current portion of its long-term debt, PolyMet Mining Corp. will have to successfully receive all of the remaining equity tranches, or obtain alternate financing. Management is in the latter stage of discussions with Glencore with respect to the budget and believes that agreement will be reached by 30 June 2011, which will enable the Company to access the second and third \$10 million tranches of the equity funding in a timely manner that will enable it to meet its obligations. However, this cannot be assured.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

1. Nature of Business and Going Concern - Continued

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

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

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

2. Significant Accounting Policies and Restatements

(a) Significant Accounting Policies

The consolidated financial statements of PolyMet Mining Corp. have been prepared in accordance with accounting principles generally accepted in Canada that require management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, expected economic lives of plant and equipment, anticipated costs of asset retirement obligations including the reclamation of mine site, valuation of options, convertible debt and share purchase warrants, and the assessment of impairment in value of long lived assets. Actual results could differ from these estimates. Significant differences from United States generally accepted accounting principles are disclosed in Note 16.

Basis of consolidation

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

Cash and Cash Equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with remaining maturities at point of purchase of three months or less.

Mineral Property, Plant and Equipment

Mineral property

Mineral property costs, aside from mineral property acquisition costs, incurred prior to determination of the DFS are expensed as incurred and expenditures incurred subsequent to the DFS and mineral property acquisition costs are deferred or capitalized until the property is placed into production, sold, allowed to lapse or abandoned. Acquisition costs include cash, debt and fair market value of common shares.

Upon commencement of production, mineral properties and acquisition costs relating to mines are amortized over the estimated life of the proven and probable mineral reserves to which they relate, calculated on a unit of production basis.

As a result of the DFS on the NorthMet Project, the Project entered the development stage effective 1 October 2006. The Company has deferred mineral property development expenditures related to the NorthMet Project from that date.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history

characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, ownership of its interests are in good standing.

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

2. Significant Accounting Policies and Restatements - Continued

(a) Significant Accounting Policies

Plant and equipment

Plant and equipment are recorded at cost and depreciated over the estimated life of the related assets calculated on a unit of production or straight-line basis, as appropriate.

Depreciation of plant and equipment is provided on a straight-line basis over the estimated economic life of the assets as follows:

Leasehold improvements Straight-line over the term of the lease

Furniture and equipment Straight-line over 10 years

Computers Straight-line over 5 years

Computer software Straight-line over 1 year

Mineral property, plant and equipment related to the NorthMet Project will begin to be amortized at the time the project commences operations.

Assets Held for Sale

Long-Lived assets are classified as held for sale in the period in which certain criteria are met. Assets held for sale are measured at the lower of carrying amount or fair value less cost to sell and are not depreciated as long as they remain classified as held for sale.

Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Basic and diluted losses per share are the same for the periods reported, as the effect of potential issuances of shares under warrant or share option agreements would be anti-dilutive.

Foreign Currency Translation

The United States (U.S.) dollar is the functional currency of the Company's business. Accordingly, amounts in these consolidated financial statements are expressed in U.S. dollars unless otherwise stated. The Company's non-U.S. operations are considered to be integrated with the U.S. operations and have been translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet dates and non-monetary assets and liabilities are translated at the exchange rate in effect at the times of the transactions. Revenue and expense items are translated at rates approximating the exchange rate in effect at the time of the transactions, except for amortization which is translated at historical rates. Translation gains and losses are reflected in the consolidated statement of loss in the year incurred.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

2. Significant Accounting Policies and Restatements - Continued

(a) Significant Accounting Policies - Continued

Stock-Based Compensation and Share Purchase Warrants

All stock-based awards made to directors, employees and non-employees are measured and recognized using a fair value based method. For directors and employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property plant and equipment, with the offsetting credit to contributed surplus, on a graded method over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

The Company issues share purchase warrants in connection with certain equity transactions. The fair value of the warrants, as determined using the Black-Scholes option pricing model, is credited to contributed surplus. The recorded value of share purchase warrants is transferred to share capital upon exercise.

When the Company amends the terms of either stock options or share purchase warrants, the incremental change in the fair value of the options or warrants due to the amendment is booked to warrant amendment expense and contributed surplus.

Asset Retirement Obligations

The Company follows CICA Handbook Section 3110, *Asset Retirement Obligations* (CICA 3110) which requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the year in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates.

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs.

Both the likelihood of new regulations and their overall effect upon the Company may vary greatly and are not predictable.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

2. Significant Accounting Policies and Restatements - Continued

(a) Significant Accounting Policies - Continued

Impairment of Long-Lived Assets

The Company performs impairment tests on its mineral property, plant and equipment when events or changes in circumstances indicate that the carrying values of assets may not be recoverable. These tests require the comparison of the undiscounted future cash flows to be derived from these assets with the carrying value of the assets. If a shortfall exists, the assets are written down to fair value, determined primarily using discounted cash flow models.

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Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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3. Resource Property Agreements
NorthMet, Minnesota, U.S.A. - Lease

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

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

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

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

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Notes to Consolidated Financial Statements

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4. Mineral Property, Plant and Equipment

Details are as follows:

| | 31 January 2011 Net Book Value | 31 January 2010 Net Book Value |
|---|---|---|
| 31 January 2011 | | |
| Mineral Property Acquisition and Interest Costs | \$ 40,794 | \$ 38,613 |
| Mine Plan and Development | 29,305 | 25,470 |
| Environmental | 25,994 | 19,537 |
| Consulting and Wages | 21,756 | 18,788 |
| Operations | 9,362 | 7,641 |
| Mine Equipment | 949 | 3,790 |
| Asset Retirement Obligation | 1,865 | 1,781 |
| NorthMet Project | 130,025 | 115,620 |
| Leasehold improvements | 7 | 17 |
| Computers | 163 | 142 |
| Furniture and equipment | 36 | 53 |
| | 130,231 | \$ 115,832 |

Erie Plant, Minnesota, U.S.A.

On 15 November 2005, the Company exercised an option to acquire 100% ownership of large portions of the former LTV Steel Mining Company ore processing plant in north eastern Minnesota under the Asset Purchase Agreement with Cliffs Natural Resources Inc. (NYSE:CLF) (Cliffs).

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

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

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Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

4. Mineral Property, Plant and Equipment - Continued

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 with a balloon payment of any unpaid balance due on 31 December 2011. No interest was payable until 31 December 2009 after which it is payable quarterly at the *Wall Street Journal* Prime Rate, accordingly the debt was fair valued, for balance sheet purposes, by discounting it at 8.25%.

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 \$3,812,000 (Note 6) less accretion of \$1,942,000 charged to deficit has been recorded as an increase in the carrying amount of the NorthMet Project assets and will be amortized over the life of the asset.

Interest and loan accretion on the long-term and convertible debt to 31 January 2011 in the amount of \$6,770,000 (2010 - \$4,608,000) has been capitalized as part of the cost of the NorthMet Project assets.

As the above assets are not in use no amortization of these assets has been recorded to 31 January 2011.

At 31 January 2011 certain equipment with a carrying value of approximately \$3.42 million was reclassified to assets held for sale. In writing this asset down to fair value less cost to sell, the Company recorded a loss of \$520,000.

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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 in 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 with the first payment on 31 December 2006, with the balance repayable upon receipt of commercial financing, for total repayment of \$7,000,000. The third note is interest bearing at the *Wall Street Journal* Prime Rate and is being paid in quarterly instalments equal to \$250,000 commencing on 31 December 2009 for total repayment of \$7,000,000 with final payment due on December 31, 2011. No interest was payable on the third note until 31 December 2009. Accordingly it was 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 January 2011 the outstanding long term debt was as follows:

| | 31 January 2011 | 31 January 2010 |
|----------------------|----------------------------|--------------------|
| Notes Payable | \$ 8,500 | \$ 10,499 |
| Accrued interest | 25 | 30 |
| Total debt | 8,525 | 10,529 |
| Less current portion | (6,750) | (2,000) |
| Long term debt | \$ 1,775 | \$ 8,529 |

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PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

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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.

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is contracted to indemnify Cliffs' requirement to meet performance standards to minimize environmental impact from operations and to perform site restoration and other closure activities. 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 January 2011 and under 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 January 2011 was \$3,812,000 (2010 - \$3,346,000). These were based upon a 31 January 2011 undiscounted future cost of \$24.4 million (2010 - \$21.6 million) for the first Cliffs transaction and \$2.1 million (2010 - \$2.0 million) for Cliffs II, an annual inflation rate of 2.00%, credit-adjusted risk free interest rates of 10.00% to 12.00% and a mine life of 20 years and a reclamation period of 9 years.

In March 2010, Cliffs entered into a consent decree with the Minnesota Pollution Control Agency (MPCA) relating to alleged violations on the Cliffs Erie Property. This consent decree required submission of Field Study Plan Outlines, which has been approved by the MPCA, and Short Term Mitigation Plans, which have not yet been formally approved. As part of its prior transactions with Cliffs (Note 4), PolyMet has agreed to indemnify Cliffs for certain on-going site environmental liabilities. As such, the Company has included its best estimate of the liabilities related to this consent decree in its asset retirement obligation for the period ended 31 January 2011.

Adjustments in the year to January 31, 2011 were as follows:

| | Year ended January 31, 2011 |
|--|--|
| Balance - Beginning of period | 3,346 |
| Liabilities incurred in the current period | - |
| Liabilities discharged in the current period | (457) |
| Accretion expense, and | 383 |
| Revisions in estimated cash flows | 540 |
| Balance - End of period | 3,812 |

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Notes to Consolidated Financial Statements

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7. Glencore Financing

Details of Fair Value of Glencore debentures, as amended, were as follows:

| | Year ended 31 January 2011 | Year ended 31 January 2010 |
|--------------------------------------|----------------------------------|----------------------------------|
| Balance - Beginning of period | 25,253 | 13,943 |
| Issued | - | 10,000 |
| Discount | - | (301) |
| Fair value adjustment on refinancing | 522 | |
| Financing costs | - | (56) |
| Accretion and capitalized interest | 1,858 | 1,667 |
| Balance - End of period | 27,633 | 25,253 |

On 31 October 2008, the Company entered into a financing with Glencore AG (Glencore) for an aggregate of US\$50 million floating rate secured debentures due on 30 September 2011 (the "Debentures") to be issued by PolyMet US, and guaranteed by the Company. The Debentures bear interest at 12-month US dollar LIBOR plus 4%. Interest is payable in cash or by increasing the principal amount of the Debentures, at PolyMet's option, for payments on or before 30 September 2009, and at Glencore's option thereafter. At 31 January 2011, \$2,539,000 of interest had been added to the principal amount of the debt since inception. 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 have been at 105% of the then outstanding principal of the Debentures, repayment between 1 October 2010 and 30 September 2011 would be at 102.5% of the outstanding principal.

US\$7.5 million of the Debentures were issued on 31 October 2008, an additional US\$7.5 million of the Debentures were issued on 22 December 2008, \$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, were to be issued upon publication of the Final Environmental Impact Statement in the State of Minnesota's Environmental Quality Board Monitor, receipt by the Company of a bona fide term sheet for construction financing and were 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 were to expire on 30 September 2011. If the

volume-weighted 20-day average price of PolyMet's common shares traded at a 50% premium to the then applicable exercise price, Glencore would have had to exercise the warrants within 30 days or the warrants would have expired.

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PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

7. Glencore Financing - continued

The Company has accounted for the initial US\$7.5 million of the Debentures and the Glencore Warrants by allocating the US\$7.5 million between the debt, the exchangeable feature of the debt and the warrants based on their pro rata fair values. The debt was 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 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 was 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, were 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 entitled Glencore to purchase 6.25 million common shares of PolyMet at US\$3.00 at any time on or before 30 September, 2011. If the 20-day volume weighted average price of PolyMet's shares had been 150% of the exercise price or more (\$4.50), and the Final EIS had been published in the Minnesota Department of Natural Resources EQB Monitor, PolyMet could have accelerated the expiration of the Glencore Warrants to not less than 21 business days after the notice of acceleration. The incremental \$158,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

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

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

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

- The maturity date of the Tranche A-D Debentures has been extended from 30 September, 2011 to 30 September, 2012. The Issued Debentures were issued in four tranches between October 2008 and September 2009. The total initial principal of the Debentures is US\$25 million with US\$2.539 million of accrued interest as of 31 December 2011. The Issued Debentures continue to be exchangeable into common shares of PolyMet at US\$4.00 per share, as agreed to in 2008.
- Cancellation of Glencore's commitment to purchase, and the Company's commitment to issue, US\$25 million of Tranche E Debentures which were to be issued upon publication of the Final Environmental Impact

Statement, receipt of a term sheet for construction financing, and other customary conditions.

- Cancellation of warrants to purchase 6.25 million common shares of PolyMet at US\$3.00 at any time until 30 September 2011 issued to Glencore in connection with Debentures.
- Issuance of warrants to purchase 3 million common shares of PolyMet at US\$2.00 at any time until 31 December 2015, issued to Glencore in consideration of the amendments listed above.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

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7. Glencore Financing - continued

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

- Tranche 1 of US\$10 million closed on 17 January 2011;
- Tranche 2 of US\$10 million will close on the earlier of (i) the date of the Company's funding requirement as set forth in the Company's three year operating budget to be approved by Glencore (the "Budget"), and (ii) 17 October 2011, and
- Tranche 3 of US\$10 million will close on the earlier of (i) the date of the Company's funding requirement as set forth in the Budget, ii) within ten business days following receipt by PolyMet of key permits, in a form reasonably acceptable to Glencore, that will enable the start of construction of the Project, and iii) 15 October 2012.

Glencore has a right of first refusal to provide all material financings, subject to regulatory approval, if it owns 10% or more of the issued and outstanding shares of PolyMet and, if it owns more than 5% of the issued and outstanding shares of PolyMet, Glencore has the right to participate in any equity-related financing to maintain its partially diluted ownership interest (19.6% as of 31 January 2011).

In accordance with both Canadian GAAP and US GAAP, the 12 November 2010 transactions, whereby PolyMet's existing convertible debt at that date with a book value of \$26.730 million was deemed to have been extinguished and reissued, all of the costs associated with the transaction have been recorded as a non-cash expense of \$3,647,000, comprising:

- The change in fair value of the conversion feature resulting from its term being extended from 30 September 2011 to 30 September 2012 of \$2.533 million;
- The difference in fair value between the warrants to purchase 6.25 million common shares at \$3 per share exercisable until 30 September 2011 and the warrants to purchase 3 million common shares at \$2 per share exercisable until 31 December 2015 of \$3.217 million;
- The amounts of discount and deferred costs remaining to accreted and amortized over the life of the debt of \$522,000, less
- The premium of \$2.625 million resulting from the price of the common shares to be sold to Glencore compared with the market price at the time of the arrangement.

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8. Share Capital

a) **Share Issuances for Cash**

During the year ended 31 January 2011 the Company issued the following shares for cash:

- i) On 17 January 2011, the Company closed an equity financing with Glencore for 5,000,000 common shares at \$2.00 per share for gross proceeds of \$10 million. Transactions costs for the financing were \$106,000 and a premium of \$875,000 was recorded in contributed surplus as a result of the refinancing of Glencore debt (Note 7), and
- ii) 845,000 shares pursuant to the exercise of stock options for total proceeds of \$808,000.

During the year ended 31 January 2010 the Company issued the following shares for cash:

- i) On 24 November 2009, the Company had closed an equity financing with Glencore for 3,773,585 common shares at \$2.65 per share for gross proceeds of \$10 million. On 26 January 2010, the Company closed the second tranche of the previously announced equity financing with Glencore of an additional 5,660,377 common shares at \$2.65 per common share for gross proceeds of \$15 million. Transactions costs for these two financings totaled \$499,000;
- ii) 775,000 shares pursuant to the exercise of stock options for total proceeds of \$477,000, and
- iii) 167,954 shares pursuant to the exercise of share warrants for total proceeds of \$494,000.

During the year ended 31 January 2009 the company issued 312,800 shares pursuant to the exercise of stock options for total proceeds of \$452,000.

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8. Share Capital - Continued

b) Stock Options

Effective 25 May 2007, the Company adopted a new Omnibus Share Compensation Plan (Stock Option Plan), which was approved by the Company's shareholders on 27 June 2007. The Stock Option Plan covers the Company's employees, directors, officers and consultants. The options are granted for varying terms ranging from two to seven years. The maximum number of common shares under the stock option plan shall not exceed (i) 10% of the outstanding common shares of the Company at the time of granting of the options and (ii) 18,592,888 common shares of the Company, of which 3,640,000 common shares are reserved for issuance as awards other than options (Note 14a)).

Details of stock option activity are as follows:

| | 31 January 2011 Options | Weighted Average Exercise Price (US\$) | 31 January 2010 Options | 31 January 2009 Options |
|---------------------------------|--|--|-------------------------------|-------------------------------|
| Outstanding - Beginning of year | 13,075,000 | 2.07 | 12,615,000 | 11,312,800 |
| Granted | 300,000 | 2.17 | 1,585,000 | 1,690,000 |
| Forfeited | (900,000) | 1.01 | (350,000) | (75,000) |
| Exercised | (845,000) | 2.81 | (775,000) | (312,800) |
| Outstanding - End of year | 11,630,000 | 2.20 | 13,075,000 | 12,615,000 |

Note: since the exercise price of some options is denominated in Canadian funds, the weighted average price denominated in US funds changes with changes in the exchange rate.

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Notes to Consolidated Financial Statements**For the years ended 31 January 2011, 2010 and 2009***Tabular amounts in Thousands of U.S. Dollars except for price per share, shares and options***8. Share Capital - Continued****b) Stock Options - 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 January 2011, 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 | 0.66 | 0.66 | 800,000 |
| 18 October 2011 | 0.79 | 0.79 | 50,000 |
| 30 March 2012 | 0.65 | 0.65 | 85,000 |
| 1 May 2012 | 0.85 | 0.85 | 350,000 |
| 15 June 2012 | 0.94 | 0.94 | 40,000 |
| 19 September 2012 | 1.36 | 1.36 | 1,240,000 |
| 24 October 2012 | 1.20 | 1.20 | 200,000 |
| 5 December 2012 | 1.15 | 1.15 | 200,000 |
| 20 March 2013 | 2.76 | 2.76 | 2,400,000 |
| 19 June 2013 | 2.97 | 2.97 | 325,000 |
| 1 September 2013 | 3.82 | 3.82 | 300,000 |
| 22 September 2013 | 3.51 | 3.51 | 75,000 |
| 5 January 2014 | 3.30 | 3.30 | 525,000 |
| 13 February 2014 | 2.99 | 2.99 | 1,250,000 |
| 12 March 2014 | 2.92 | 2.92 | 250,000 |
| 23 March 2014 | 2.89 | 2.89 | 50,000 |
| 4 September 2014 | 3.00 | 3.00 | 360,000 |
| 12 December 2014 | 3.05 | 3.05 | 205,000 |
| 11 January 2015 | 3.03 | 3.03 | 70,000 |
| 31 January 2015 | 2.87 | 2.87 | 100,000 |
| 15 February 2015 | 2.72 | 2.72 | 500,000 |
| 2 June 2015 | 3.92 | 3.92 | 100,000 |
| 30 July 2015 | 3.22 | 3.22 | 175,000 |
| 30 January 2016 | 0.82 | 0.82 | 595,000 |
| 17 February 2016 | 0.82 | 0.82 | 910,000 |
| 15 October 2016 | 2.67 | 2.67 | 115,000 |

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| | | | |
|---|------|------|------------|
| 8 January 2017 | 3.54 | 3.54 | 60,000 |
| 25 January 2018 | 2.17 | 2.17 | 300,000 |
| Weighted average exercise price and total number of options outstanding | 2.20 | 2.20 | 11,630,000 |

As at 31 January 2011 all options had vested and were exercisable, with the exception of 1,722,500 which vest upon completion of specific targets.

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PolyMet Mining Corp.

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Notes to Consolidated Financial Statements**For the years ended 31 January 2011, 2010 and 2009***Tabular amounts in Thousands of U.S. Dollars except for price per share, shares and options***8. Share Capital - Continued****b) Stock Options - Continued**

Subsequent to year end, on 10 March 2011, the Company granted 750,000 options to certain independent directors with an average exercise price of USD\$2.04 per option. Also subsequent to year end, bonuses comprising 327,500 restricted stock for US employees and consultants and restricted stock units for Canadian employees and consultants were approved by the Board of Directors. 50% of each award to be issued upon receipt of permits and the balance to be issued upon the start of production.

c) Stock-Based Compensation

During the year ended 31 January 2011, the Company granted 300,000 options to directors, officers, consultants and employees with an average exercise price of USD\$2.20 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | |
|---------------------------------|--------|
| Risk-free interest rate | 1.68% |
| Expected dividend yield | Nil |
| Expected stock price volatility | 64.79% |
| Expected option life in years | 1.50 |

The weighted fair value of options granted during the period was US\$0.73. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

During the year ended 31 January 2011, the Company recorded \$275,000 for stock based compensation in its accounts as an expense of \$93,000 and a debit to mineral property, plant and equipment of \$182,000, with the offsetting entries going to contributed surplus. During the year ended 31 January 2011, the Company also recorded a debit to contributed surplus and a credit to stock based compensation expense of \$212,000 to reverse prior accounting for stock options which had yet to vest and were forfeited in the period.

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Notes to Consolidated Financial Statements**For the years ended 31 January 2011, 2010 and 2009***Tabular amounts in Thousands of U.S. Dollars except for price per share, shares and options***8. Share Capital - Continued****c) Stock Based Compensation - Continued**

During the year ended 31 January 2010, the Company granted 1,585,000 options to directors, officers, consultants and employees with an average exercise price of USD\$1.14 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | |
|---------------------------------|-------------------|
| Risk-free interest rate | 1.30% to 1.69% |
| Expected dividend yield | Nil |
| Expected stock price volatility | 81.97% to 107.32% |
| Expected option life in years | 2.33 |

The weighted fair value of options granted during the period was US\$0.56. Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

During the year ended 31 January 2010, the Company recorded \$1,240,000 for stock based compensation in its accounts as an expense of \$915,000 and a debit to mineral property, plant and equipment of \$325,000, with the offsetting entries going to contributed surplus. The total for the year 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).

During the year ended 31 January 2009, the Company granted 1,690,000 options to directors, officers, consultants and employees with an average exercise price of USD\$1.81 per option. The fair value of these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | |
|---------------------------------|---------------------|
| Risk-free interest rate | 1.54% to 3.23% |
| Expected dividend yield | Nil |
| Expected stock price volatility | 56.52% to 83.90% |
| Expected option life in years | 2.33 |

The weighted fair value of options granted during the period was US\$0.79. During the year ended 31 January 2009, the Company recorded \$1,822,000 for stock based compensation in its accounts as an expense of \$487,000 and a debit to mineral property, plant and equipment of \$1,335,000, with the offsetting entries going to contributed surplus.

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Notes to Consolidated Financial Statements**For the years ended 31 January 2011, 2010 and 2009***Tabular amounts in Thousands of U.S. Dollars except for price per share, shares and options***8. Share Capital - Continued****d) Contributed Surplus**

Contributed surplus represents accumulated stock-based compensation expense and warrants issued, reduced by the fair value of the stock options and warrants exercised.

Details are as follows:

| | 31 January 2011 | 31 January 2010 |
|--|----------------------------|--------------------|
| Balance Beginning of year | \$ 36,979 | \$ 27,549 |
| Current year fair value of stock-based compensation | 63 | 1,240 |
| Fair value of exchangeable warrants and debt conversion (Note 7) | - | 352 |
| Change in fair value of warrants amended (Notes 7, 8a) and 8 e)) | - | 4,920 |
| Issuance of Milestone 2 Bonus Shares (Note 14 a)) | - | (721) |
| Refinancing of convertible debt (Note 7) | 3,125 | - |
| Premium on equity financing | 875 | - |
| Bonus Shares for Milestones 2 and 4 cost amortization (Note 14a)) | 1,593 | 4,200 |
| Forfeiture of Bonus Shares for Milestone 4 (Note 14a)) | (1,682) | - |
| Future income tax charge (Notes 8e) and 14c)) | (1,390) | - |
| Fair value of stock options and warrants exercised during the year | (480) | (561) |
| Balance End of year | \$ 39,083 | \$ 36,979 |

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PolyMet Mining Corp.

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Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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8. Share Capital - Continuede) **Share Purchase Warrants**

Details of stock purchase warrant activity are as follows:

| | 31 January 2011 | | 31 January 2010 | |
|---|-----------------|--|-----------------|--|
| | Warrants | Weighted Average Exercise Price (US\$) | Warrants | Weighted Average Exercise Price (US\$) |
| Warrants outstanding - beginning of period | 15,202,046 | 3.74 | 15,370,000 | 4.74 |
| Expired (<i>Note 8e</i>) | (4,942,046) | 3.23 | - | - |
| Cancelled (<i>Note 7</i>) | (6,250,000) | 3.00 | (10,260,000) | 4.52 |
| Exercised | - | - | (167,954) | 3.00 |
| Issued | - | - | 4,010,000 | 3.00 |
| Issued (<i>Note 7</i>) | 3,000,000 | 2.00 | 6,250,000 | 3.00 |
| Warrants outstanding end of period | 7,010,000 | 4.00 | 15,202,046 | 3.74 |

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8. Share Capital - Continued

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

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 13 October 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 31 August, 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.

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8. Share Capital - Continued

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

In November 2009, the Company received the consent from holders of more than two-thirds of the above warrants to exchange the 4,010,000 warrants due to expire the earlier of 30 calendar days after publication of the draft Environmental Impact Statement by the State of Minnesota in the state's Environmental Quality Board Monitor and 31 December, 2009 for 4,010,000 warrants, each warrant entitling the holder to purchase one share of PolyMet common stock at US\$3.00 per share at any time until the sooner of 21 business days after publication of the final Environmental Impact Statement by the State of Minnesota in the state's Environmental Quality Board Monitor and 31 December 2010. The incremental \$3,757,000 increase in the fair value of the warrants due to the warrant exchange was debited to warrant amendment expense and credited to contributed surplus.

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

On 31 October 2008, the Company issued 6,250,000 warrants ("Purchase Warrants") to Glencore as partial consideration under the financing agreement described in Note 7. The warrants entitled Glencore to purchase 6.25 million common shares of PolyMet at US\$5.00 if exercised before the NorthMet project has produced a total of 20,000 metric tonnes of concentrate, or US\$6.00 thereafter. The warrants would have expired on 30 September, 2011.

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

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

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8. Share Capital - continued

e) Share Purchase Warrants - continued

On 16 December, 2010 the Board of the Iron Range Resources and Rehabilitation Board (“IRRRB”) approved, on the commissioner’s recommendation, a secured loan to Poly Met Mining, Inc. of up to \$4 million. A legal challenge as to whether the IRRRB was authorized to make such a loan was withdrawn following passage of state legislation that clarified that the IRRRB is an economic development agency with no regulatory oversight for mine permitting activities. On 15 April, 2011 the Board of the IRRRB reappraised the loan, which is expected to close on or before 30 June, 2011.

Proceeds from the loan will be used to purchase forest land, wetlands, and lakes with high natural resource and recreational value that would become available for public use and enjoyment. These properties, which we currently have under purchase option, would be purchased for future use as part of a proposed land exchange for surface rights at the proposed NorthMet mine site currently controlled by the USFS Superior National Forest. The loan will be secured by the land to be acquired from proceeds of the loan, carry a fixed interest rate of 5% per annum, and will be repayable on 30 June, 2016. Subject to regulatory approval, we also agreed to issue warrants giving the IRRRB the right to purchase up to 400,000 shares of our common stock at US\$2.50 per share at any time until the earlier of 30 June, 2016 and one year after we receive permits.

On 31 October 2006, the Company issued 600,000 warrants to BNP Paribas Loan Services as partial consideration under the agreement described in Note 14c). These warrants had an exercise price of US\$4.00 per share and expired on 30 October 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of US\$4.00 per share at any time prior to 30 October 2010 would have vested. All of these warrants expired on 30 October 2010. The Company recorded a future income tax recovery as the expiration of the warrants triggered a capital gain for tax purposes which was offset by the application of tax losses carried forward resulting in a credit of \$171,000.

f) 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. All common shares 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, upon certain events occurring (as defined in the Rights Plan), 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.

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9. Supplemental Disclosure With Respect To Statements of Cash Flows

During the years ended 31 January 2011, 2010 and 2009 the Company entered into the following non-cash investing and financing activities:

| | 2011 | 2010 | 2009 |
|---|--------|--------|----------|
| Changes in accounts payable and accrued liabilities related to Investing Activities | \$ 176 | \$ 225 | \$ 1,970 |

10. 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:

| | 2011 | 2010 | 2009 |
|---|-------|-------|-------|
| Consulting fees paid to David Dreisinger, a Director of the Company | \$ 59 | \$ 59 | \$ 56 |
| | \$ 59 | \$ 59 | \$ 56 |

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

During the year ended 31 January 2011, the Company paid \$59,000 (2010 - \$59,000 and 2009 - \$56,000) 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, formerly the Company's Executive Chairman and, before that, its President and Chief Executive Officer, 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 six years.

The agreement with Dr. Dreisinger was entered into at a time when the Company's current business plans were being formulated and were 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.

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11. Income Taxes

The Company's provision for income taxes differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates (2011 28.5% and 2010 28.5%) to the net loss as a result of the following:

| | 2011 | 2010 |
|--|------------|------------|
| Provision for recovery of taxes at statutory rates | \$ (2,075) | \$ (2,583) |
| Differences in foreign tax rates | (320) | (85) |
| Non-deductible loss on refinancing with Glencore | 1,039 | - |
| Non-deductible loss on warrant amendments | - | 1,476 |
| Other non-deductible items and other | 2,545 | (1,691) |
| Change in valuation allowance | (2,579) | 2,883 |
| Income tax (recovery)/charge | \$ (1,390) | \$ - |

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets as at 31 January 2011 are as follows:

| | 2011 | 2010 |
|---------------------------------|-----------|-----------|
| Non-capital loss carry forwards | \$ 16,278 | \$ 14,573 |
| Unutilized exploration expenses | (3,556) | 730 |
| Capital assets | 112 | 109 |
| Total future income taxes | 12,834 | 15,412 |
| Less: valuation allowance | (12,834) | (15,412) |
| Net future income tax assets | \$ - | \$ - |

The Company has income tax loss carry forwards of approximately \$4.1 million in Canada, which may be used to reduce future income taxes otherwise payable and which expire in the years 2015 and 2026.

The Company has income tax loss carry forwards of approximately \$40.1 million in the United States, which may be used to reduce future income taxes otherwise payable and which expire in the years 2019 to 2031. Virtually all of the unutilized exploration expenses are in the United States.

The tax benefit of the above noted tax assets have been offset by recognition of a valuation allowance in these financial statements.

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12. Segmented Information

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

| 2011 | Canada | | U.S. | | Consolidated |
|-------------------------------|---------------|---------------|-------------|----------------|---------------------|
| Segment operating loss | \$ | 5,747 | \$ | 1,536 | \$ 7,283 |
| Identifiable assets | \$ | 10,362 | \$ | 134,670 | \$ 145,032 |
| 2010 | | | | | |
| Segment operating loss | \$ | 8,131 | \$ | 892 | \$ 9,023 |
| Identifiable assets | \$ | 21,391 | \$ | 118,257 | \$ 139,648 |
| 2009 | | | | | |
| Segment operating loss | \$ | 4,963 | \$ | 560 | \$ 5,523 |
| Identifiable assets | \$ | 7,221 | \$ | 94,378 | \$ 101,599 |

13. Investment

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

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

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

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14. Contingent Liabilities and Commitments

- a) The Company has instituted a share bonus plan as part of its employment, management and consulting contracts for key directors, management and project personnel. This bonus plan adds incentive for key personnel to reach certain prescribed milestones required to reach commercial production at the NorthMet Project. As at 31 January 2011, 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 2011. To 31 January 2011, 5,240,000 shares have been issued for the achievement of Milestones 1, 2 and 3.

The summary of the share bonus plan is as follows:

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

- (i) Milestone 2 – Negotiation and completion of an off-take agreement with a senior metals producer for the purchase of nickel-hydroxide produced from the NorthMet Project, and / or an equity investment in the Company by such a producer or producers. The bonus shares allocated to Milestone 2 are valued at C\$0.75. This milestone was deemed to have been achieved in May 2009 and therefore the Company issued the shares to certain directors and insiders and capitalized \$714,000 to property plant and equipment.
- (ii) Milestone 4 – Commencement of commercial production at the NorthMet Project at a time when the Company has not less than 50% ownership.
- (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 year ended 31 January 2011, the Company recorded a negative \$89,000 related to Milestone 4 (2010 – positive \$3,843,000; 2009 – positive \$3,583,000), these amounts were capitalized to Mineral Property, Plant and Equipment. The current year reversal includes \$1,682,000 representing the forfeiture of entitlement to bonus shares by individuals upon resignation or not continuing to stand as Directors of the Company.

The fair value of these unissued bonus shares is being amortized, over its expected life, until the estimated date of issuance.

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14. 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 advised and assisted PolyMet in all aspects of preparation for construction finance. As part of this agreement, BNPP was issued warrants to purchase 600,000 shares of the Company's common stock at a price of US\$4.00 per share at any time prior to 30 October 2010. The fair value of these warrants was \$1,197,000. Further, upon delivering a bona fide offer of project financing, warrants to purchase an additional 500,000 shares of the Company at a price of US\$4.00 per share at any time prior to 30 October 2010 would have vested. These warrants expired on 30 October 2010.

The Company decided to review alternatives for construction financing and decided not to renew its current agreement with BNPP which expired on 31 July 2010. As such, the \$1,830,000, of which \$1,197,000 was non-cash related to the fair value of warrants issued, recorded as a deferred financing cost asset has been written off to the consolidated statement of loss in the second quarter of this year. On 30 October, 2010 the warrants expired. As such, PolyMet recorded a future income tax charge of \$171,000 to contributed surplus, which was offset on income tax recover by the application of tax losses carried forward.

- d) On 13 October 2008, the Company entered into a collateral pledge agreement wherein it pledged a used drill rig which it owned against amounts due to a supplier for rebuilding the drill rig. The drill rig has a book value of \$3,420,000 and, as at 31 January 2011, the Company is paying the supplier \$1,115,000 over time for work on the drill.
- 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 January 2011, the Company had outstanding commitments related to equipment, rent, consultants and the environmental review process of approximately \$1,300,000 predominantly due over the next year. Subsequent to 31 January 2011, PolyMet entered into an agreement with the State of Minnesota's Department of Natural Resources committing it to an additional \$2,818,000 through 1 April 2012 with respect to the Supplemental Draft Environmental Impact Study.
- g) At 31 January 2011 the Company had non-binding commitments in 2011 and 2012 of \$1.106 million to pay options to maintain its right to acquire certain lands that it will need at permitting. These lands include land that the Company expects to exchange with the USFS for surface rights at the mine site and land for wetland credits.

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15. Financial Instruments and Risk Management

Categories of financial assets and liabilities

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

| | 31 January 2011 | 31 January 2010 |
|---------------------------------|----------------------------|--------------------|
| Held-for-trading (1) | \$ 10,361 | \$ 21,282 |
| Available-for-sale | 66 | 140 |
| Loans and receivables | 318 | 88 |
| Other financial liabilities (2) | 38,602 | 38,735 |

(1) Includes cash and equivalents.

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

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

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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15. Financial Instruments and Risk Management - continued

As at 31 January 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

| | 31 January | | 31 January |
|---------------------------------|-------------------|----|------------|
| | 2011 | | 2010 |
| Held-for-trading (1) | \$ 554 | \$ | 157 |
| Available-for-sale | 66 | | 140 |
| Loans and receivables | 102 | | 25 |
| Other financial liabilities (2) | (192) | | (302) |
| | \$ 530 | \$ | 20 |

(1) Includes cash and equivalents.

(2) Includes accounts payable and accrued liabilities.

Based on the above net exposures, as at 31 January 2011, a 10% change in the Canadian / United States exchange rate would impact the Company's loss by \$53,000.

Credit risk

Credit risk arises on cash and equivalents held with banks and financial institutions, as well as credit exposure on outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets of \$10,679,000.

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

Liquidity risk

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

Interest rate risk

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

As at 31 January 2011, the Company is exposed to interest rate risk through the following assets and liabilities:

| 31 January | | 31 January |
|-------------------|--|------------|
| 2011 | | 2010 |

| | | | | |
|---------------------------------|----|---------------|----|--------|
| Held-for-trading (1) | \$ | 10,361 | \$ | 21,282 |
| Other financial liabilities (2) | | 36,158 | | 35,782 |

(1) Includes cash and equivalents.

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

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15. 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.

The Company's investment in the Project (Note 4) is also at risk since the Project is pledged in part as security to Cliffs and otherwise is pledged wholly as security to Glencore.

As at 31 January 2011, the Company is exposed to investment risk through the following assets:

| | 31 January | | 31 January |
|------------------------|-------------------|----|------------|
| | 2011 | | 2010 |
| Available-for-sale (1) | \$ 66 | \$ | 140 |

(1) Includes investment.

Fair Value Measurements

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

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

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

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

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

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

PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

15. Financial Instruments and Risk Management - Continued

The fair values of the Company's financial assets, cash and equivalents, accounts receivables and advances, and investment approximate their carrying amounts, and are considered to be level 2 fair value hierarchy with observable inputs.

The fair values of the Company's accounts payable and accrued liabilities are below its carrying amount due to liquidity risk of the Company. Also, see Note 1. The fair value of the Company's long term debt and convertible debt approximate the carrying amounts.

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

15. Financial Instruments and Risk Management - Continued

Capital Management

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

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

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

Although the Company plans to have the resources to carry out its plans and operations through 31 January 2012 (Note 1), it does not currently have sufficient capital to meet its estimated project capital expenditure requirements and is currently in discussions to arrange sufficient capital to meet these requirements.

16. 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 in the year ended 31 January 2011 (2010 - \$250,000).

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. 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:

| | | | 2011 | | 2010 | | 2009 |
|----------------------|---------------------|----|----------------|----|--------|----|--------|
| Convertible Debt | Canadian GAAP basis | \$ | 27,633 | \$ | 25,253 | \$ | 13,943 |
| Convertible Debt | US GAAP basis | \$ | 27,883 | \$ | 25,503 | \$ | 14,193 |
| Shareholders' Equity | Canadian GAAP basis | \$ | 102,618 | \$ | 97,567 | \$ | 70,335 |
| Shareholders' Equity | US GAAP basis | \$ | 102,368 | \$ | 97,317 | \$ | 70,085 |

(b) Development Stage Company

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

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. 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 January 2011

| | Cumulative from 1 February 2003 to 31 January 2011 (unaudited) |
|--|--|
| Pre-feasibility Costs | 21,679 |
| General and Administrative | |
| Amortization | 162 |
| Asset retirement obligation accretion | 1,948 |
| Consulting fees | 3,072 |
| Exploration | 193 |
| Financing costs write-off | 1,830 |
| Investor relations and financing | 1,380 |
| Office and corporate wages | 7,476 |
| Professional fees | 2,999 |
| Shareholders information | 1,480 |
| Stock-based compensation | 11,212 |
| Transfer agent and filing fees | 829 |
| Travel | 2,631 |
| Warrant amendment | 5,464 |
| | 40,676 |
| Other Expenses (Income) | |
| Interest income, net | (1,886) |
| Loss (gain) on foreign exchange | (207) |
| Gain on sale of resource properties | (220) |
| Loss on refinancing of convertible debt | 3,647 |
| Loss on sale of property, plant and equipment | 9 |
| Loss on asset held for sale | 520 |
| Investment loss | 2,415 |
| Rental income | (625) |
| | 3,653 |
| Cumulative Loss for the Period Before Tax | 66,008 |
| Tax recovery on warrant expiration | (1,390) |
| Cumulative Loss for the Period | 64,618 |
| Other Comprehensive Income | |

| | |
|--|---------------|
| Unrealized loss on investment | 6 |
| Comprehensive Loss | 64,624 |
| Deficit Beginning of the Period | 14,214 |
| Deficit End of the Period | 78,832 |

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. 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 January 2011

| | 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) | (3) |
| Loss for the year | | - | - | - | - | (147) | (14) |
| Shares issued for cash: | | | | | | | |
| Private placements, net of finders fees and issuance costs | 0.09 | 11,708,318 | 999 | - | - | - | 99 |
| Share subscriptions received | - | - | 763 | - | - | - | 76 |
| Exercise of warrants | 0.08 | 486,610 | 41 | - | - | - | 4 |
| Exercise of options | 0.06 | 89,600 | 5 | - | - | - | - |
| Shares issued to settle debt | 0.07 | 50,000 | 4 | - | - | - | - |
| Stock-based compensation | | | | 55 | - | - | 5 |
| Balance 31 January 2004 | | 44,992,054 | 15,995 | 55 | - | (14,361) | 1,68 |
| Loss for the year | | | | | | (4,416) | (4,41 |
| Shares issued for cash: | | | | | | | |
| Private placements, net of finders fees and issuance costs | 0.58 | 2,955,626 | 1,715 | - | - | - | 1,71 |
| Share subscriptions received | - | - | (763) | - | - | - | (76 |
| Exercise of warrants | 0.16 | 5,277,573 | 829 | - | - | - | 82 |
| Exercise of options | 0.07 | 1,088,400 | 81 | - | - | - | 8 |
| Shares issued for property | 0.23 | 1,000,000 | 229 | - | - | - | 22 |
| Stock-based compensation | | | | 993 | - | - | 99 |
| Fair value of stock options exercised | | | 42 | (42) | - | - | - |
| Shares allotted for exercise of warrants | 0.12 | 224,925 | 26 | - | - | - | 2 |
| Shares allotted for bonus | 0.55 | 1,590,000 | 873 | - | - | - | 87 |
| Balance 31 January 2005 | | 57,128,578 | 19,027 | 1,006 | - | (18,777) | 1,25 |

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. 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 January 2011

| | 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 |
| Loss for the year | - | - | - | - | - | (15,976) | (15) |
| Shares issued for cash: | | | | | | | |
| Private placements, net of finders' fees and issuance costs | 0.66 | 29,347,568 | 15,827 | 3,653 | - | - | 19 |
| Exercise of warrants | 0.58 | 5,700,628 | 3,296 | - | - | - | 3 |
| Exercise of options | 0.11 | 1,795,852 | 197 | - | - | - | - |
| Shares issued for property | 1.22 | 6,200,547 | 7,564 | - | - | - | 7 |
| Stock-based compensation | - | - | - | 3,523 | - | - | 3 |
| Fair value of stock options exercised | - | - | 98 | (98) | - | - | - |
| Balance 31 January 2006 | | 100,173,173 | 46,009 | 8,084 | - | (34,753) | 19 |
| Loss for the year | - | - | - | - | - | (18,126) | (18) |
| Issuance of shares for bonus | 0.55 | 2,350,000 | 1,289 | - | - | - | 1 |
| Shares issued for cash: | | | | | | | |
| Exercise of warrants | 0.98 | 14,662,703 | 17,963 | (3,653) | - | - | 14 |
| Exercise of options | 0.35 | 2,193,000 | 765 | - | - | - | - |
| Shares issued for property | 3.08 | 2,000,000 | 6,160 | - | - | - | 6 |
| Stock-based compensation | - | - | - | 4,723 | - | - | 4 |
| Warrants issued for deferred financing costs | - | - | - | 1,197 | - | - | 1 |
| Fair value of stock options exercised | - | - | 737 | (737) | - | - | - |
| Balance 31 January 2007 | | 121,378,876 | 72,923 | 9,614 | - | (52,879) | 29 |

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. 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 January 2011

| | Issue Price Per Share | Shares | Amount | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit |
|--|--------------------------------|-------------|---------|------------------------|---|----------|
| Balance 31 January 2007 (brought forward) | | 121,378,876 | 72,923 | 9,614 | - | (52,879) |
| Loss for the year | - | - | - | - | - | (4,124) |
| Shares and warrants issued: | | | | | | |
| Exercise of options | 0.66 | 462,200 | 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 | - | - |
| Stock-based compensation | - | - | - | 3,077 | - | - |
| Balance 31 January 2008 | | 136,991,075 | 104,615 | 20,825 | - | (57,003) |
| Loss for the year | - | - | - | - | - | (5,523) |
| Shares and warrants issued: | | | | | | |
| Exercise of options | 1.45 | 312,800 | 452 | - | - | - |
| Fair value of stock options exercised | - | - | 245 | (245) | - | - |
| Convertible debt conversion factor and warrants | - | - | - | 441 | - | - |
| Accrual of Milestones 2 and 4 Bonus Shares | - | - | - | 3,912 | - | - |
| Amendment to previously issued warrants | - | - | - | 544 | - | - |
| Stock-based compensation | - | - | - | 1,822 | - | - |
| Balance 31 January 2009 | | 137,303,875 | 105,312 | 27,299 | - | (62,526) |

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. 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 January 2011

| | Issue Price Per Share | Shares | Amount | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Total |
|---|--------------------------------|-------------|---------|------------------------|---|----------|---------|
| Balance 31 January 2009 (brought forward) | | 137,303,875 | 105,312 | 27,299 | - | (62,526) | 70,085 |
| Loss for the year | - | - | - | - | - | (9,023) | (9,023) |
| Other comprehensive income for the year | - | - | - | - | 71 | - | 71 |
| Shares and warrants issued: | | | | | | | |
| Equity offering and issuance costs | 2.60 | 9,433,962 | 24,501 | - | - | - | 24,501 |
| Exercise of options | 0.62 | 775,000 | 477 | - | - | - | 477 |
| Fair value of stock options exercised | - | - | 307 | (307) | - | - | - |
| Exercise of warrants | 2.94 | 167,954 | 494 | - | - | - | 494 |
| Fair value of warrants exercised | - | - | 254 | (254) | - | - | - |
| Convertible debt conversion factor | - | - | - | 352 | - | - | 352 |
| Milestones 2 and 4 Bonus Shares cost amortization | - | - | - | 4,200 | - | - | 4,200 |
| Amendment to previously issued warrants | - | - | - | 4,920 | - | - | 4,920 |
| Issuance of Milestone 2 Bonus | 0.55 | 1,300,000 | 721 | (721) | - | - | - |

| | | | | | | | |
|--|-------------|-----------|--------|---------|----------|---------|---------|
| Shares | | | | | | | |
| Stock-based compensation | - | - | - | 1,240 | - | - | 1,240 |
| Balance 31 January 2010 | 148,980,791 | 132,066 | 36,729 | 71 | (71,549) | 97,317 | |
| Loss for the period | - | - | - | - | - | (7,283) | (7,283) |
| Other comprehensive income for the period | - | - | - | - | (77) | - | (77) |
| Shares and warrants issued: | | | | | | | |
| Equity offering and issuance costs | 1.98 | 5,000,000 | 9,019 | 875 | - | - | 9,894 |
| Exercise of options | 0.96 | 845,000 | 808 | - | - | - | 808 |
| Fair value of stock options exercised | - | - | 480 | (480) | - | - | - |
| Refinancing of convertible debt | - | - | - | 3,125 | - | - | 3,125 |
| Milestone 4 Bonus Shares cost amortization | - | - | - | (89) | - | - | (89) |
| Future income tax recovery | - | - | - | (1,390) | - | - | (1,390) |
| Stock-based compensation | - | - | - | 63 | - | - | 63 |
| Balance 31 January 2011 | 154,825,791 | 142,373 | 38,833 | (6) | (78,832) | 102,368 | |

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. Differences Between Canadian and United States Generally Accepted Accounting Principles - *Continued* Consolidated Statements of Cash Flows Cumulative from 1 February 2003 to 31 January 2011

| | Cumulative from 1 February 2003 to 31 January 2011 (unaudited) |
|--|--|
| Operating Activities | |
| Loss for the period | \$ (60,971) |
| Items not involving cash | |
| Consulting fees and Office and Corporate wages | 2,161 |
| Amortization | 162 |
| Asset retirement obligation | 1,948 |
| Financing cost write-off | 1,830 |
| Future income tax recovery | (1,390) |
| Investment loss | 2,415 |
| Loss on asset held for sale | 520 |
| Stock-based compensation | 11,212 |
| Warrant amendment | 5,464 |
| Gain on sale of resource properties | (220) |
| Loss on sale of property, plant and equipment | 9 |
| Changes in non-cash working capital items | |
| Accounts receivable and advances | (312) |
| Prepaid expenses | (636) |
| Accounts payable and accrued liabilities | 377 |
| Net cash used in operating activities | (37,431) |
| Financing Activities | |
| Share capital - for cash | 117,432 |
| Long-term debt repayment | (7,900) |
| Convertible debt | 24,277 |
| Share subscriptions received | 763 |
| Deferred financing costs | (633) |
| Net cash provided by financing activities | 133,939 |
| Investing Activities | |
| Purchase of investment | (2,495) |
| Proceeds on disposal of equipment | 33 |

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| | |
|--|------------------|
| Proceeds on sale of resource property | 220 |
| Purchase of mineral property, plant and equipment | (83,908) |
| Net cash used in investing activities | (86,150) |
| Net Increase (Decrease) in Cash and Cash Equivalents Position | 10,358 |
| Cash and Cash Equivalents Position - Beginning of Period | 3 |
| Cash and Cash Equivalents Position - End of Period | \$ 10,361 |

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PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

16. Differences Between Canadian and United States Generally Accepted Accounting Principles - Continued
Consolidated Schedules of Pre-Feasibility Costs
Cumulative from 1 February 2003 to 31 January 2011

| | Cumulative from 1 February 2003 to 31 January 2011 (unaudited) |
|--|--|
| Direct | |
| Camp and general | \$ 298 |
| Consulting fees | 1,846 |
| Drilling | 3,169 |
| Engineering | 1,441 |
| Environmental | 6,130 |
| Geological and geophysical | 303 |
| Land lease, taxes and licenses | 469 |
| Metallurgical | 2,275 |
| Mine planning | 3,597 |
| Permitting | 321 |
| Plant maintenance and repair | 725 |
| Sampling | 1,001 |
| Scoping study | 104 |
| Cumulative Total Costs for the Period | \$ 21,679 |

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PolyMet Mining Corp.
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Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

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

(c) Mineral Rights

The total amount paid for mineral rights to 31 January 2011 was \$1,925,000.

(d) Accounts Payable

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

| | <u>2011</u> | <u>2010</u> |
|------------------------------|-----------------|-----------------|
| Operating payables | 236 | 376 |
| Project development payables | 1,093 | 1,561 |
| Equipment payables | 1,115 | 1,016 |
| Total | \$ 2,444 | \$ 2,953 |

(e) Stock-Based Compensation

As at 31 January 2010, there were 1,855,000 unvested stock options with an average grant date fair value of \$1.16 per option. As at 31 January 2011, there were 1,722,500 unvested stock options with an average grant date fair value of \$1.20 per option. During the year ended 31 January 2011, 122,500 additional stock options vested.

The intrinsic value of a stock option is the difference between the current market price for PolyMet's common shares and the exercise price of the option. At 31 January 2011, the aggregate intrinsic value of vested and unvested stock options, based on the 31 January 2011 closing price for PolyMet's common shares of \$2.05 was \$(104,000).

The weighted average remaining contractual term of all stock options outstanding as at 31 January 2011 is 2.88 years. The weighted average remaining contractual term of all stock options vested as at 31 January 2011 was 2.69 years.

The unrecognized compensation cost for non-vested stock options at 31 January 2011 was \$323,000. The weighted average period over which it is expected to be recognized is 2.28 years.

PolyMet records stock-based compensation expense as a separate line item in the Company's consolidated statements of loss, other comprehensive loss and deficit. If stock-based compensation had been recorded on the same line as cash compensation for the individuals who received the stock options, a recovery of \$119,000 for the year ended 31 January 2011, an expense of \$915,000 for the year ended 31 January 2010, and an expense of \$487,000 for the year ended 31 January 2009 would have been recorded under office and corporate wages expense.

The Company has estimated the expected life of incentive stock options to be 1.5 years based on historic option exercise patterns and the timeline for material developments in the past and anticipated in future.

PolyMet Mining Corp.
(a development stage company)

Notes to Consolidated Financial Statements

For the years ended 31 January 2011, 2010 and 2009

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

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

f) Recent U.S. Accounting Pronouncements

The Company transitioned to IFRS on 1 February 2011 and will no longer be required to prepare a reconciliation to US GAAP. Accordingly, PolyMet has not assessed the impact of adopting recent US accounting pronouncements with an application date of 1 February 2011 or beyond in the Company's financial statements and disclosures.

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ITEM 19. EXHIBITS

| Exhibit | | Footnote |
|----------------|--|-----------------|
| No. | Description | Ref. |
| 1.1 | Certificate of Incorporation. | (2) |
| 1.2 | Certificate of Change of Name. | (2) |
| 1.3 | Articles of Incorporation of PolyMet Mining Corp. | (2) |
| 4.1 | Incentive Stock Option Plan. | (2) |
| 4.2 | Shareholder Rights Plan Agreement. | (2) |
| 4.3 | Contract for Deed between us and Cleveland Cliffs, Ohio, dated November 15, 2005. | (2) |
| 4.4 | Contract for Deed between us and Cleveland Cliffs, Ohio, dated December 20, 2006 | (1) |
| 4.5 | Purchase Agreement between us and Glencore, dated October 31, 2008 | (8) |
| 4.6 | Floating Rate Secured Debenture between us and Glencore, dated October 31, 2008 | (8) |
| 4.7 | Parent Guarantee between PolyMet Mining Corp. and Glencore, dated October 31, 2008 | (8) |
| 4.8 | Security Agreement between PolyMet Mining Corp. and Glencore, dated October 31, 2008 | (8) |
| 4.9 | Security Agreement between Poly Met Mining, Inc. and Glencore, dated October 31, 2008 | (8) |
| 4.10 | Pledge Agreement between us and Glencore, dated October 31, 2008 | (8) |
| 4.11 | Exchange Warrant of PolyMet Mining Corp., dated October 31, 2008 | (8) |
| 4.12 | Purchase Warrant of PolyMet Mining Corp., dated October 31, 2008 | (8) |
| 4.13 | Amendment Letter number 11 to Purchase Agreement between us and Glencore | (9) |
| 4.14 | Amendment and Waiver between the Company, the Issuer and the Purchaser dated November 12, 2010 | (10) |
| 4.15 | Form of Warrant dated November 12, 2010 | (10) |
| 4.16 | Subscription Agreement dated November 12, 2010 | (10) |
| 4.17 | Registration Rights Agreement dated November 12, 2010 | (10) |

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| | | |
|--------------|---|----------|
| 6.1 | 2007 PolyMet Omnibus Share Compensation Plan | (7) |
| 8.1 | List of Subsidiaries. | (2) |
| 11.1 | Code of Ethics. | (3) |
| 11.2 | Statement of Corporate Governance Practices, including Audit Mandate and Charter. | (4) |
| <u>12.1</u> | <u>Certification of Principal Executive Officer pursuant to 17 C.F.R. 240.13a-14(a).</u> | <u>*</u> |
| <u>12.2</u> | <u>Certification of Principal Financial Officer pursuant to 17 C.F.R. 240.13a-14(a).</u> | <u>*</u> |
| <u>13.1</u> | <u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 17 C.F.R. 240.13a-14(b) and 18 U.S.C. 1350.</u> | <u>*</u> |
| 14.1 | Amended and Restated Shareholder Rights Plan | (7) |
| 15.1 | Technical Report on NorthMet Project by P. Downey and Associates, dated July 2004 | (5) |
| 15.2 | Subscription Agreement dated as of July 19, 2004, between us and certain investor(s). | (2) |
| 15.3 | Subscription Agreement dated as of February 11, 2005, between us and certain investor(s). | (2) |
| 15.4 | Subscription Agreement closing on August 29, 2005, between us and certain investor(s). | (2) |
| 15.5 | Subscription Agreement dated as of September 21, 2005, between us and certain investor(s). | (2) |
| 15.6 | Form of Canadian Subscription Agreement between us and certain investor (s). | (1) |
| 15.7 | Form of U.S. Subscription Agreement between us and certain investor(s). | (1) |
| 15.8 | Lease Agreement between us and U.S. Steel Corporation, dated January 4, 1989. | (2) |
| 15.9 | Notice of Assignment of the Lease Agreement from U.S. Steel Corporation to RGGGS Land and Minerals, Ltd. L.P. | (2) |
| 15.10 | Nominating and Corporate Governance Committee Charter | (7) |
| 15.11 | Technical Report on NorthMet Project by P.J. Hunter C. Eng. CP dated October 2006 | (6) |
| <u>15.12</u> | <u>Consent of Independent Registered Public Accounting Firm</u> | <u>*</u> |
| 16.1 | Audit Committee Charter | (7) |
| 17.1 | Executive employment agreement with Mr. William Murray dated July 1, 2007 and amended January 25, 2008 | (7) |
| 17.2 | Executive employment agreement with Mr. Douglas Newby dated July 1, 2007 | (7) |
| 17.3 | Executive employment agreement with Mr. Joseph Scipioni dated July 1, 2007 | (7) |
| 17.4 | Employment agreement with Mr. Niall Moore dated May 6, 2007 and amended January 25, 2008 | (7) |

Footnote**Ref. Description**

- * Filed herewith.
- (1) Incorporated by reference to our Annual Report on Form 20-F/A for the fiscal year ended January 31, 2007, filed on May 31 2007.
- (2) Incorporated by reference to our Annual Report on Form 20-F/A for the fiscal year ended January 31, 2006, filed on July 31 2006.
- (3) Incorporated by reference to our Annual Report on Form 20-F/A for the fiscal year ended January 31, 2004, filed on July 7, 2005.
- (4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended January 31, 2005, filed on July 25, 2005.
- (5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended January 31, 2004, filed on June 30, 2004.
- (6) Incorporated by reference to our Report on Form 6-K, filed on November 13, 2006.
- (7) Incorporated by reference to our Annual Report on Form-20-F/A for the fiscal year ended January 31, 2008, filed on August 27, 2008.

- (8) Incorporated by reference to our Form 13-D relating to our Purchase Agreement filed on November 10, 2008.
- (9) Incorporated by reference to our Report on Form 6-K filed on November 23, 2009.
- (10) Incorporated by reference to our Report on Form 6-K filed on November 18, 2010.

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SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F, as amended by this Amendment No. 1 on Form 20-F/A, and has duly caused and authorized the undersigned to sign this amended Annual Report on its behalf.

Dated: May 27, 2011

POLYMET MINING CORP.

/s/ Joseph Scipioni

Name:

Joseph Scipioni

Title:

Chief Executive Officer

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