

NORTH AMERICAN PALLADIUM LTD

FORM 6-K (Report of Foreign Issuer)

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Form 6-K

SECURITIES AND EXCHANGE COMMISSION

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act of 1934

For the month of November, 2014

Commission File Number: 1-15142

NORTH AMERICAN PALLADIUM LTD.

(Name of Registrant)

200 Bay Street
Royal Bank Plaza, South Tower
Suite 2350
Toronto, Ontario
Canada M5J 2J2
(Address of Principal Executive Offices)

Indicate by checkmark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ☐

Form 40-F ☒

Indicate by check mark ark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark ark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by checkmark whether the registrant, by furnishing the information contained in this Form is also thereby furnishing the information to the SEC pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ☐

Assigned File No. _____

No ☒

If "Yes" is marked, indicate the file number assigned to the Registrant in connection with Rule 12g3-2(b).

This report on Form 6-K is specifically incorporated by reference into North American Palladium's registration statement on Form S-8 (File No. 333-13766) and registration statement on Form F-10 (File No. 333-185656).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTH AMERICAN PALLADIUM LTD.

Date: November 5, 2014

By: /s/ Tess Lofsky

Tess Lofsky

Vice President, General Counsel & Corporate Secretary

EXHIBIT INDEX

Exhibit	Description of Exhibit
1	2014 Q3 – Management’s Discussion and Analysis
2	2014 Q3 – Financial Statements
3	News Release – “North American Palladium Announces Third Quarter 2014 Results”



North American Palladium Ltd.

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THIRD QUARTER REPORT 2014



North American Palladium Ltd.

Management's Discussion and Analysis

INTRODUCTION

Unless the context suggests otherwise, references to "NAP" or the "Company" or similar terms refer to North American Palladium Ltd. and its subsidiaries. "LDI" refers to Lac des Iles Mines Ltd. and "NAP Quebec" refers to its previously held subsidiary, NAP Quebec Mines Ltd.

The following is management's discussion and analysis of the financial condition and results of operations ("MD&A") to enable readers of the Company's condensed interim consolidated financial statements and related notes to assess material changes in financial condition and results of operations for the three and nine months ended September 30, 2014, compared to those of the respective periods in the prior year. This MD&A has been prepared as of November 5, 2014 and is intended to supplement and complement the condensed interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2014 (collectively, the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. Readers are encouraged to review the Financial Statements in conjunction with their review of this MD&A, the Company's MD&A for the year ended December 31, 2013, and the most recent Form 40-F/Annual Information Form on file with the U.S. Securities and Exchange Commission ("SEC") and Canadian provincial securities regulatory authorities, available at www.sec.gov and www.sedar.com, respectively.

All amounts are in Canadian dollars unless otherwise noted and all references to production ounces refer to payable production.

FORWARD-LOOKING INFORMATION

Certain information contained in this MD&A constitutes 'forward-looking statements' within the meaning of the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The words 'expect', 'believe', 'anticipate', 'contemplate', 'target', 'may', 'will', 'could', 'intend', 'estimate' and similar expressions identify forward-looking statements. Forward-looking statements included in this MD&A include, without limitation: information as to our strategy, plans or future financial or operating performance, such as the ramp-up of the Company's mine, project timelines, production plans, projected cash flows or expenditures, operating cost estimates, mining methods, expected mining rates and other statements that express management's expectations or estimates of future performance. The Company cautions the reader that such forward-looking statements involve known and unknown risk factors that may cause the actual results to be materially different from those expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to: the risk the Company may not be able to continue as a going concern, the possibility that the Company may not be able to obtain sufficient financing, that the Company may not be able to generate sufficient cash to service all its indebtedness and may be forced to take other actions to satisfy its obligations, events of default on its indebtedness, hedging could expose it to losses, competition, the possibility title to its mineral properties will be challenged, dependency on third parties for smelting and refining, the possibility that metal prices and foreign exchange rates may fluctuate, inherent risks associated with development, exploration, mining and processing including risks related to tailings capacity and ground conditions, the mine transition from mining via ramp to mining via shaft, environmental hazards, uncertainty of mineral reserves and resources, the possibility that the mine may not perform as planned, changes in legislation, regulations or political and economic developments in Canada and abroad, risks related to employee relations and to the availability of skilled labour, litigation and the risks associated with obtaining necessary licenses and permits. For more details on these and other risk factors see the Company's most recent Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities. Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this MD&A, which may prove to be incorrect, include, but are



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not limited to: that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, that metal prices and exchange rates between the Canadian and United States dollar will be consistent with the Company's expectations, that there will be no material delays affecting operations or the timing of ongoing projects including the mine ramp-up, that prices for key mining and construction supplies, including labour costs, will remain consistent with the Company's expectations, and that the Company's current estimates of mineral reserves and resources are accurate. The forward-looking statements are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

CAUTIONARY NOTE TO U.S. INVESTORS CONCERNING MINERAL RESERVES AND RESOURCES

Mineral reserve and mineral resource information contained herein has been calculated in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*, as required by Canadian provincial securities regulatory authorities. Canadian standards differ significantly from the requirements of the SEC, and mineral reserve and mineral resource information contained herein is not comparable to similar information disclosed in accordance with the requirements of the SEC. While the terms “measured”, “indicated” and “inferred” mineral resources are required pursuant to National Instrument 43-101, the SEC does not recognize such terms. U.S. investors should understand that “inferred” mineral resources have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. In addition, U.S. investors are cautioned not to assume that any part or all of NAP's mineral resources constitute or will be converted into reserves. For a more detailed description of the key assumptions, parameters and methods used in calculating NAP's mineral reserves and mineral resources, see NAP's most recent Annual Information Form/Form 40-F on file with Canadian provincial securities regulatory authorities and the SEC.

OUR BUSINESS

NAP is an established precious metals producer that has been operating its LDI Mine located in Ontario, Canada since 1993. LDI is one of only two primary producers of palladium in the world, offering investors exposure to the price of palladium.

The Company recently expanded the underground LDI Mine and transitioned from ramp access to shaft access while utilizing long hole open stope mining. Through the utilization of the shaft and bulk mining methods, operations are expected to benefit from increased mining rates and decreased operating costs, transforming LDI into a low cost producer with a rising production profile.

The Company is conducting an exploration program in 2014 targeting the lower portion of the Offset Zone, with the intention to perform a preliminary economic assessment that would entail deepening the shaft and installation of a lower level bulk ore handling system that would increase production and extend the mine life.

The Company has significant exploration potential near the LDI Mine, where a number of growth targets have been identified, and is engaged in an exploration program aimed at increasing its palladium reserves and resources. As an established palladium-platinum group metal (“PGM”) producer with excess mill and shaft capacity on a permitted property, NAP has potential to convert exploration success into production and cash flow on an accelerated timeline.

NAP trades on the TSX under the symbol PDL and on the NYSE MKT under the symbol PAL.



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QUARTERLY TRENDS

During the first nine months of 2014, upgrades to the ore handling system were completed, transportation of personnel and material via the shaft commenced and mill recoveries remained high; however, production was impacted by repairs to the primary surface crusher, oversized muck, equipment availability and a fatality at the mine site. The fatality in July 2014 impacted the Company's morale and productivity with the greatest impact on underground operations and the specific shift on site at the time of the tragic accident resulting in the processing of more surface material than planned. The Company continues to ramp-up underground production and for one day in October has exceeded 4,900 tonnes per day.

After shaft and related infrastructure construction completion in 2013, progress in 2014 has included commissioning, production build up and additional financings. Challenges arising in the third quarter of 2014 included lower grade underground ore (due to mine sequencing), equipment availability and an unfortunate fatality; however, a number of initiatives have been identified and are being implemented. On October 1, 2014, a full-time trial mill run began compared to our previous 16 day batch process resulting in payable palladium production for the month of October of approximately 20,000 ounces. The Company expects to be at or marginally below the lower end of the 2014 guidance of 170,000 payable palladium ounces.

	For the three months ended				
	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013
Palladium production – payable oz	32,560	39,223	42,641	30,979	30,097
US\$ cash cost per palladium oz sold ¹	US\$589	US\$510	US\$492	US\$620	US\$581
Surface mining – tonnes	270,860	243,041	254,294	345,132	334,820
Underground mining – tonnes	304,804	263,904	275,845	231,346	208,097
Underground mining – tonnes per day	3,313	2,900	3,065	2,515	2,262
Milling – palladium head grade (g/t)	2.4	3.1	3.3	2.9	2.5
Milling – palladium recovery	80.7 %	83.6 %	84.5 %	81.5 %	80.7 %
Adjusted EBITDA (\$000s)	\$8,287	\$10,444	\$9,743	\$1,369	\$3,189

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 22-24.



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HIGHLIGHTS

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
OPERATIONAL HIGHLIGHTS				
Mining				
Tonnes ore mined	575,664	542,917	1,612,748	1,517,191
Palladium grade (g/t)	2.6	2.5	2.9	2.8
Milling				
Tonnes ore milled	566,494	517,157	1,604,483	1,504,007
Palladium head grade (g/t)	2.4	2.5	2.9	2.9
Palladium recovery (%)	80.7	80.7	83.1	80.4
Palladium production – payable oz	32,560	30,097	114,423	104,180
Palladium sales – payable oz	36,430	27,370	116,631	99,749
Realized palladium price per ounce (US\$)	\$ 860	\$ 721	\$ 806	\$ 723
Cash cost per ounce palladium sold (US\$) ¹	\$ 589	\$ 581	\$ 527	\$ 539

FINANCIAL HIGHLIGHTS

(\$000s except per share amounts)

	2014	2013	2014	2013
Revenue	\$ 46,441	\$ 33,348	\$ 145,674	\$ 113,651
Production costs	30,116	21,663	90,206	76,305
Income from mining operations	3,513	1,179	10,323	2,088
Loss from continuing operations	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (36,949)
Loss from continuing operations per share	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.20)
Adjusted net loss ¹	\$ (6,991)	\$ (3,904)	\$ (30,557)	\$ (8,951)
EBITDA ¹	\$ (4,090)	\$ 3,819	\$ 12,797	\$ 369
Adjusted EBITDA ¹	\$ 8,287	\$ 3,189	\$ 28,474	\$ 12,039
Capital spending, continuing operations	\$ 5,817	\$ 26,885	\$ 14,274	\$ 92,758

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 22-24.

In 2014, the Company transitioned from ramp to shaft based underground mining and the sources of ore milled have changed significantly. In the third quarter of 2014:

- 575,664 tonnes at an average grade of 2.6 grams per tonne palladium were mined and processed from the Offset and Roby zones and low grade stockpile.
- The mill processed 566,494 tonnes of ore at an average palladium head grade of 2.4 grams per tonne and a recovery of 80.7% to produce 32,560 ounces of payable palladium.
- Payable palladium production was 32,560 ounces while payable palladium sales were 36,430 ounces.
- Cash interest of \$32.2 million was paid including an amount that allowed the Company to revert to a 15% interest rate on its senior secured term loan.
- Revenue increased by \$13.1 million compared to 2013 primarily due to more favourable exchange rates, higher palladium ounces sold and higher palladium prices.
- Production costs increased \$8.5 million compared to 2013 to \$30.1 million primarily due to mining 46% more underground tonnes, milling 10% more tonnes and unfavourable inventory and other cost movements.
- Adjusted EBITDA increased \$5.1 million or 160% compared to 2013 to \$8.3 million.
- Incurred a net loss of \$18.8 million which included non-cash items of \$6.9 million of depreciation and amortization, \$8.0 million of foreign exchange losses and \$6.0 million of interest expense and other costs.



LDI OPERATING & FINANCIAL RESULTS

The LDI mine consists of an underground mine, an open pit (currently inactive), a mill with a processing capacity of approximately 15,000 tonnes per day and a shaft with a capacity of approximately 8,000 tonnes per day. The primary underground deposits on the property are the Offset zone and the Roby zone. During the first nine months of 2014, production was impacted by upgrades to the ore handling system, commencement of transportation of men and material via the shaft, repairs to the primary surface crusher, oversized muck, equipment availability and a fatality.

Operating Results

The key operating results are set out in the following table.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Ore mined (tonnes)				
Underground				
Offset	232,008	208,097	721,928	442,322
Roby	72,796	-	122,625	143,037
	304,804	208,097	844,553	585,359
Surface				
Low grade stockpile & reprocessed tailings	270,860	-	768,195	4,669
Open pit	-	-	-	538,323
High grade stockpile	-	334,820	-	388,840
	270,860	334,820	768,195	931,832
Total	575,664	542,917	1,612,748	1,517,191
Mined ore grade (Pd g/t)				
Underground				
Offset	4.1	4.5	4.6	4.3
Roby	3.7	-	4.6	4.2
	4.0	4.5	4.6	4.3
Surface				
Low grade stockpile & reprocessed tailings	1.1	-	1.0	1.0
Open pit	-	-	-	2.4
High grade stockpile	-	1.2	-	1.3
	1.1	1.2	1.0	1.9
Average	2.6	2.5	2.9	2.8
Milling				
Tonnes of ore milled	566,494	517,157	1,604,483	1,504,007
Palladium head grade (g/t)	2.4	2.5	2.9	2.9
Palladium recoveries (%)	80.7	80.7	83.1	80.4
Tonnes of concentrate produced	4,135	3,905	13,834	12,787
Production cost per tonne milled	\$ 53	\$ 42	\$ 56	\$ 51
Payable production				
Palladium (oz)	32,560	30,097	114,423	104,180
Platinum (oz)	2,506	2,227	8,227	7,849
Gold (oz)	2,266	2,283	7,757	8,128
Nickel (lbs)	321,761	324,361	1,096,865	1,146,496
Copper (lbs)	563,888	643,937	1,995,914	2,144,328
Cash cost per ounce of palladium sold (US\$) ¹	\$ 589	\$ 581	\$ 527	\$ 539

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 22-24.



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Mining

In the third quarter of 2014, underground tonnes mined from the Offset and Roby zones were blended with the low grade surface stockpile material for processing in the mill. Underground ore mined at LDI during the three months ended September 30, 2014, consisted of 304,804 tonnes at an average grade of 4.0 g/t palladium compared to 208,097 tonnes at an average palladium grade of 4.5 g/t in the prior year from the Offset zone. LDI processed 270,860 tonnes of the low grade surface stockpile and tailings at an average grade of 1.1 g/t in the third quarter of 2014 compared to 334,820 tonnes at an average grade of 1.2 g/t processed from a high grade stockpile in the prior year. On a combined basis, 6% more tonnes at a higher grade were mined and processed in the third quarter of 2014 compared to 2013.

In the first nine months of 2014, underground tonnes mined from the Offset and Roby zones were blended with the low grade surface stockpile material for processing in the mill. Underground ore mined at LDI from the Offset and Roby zones during the nine months ended September 30, 2014, consisted of 844,553 tonnes at an average grade of 4.6 g/t palladium compared to 585,359 tonnes at an average palladium grade of 4.3 g/t in the prior year. LDI processed 768,195 tonnes of the low grade surface stockpile and tailings at an average grade of 1.0 g/t in the first nine months of 2014 compared to 931,832 tonnes at an average grade of 1.9 g/t processed from the open pit and high and low grade stockpiles in the prior year. On a combined basis, 6% more tonnes of ore were mined and processed in the first nine months of 2014 at similar grades as in 2013.

Milling

During the three months ended September 30, 2014, the LDI mill processed 566,494 tonnes of ore at an average palladium head grade of 2.4 g/t and a recovery of 80.7% to produce 32,560 ounces of payable palladium (2013 – 517,157 tonnes milled, average palladium head grade of 2.5 g/t, recovery of 80.7 %, producing 30,097 ounces of payable palladium).

During the nine months ended September 30, 2014, the LDI mill processed 1,604,483 tonnes of ore at an average palladium head grade of 2.9 g/t and a recovery of 83.1% to produce 114,423 ounces of payable palladium (2013 – 1,504,007 tonnes milled, average palladium head grade of 2.9 g/t, recovery of 80.4%, producing 104,180 ounces of payable palladium).

The higher mill recovery for the nine months ended September 30, 2014 compared to 2013 was primarily due to improvements in the mill circuit late in 2013 which increased the percentage of palladium recovered while processing similar ore grades.

Production Costs per Tonne Milled

Production costs per tonne milled were \$53 and \$56 in the three and nine month periods ended September 30, 2014 respectively compared to \$42 and \$51 per tonne in the comparable 2013 periods. The increases were primarily due to higher costs associated with mining greater quantities of underground ore (which costs more per tonne to mine) in 2014 compared with 2013 as well as the cost changes noted in the production cost section noted below.

Payable Production

Payable production for the three and nine month periods ended September 30, 2014 were higher for palladium and platinum and lower for all other payable metals compared to their respective 2013 periods.

The changes in payable metal production for the three and nine month periods ended September 30, 2014 compared to the respective periods in 2013 was primarily due to greater tonnes milled and higher recoveries for all metals except nickel being offset by lower head grades for all payable metals except palladium that had similar head grades.



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Cash Cost per Ounce of Palladium Sold

Cash cost per ounce of palladium sold is a non-IFRS measure and the calculation is provided in the Non-IFRS Measures section of this MD&A. In 2013, the Company was in transition, sinking a shaft and completing related infrastructure at the same time it was developing and transitioning to mining the Offset zone. In 2014, the development and transitioning to the Offset zone was completed.

The cash cost per ounce of palladium sold increased to US\$589 ¹ in the third quarter of 2014 and decreased to US\$527 ¹ in the nine month period ended September 30, 2014 compared to US\$581 ¹ and US\$539 ¹ respectively in the comparable periods in the prior year. More payable palladium ounces sold, favourable movements of the Canadian dollar and higher by-product revenues were offset by increased production costs. Please refer to the LDI revenue, production costs, smelting, refining and freight costs and royalty expense sections of this MD&A for additional details.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 22-24.

Financial Results

Income from mining operations for the LDI operations is summarized in the following table.

(expressed in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue	\$ 46,441	\$ 33,348	\$ 145,674	\$ 113,651
Mining operating expenses				
Production costs				
Mining	17,041	14,551	52,909	48,943
Milling	7,278	6,459	22,454	19,712
General and administration	4,440	4,105	14,383	12,070
	28,759	25,115	89,746	80,725
Inventory and others	1,357	(3,452)	460	(4,420)
	30,116	21,663	90,206	76,305
Smelting, refining and freight costs	4,007	2,922	12,320	10,130
Royalty expense	1,761	1,464	6,019	4,865
Depreciation and amortization	6,894	6,144	25,436	19,233
Loss on disposal of equipment	150	(24)	1,370	1,030
Total mining operating expenses	\$ 42,928	\$ 32,169	\$ 135,351	\$ 111,563
Income from mining operations	\$ 3,513	\$ 1,179	\$ 10,323	\$ 2,088

The Company has included income from mining operations as an additional IFRS measure to provide the user with information on the actual results of the LDI operations.



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Revenue

Revenue is affected by production and sales volumes, commodity prices, currency exchange rates, mill run timing and shipment schedules. Metal sales for LDI are recognized in revenue at provisional prices when delivered to a smelter for treatment or a designated shipping point. Final pricing is determined in accordance with LDI's smelter agreements. In most cases, final pricing is determined two months after delivery to the smelter for gold, nickel and copper and four months after delivery for palladium and platinum. These final pricing adjustments can result in additional revenues in a rising commodity price environment and reductions to revenue in a declining commodity price environment. Similarly, a weakening in the Canadian dollar relative to the U.S. dollar would have a positive impact on revenues and a strengthening in the Canadian dollar would have a negative impact on revenues. The Company periodically enters into financial contracts for past production delivered to the smelters to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar. As at September 30, 2014, these financial contracts represent 32,500 ounces of palladium (June 30, 2014 – 47,500 palladium ounces) and mature from October 2014 through December 2014 at an average forward price of US\$860 (C\$950) per ounce (June 30, 2014 –US\$799 (C\$870) per ounce of palladium). For substantially all of the palladium delivered to the customers under the smelter agreements, the quantities and timing of settlement specified in the financial contracts match final pricing settlement periods. The palladium financial contracts are being recognized on a mark-to-market basis as an adjustment to revenue. The fair value of these contracts at September 30, 2014 was an asset of \$2.6 million included in accounts receivable (December 31, 2013 –\$0.2 million).

Revenue for the three months ended September 30, 2014							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	36,430	2,777	2,516	356,832	622,585	n.a.	n.a.
Realized price (US\$) ⁽¹⁾	\$ 860	\$ 1,433	\$ 1,319	\$ 8.33	\$ 3.18	n.a.	n.a.
Revenue before price adjustment (\$000s)	\$ 34,130	\$ 4,305	\$ 3,498	\$ 3,190	\$ 2,143	\$ 19	\$ 47,285
Price adjustment (\$000s):							
Commodities	(2,106)	(674)	(162)	(285)	(90)	(1)	(3,318)
Foreign exchange	1,906	256	124	111	76	1	2,474
Revenue (\$000s)	\$ 33,930	\$ 3,887	\$ 3,460	\$ 3,016	\$ 2,129	\$ 19	\$ 46,441

⁽¹⁾ Quantities and prices are per ounce for palladium, platinum and gold and per pound for nickel and copper.

Revenue for the three months ended September 30, 2013							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	27,370	2,033	2,101	314,028	586,762	n.a.	n.a.
Realized price (US\$) ⁽¹⁾	\$ 721	\$ 1,445	\$ 1,327	\$ 6.28	\$ 3.20	n.a.	n.a.
Revenue before price adjustment (\$000s)	\$ 20,636	\$ 3,073	\$ 2,904	\$ 2,030	\$ 1,931	\$ 49	\$ 30,623
Price adjustment (\$000s):							
Commodities	2,258	335	299	94	182	3	3,171
Foreign exchange	(249)	(56)	(44)	(61)	(36)	-	(446)
Revenue (\$000s)	\$ 22,645	\$ 3,352	\$ 3,159	\$ 2,063	\$ 2,077	\$ 52	\$ 33,348

⁽¹⁾ Quantities and prices are per ounce for palladium, platinum and gold and per pound for nickel and copper.



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Revenue for the nine months ended September 30, 2014							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	116,631	8,380	7,915	1,094,717	2,038,907	n.a.	n.a.
Realized price (US\$) ⁽¹⁾	\$ 806	\$ 1,432	\$ 1,296	\$ 7.61	\$ 3.15	n.a.	n.a.
Revenue before price adjustment	\$ 103,101	\$ 13,092	\$ 11,112	\$ 9,363	\$ 7,003	\$ 112	\$ 143,783
Price adjustment (\$000s):							
Commodities	592	(202)	156	214	(207)	4	557
Foreign exchange	729	259	137	95	111	3	1,334
Revenue (\$000s)	\$ 104,422	\$ 13,149	\$ 11,405	\$ 9,672	\$ 6,907	\$ 119	\$ 145,674

⁽¹⁾ Quantities and prices are per ounce for palladium, platinum and gold and per pound for nickel and copper.

Revenue for the nine months ended September 30, 2013							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	99,749	7,499	7,803	1,099,373	2,031,749	n.a.	n.a.
Realized price (US\$) ⁽¹⁾	\$ 723	\$ 1,522	\$ 1,473	\$ 6.83	\$ 3.35	n.a.	n.a.
Revenue before price adjustment	\$ 74,557	\$ 11,642	\$ 11,652	\$ 7,829	\$ 6,904	\$ 170	\$ 112,754
Price adjustment (\$000s):							
Commodities	1,305	(285)	(518)	(308)	(59)	-	135
Foreign exchange	68	307	226	69	91	1	762
Revenue (\$000s)	\$ 75,930	\$ 11,664	\$ 11,360	\$ 7,590	\$ 6,936	\$ 171	\$ 113,651

⁽¹⁾ Quantities and prices are per ounce for palladium, platinum and gold and per pound for nickel and copper.

During the first nine months of 2013, the Company was sinking a shaft and completing related infrastructure while developing and transitioning to mining the Offset zone. Revenue for the three months ended September 30, 2014 increased \$13.1 million or 39% compared to 2013 primarily due to 33% more ounces of palladium sold at 19% higher realized prices, a 6% favourable movement in the exchange rate and greater volumes of platinum (+37%), gold (+20%), nickel (+14%) and copper (+6%).

For the first nine months of 2014, revenues increased \$32.0 million or 28% compared to 2013 primarily due to 17% more ounces of palladium sold at 11% higher prices, a 7% favourable exchange rate movement and 12% greater volumes of platinum sold.

Spot Metal Prices* and Exchange Rates

For comparison purposes, the following table sets out spot metal prices and exchange rates.

	Sep-30 2014	Jun-30 2014	Mar-31 2014	Dec-31 2013	Sep-30 2013	Jun-30 2013	Mar-31 2013	Dec-31 2012
Palladium – US\$/oz	\$ 775	\$ 844	\$ 778	\$ 711	\$ 726	\$ 643	\$ 770	\$ 699
Platinum – US\$/oz	\$ 1,300	\$ 1,480	\$ 1,418	\$ 1,358	\$ 1,411	\$ 1,317	\$ 1,576	\$ 1,523
Gold – US\$/oz	\$ 1,217	\$ 1,315	\$ 1,292	\$ 1,202	\$ 1,327	\$ 1,192	\$ 1,598	\$ 1,664
Nickel – US\$/lb	\$ 7.49	\$ 8.49	\$ 7.14	\$ 6.34	\$ 6.29	\$ 6.20	\$ 7.50	\$ 7.75
Copper – US\$/lb	\$ 3.03	\$ 3.15	\$ 3.01	\$ 3.34	\$ 3.31	\$ 3.06	\$ 3.44	\$ 3.59
Exchange rate (Bank of Canada) – CDN\$1 = US\$	US\$ 0.89	US\$ 0.94	US\$ 0.90	US\$ 0.94	US\$ 0.97	US\$ 0.95	US\$ 0.98	US\$ 1.01

* Based on the London Metal Exchange



Operating Expenses from Continuing Operations

As of June 30, 2014, the Company had completed modification to the design of the underground ore handling system. Repairs to the primary surface crusher in the second quarter of 2014 and a fatality in the third quarter of 2014 negatively impacted production, payable metal sales and cash cost. Significantly higher propane and power costs as a result of a colder than normal winter negatively impacted the first quarter of 2014 operating costs by approximately \$2.7 million.

Production costs

For the three and nine months ended September 30, 2014, production costs were \$30.1 million and \$90.2 million compared to \$21.7 million and \$76.3 million in 2013 respectively. Mining costs for the three and nine month periods ended September 30, 2014 increased by \$2.5 million (17%) and \$4.0 million (8%) respectively compared to the 2013 periods. In 2014, the Company was predominantly mining in the Offset zone, transporting a majority of that material up the shaft and also processing surface stockpiles. In 2013, mining was predominantly in the Offset zone which was transported to surface using the ramp and from the high grade surface stockpile. As such, the 2014 and 2013 mining costs are not comparable as 46% and 44% more tonnes were mined from underground in the third quarter and first nine months of 2014 respectively compared to 2013.

For the three and nine month periods ended September 30, 2014, milling costs increased \$0.8 million (13%) and \$2.7 million (14%) respectively compared to the respective 2013 periods primarily due to: more tonnes milled; increased depressant usage and grinding media; and, for the nine month period, higher power costs in the first quarter of 2014 related to a colder than normal winter. General and administration costs in the three and nine months ended September 30, 2014 increased \$0.3 million and \$2.3 million respectively compared to the same periods in 2013 primarily due to amounts charged to the Offset zone capital costs in 2013 that did not recur in 2014; increased consultant costs; and, in the first quarter of 2014, increased propane costs due to a colder than normal winter.

Inventory and other costs increased production costs by \$1.4 million and \$0.5 million for the three and nine month periods ended September 30, 2014 compared to decreases of \$3.5 million and \$4.4 million respectively in 2013 periods for net changes of \$4.8 million and \$4.9 million primarily due to inventory decreases in 2014 compared to increases in 2013 and \$1.2 million and \$1.3 million of net insurance proceeds received in respective 2013 periods that did not recur in 2014.

Smelting, refining and freight costs

Smelting, refining and freight costs for the three and nine months ended September 30, 2014 were \$4.0 million and \$12.3 million respectively, compared to \$2.9 million and \$10.1 million in the comparable 2013 periods. The increases over the prior year were primarily due to the impact of a weaker Canadian dollar and more tonnes of concentrate shipped.

Royalty expense

For the three and nine month periods ended September 30, 2014, royalty expenses were \$1.8 million and \$6.0 million respectively compared to \$1.5 million and \$4.9 million in the comparable 2013 periods. The increases were primarily due to higher revenues in 2014 compared to 2013.

Depreciation and amortization

Depreciation and amortization for the three and nine months ended September 30, 2014 was \$6.9 million and \$25.4 million, compared to \$6.1 million and \$19.2 million respectively in 2013. The increases over the prior year were primarily due to increased production and a significant increase in depreciable assets associated with the LDI mine expansion including the Offset zone and tailings management facilities.



OTHER EXPENSES

Exploration

Exploration expenditures for the three and nine month periods ended September 30, 2014 were \$2.6 million and \$5.2 million respectively (2013 - \$3.9 million and \$10.9 million respectively). The decreases were primarily due to a more limited exploration program in 2014 compared with 2013 and to a scheduled build-up of underground drilling linked to the completion of an exploration drift in the Offset zone. The 2014 exploration program is focused on: (i) drilling the lower part of the Offset zone below the 1,065 meter level - the known limit of proven and probable reserves; (ii) resource conversion drilling in the upper Offset zone directly north of active and planned mining stopes; and, (iii) delineation of new resources in the upper Offset southeast extension, the shallowest known level of the deposit. The Company is pleased with the results to-date for the areas tested. Please see the Company's October 16, 2014 news release for a detailed review of the third quarter drilling results.

General and administration

The Company's general and administration expenses for the three and nine month periods ended September 30, 2014 were \$2.1 million and \$7.3 million respectively compared to \$2.9 million and \$8.0 million in the prior year periods. The decreases were primarily due to less costs relating to legal fees, consultants, recruiting activities and director fees impacted by restricted stock unit adjustments.

Interest and other income

Interest and other income for the three and nine month periods ended September 30, 2014 were \$1.5 million and \$3.9 million respectively compared to \$0.2 million and \$1.7 million in respective 2013 periods. The increases were primarily due to decreases in fair value of convertible debenture warrants in 2014 partially offset by gains on palladium warrants and the renunciation of flow-through expenditures in 2013 that did not recur in 2014.

Interest expense and other costs

Prior to the commencement of commercial production of the shaft on January 1, 2014, the Company had capitalized interest expenses related to the senior secured term loan and the revolving operating line of credit. In 2014, interest related to these loans was expensed. Interest expense and other costs for the three months ended September 30, 2014 were \$10.2 million, compared to \$2.5 million in the prior year. The increase of \$7.7 million was primarily due to an \$8.2 million increase in interest expense associated with completion of the Offset zone development project. Interest expense and other costs for the nine months ended September 30, 2014 were \$39.2 million, compared to \$5.7 million in the prior year. The increase of \$33.5 million was primarily due to a \$28.8 million increase in interest expense associated with completion of the Offset zone development project and \$6.4 million of changes in the fair value of the convertible debentures issued in 2014.

Financing costs

Financing costs for the nine month period ended September 30, 2014 was \$7.5 million compared to costs of \$3.1 million in the prior year period. The increase over the 2013 comparative costs were primarily due to financing costs in 2014 related to the convertible debentures issued partially offset by 2013 financing costs related to outlays incurred for the initial investigation and negotiation of various potential financing alternatives prior to entering into the final amending agreement for the senior secured term loan in the fourth quarter of 2013.

Foreign exchange loss (gain)

Foreign exchange loss for the three and nine month periods ended September 30, 2014 were \$9.8 million and \$10.5 million respectively compared to a foreign exchange gain of \$3.3 million and a loss of \$2.0 million for the three and nine month periods ended September 30, 2013. The gains and losses were primarily due to the impact of exchange rate movements on the US\$ denominated senior secured term loan and the US\$ denominated credit facility.



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SUMMARY OF QUARTERLY RESULTS

(expressed in thousands of Canadian dollars except per share amounts)

	2014				2013			2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 46,441	\$ 50,497	\$ 48,736	\$ 39,582	\$ 33,348	\$ 33,213	\$ 47,090	\$ 42,368
Production costs, net of mine restoration costs	30,116	30,355	29,735	29,890	21,663	25,701	28,941	25,421
Exploration expense	2,566	1,891	768	1,360	3,874	2,192	4,840	5,962
Capital expenditures	5,817	5,569	2,888	16,728	26,885	27,805	38,068	41,810
Loss from continuing operations	(18,790)	(9,957)	(26,666)	(11,746)	(5,324)	(26,268)	(5,357)	(3,739)
Net loss	(18,790)	(9,957)	(26,666)	(11,746)	(5,324)	(26,268)	(2,848)	(54,010)
Cash provided by (used in) operations	8,024	(3,807)	(16,749)	4,193	2,022	(2,849)	3,165	37,970
Cash provided by (used in) financing activities	(34,720)	31,601	31,765	4,289	(2,087)	51,970	17,096	1,926
Cash used in investing activities	(5,817)	(5,410)	(2,888)	(16,723)	(26,710)	(27,805)	(37,078)	(41,831)
Net loss per share from continuing operations								
– basic	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.05)	\$ (0.03)	\$ (0.15)	\$ (0.03)	\$ (0.02)
– diluted	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.05)	\$ (0.03)	\$ (0.16)	\$ (0.03)	\$ (0.02)
Net loss per share								
– basic	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.05)	\$ (0.03)	\$ (0.15)	\$ (0.02)	\$ (0.31)
– diluted	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.05)	\$ (0.03)	\$ (0.16)	\$ (0.02)	\$ (0.31)
Tonnes milled	566,494	521,478	516,511	544,074	517,157	483,266	503,585	511,226
Palladium ounces sold	36,430	40,716	39,485	35,205	27,370	32,620	39,760	44,394
Realized palladium price (US\$/ounce)	\$ 860	\$ 806	\$ 739	\$ 725	\$ 721	\$ 719	\$ 730	\$ 641

Trends:

- Revenue, production costs, tonnes milled and palladium ounces sold, varied over the last eight quarters as mining has transitioned from the Roby zone underground and the surface open pit to the Offset zone underground and surface stockpiles. Changes in tonnes, grades and sources of ore significantly impacted revenue realized, production costs, ore available for milling and palladium ounces produced. A fatality in July 2014 significantly impacted production in the third quarter of 2014.
- Readily available material in the Roby and open pit zones were largely mined out in the first half of 2013 while the Offset zone production has been ramping up since 2012.
- Realized quarterly average prices for palladium have ranged from US\$641 to US\$860 per ounce in the last eight quarters while prices for platinum, gold, copper and nickel have generally been flat to declining over the same period. The weakening of the Canadian dollar versus the United States dollar generally results in higher revenues.
- Underground mining operations has transitioned to a shaft based ore handling system from a ramp based one in the most recent quarters. The Company is currently moving material to surface using both the ramp and the shaft and therefore costs are somewhat higher than those expected once operations fully utilize the ore handling system modification completed in July.
- Capital expenditures have been generally declining for the last eight quarters as activities associated with the construction of the shaft and related infrastructure to process the upper Offset zone ore were completed.



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CASH FLOWS, FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

(expressed in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Cash provided by operations prior to changes in non-cash working capital	\$ 4,505	\$ 2,455	\$ 23,165	\$ 2,253
Changes in non-cash working capital	3,519	(433)	(35,697)	85
Cash provided by (used in) operations	8,024	2,022	(12,532)	2,338
Cash provided by (used in) financing	(34,720)	(2,087)	28,646	66,979
Cash used in investing	(5,817)	(26,710)	(14,115)	(91,593)
Increase (decrease) in cash from continuing operations	(32,513)	(26,775)	1,999	(22,276)
Net cash provided by discontinued operations	-	-	-	20,142
Increase (decrease) in cash and cash equivalents	\$ (32,513)	\$ (26,775)	\$ 1,999	\$ (2,134)

Operating Activities

For the three months ended September 30, 2014, cash provided by operations prior to changes in non-cash working capital was \$4.5 million, compared to \$2.5 million in the prior year. The increase of \$2.0 million was primarily due to a \$13.1 million increase in revenues partially offset by an \$8.5 million increase in production costs and a \$3.3 million increase in realized foreign exchange loss. For the nine months ended September 30, 2014, cash provided by operations prior to changes in non-cash working capital was \$23.2 million, compared to \$2.3 million in the prior year. The increase of \$20.9 million was primarily due to a \$32.0 million increase in revenue, a \$5.7 million decrease in exploration expenses and a \$3.1 million decrease in financing costs partially offset by a \$13.9 million increase in production costs.

For the three months ended September 30, 2014, changes in non-cash working capital resulted in a source of cash of \$3.5 million, compared to a use of cash of \$0.4 million in the prior year. The increased source of \$3.9 million was primarily due to a reduction in cash-settlements of accounts payable and accrued liabilities of \$4.4 million and a reduction in inventories of \$3.8 million partially offset by a reduction in cash collections of \$4.1 million in accounts receivable.

For the nine months ended September 30, 2014, changes in non-cash working capital resulted in a use of cash of \$35.7 million, compared to a source of cash of \$0.1 million in the prior year. The increased use of \$35.8 million was primarily due to increases in accounts receivable of \$28.4 million and an increase in cash settlements of accounts payable and accrued liabilities of \$13.7 million partially offset by an increase of other assets of \$4.1 million and a decrease in the change in inventory of \$2.4 million.

Financing Activities

For the three months ended September 30, 2014, financing activities resulted in a use of cash of \$34.7 million compared to a use of \$2.1 million in 2013. The \$36.8 million increase was primarily due to \$30.2 million higher interest payments (including the payment of interest accrued from January 1, 2014 to June 30, 2014 and associated prepayment fee) partially offset by \$6.7 million lower credit facility repayment in 2014 and \$9.5 million of common shares issued in 2013 that did not recur in 2014.

For the nine month ended September 30, 2014, financing activities resulted in a source of cash of \$28.6 million compared to \$67.0 million in 2013. The \$38.4 million decrease was primarily due to \$61.2 million of net proceeds from convertible debentures issued (that have largely been converted into equity) and \$33.8 million of interest expenses paid in 2014 compared to \$131.9 million of net proceeds of a senior secured term loan issued in 2013 offset by the repayment of \$79.2 million senior secured notes in 2013.



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Investing Activities

For the three and nine month periods ended September 30, 2014, investing activities used cash of \$5.8 million and \$14.1 million (2013 - \$26.7 million and \$91.6 million respectively) primarily due to additions to mining interests of \$5.8 million and \$14.3 million respectively (2013 - \$14.3 million and \$92.8 million respectively).

Liquidity and Capital Resources

(expressed in thousands of dollars)	As at September 30 2014	As at December 31 2013
Cash balance	\$ 11,792	\$ 9,793
Net working capital	\$ 24,781	\$ (174,211)
Shareholders' equity	\$ 235,206	\$ 222,496
Total debt	\$ 256,923	\$ 239,086

As at September 30, 2014, the Company had cash and cash equivalents of \$11.8 million compared to \$9.8 million as at December 31, 2013. The increase is due primarily to the sources and uses of cash as noted above. The funds are deposited with major Canadian chartered banks.

The Company has, subject to a borrowing base cap, a US\$60.0 million credit facility that is secured by certain of the Company's accounts receivables and inventory and may be used for working capital liquidity and general corporate purposes. In July 2014, the Company extended its US\$60 million credit facility to July 3, 2015 and as at September 30, 2014, the borrowing base calculation limited the credit facility to a maximum of US\$37.1 million of which US\$36.1 million was utilized.

In July 2014, the Company paid US\$23.4 million to its senior secured term loan lender representing US\$16.2 million of accrued interest and US\$7.2 million of associated pre-payment fee. Effective June 30, 2014, the Company reverted to a 15% annual interest rate on the senior secured term loan and made a US\$6.5 million interest payment on September 30, 2014.

The Company has \$11.6 million of finance leases funding equipment for operations. Please also see the contractual obligations below for additional commitments.

The Company's liquidity may be adversely affected by operating performance, a downturn in capital market conditions impacting access to capital markets or entity specific conditions. The achievement of profitable operations is dependent on a number of variables including, but not limited to, metal prices, operational costs, capital expenditures, timely transition to mining by shaft, and meeting production targets. Adverse changes in any of these variables may require the Company to seek additional financing.

The Company's senior secured term loan and credit facility contain several financial covenants which, if not met, would result in an event of default. This debt also includes certain other covenants, including limits on liens, material adverse change provisions and cross-default provisions. Certain events of default result in this debt becoming immediately due. Other events of default entitle the lender to demand repayment. As at September 30, 2014, the Company was in compliance with all covenants.



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Contractual Obligations

Contractual obligations are comprised as follows:

As at September 30, 2014 (\$000s)	Payments Due by Period				
	Total	1-3 Years	3-5 Years	5+ Years	
Finance lease obligations	\$ 12,659	\$ 3,750	\$ 8,334	\$ 575	
Operating leases	3,458	3,285	173	-	
Purchase obligations	10,773	10,773	-	-	
	\$ 26,890	\$ 17,808	\$ 8,507	\$ 575	

In addition to the above, the Company also has asset retirement obligations at September 30, 2014 in the amount of \$15.3 million for the LDI Mine. The Company also has contractual obligations reflected in accounts payable and has obligations related to its credit facility and long-term debt. The Company obtained letters of credit of \$14.4 million as financial surety for these future outlays.

Contingencies and Commitments

Please refer to notes 14, 17 and 20 of the Company's Financial Statements. On July 2, 2014, the Company settled the B.R. Davidson claim for \$1.0 million, payable on or before December 1, 2014.

Related Party Transactions

There were no related party transactions for the nine month period ended September 30, 2014.

OUTSTANDING SHARE DATA

As of November 5, 2014, there were 386,514,777 common shares of the Company outstanding. In addition, there were options outstanding pursuant to the Amended and Restated 2013 Corporate Stock Option Plan entitling holders thereof to acquire 3,492,442 common shares of the Company at a weighted average exercise price of \$1.45 per share.

At November 5, 2014, \$1.8 million and \$43.0 million of 2014 and 2012 convertible debentures were outstanding and were convertible into approximately 7.1 million and 14.8 million common shares respectively.

In conjunction with the 2014 convertible debentures, approximately 35.7 million common share purchase warrants at an exercise price of \$0.5786 per share were issued. As at November 5, 2014, none of the common share purchase warrants had been exercised.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies generally include estimates that are highly uncertain and for which changes in those estimates could materially impact the Company's financial statements. The following accounting policies are considered critical:

a. Use of estimates

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates and assumptions relate to recoverability of mining operations and mineral exploration properties. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.



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Certain assumptions are dependent upon reserves, which represent the estimated amount of ore that can be economically and legally extracted from the Company's properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data such as drilling samples. This process may require complex and difficult geological judgments to interpret the data. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Company's financial results and financial position in a number of ways, including the following:

- Asset carrying values including mining interests may be affected due to changes in estimated future cash flows;
- Depreciation and amortization expensed in the statement of operations may change or be impacted where such expenses are determined by the units of production basis, or where the useful economic lives of assets change;
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

b. Impairment assessments of long-lived assets

The carrying amounts of the Company's non-financial assets, excluding inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment is assessed at the level of cash-generating units ("CGUs"). An impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss for any excess of carrying amount over the recoverable amount.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or groups of assets, in which case, the individual assets are grouped together into CGUs for impairment purposes.

The recoverable amount of an asset or cash-generating unit is the greater of its "value in use", defined as the discounted present value of the future cash flows expected to arise from its continuing use and its ultimate disposal, and its "fair value less costs to sell", defined as the best estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss on non-financial assets other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.



c. Depreciation and amortization of mining interests

Mining interests relating to plant and equipment, mining leases and claims, royalty interests, and other development costs are recorded at cost with depreciation and amortization provided on the unit-of-production method over the estimated remaining ounces of palladium to be produced based on the proven and probable reserves or, in the event that the Company is mining resources, an appropriate estimate of the resources mined or expected to be mined.

Mining interests relating to small vehicles and certain machinery with a determinable expected life are recorded at cost with depreciation provided on a straight-line basis over their estimated useful lives, ranging from three to seven years, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Straight-line depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Significant components of individual assets are assessed and, if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately using the unit-of-production or straight-line method as appropriate. Costs relating to land are not amortized.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

d. Revenue recognition

Revenue from the sale of metals in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of volume adjustments. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

Revenue from the sale of palladium and by-product metals from the LDI Mine is provisionally recognized based on quoted market prices upon the delivery of concentrate to the smelter or designated shipping point, which is when title transfers and significant rights and obligations of ownership pass. The Company's smelter contract provides for final prices to be determined by quoted market prices in a period subsequent to the date of concentrate delivery. Variations from the provisionally priced sales are recognized as revenue adjustments until final pricing is determined. Accounts receivable are recorded net of estimated treatment and refining costs, which are subject to final assay adjustments. Subsequent adjustments to provisional pricing amounts due to changes in metal prices and foreign exchange are disclosed separately from initial revenues in the notes to the financial statements.

e. Asset retirement obligations

In accordance with Company policies, asset retirement obligations relating to legal and constructive obligations for future site reclamation and closure of the Company's mine sites are recognized when incurred and a liability and corresponding asset are recorded at management's best estimate. Estimated closure and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs.

The amount of any liability recognized is estimated based on the risk-adjusted costs required to settle present obligations, discounted using a pre-tax risk-free discount rate consistent with the time period of expected cash flows. When the liability is initially recorded, a corresponding asset retirement cost is recognized as an addition to mining interests and amortized using the unit of production method.



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The liability for each mine site is accreted over time and the accretion charges are recognized as a finance cost in the Consolidated Statements of Operations and Comprehensive Loss. The liability is subject to re-measurement at each reporting date based on changes in discount rates and timing or amounts of the costs to be incurred. Changes in the liability, other than accretion charges, relating to mine rehabilitation and restoration obligations, which are not the result of current production of inventory, are added to or deducted from the carrying value of the related asset retirement cost in the reporting period recognized. If the change results in a reduction of the obligation in excess of the carrying value of the related asset retirement cost, the excess balance is recognized as a recovery through profit or loss in the period.

Adoption of New Accounting Standards

The following new accounting standards have been adopted by the Company.

IAS 32 Financial Instruments: Presentation

This standard is amended to clarify requirements for offsetting of financial assets and financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014. This amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

IAS 36 Recoverable Amounts

This standard was amended in May 2013 to change the disclosure required when an impairment loss is recognized or reversed. The amendments require the disclosure of the recoverable amount of an asset or cash generating unit at the time an impairment loss has been recognized or reversed and detailed disclosure of how the associated fair value less costs of disposal has been determined. The amendments are effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted. This amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

IFRIC 21 Accounting for Levies Imposed by Governments

This interpretation provides guidance on the obligating event giving rise to a liability in connection with a levy imposed by a government, and clarifies that the obligating event is the activity that triggers the payment of the levy as identified by the legislation. The interpretation is effective for annual periods beginning on or after January 1, 2014. This amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

New standards and interpretations not yet adopted

In addition to the new standards disclosed in the Company's annual financial statements for the year ended December 31, 2013, the following new standards and amendments to standards are not yet effective as of the September 30, 2014 reporting date or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any, adoption of the standards will have on the disclosures in the Company's condensed interim consolidated financial statements:

IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization

This pronouncement amends IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets to (i) clarify that the use of a revenue-based depreciation method is not appropriate for property, plant and equipment, and (ii) provide a rebuttal presumption for intangible assets. The amendment is effective for years beginning on or after January 1, 2016. This amendment is not expected to have a material impact on the condensed interim consolidated financial statements of the Company.



IFRS 15 Revenue from contracts with customers

This new standard on revenue recognition supercedes IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The amendment is effective for years beginning on or after January 1, 2017. The Company is presently evaluating the potential impact of this new standard on the condensed interim consolidated financial statements of the Company.

IFRS 9 Financial Instruments: Classification and Measurement

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)) which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. In November 2009 the IASB issued the first version of IFRS 9, *Financial Instruments* (IFRS 9 (2009)) and subsequently issued various amendments in October 2010, (IFRS 9 *Financial Instruments* (2010)) and November 2013 (IFRS 9 *Financial Instruments* (2013)).

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. This includes the introduction of a third measurement category for financial assets – fair value through other comprehensive income.

IFRS 9 (2010) introduces additional changes relating to financial liabilities.

IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment, and new general hedge accounting requirements.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company is presently evaluating the impact of adopting this standard and does not intend to early adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) and/or IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2015.

RISKS AND UNCERTAINTIES

The risks and uncertainties are discussed within the Company’s most recent Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities, the Company’s Short Form Base Shelf Prospectus filed on February 12, 2013, and the Company’s Prospectus Supplement filed on April 8, 2014.



INTERNAL CONTROLS

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable.

For the nine months ended September 30, 2014, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

The disclosure controls and procedures are evaluated annually through regular internal reviews which are carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Chief Financial Officer.

Internal Control over Financial Reporting

For the nine months ended September 30, 2014, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal controls over the financial reporting that occurred during the nine month period ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations and can only provide reasonable assurance, not absolute assurance, with respect to the preparation and fair presentation of published financial statements and management does not expect such controls will prevent or detect all misstatements due to error or fraud. The Company is continually evolving and enhancing its systems of controls and procedures.

Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, management performs regular internal reviews and conducts an annual evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992).

OTHER INFORMATION

Additional information regarding the Company is included in the Company's Annual Information Form and Annual Report on Form 40-F, which are filed with the SEC and the provincial securities regulatory authorities, respectively. A copy of the Company's Annual Information Form is posted on the SEDAR website at www.sedar.com. A copy of the Annual Report or Form 40-F can be obtained from the SEC's website at www.sec.gov.

**NON-IFRS MEASURES**

This MD&A refers to cash cost per ounce, adjusted net loss, EBITDA and adjusted EBITDA which are not recognized measures under IFRS. Such Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Management uses these measures internally. The use of these measures enables management to better assess performance trends. Management understands that a number of investors, and others who follow the Company's performance, assess performance in this way. Management believes that these measures better reflect the Company's performance and are better indications of its expected performance in future periods. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

2013 was a transition year for the Company as it was sinking the shaft and completing related infrastructure at the same time it was developing and transitioning to mining the Offset zone. As a result, the 2013 financial results would not be directly comparable to the prior or future years.

The following tables reconcile these non-IFRS measures to the most directly comparable IFRS measures:

Cash Cost Per Ounce of Palladium

The Company uses this measure internally to evaluate the underlying operating performance of the Company for the reporting periods presented. The Company believes that providing cash cost per ounce allows the ability to better evaluate the results of the underlying business of the Company.

Cash cost per ounce include mine site operating costs such as mining, processing, administration and royalties, but are exclusive of depreciation, amortization, reclamation, capital and exploration costs. Cash cost per ounce calculation is reduced by any by-product revenue and is then divided by ounces sold to arrive at the by-product cash cost per ounce of sales. This measure, along with revenues, is considered to be a key indicator of a Company's ability to generate operating earnings and cash flow from its mining operations.

The Company's primary operation relates to the extraction of palladium metal. Therefore, all other metals extracted in conjunction with the palladium metal are considered to be a by-product credit for the purposes of the cash cost calculation.

Reconciliation of Palladium Cash Cost per Ounce

	For the three months ended				For the nine months ended September 30	
(expressed in thousands of dollars except ounce and per ounce amounts)	Sep 30 2014	June 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013	2014 2013
Production costs including overhead	\$ 30,116	\$ 30,355	\$ 29,735	\$ 31,153	\$ 21,663	\$ 90,206 \$ 76,305
Smelting, refining and freight costs	4,007	4,130	4,183	3,864	2,922	12,320 10,130
Royalty expense	1,761	2,184	2,074	1,669	1,464	6,019 4,865
Mine restoration costs, net of insurance recoveries	-	-	-	-	1,214	- 1,263
Operational expenses	35,884	36,669	35,992	36,686	27,263	108,545 92,563
Less by-product metal revenue	12,511	14,103	14,639	12,425	10,703	41,252 37,721
	\$ 23,373	\$ 22,566	\$ 21,353	\$ 24,261	\$ 16,560	\$ 67,293 \$ 54,842
Divided by ounces of palladium sold	36,430	40,716	39,485	35,206	27,370	116,631 99,749
Cash cost per ounce (CDN\$)	\$ 642	\$ 554	\$ 541	\$ 689	\$ 605	\$ 577 \$ 550
Average exchange rate (CDN\$1 – US\$)	0.92	0.92	0.91	0.90	0.96	0.91 0.98
Cash cost per ounce (US\$), net of by-product credits	\$ 589	\$ 510	\$ 492	\$ 620	\$ 581	\$ 527 \$ 539



North American Palladium Ltd.

Adjusted EBITDA

The Company believes that EBITDA and Adjusted EBITDA are valuable indicators of the Company's ability to generate operating cash flow to fund working capital needs, service debt obligations, and fund capital expenditures.

EBITDA excludes the impact of the cost of financing activities and taxes, and the effects of changes in operating working capital balances, and therefore is not necessarily indicative of operating profit or cash flow from operations as determined under IFRS.

Other companies may calculate EBITDA differently. Adjusted EBITDA is a non-IFRS financial measure, which excludes the following from loss: income and mining tax expense; interest expense and other costs, net; depreciation and amortization; exploration; mine start-up and closure costs; asset impairment charges and insurance recoveries; one-time costs (mine restoration costs due to flood and retirement payments); and, foreign exchange loss (gain).

(\$000s)	For the three months ended				For the nine months ended September 30		
	Sep 30 2014	June 30 2014	March 31 2014	December 31 2013	Sep 30 2013	2014	2013
Loss and comprehensive loss from continuing operations for the year	\$ (18,790)	\$ (9,957)	\$ (26,666)	\$ (11,746)	\$ (5,324)	\$ (55,413)	\$ (36,949)
Income and mining tax recovery	-	-	-	(2,157)	-	-	-
Interest and other income	(1,524)	(2,687)	(21)	(223)	(214)	(3,924)	(1,532)
Interest expense and other costs	10,245	16,010	13,282	1,183	2,536	39,229	7,050
Financing costs	(915)	4,348	4,036	652	677	7,469	3,076
Loss on extinguishment of debt	-	-	-	-	-	-	11,035
Depreciation and amortization	6,894	8,174	10,368	6,274	6,144	25,436	19,233
EBITDA	\$ (4,090)	\$ 15,888	\$ 999	\$ (6,017)	\$ 3,819	\$ 12,797	\$ 369
Exploration	2,566	1,891	768	1,360	3,874	5,225	10,906
Insurance recoveries, net of mine restoration costs and retirement payments	-	-	-	-	(1,214)	-	(1,263)
Inventory price adjustment	-	-	-	675	-	-	-
Foreign exchange loss (gain) on US\$ denominated debt	9,811	(7,335)	7,976	5,351	(3,290)	10,452	2,027
Adjusted EBITDA	\$ 8,287	\$ 10,444	\$ 9,743	\$ 1,369	\$ 3,189	\$ 28,474	\$ 12,039



North American Palladium Ltd.

Adjusted net loss

The Company uses this measure internally to evaluate the underlying operating performance of the Company for the reporting periods presented. Providing adjusted net loss allows the reader the ability to better evaluate the results of the underlying business of the Company.

Adjusted net loss is a Non-IFRS financial measure, which excludes the following from loss: exploration; income from discontinued operations; mine start-up costs and closure costs; asset impairment charges and insurance recoveries; mine restoration costs due to flood and retirement payments; foreign exchange loss; loss on extinguishment of debt; loss in investments held for trading; and, financing costs.

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Loss and comprehensive loss for the year	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (34,440)
Exploration	2,566	3,874	5,225	10,906
Income from discontinued operations	-	-	-	(2,509)
Mine restoration costs, net of (insurance recoveries) and retirement payments	-	(1,214)	-	(1,263)
Foreign exchange loss (gain) on US\$ denominated debt	9,811	(3,290)	10,452	2,027
Loss on extinguishment of debt	-	-	-	11,035
Financing costs (income)	(915)	677	7,469	3,076
Loss on investments held for trading	337	1,373	710	2,217
Legal settlement	-	-	1,000	-
Adjusted net loss	\$ (6,991)	\$ (3,904)	\$ (30,557)	\$ (8,951)



North American Palladium Ltd.

Condensed Interim Consolidated Balance Sheets
(expressed in thousands of Canadian dollars)
(unaudited)

	Notes	September 30 2014	December 31 2013
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 11,792	\$ 9,793
Accounts receivable	5	52,536	38,556
Inventories	6	14,827	14,239
Other assets	7	1,094	6,968
Total Current Assets		80,249	69,556
Non-current Assets			
Mining interests	8	446,792	456,239
Total Non-current Assets		446,792	456,239
Total Assets		\$ 527,041	\$ 525,795
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 18,342	\$ 48,797
Credit facility	5	25,114	17,834
Current portion of obligations under finance leases	10	3,210	2,988
Current portion of long-term debt	11	7,704	173,656
Current derivative liability	11	1,098	492
Total Current Liabilities		55,468	243,767
Non-current Liabilities			
Income taxes payable		125	1,286
Asset retirement obligation	9	15,347	13,638
Obligations under finance leases	10	8,405	8,744
Long-term debt	11	212,490	35,864
Total Non-current Liabilities		236,367	59,532
Shareholders' Equity			
Common share capital and purchase warrants	12	866,108	798,411
Stock options and related surplus		9,554	9,128
Equity component of convertible debentures, net of issue costs	11	6,931	6,931
Contributed surplus		8,873	8,873
Deficit		(656,260)	(600,847)
Total Shareholders' Equity		235,206	222,496
Total Liabilities and Shareholders' Equity		\$ 527,041	\$ 525,795

Commitments – Note 14

Contingencies – Note 17

Subsequent events – Note 20

See accompanying notes to the condensed interim consolidated financial statements



North American Palladium Ltd.

Condensed Interim Consolidated Statements of Operations and
Comprehensive Loss
(expressed in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

			Three months ended September 30		Nine months ended September 30	
	Notes	2014	2013	2014	2013	
Revenue	15	\$ 46,441	\$ 33,348	\$ 145,674	\$ 113,651	
Mining operating expenses						
Production costs		30,116	21,663	90,206	76,305	
Smelting, refining and freight costs		4,007	2,922	12,320	10,130	
Royalty expense		1,761	1,464	6,019	4,865	
Depreciation and amortization		6,894	6,144	25,436	19,233	
Loss (gain) on disposal of equipment		150	(24)	1,370	1,030	
Total mining operating expenses		42,928	32,169	135,351	111,563	
Income from mining operations		3,513	1,179	10,323	2,088	
Other expenses						
Exploration		2,566	3,874	5,225	10,906	
General and administration		2,120	2,920	7,285	8,019	
Interest and other income	16	(1,524)	(214)	(3,924)	(1,746)	
Interest expense and other costs	16	10,245	2,536	39,229	5,720	
Financing costs	11	(915)	677	7,469	3,076	
Loss on extinguishment of long-term debt		-	-	-	11,035	
Foreign exchange loss (gain)		9,811	(3,290)	10,452	2,027	
Total other expenses		22,303	6,503	65,736	39,037	
Loss from continuing operations before taxes		(18,790)	(5,324)	(55,413)	(36,949)	
Income and mining tax recovery		-	-	-	-	
Loss and comprehensive loss from continuing operations for the period		\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (36,949)	
Income and comprehensive income from discontinued operations for the period	4	-	-	-	2,509	
Loss and comprehensive loss for the period		\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (34,440)	
Loss per share						
Basic		\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.19)	
Diluted	12 (d)	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.19)	
Loss from continuing operations per share						
Basic		\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.20)	
Diluted		\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.20)	
Income from discontinued operations per share						
Basic		\$ -	\$ -	\$ -	\$ 0.01	
Diluted		\$ -	\$ -	\$ -	\$ 0.01	
Weighted average number of shares outstanding						
Basic	12 (d)	384,432,246	194,555,425	322,842,483	183,904,755	
Diluted	12 (d)	384,432,246	194,555,425	322,842,483	183,927,098	

See accompanying notes to the condensed interim consolidated financial statements



North American Palladium Ltd.

Condensed Interim Consolidated Statements of Cash Flows
(expressed in thousands of Canadian dollars)
(unaudited)

		Three months ended September 30		Nine months ended September 30	
	Notes	2014	2013	2014	2013
Cash provided by (used in)					
Operations					
Loss from continuing operations for the period		\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (36,949)
Operating items not involving cash					
Depreciation and amortization		6,894	6,144	25,436	19,233
Accretion expense	16	1,711	970	1,272	2,869
Loss on extinguishment of debt		-	-	-	11,035
Share-based compensation and employee benefits	12 (f)	549	498	1,572	973
Unrealized foreign exchange loss (gain)		7,953	(1,892)	8,539	2,011
Loss on disposal of equipment		150	2,004	1,370	3,058
Interest expense and other	16	6,953	55	32,920	23
Financing costs	11	(915)	-	7,469	-
		4,505	2,455	23,165	2,253
Changes in non-cash working capital	18	3,519	(433)	(35,697)	85
		8,024	2,022	(12,532)	2,338
Financing Activities					
Issuance of common shares and warrants, net of issue costs		-	9,478	(38)	19,091
Issuance of convertible debentures, net of issue costs	11	(239)	-	61,204	-
Credit facility	5	(569)	(7,241)	5,538	6,951
Repayment of senior secured notes	11	-	-	-	(79,200)
Settlement of palladium warrants	11,20	-	(1,747)	-	(1,747)
Net proceeds of senior secured term loan	11	-	-	-	131,941
Repayment of obligations under finance leases		(930)	(595)	(2,616)	(2,168)
Interest paid		(32,203)	(1,982)	(33,768)	(7,889)
Other financing costs		(779)	-	(1,674)	-
		(34,720)	(2,087)	28,646	66,979
Investing Activities					
Additions to mining interests, net		(5,817)	(26,885)	(14,274)	(92,758)
Proceeds on disposal of mining interests, net		-	175	159	1,165
		(5,817)	(26,710)	(14,115)	(91,593)
Increase (decrease) in cash from continuing operations		(32,513)	(26,775)	1,999	(22,276)
Net cash provided by discontinued operations	4	-	-	-	20,142
Increase (decrease) in cash		(32,513)	(26,775)	1,999	(2,134)
Cash and cash equivalents, beginning of period		44,305	44,809	9,793	20,168
Cash and cash equivalents, end of period		\$ 11,792	\$ 18,034	\$ 11,792	\$ 18,034
Cash and cash equivalents consisting of:					
Cash		\$ 11,792	\$ 18,034	\$ 11,792	\$ 18,034
Short-term investments		-	-	-	-
		\$ 11,792	\$ 18,034	\$ 11,792	\$ 18,034
Foreign exchange included in cash balance		\$ 558	\$ 211	\$ 558	\$ 211

See accompanying notes to the condensed interim consolidated financial statements



North American Palladium Ltd.

Consolidated Statements of Shareholders' Equity
(expressed in thousands of Canadian dollars, except share amounts)
(unaudited)

	Notes	Number of shares	Capital stock	Stock options	Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
Balance, January 1, 2013	12	177,127,833	\$ 776,632	\$ 9,125	\$ 6,931	\$ 8,873	\$ (554,661)	\$ 246,900
Common shares issued:								
Settlement of obligation relating to production targets		709,220	1,000	-	-	-	-	1,000
Settlement of NAP Quebec disposal costs	4	203,800	300	-	-	-	-	300
Private placement of flow-through shares, net of issue costs		17,258,337	19,091	-	-	-	-	19,091
Premium on issuance of flow-through shares		-	(517)	-	-	-	-	(517)
Warrants:								
Palladium warrants exercised	11	574,738	638	-	-	-	-	638
Stock based compensation:								
Stock-based compensation expense	12 (b)	907,447	1,093	(120)	-	-	-	973
Net loss and comprehensive loss for the period ended September 30, 2013		-	-	-	-	-	(34,440)	(34,440)
Balance, September 30, 2013		196,781,375	\$ 798,237	\$ 9,005	\$ 6,931	\$ 8,873	\$ (589,101)	\$ 223,945
Balance, January 1, 2014		197,109,924	\$ 798,411	\$ 9,128	\$ 6,931	\$ 8,873	\$ (600,847)	\$ 222,496
Common shares issued:								
Pursuant to conversion of convertible debentures (Tranche I)	11	76,407,816	30,871	-	-	-	-	30,871
Pursuant to conversion of convertible debentures (Tranche II)	11	108,972,404	35,717	-	-	-	-	35,717
Private placement of flow-through shares, net of issue costs		-	(38)	-	-	-	-	(38)
Stock based compensation:								
Stock-based compensation	12 (b)(f)	2,452,776	1,147	426	-	-	-	1,573
Net loss and comprehensive loss for the period ended September 30, 2014		-	-	-	-	-	(55,413)	(55,413)
Balance, September 30, 2014		384,942,920	\$ 866,108	\$ 9,554	\$ 6,931	\$ 8,873	\$ (656,260)	\$ 235,206

See accompanying notes to the condensed interim consolidated financial statements



North American Palladium Ltd.

Notes to the condensed interim consolidated financial statements
(expressed in thousands of Canadian dollars, except per share amounts and metal prices)

1. NATURE OF OPERATIONS

North American Palladium Ltd. ("NAP") is domiciled in Canada and was incorporated on September 12, 1991 under the Canadian Business Corporations Act. The address of the Company's registered office is 200 Bay Street, Suite 2350, Royal Bank Plaza South Tower, Toronto, Ontario, Canada, M5J 2J2. The Company's 100%-owned subsidiary is Lac des Iles Mines Ltd. ("LDI").

NAP operates the LDI palladium mine, located northwest of Thunder Bay, Ontario, which started producing palladium in 1993. The Company is transitioning the LDI mine from mining via ramp access to mining via shaft while utilizing bulk mining methods.

The Company also previously held 100% ownership of NAP Quebec Mines Ltd. ("NAP Quebec") and on March 22, 2013, the Company completed the sale of NAP Quebec resulting in the disposition of all gold division assets.

The condensed interim consolidated financial statements for the Company as at September 30, 2014 and for the three and nine month periods ended September 30, 2014, include the Company and its subsidiary (collectively referred to as the "Company").

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of these financial statements, including IAS 34, Interim Financial Reporting.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of Measurement

These condensed interim consolidated financial statements have been prepared on the historical cost basis, except for the following items in the consolidated balance sheet:

- (i) Accounts receivable and related derivative instruments are measured at fair value.
- (ii) Financial instruments at fair value through profit or loss are measured at fair value.
- (iii) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies disclosed in the Company's annual financial statements for the year ended December 31, 2013 have been applied consistently by all of the Company's entities for all periods presented in these condensed interim consolidated financial statements, unless otherwise indicated.

Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of NAP and its wholly-owned subsidiary.



North American Palladium Ltd.

Adoption of New Accounting Standards

The following new accounting standards have been adopted by the Company.

IAS 32 Financial Instruments: Presentation

This standard is amended to clarify requirements for offsetting of financial assets and financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014. This amendment did not have a material impact on the condensed interim consolidated financial statements.

IAS 36 Recoverable Amounts

This standard was amended in May 2013 to change the disclosure required when an impairment loss is recognized or reversed. The amendments require the disclosure of the recoverable amount of an asset or cash generating unit at the time an impairment loss has been recognized or reversed and detailed disclosure of how the associated fair value less costs of disposal has been determined. The amendments are effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted. This amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

IFRIC 21 Accounting for Levies Imposed by Governments

This interpretation provides guidance on the obligating event giving rise to a liability in connection with a levy imposed by a government, and clarifies that the obligating event is the activity that triggers the payment of the levy as identified by the legislation. The interpretation is effective for annual periods beginning on or after January 1, 2014. This amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

New standards not yet adopted

In addition to the new standards disclosed in the Company's annual financial statements for the year ended December 31, 2013, the following new standards and amendments to standards are not yet effective as of the September 30, 2014 reporting date or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any, the adoption of the standards will have on the disclosures in the Company's condensed consolidated financial statements:

IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization

This pronouncement amends IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets to (i) clarify that the use of a revenue-based depreciation method is not appropriate for property, plant and equipment, and (ii) provide a rebuttal presumption for intangible assets. The amendment is effective for years beginning on or after January 1, 2016. This amendment is not expected to have a material impact on the condensed interim consolidated financial statements of the Company.

IFRS 15 Revenue from contracts with customers

This new standard on revenue recognition supercedes IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The amendment is effective for years beginning on or after January 1, 2017. The Company is presently evaluating the potential impact of this new standard on the condensed interim consolidated financial statements of the Company.

IFRS 9 Financial Instruments: Classification and Measurement

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)) which will replace IAS 39, Financial Instruments: Recognition and Measurement. In November 2009 the IASB issued the first version of IFRS 9, Financial Instruments (IFRS 9 (2009)) and subsequently issued various amendments in October 2010, (IFRS 9 Financial Instruments (2010)) and November 2013 (IFRS 9 Financial Instruments (2013)).



North American Palladium Ltd.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. This includes the introduction of a third measurement category for financial assets – fair value through other comprehensive income.

IFRS 9 (2010) introduces additional changes relating to financial liabilities.

IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment, and new general hedge accounting requirements.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company is presently evaluating the impact of adopting this standard and does not intend to early adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) and/or IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2015.

4. DISCONTINUED OPERATIONS

On March 22, 2013, the Company divested of its interest in its gold division through the disposal of all of the shares of its wholly-owned subsidiary, NAP Quebec. As a result, the Company has presented the condensed interim consolidated financial statements to segregate the gold division as discontinued operations from those balances relating to the Company’s continuing operations for the period to March 22, 2013.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	At September 30 2014	At December 31 2013
Accounts receivable	\$ 49,887	\$ 38,364
Unrealized gain on financial contracts ¹	2,649	192
Accounts receivable	\$ 52,536	\$ 38,556

¹ As at September 30, 2014, a total of 32,500 ounces of past palladium production delivered and sold to a smelter, was priced using forward prices for the month of final settlement at an average price of \$950 per ounce of palladium (December 31, 2013 – 31,000 ounces of past palladium production at an average price of \$768 per ounce). An unrealized gain of \$2.6 million has been recorded in accounts receivable at September 30, 2014 (December 31, 2013 – unrealized gain of \$0.2 million). Refer to note 14.

Accounts receivable represents the value of all platinum group metals (“PGMs”), gold and certain base metals contained in LDI’s concentrate shipped for smelting and refining, using the September 30, 2014 forward metal prices and foreign exchange rates applicable for the month of final settlement, and for which significant risks and rewards have transferred to third parties.

All of the accounts receivable are due from one customer at September 30, 2014 (December 31, 2013 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amount due will be fully collected. The Company is not economically dependent on its customers, refer to note 15.



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First priority security on accounts receivable and inventories of concentrate, crushed and broken ore and second priority security on the fixed assets have been pledged as security against a credit facility with a Canadian chartered bank, which matures July 3, 2015, and which is to be used for working capital liquidity and general corporate purposes. The maximum that can be utilized under the facility is the lesser of US\$60 million and an amount determined by a borrowing base calculation. The credit facility contains certain financial covenants, as defined in the agreement, including senior debt to earnings before interest, taxes, depreciation and amortization ratios, which are effective in the fourth quarter of 2014, and adjusted current ratio requirements, minimum tangible net worth requirements and capital expenditure limits which became effective June 7, 2013 which, if not met, would result in an event of default. The loan also includes certain other covenants, including material adverse change provisions and cross-default provisions with the senior secured term loan. Certain events of default result in the credit facility becoming immediately due, while other events of default entitle the lender to demand repayment. As of September 30, 2014, the Company was in compliance with the covenants.

Under the credit facility, as of September 30, 2014, the Company utilized US\$13.7 million (\$15.4 million) for letters of credit, primarily for reclamation deposits and has drawn down US\$22.4 million (\$25.1 million). During the three months ended September 30, 2014 the Company made net principal payments of US\$0.5 million (\$0.6 million) and net US\$5.0 million (\$5.5 million) was drawn down during the nine months ended September 30, 2014.

6. INVENTORIES

Inventories consist of the following:

	At September 30 2014	At December 31 2013
Supplies ¹	\$ 10,795	\$ 10,320
Concentrate inventory ¹	278	2,157
Crushed and broken ore stockpiles ^{1,2}	3,754	1,762
Total	\$ 14,827	\$ 14,239

¹ This portion of inventories has been pledged as security on the Company's credit facility. Refer to note 5.

² Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing.

All inventory amounts are carried at cost as at September 30, 2014.

7. OTHER ASSETS

Other assets consist of the following:

	At September 30 2014	At December 31 2013
Prepays	\$ 524	\$ 1,488
HST receivable	488	4,420
Investments ¹	15	150
Other	67	910
	\$ 1,094	\$ 6,968

¹ On March 22, 2013, the Company sold its investment in NAP Quebec. A portion of the proceeds on the sale was equity-settled by the purchaser. Any gain or loss in the value of the investments is recognized in the consolidated statements of operations and comprehensive loss. The fair value of the investments at initial recognition was \$1.4 million and was less than \$0.1 million at September 30, 2014 (December 31, 2013 - \$0.2 million).



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8. MINING INTERESTS

Mining interests are comprised of the following:

	Plant and equipment	Underground mine development ¹	Equipment under finance leases	Mining leases and claims, royalty interest, and development	Total
Carrying amounts					
As at					
December 31, 2013	\$ 56,181	\$ 377,749	\$ 11,559	\$ 10,750	\$ 456,239
As at					
September 30, 2014	\$ 62,453	\$ 361,583	\$ 11,518	\$ 11,238	\$ 446,792

¹ No interest was capitalized to mining interests for the three and nine month periods ended September 30, 2014. For the year ended December 31, 2013, \$19.6 million of interest costs on long-term debt was capitalized to mining interests.

Depreciation and amortization

As a result of the finalization of the technical report for the LDI mine, which was released on March 31, 2014, the Company revised its estimate of in-situ ounces of palladium used as the denominator for amortization of certain of its assets under the unit-of-production method. The revised estimate was based on the inclusion of proven and probable reserves and measured resources expected to be converted to reserves based on prior conversion rates. This change in estimate has been prospectively applied for all depreciation and amortization calculations for March 2014 onward.

Asset restrictions and contractual commitments

The Company's assets are subject to certain restrictions on title and property, plant and equipment. Certain assets are pledged as security for credit agreement arrangements and senior secured lenders. See notes 5 and 11.

9. ASSET RETIREMENT OBLIGATION AND RECLAMATION DEPOSITS

At September 30, 2014, the changes in asset retirement obligation ("ARO") and the related mine restoration deposit are as follows:

Asset retirement obligation, beginning of period – continuing operations	\$ 13,638
Change in discount rate and estimated closure costs	1,440
Accretion expense	269
Asset retirement obligation, end of period – continuing operations	\$ 15,347

Property	Expected timing of cash flows	Asset retirement obligation	Mine closure plan requirement	Letter of credit outstanding	Undiscounted asset retirement obligation
Continuing Operations:					
LDI mine ¹	2023	\$ 15,347	\$ 14,224	\$ 14,055	18,565

¹ Including a letter of credit for Shebandowan West project, the total ARO-related letters of credit outstanding are \$14.4 million.



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The key assumptions applied for determination of the ARO are as follows as at:

	At September 30 2014	At December 31 2013
Continuing Operations:		
Inflation	2.00 %	2.00 %
Market risk	5.00 %	5.00 %
Discount rate	2.05 %	2.75 %

The ARO may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

10. LEASES

At the respective reporting dates, the Company was party to the following lease arrangements:

FINANCE LEASES (OBLIGATIONS UNDER FINANCE LEASES)

The Company leases production equipment under a number of finance lease agreements. Some leases provide the Company with the option to purchase the equipment at a beneficial price. The leased equipment secures the lease obligations. The net carrying amount of leased plant and equipment at each reporting date is summarized in Note 8 under the category of equipment under finance leases.

The following is a schedule of future minimum lease payments under finance leases together with the present value of the net minimum lease payments at each reporting date:

	September 30, 2014			December 31, 2013		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 3,749	\$ 539	\$ 3,210	\$ 3,542	\$ 554	\$ 2,988
Between one and five years	8,910	505	8,405	9,418	674	8,744
	\$ 12,659	\$ 1,044	\$ 11,615	\$ 12,960	\$ 1,228	\$ 11,732
Less current portion			3,210			2,988
			\$ 8,405			\$ 8,744

OPERATING LEASES

The following schedule provides the future minimum lease payments under non-cancellable operating leases outstanding at each of the reporting dates:

	At September 30 2014	At December 31 2013
Less than one year	\$ 1,748	\$ 1,892
Between one and five years	1,710	2,545
More than five years	-	11
	\$ 3,458	\$ 4,448



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The total minimum lease payments recognized in expense during each of the stated three and nine month end periods ending are as follows:

	Three months ended September 30			Nine months ended September 30		
	2014	2013		2014	2013	
Minimum lease payments expensed	\$ 819	\$ 683	\$	2,669	\$ 1,813	\$

11. LONG-TERM DEBT

Long-term debt is comprised of the following as at each reporting date:

	At September 30 2014	At December 31 2013
Senior secured term loan	\$ 179,926	\$ 173,656
Convertible debentures (2012)	37,054	35,864
Convertible debentures and warrants (2014 - Tranche 1)	1,249	-
Convertible debentures and warrants (2014 - Tranche 2)	1,965	-
	\$ 220,194	\$ 209,520
Less current portion ¹	7,704	173,656
	\$ 212,490	\$ 35,864

¹ Subsequent to December 31, 2013, following receipt of waivers from the Company's senior secured term lender for covenant violations disclosed in the Company's financial statements for the year ended December 31, 2013, the current portion was reclassified as non-current.

Senior secured term loan

On June 7, 2013, the Company closed a US\$130 million senior secured term loan financing with Brookfield Capital Partners Ltd. ("Brookfield") which bore interest at 15% per annum and is due June 7, 2017. The loan is secured by first priority security on the fixed assets and second priority security on accounts receivable and inventory. NAP has the option to accrue interest during the first two years of the loan; in which case, the interest rate on the loan and accrued interest would increase by 4%. The loan contains covenants, as defined in the agreement, including senior debt to earnings before interest, taxes, depreciation and amortization ratios, which are effective in the fourth quarter of 2014, and minimum tangible net worth requirements and capital expenditure limits which became effective June 7, 2013 which, if not met, would result in an event of default.

At closing, the Company exercised an option to defer a commitment fee of US\$3.9 million for a period of up to two years. As a result, the balance of the commitment fee was added to the principal outstanding with interest on the outstanding fee compounding monthly until repaid.

In addition to the term loan and the commitment fee included in the principal, the loan agreement also included provision for the payment of an exit fee equal to 5% of term loan principal settlements at the time of repayment.

On November 29, 2013, the Company amended its senior secured term loan resulting in an additional advance of US\$21.4 million of cash. The cash received consisted of an additional US\$15.0 million added to the existing facility and a refund of US\$6.4 million of cash interest previously paid to Brookfield.

Pursuant to the 2013 amendment, the interest rate was recalculated as if NAP had elected to accrue interest on the loan from the date of the original closing on June 7, 2013, resulting in a 4% increase of the interest rate from 15% to 19% until the Company voluntarily reverts to cash interest payments. After the Company voluntarily reverted to cash interest payments, and upon payment of interest and fees which have been deferred, the interest rate returns to 15% per annum on the principal amount outstanding. The exit fee contained in the original loan was replaced by an amendment fee and all interest accrued up to and including June 30, 2014 has been capitalized to principal along with the amendment and commitment fees. Prepayment of any principal (including capitalized interest and fees) is subject to a prepayment fee



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and voluntary prepayment conditions. The loan also includes certain events of default including breaches of the financial covenants, material adverse changes, limits on liens, additional debt, payments and cross-default provisions. Certain events of default result in the loan becoming immediately due, together with the prepayment fee and penalty interest of 5% above the applicable rate while unpaid, and other events of default entitle the lender to demand repayment of the loan together with the prepayment fee and penalty interest.

The amendment resulted in an increase of the US\$133.9 million principal of the loan at November 29, 2013 for capitalized interest of US\$12.7 million, an additional loan of US\$15.0 million, and amendment fee of US\$8.1 million for a total revised principal of US\$169.7 million. In the year ended December 31, 2013, capitalized borrowing costs were increased by \$9.0 million due to the change in estimated timing of cash flows.

The loan is measured at amortized cost. Interest on the loan was originally recorded at an effective interest rate of 16.7%. As a result of the 2013 amendment to the term loan agreement, the amended effective interest rate was adjusted to 18.0%.

The 2013 loan amendment also included modifications to the covenants.

Effective June 30, 2014, the loan was further amended to reduce the interest rate to 15% effective July 1, 2014. As part of the 2014 amendment, a payment of US\$23.4 million, consisting of US\$16.2 million previously accrued interest and US\$7.2 million of associated pre-payment fees, was made on July 3, 2014, and accrued and unpaid interest of US\$16.2 million was capitalized to the loan. As a result of the 2014 loan amendment to the term loan agreement, the amended effective interest rate was adjusted to 18.38%.

Senior secured notes

During the fourth quarter of 2011, the Company issued \$72.0 million of senior secured notes by way of a private placement for net proceeds of \$69.6 million. The notes, which were due to mature on October 4, 2014, with a one year extension at the option of the Company, were issued in \$1,000 denominations and bore interest at a rate of 9.25% per year, payable semi-annually, with 1 palladium warrant attached for each \$1,000 note.

On June 7, 2013, the debt component of the senior secured notes was fully repaid using the proceeds from the senior secured term loan. The total payment amounted to \$80.5 million and included settlement of the principal outstanding of \$72.0 million, accrued interest of \$1.3 million, and a redemption premium of \$7.2 million. The repayment resulted in the recognition of a loss on extinguishment of \$11.0 million.

The palladium warrants originally issued with the senior secured notes were not settled. A total of 72,000 palladium warrants were issued which entitle the holders to purchase 0.35 ounces of palladium at a purchase price of US\$620 per ounce (the "Strike Price"), anytime up to October 4, 2014. If exercised, the Company will pay the warrant holder an amount equal to the average of the U.S dollar palladium afternoon fixing price per ounce on the London Platinum and Palladium Market for the ten trading days prior to the exercise date less the Strike Price, multiplied by 0.35. The Company has the option, subject to certain conditions, to pay the amount owing in common shares priced at a 7% discount to the volume weighted average price on the Toronto Stock Exchange for the five trading days prior to the date of exercise.

During June 2013, a total of 13,000 palladium warrants were exercised, resulting in a settlement payable of \$0.6 million. The Company elected to apply the equity-settlement option, resulting in the issuance of 574,738 common shares. In July 2013, an additional 47,000 palladium warrants were exercised resulting in a \$1.7 million cash settlement.

The derivatives relating to the outstanding palladium warrants are recorded at fair value through profit or loss at each reporting date. At September 30, 2014 and December 31, 2013, a total of 12,000 palladium warrants were outstanding. At December 31, 2013, the palladium warrants were valued using a binomial model which included the following key assumptions:



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	December 31 2013
Market price of palladium	\$ 711
Strike price	\$ 620
Volatility ¹	21 %
Risk free rate	1.13 %
Expected life (in years)	0.76

¹ Expected volatility is estimated by considering historic average palladium price volatility based on the remaining life of the warrants.

At September 30, 2014, the Company had received confirmation of the exercise of the remaining 12,000 palladium warrants. Refer to the discussion of subsequent events in note 20. The fair value using a binomial valuation was \$0.5 million at December 31, 2013.

Convertible Debentures (2012)

On July 31, 2012, the Company completed an offering of 43,000 convertible unsecured subordinated debentures of the Company at a price of \$1,000 per debenture, for total gross proceeds of \$43.0 million (\$40.8 million net proceeds). The debentures mature on September 30, 2017 and bear interest at a rate of 6.15% per year, payable semi-annually. At the option of the holder, the debentures may be converted into common shares of the Company at any time prior to maturity at a conversion price of \$2.90 per common share.

The convertible debentures are compound financial instruments, consisting of the debt instrument and the equity conversion feature. The debt instrument was valued at amortized cost using the effective interest rate method at a discount rate of 10.5%. The excess of the proceeds of \$43.0 million over the value assigned to the debt instrument was allocated as the fair value of the equity component of the convertible debentures. Transaction costs were netted against the debt instrument and equity component based on the pro-rata allocation of the fair value of each instrument at initial recognition.

Of the net proceeds of \$40.8 million, \$33.9 million has been allocated to long-term debt, and the remaining portion of \$6.9 million has been allocated to the equity component of the convertible debentures at the time of issuance.

Convertible Debentures (2014 – Tranche 1)

On January 31, 2014 and February 10, 2014, the Company closed a public offering with the aggregate sale of \$32.0 million gross principal amount of convertible unsecured subordinated debentures (the "2014 Tranche 1 Debentures") of the Company at a price of \$1,000 per Debenture, including approximately 16.8 million common share purchase warrants (the "2014 Tranche 1 Warrants"). This offering represented the first tranche of the offering. Net proceeds received were \$28.5 million. The conversion price of the 2014 Tranche 1 Debentures is \$0.635, and the original exercise price of the 2014 Tranche 1 Warrants was \$0.762. As a result of the completion of the second tranche offering, the anti-dilution clause within the 2014 Tranche 1 Debentures agreements resulted in an adjustment of the original exercise price for the 2014 Tranche 1 Warrants to \$0.5786.

The 2014 Tranche 1 Debentures will mature on January 31, 2019, unless redeemed or converted earlier, or unless extended, and will bear interest at an annual rate of 7.5% payable semi-annually in arrears on January 31 and July 31 of each year. The first interest payment on the 2014 Tranche 1 Debentures was made July 31, 2014. Holders may convert their 2014 Tranche 1 Debentures into common shares of the Company at any time at a conversion rate of approximately 1,575 Common Shares per \$1,000 principal amount of 2014 Tranche 1 Debentures, representing 50.4 million common shares of the Company. Holders converting their debentures will receive all accrued and unpaid interest, as well as interest that would have been paid if the 2014 Tranche 1 Debentures were held through to maturity (the "Tranche 1 Make Whole Amount"). At the Company's option, interest and Tranche 1 Make Whole Amounts can be paid in common shares.



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Each 2014 Tranche 1 Warrant entitles the holder thereof to purchase one common share of the Company at any time before March 28, 2017.

Due to the existence of multiple derivatives embedded within the contract, the Company has elected to account for the 2014 Tranche 1 Debentures and all related derivatives as one instrument at fair value through profit or loss, with future changes in fair value being recognized as derivative gains or losses through profit or loss. The 2014 Tranche 1 Warrants are also accounted for at fair value through profit or loss. As a result of this election, transaction costs of \$3.5 million were expensed as financing costs in the nine month period ended September 30, 2014.

The initial fair value of the 2014 Tranche 1 debt of \$28.4 million was determined based on the publicly traded market price of the 2014 Tranche 1 Debentures, while the fair value of the 2014 Tranche 1 Warrants approved on March 28, 2014 was assigned a value of \$3.6 million using the Black-Scholes model.

At September 30, 2014, 2014 Tranche 1 Debentures with an initial face value of \$31.7 million, including accrued interest and make-whole provisions, had been converted into 76,407,816 common shares of NAP. Debentures with an initial face value of \$0.3 million were outstanding at September 30, 2014. All warrants issued were also outstanding at September 30, 2014. The fair value of the remaining debentures outstanding and the outstanding warrants as at September 30, 2014 is \$0.4 million based on the publicly traded market price and \$0.9 million, respectively, and these amount are recorded in the statement of financial position in long term debt and current portion of long term debt, respectively. The changes in fair value from the transaction date to September 30, 2014 are included in interest and other income in the statement of comprehensive loss (refer to note 16).

The following assumptions were applied for the Black-Scholes valuations of the outstanding 2014 Tranche 1 Warrants at initial recognition and the current reporting date:

	September 30, 2014	January 31, 2014
Market price common shares of NAP (PDL)	\$ 0.22	\$ 0.53
Strike price	0.58	\$ 0.76
Volatility ¹	79 %	75 %
Risk free rate	1.14 %	1.14 %
Expected life (in years)	2.50	3.00

¹ Expected volatility is estimated by considering historic average daily price volatility of the common shares of the Company based on the remaining life of the warrants.

Convertible Debentures (2014 – Tranche 2)

On April 11, 2014 and April 17, 2014, the Company closed a public offering with the aggregate sale of \$35.0 million gross principal amount of convertible unsecured subordinated debentures (the "2014 Tranche 2 Debentures") of the Company at a price of \$1,000 per Debenture, including approximately 18.9 million common share purchase warrants (the "2014 Tranche 2 Warrants"). This offering represented the second tranche of the offering. Net proceeds received were \$32.7 million. The conversion price of the 2014 Tranche 2 Debentures is \$0.4629, and the exercise price of the 2014 Tranche 2 Warrants is \$0.5786.

The 2014 Tranche 2 Debentures will mature on April 11, 2019, unless redeemed or converted earlier, or unless extended, and will bear interest at an annual rate of 7.5% payable semi-annually in arrears on March 31 and September 30 of each year. The first interest payment on the 2014 Tranche 2 Debentures included was made September 30, 2014. Holders may convert their 2014 Tranche 2 Debentures into common shares of NAP at any time at a conversion rate of approximately 2,160 Common Shares per \$1,000 principal amount of Debentures. Holders converting their debentures will receive all accrued and unpaid interest, as well as interest that would have been paid if the 2014 Tranche 2 Debentures were held



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through to maturity (the “Tranche 2 Make Whole Amount”). At the Company’s option, interest and Tranche 2 Make-Whole Amounts can be paid in common shares.

Each 2014 Tranche 2 Warrant will entitle the holders thereof to purchase one common share of the Company at any time before the second anniversary of the date of issue.

Due to the existence of multiple derivatives embedded within the contract, the Company has elected to account for the 2014 Tranche 2 Debentures and all related derivatives as one instrument at fair value through profit or loss, with future changes in fair value being recognized as derivative gains or losses through profit or loss. The 2014 Tranche 2 Warrants are also accounted for at fair value through profit or loss. As a result of this election, transaction costs of \$2.3 million were expensed in the period as financing costs.

The initial fair value of the 2014 Tranche 2 Debentures of \$33.1 million was determined using a FinCAD pricing model, while the value of the related 2014 Tranche 2 Warrants of \$1.9 million was calculated using the Black-Scholes model.

At September 30, 2014, 2014 Tranche 2 Debentures with an initial face value of \$33.5 million, including accrued interest and make-whole provisions, had been converted into 108,972,404 common shares of NAP. Debentures with an initial face value of \$1.5 million were outstanding at September 30, 2014. All warrants issued were also outstanding at September 30, 2014. The fair value of the remaining debentures outstanding and the outstanding warrants as at September 30, 2014 is \$1.2 million and \$0.7 million using the Black-Scholes model, respectively, and these amounts are recorded in the statement of financial position in long term debt and current portion of long term debt, respectively. The changes in fair value from the transaction date to September 30, 2014 are included in interest and other income in the statement of comprehensive loss (refer to note 17).

The following assumptions were applied for the valuations of the outstanding 2014 Tranche 2 Debentures and Warrants at initial recognition and the current reporting date:

Debentures		April 11, 2014	
Market price common shares of NAP (PDL)	\$	0.34	
Strike price	\$	0.46	
Risk free rate		1.64%	
Expected life (in years)		5.00	
Warrants		September 30, 2014	April 11, 2014
Market price common shares of NAP (PDL)	\$	0.22	\$ 0.34
Strike price	\$	0.58	\$ 0.58
Volatility ¹		89%	81%
Risk free rate		1.13%	1.04%
Expected life (in years)		1.53	2.00

1 Expected volatility is estimated by considering historic average daily price volatility of the common shares of the Company based on the remaining life of the warrants.



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12. SHAREHOLDERS' EQUITY

a) Authorized and Issued Capital Stock

The authorized capital stock of the Company consists of an unlimited number of common shares.

b) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan, in which eligible employees can participate in at their option. Union employees are entitled to an employer contribution of either: (a) \$1.00 for each \$1.00 contribution up to a maximum of 5% of base salary for employees who have been employed for 6-18 months (maximum \$2,500 per year); or (b) \$2.00 for each \$1.00 contribution up to a maximum of 10% of base salary for employees who have been employed for greater than 18 months (maximum \$5,000 per year). Non-union employees are entitled to an employer contribution equal to 3% of base salary plus an employer matching contribution of up to a maximum of 2% of base salary for employees who have been employed for greater than 90 days. The Company contributions are made either in cash or treasury shares of the Company on a quarterly basis. If the matching contribution is made in treasury shares, the price per share issued is the 5-day volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") preceding the end of the quarter. During the three months ended September 30, 2014, the Company contributed 1,224,568 shares with a fair value of \$0.4 million (2013 – 379,470 shares with a fair value of \$0.4 million), and for the nine months ended September 30, 2014, 2,452,776 shares with a fair value of \$1.1 million (2013 – 907,447 shares with a fair value of \$1.1 million), which was equal to the market value of the shares on the contribution date.

c) Corporate Stock Option Plan

The Company has a Corporate Stock Option Plan (the "Plan"), under which eligible directors, officers, employees and consultants of the Company may receive options to acquire common shares. The Plan is administered by the Board of Directors, which will determine after considering recommendations made by the Compensation Committee, the number of options to be issued, the exercise price (which is the 5-day volume weighted average trading price of the common shares on the TSX on the trading day prior to the grant date), expiration dates of each option, the extent to which each option is exercisable (provided that the term of an option shall not exceed 10 years from the date of grant), as well as establishing the time period when an optionee ceases to be an "Eligible Person" as set forth in the conditions of the Plan. One third of options granted vest on each of the first three anniversary dates of the date of grant.

The maximum number of common shares issuable under the Plan, and all other share-based compensation arrangements of the Company, shall not exceed 3.49% of the issued and outstanding shares of the Company. As at September 30, 2014, 1,440,742 options granted under the Plan were subject to the cap, which represents 0.37% of the issued and outstanding shares of the Company. As at December 31, 2013, 6,240,779 options were available to be granted under the Plan.

The following summary sets out the activity in outstanding common share purchase options:

	September 30, 2014		December 31, 2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,359,221	\$1.91	4,207,249	\$3.68
Granted	145,000	\$0.30	2,473,387	\$1.07
Cancelled/forfeited	(428,479)	\$2.78	(3,286,665)	\$3.53
Expired	(35,000)	\$8.40	(34,750)	\$3.86
Outstanding, end of period	3,040,742	\$1.63	3,359,221	\$1.91
Options exercisable at end of period	1,014,169	\$2.79	822,508	\$4.05



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The following table summarizes information about the Company's stock options outstanding at September 30, 2014:

Exercise price range	Average remaining contractual life (years)	Options Outstanding at September 30, 2014	Options Exercisable at September 30, 2014
\$0.30-2.50	5.56	2,383,243	400,001
\$2.51-3.00	2.34	130,000	86,669
\$3.01-6.00	3.22	404,999	404,999
\$6.01-8.87	1.51	122,500	122,500
	4.95	3,040,742	1,014,169

The fair value of options granted during the nine months ended September 30, 2014 and the year ended December 31, 2013 have been estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	September 30 2014	December 31 2013
Awards granted	145,000	2,473,387
Weighted average fair value of awards	\$ 0.15	\$ 0.55
Pre-vest forfeiture rate	29%	25%
Grant price	\$ 0.30	\$ 1.07
Market price	\$ 0.28	\$ 1.07
Volatility ¹	75%	64%
Risk free rate	1.43%	1.51%
Dividend yield	0%	0%
Expected life (in years)	4.2	4.3

¹ Expected volatility is estimated by considering historic average share price volatility based on the average expected life of the options.

(d) Reconciliation of the diluted number of shares outstanding:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net loss available to common shareholders	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (34,440)
Effect of dilutive securities	-	-	-	(977)
Adjusted net loss available to common shareholders	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (35,417)
Weighted average number of shares outstanding	384,432,246	194,555,425	322,842,483	183,904,755
Effect of dilutive securities	-	-	-	22,343
Weighted average diluted number of shares outstanding	384,432,246	194,555,425	322,842,483	183,927,098
Diluted net loss per share	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.19)

For the three and nine month periods ended September 30, 2014, the dilutive effects of the palladium warrants, convertible debentures, warrants and stock options have not been included in the determination of diluted loss per share because to do so would be anti-dilutive.



North American Palladium Ltd.

(e) Other Stock-Based Compensation – Restricted Share Unit Plan

The Company has a Restricted Share Unit (“RSU”) Plan under which eligible directors, officers and key employees of the Company are entitled to receive awards of RSUs. Each RSU is equivalent in value to the fair market value of a common share of the Company on the date of the award and a corresponding liability is established on the balance sheet. The RSU Plan is administered by the Board of Directors, which will determine after considering recommendations made by the Compensation Committee, the number and timing of RSUs to be awarded and their vesting periods, not to exceed three years. The value of each award is charged to compensation expense over the period of vesting. At each reporting date, the compensation expense and liability are adjusted to reflect the changes in market value of the liability based on the fair values of RSU’s for each vesting period determined using the Black-Scholes model.

As at September 30, 2014, 884,198 (December 31, 2013 – 708,609) restricted share units had been granted and were outstanding at an aggregate value of \$0.2 million (December 31, 2013 – \$0.5 million).

(f) Summary of Share-based compensation and employee benefits

The following table details the components of share-based compensation expense relating to continuing operations:

			Three months ended September 30			Nine months ended September 30
		2014	2013		2014	2013
Registered retirement savings plan	\$	404	\$ 379	\$	1,147	\$ 1,055
Common share stock options		146	119		426	(86)
Restricted share units		(23)	201		(189)	362
	\$	527	\$ 699	\$	1,384	\$ 1,331

The maximum number of common shares issuable under all other share-based compensation arrangements of the Company shall not exceed 3.49% of the Company’s issued and outstanding shares. As at September 30, 2014, the number of shares issued or issuable pursuant to awards made under all share-based compensation plans of the Company, which were subject to the maximum, represents 0.92% of the Company’s total issued and outstanding common shares.

13. FINANCIAL INSTRUMENTS

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s liquidity may be adversely affected by operating performance, a downturn in capital market conditions impacting access to capital markets, or entity-specific conditions. The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, by having adequate available credit facilities, by preparing and monitoring detailed budgets and cash flow forecasts for mining, exploration and corporate activities, and by monitoring developments in the capital markets. Forecasting takes into account the Company’s debt financing, covenant compliance and the maturity profile of financial assets and liabilities and purchase obligations.



North American Palladium Ltd.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining balances at September 30, 2014 to the contractual maturity date.

		Total	In less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued liabilities	\$	18,342	\$ 18,342	\$ -	\$ -
Credit facility		25,114	25,114	-	-
Obligations under finance leases		11,615	3,210	8,405	-
Current derivative liability		1,098	1,098	-	-
Long-term debt		220,194	7,704	212,490	-

The Company also has asset retirement obligations in the amount of \$15.3 million that would become payable at the time of the closure of its LDI mine. As the Company issued letters of credit of \$14.1 million related to these obligations, \$1.2 million additional funding is required prior to or upon closure of these properties. Refer to note 9 for additional disclosure regarding these amounts. The majority of the asset retirement costs are expected to be incurred within one year of mine closure.

Refer also to note 14.

Fair Values

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, sales taxes receivable (included in other assets), accounts payable and accrued liabilities, credit facility, current derivative liabilities, obligations under finance leases and long-term debt.

Cash and cash equivalents and accounts receivable are stated at fair value. The carrying value of other assets and trade accounts payable and accrued liabilities and the amount outstanding under the credit facility approximate their fair values due to the immediate or short-term maturity of these financial instruments.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of the Company entity and counterparty when appropriate.

The Company enters into financial contracts to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar for past production already sold. For substantially all of the palladium delivered to customers under smelter agreements, the quantities and timing of settlement specified in the financial contracts matches final pricing settlement periods. The palladium financial contracts are being recognized on a mark-to-market basis as an adjustment to revenue.

The derivative liability relating to the palladium warrants issued in connection with the 2011 senior secured note issuance is measured at fair value (note 20).



North American Palladium Ltd.

Non-derivative financial liabilities

The fair values of the senior secured term loan, 2012 convertible debentures and finance leases, which are determined for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The fair values of the non-derivative financial liabilities as of September 30, 2014 are the senior secured term loan (\$194.1 million), 2012 convertible debentures (\$43.0 million) and finance leases (\$11.6 million).

Fair Value Hierarchy

The table below details the assets and liabilities measured at fair value at September 30, 2014:

	Notes	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Aggregate Fair Value
Financial assets					
Cash and cash equivalents		\$ 11,792	\$ -	\$ -	\$ 11,792
Investments	7	15			15
Accounts receivable	5		49,887		49,887
Fair value of financial contracts*	5		2,649		2,649
Financial liabilities					
Fair value of current derivative liability	11		(1,098)		(1,098)
Fair value of convertible debentures and warrants	11	(391)	(2,823)		(3,214)
Net carrying value		\$ 11,416	\$ 48,615	\$ -	\$ 60,031

* As detailed in note 5, the asset relating to the mark-to-market on financial contracts is included in the carrying value of accounts receivable on the balance sheet at September 30, 2014.

14. COMMITMENTS

(a) Sheridan Platinum Group of Companies ("SPG") Commitment

The Company is required to pay a 5% net smelter royalty to SPG from mining operations at the Lac des Iles mine. This obligation is recorded as royalty expense.

(b) Operating Leases and Other Purchase Obligations

As at September 30, 2014, the Company had outstanding operating lease commitments and other purchase obligations of \$3.5 million and \$10.8 million, respectively (December 31, 2013 – \$4.4 million and \$1.0 million, respectively) the majority of which had maturities of less than five years (see note 10).

(c) Letters of Credit

As at September 30, 2014 and December 31, 2013, the Company had outstanding letters of credit of \$15.4 million, consisting of \$14.4 million for various mine closure deposits and \$1.0 million for a regulated energy supplier.



North American Palladium Ltd.

15. REVENUE FROM METAL SALES

	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2014							
Three months ended September 30							
Revenue – before pricing adjustments	\$ 47,285	\$ 34,130	\$ 4,305	\$ 3,498	\$ 3,190	\$ 2,143	\$ 19
Pricing adjustments:							
Commodities	(3,318)	(2,106)	(674)	(162)	(285)	(90)	(1)
Foreign exchange	2,474	1,906	256	124	111	76	1
Revenue – after pricing adjustments	\$ 46,441	\$ 33,930	\$ 3,887	\$ 3,460	\$ 3,016	\$ 2,129	\$ 19
2013							
Three months ended September 30							
Revenue – before pricing adjustments	\$ 30,623	\$ 20,636	\$ 3,073	\$ 2,904	\$ 2,030	\$ 1,931	\$ 49
Pricing adjustments:							
Commodities	3,171	2,258	335	299	94	182	3
Foreign exchange	(446)	(249)	(56)	(44)	(61)	(36)	-
Revenue – after pricing adjustments	\$ 33,348	\$ 22,645	\$ 3,352	\$ 3,159	\$ 2,063	\$ 2,077	\$ 52
	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2014							
Nine months ended September 30							
Revenue – before pricing adjustments	\$ 143,783	\$ 103,101	\$ 13,092	\$ 11,112	\$ 9,363	\$ 7,003	\$ 112
Pricing adjustments:							
Commodities	557	592	(202)	156	214	(207)	4
Foreign exchange	1,334	729	259	137	95	111	3
Revenue – after pricing adjustments	\$ 145,674	\$ 104,422	\$ 13,149	\$ 11,405	\$ 9,672	\$ 6,907	\$ 119
2013							
Nine months ended September 30							
Revenue – before pricing adjustments	\$ 112,754	\$ 74,557	\$ 11,642	\$ 11,652	\$ 7,829	\$ 6,904	\$ 170
Pricing adjustments:							
Commodities	135	1,305	(285)	(518)	(308)	(59)	-
Foreign exchange	762	68	307	226	69	91	1
Revenue – after pricing adjustments	\$ 113,651	\$ 75,930	\$ 11,664	\$ 11,360	\$ 7,590	\$ 6,936	\$ 171

During 2014, the Company delivered all of its concentrate to two customers under the terms of the respective agreements (2013 – two customers).

Although the Company sells its bulk concentrate to a limited number of customers, it is not economically dependent upon any one customer as there are other markets throughout the world for the Company's concentrate.



North American Palladium Ltd.

16. INTEREST EXPENSE & OTHER COSTS AND OTHER INCOME

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest expense and other costs				
Interest on finance leases	\$ 155	\$ 193	\$ 448	\$ 564
Asset retirement obligation accretion	81	80	269	207
Accretion expense on long-term debt	1,630	890	1,003	2,662
Loss on investments	337	1,373	710	2,217
Interest expense	8,204	-	28,766	70
Increase (decrease) in fair value of 2014 Tranche 1 and 2 convertible debentures, net	(248)	-	6,426	-
Realized and unrealized loss on palladium warrants	86	-	607	-
Legal settlement (note 17)	-	-	1,000	-
	\$ 10,245	\$ 2,536	\$ 39,229	\$ 5,720
Interest and other income				
Decrease in fair value of 2014 Tranche 1 and 2 warrants, net	\$ (1,498)	-	\$ (3,849)	-
Realized and unrealized gain on palladium warrants	-	219	-	(978)
Gain on renouncement of flow-through expenditures	-	(412)	-	(688)
Interest income	(26)	(21)	(75)	(80)
	\$ (1,524)	\$ (214)	\$ (3,924)	\$ (1,746)
	\$ 8,721	\$ 2,322	\$ 35,305	\$ 3,974

17. CONTINGENCIES

On June 24, 2014, the Company entered into a settlement agreement, subject to court approval, related to the previously disclosed potential class action lawsuit. On June 26, 2014, the \$2.4 million settlement was paid into escrow by the Company's insurer. The class action settlement was approved by the court on September 16, 2014.

On July 2, 2014, the Company entered into an agreement to settle the third party action and all other claims in respect of the previously disclosed litigation involving B.R. Davidson Mining & Development Ltd. Under the terms of the settlement the Company paid \$0.7 million and will pay a further \$0.3 million on or before December 1, 2014. Provision for this settlement was made in the three months ended June 30, 2014, and is recorded in interest expense and other cost.

There were no other significant changes in contingencies in the three and nine month periods ended September 30, 2014. The contingencies are described in note 21 of the Company's audited consolidated financial statements for the year ended December 31, 2013.



North American Palladium Ltd.

18. OTHER DISCLOSURES

Statement of Cash flows

The net changes in non-cash working capital balances related to operations are as follows:

		Three months ended September 30		Nine months ended September 30
	2014	2013	2014	2013
Cash provided by (used in):				
Accounts receivable	\$ 2,941	\$ 7,077	\$ (13,980)	\$ 14,397
Inventories	983	(2,857)	108	(2,294)
Other assets	296	272	5,164	1,103
Accounts payable and accrued liabilities	(701)	(5,144)	(25,828)	(12,143)
Taxes payable	-	-	(1,161)	-
Other financial liabilities	-	219	-	(978)
	\$ 3,519	\$ (433)	\$ (35,697)	\$ 85

19. SEGMENT INFORMATION

Following the sale of its discontinued gold operations on March 22, 2013 (see note 4), the Company has one reportable segment. The Company's revenue by significant product type is disclosed in Note 15.

20. SUBSEQUENT EVENTS

Palladium Warrants

On September 30, 2014 and October 1, 2014, the Company received confirmation of exercise of the 12,000 outstanding warrants, maturing October 4, 2014. On October 22, 2014 and October 23, 2014, the Company finalized the cash-settlement of the related obligations in the amount of \$1.1 million.



NEWS RELEASE

North American Palladium Announces Third Quarter 2014 Results

Revenues increased by 39% compared to same period last year

All figures are in Canadian dollars except where noted.

Toronto, Ontario, November 5, 2014 – North American Palladium Ltd. (“NAP” or the “Company”) (TSX: PDL) (NYSE MKT: PAL) today announced the operating, development, and financial results for the third quarter ended September 30, 2014 (“Q3”).

“Taking a view on the progress from 2013 to where we are today, we are pleased with what has been achieved during construction in 2013, commissioning and production build up in 2014 and the related financings,” said Phil du Toit, President and Chief Executive Officer. “Although the third quarter presented challenges on grade due to mining sequence, equipment availability and the unfortunate incident of a mine fatality, the fourth quarter is off to a good start and we remain on track to meet our longer-term objectives.”

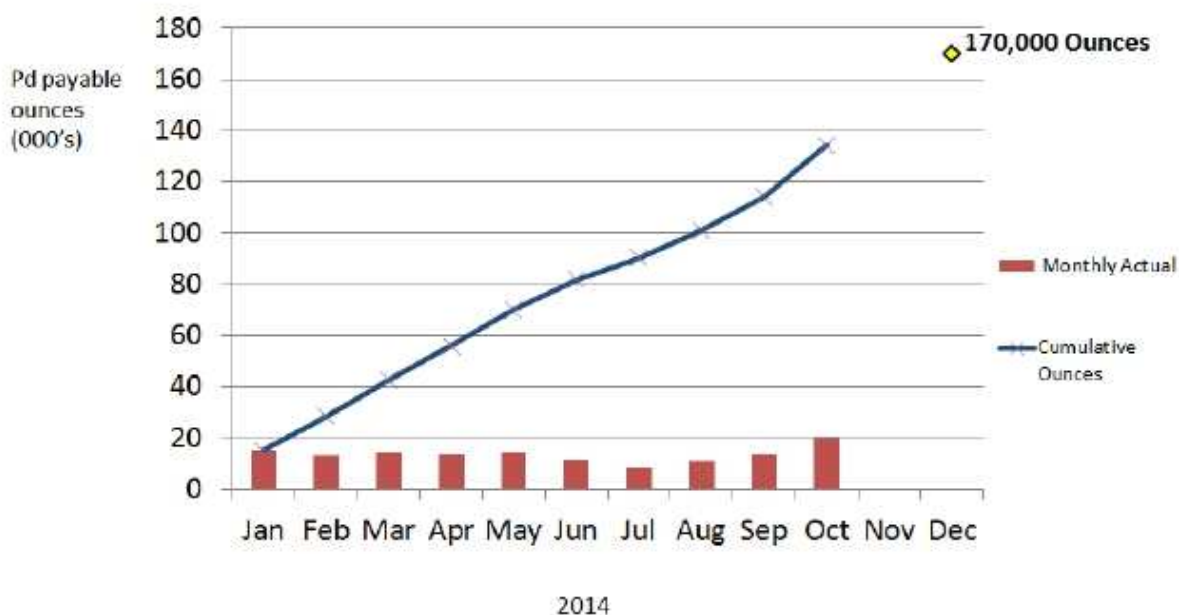
“The exploration results so far in 2014 are very encouraging. We will keep the market apprised of progress,” added Mr. du Toit.

“Management continues to implement a number of strategic initiatives to help achieve the production ramp up,” said Jim Gallagher, Chief Operating Officer. “On October 1, 2014 we began a trial implementation of a full-time mill run compared to our previous 16 day batch process. This initiative, plus improvements to the underground ore handling system, aided by an end of September underground ore stockpile of several days production, has resulted in October production of approximately 20,000 ounces of payable palladium.”

“With these positive October results and the continuing underground ramp up which saw September and October average approximately 3,800 tonnes per day, with a number of days achieving more than 4,500 tonnes per day, we expect to be at or marginally below the lower end of our guidance of 170,000 payable palladium ounces for 2014,” added Mr. Gallagher.

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Cumulative Pd Ounces Year to Date



Q3 2014 Results Summary

- Sold 36,430 ounces of payable palladium at a cash cost per ounce ⁽¹⁾ of US\$589. Year to date cash cost per ounce is US\$527.
- Revenue of \$46.4 million was an increase of \$13.1 million or 39% compared to the same period in 2013 due to more favorable exchange rates, higher palladium ounces sold and higher palladium prices.
- Adjusted EBITDA ⁽¹⁾ of \$8.3 million for the quarter and \$28.5 million year to date.
- Realized palladium selling price of US\$860 per ounce, giving a palladium operating margin of US\$271 per ounce, or US\$9.9 million. Palladium prices remain strong, with the November 4, 2014 price at US\$786 per ounce.

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Year-To-Date Trends

The following table includes quarterly results for the first three quarters of 2014 and year to date results versus full year guidance for 2014 to help demonstrate some of the key trends in the business.

	For the three months ended				
	March 31 2014	June 30 2014	September 30 2014	2014 Year to date	2014 Guidance
Palladium production – payable oz	42,641	39,222	32,560	114,423	170,000
US\$ cash cost per palladium oz sold	US\$492	US\$510	US\$589	US\$527	US\$550
Surface mining – tonnes	254,294	243,041	270,860	768,195	1,000,000
Underground mining – tonnes	275,845	263,904	304,804	844,553	1,300,000
Underground mining – tonnes per day	3,065	2,900	3,313	3,094	3,562
Milling – palladium head grade (g/t)	3.3	3.1	2.4	2.9	3.0
Milling – palladium recovery	84.5%	83.6%	80.7%	83.1%	82.0%
Adjusted EBITDA (\$000s)	\$9,743	\$10,444	\$8,287	28,474	n.a.

Financial Results ⁽²⁾

Revenue for the third quarter was \$46.4 million compared to \$33.3 million in the third quarter of 2013. The increase in revenue was primarily due to favourable exchange rate movements, higher realized prices for palladium, greater palladium ounces sold, and higher volumes of platinum, gold, nickel and copper. During the third quarter, the Company realized a palladium selling price of US\$860 per ounce.

Adjusted EBITDA ⁽¹⁾ (which excludes interest expenses and other costs, depreciation and amortization, exploration, foreign exchange gains and losses and mine restoration costs net of insurance recoveries) was \$8.3 million in the third quarter of 2014, compared to \$3.2 million in the third quarter of last year. For the nine months ended September 30, 2014, Adjusted EBITDA ⁽¹⁾ was \$28.5 million compared to \$12.0 million in the prior year.

During the quarter, the Company incurred \$23.5 million of non-cash expenses consisting of \$8.0 million of foreign exchange losses, \$8.6 million of depreciation, amortization and accretion and \$7.0 million of interest expense and other costs. These non-cash expenses contributed to a net loss for the quarter of \$18.8 million or \$0.05 per share compared to a net loss of \$5.3 million or \$0.03 per share in the same quarter last year. The increase in the net loss is primarily due to increased foreign exchange losses, production costs and interest expense and other costs partially offset by the impact of higher revenues.

At the end of the quarter, the Company had \$11.8 million in cash and availability under the credit facility of \$1.2 million.

Q3 2014 Conference Call & Webcast Details

Date: Wednesday, November 5, 2014
Time: 8:30 a.m. ET
Webcast: www.nap.com
Live Call: 1-866-229-4144 or 1-416-216-4169 (PIN: 8347411, followed by # sign)
Replay: 1-888-843-7419 or 1-630-652-3042 (PIN: 8347411, followed by # sign)

The conference call replay will be available for 90 days after the live event. An archived audio webcast of the call will also be posted to NAP's website.

About North American Palladium

NAP is an established precious metals producer that has been operating its Lac des Iles mine ("LDI") located in Ontario, Canada since 1993. LDI is one of only two primary producers of palladium in the world, offering investors exposure to palladium. The Company's shares trade on the NYSE MKT under the symbol PAL and on the TSX under the symbol PDL.

For further information please contact:

John Vincic
Investor Relations
Telephone: 416-360-7374
Email: jvincic@nap.com

(1) Non-IFRS measure. Please refer to Non-IFRS Measures in the MD&A.

(2) NAP's unaudited condensed interim consolidated financial statements for the third quarter ended September 30, 2014 are available in the Appendix of this news release. These financial statements should be read in conjunction with the notes and management's discussion and analysis available at www.nap.com, www.sedar.com and www.sec.gov.

Cautionary Statement on Forward Looking Information

Certain information contained in this news release constitutes 'forward-looking statements' within the meaning of the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The words 'will', 'expect', 'would', 'could', 'estimate' and similar expressions identify forward-looking statements. Forward-looking statements in this news release include, without limitation: information pertaining to the Company's strategy, plans or future financial or operating performance, such as the ramp-up at the Company's LDI mine, timelines, production plans, projected expenditures, operating cost estimates, proposed mining methods, expected mining rates and other statements that express management's expectations or estimates of future performance. The Company cautions the reader that such forward-looking statements involve known and unknown risk factors that may cause the actual results to be materially different from those expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to: the risk that the Company may not be able to obtain sufficient financing to fund capital expenditures required to continue the LDI mine expansion at depth, the risk that the Company will not be able to meet its financial obligations as they become due, the possibility that metal prices and foreign exchange rates may fluctuate, inherent risks associated with development, exploration,

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mining and processing including risks to tailings capacity, ground conditions, environmental hazards, uncertainty of mineral reserves and resources, the possibility that the LDI mine may not perform as planned, changes in legislation, regulations or political and economic developments in Canada and abroad, risks related to employee relations and the availability of skilled labour, litigation, and the risks associated with obtaining necessary licenses and permits. For more details on these and other risk factors see the Company's most recent Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities.

Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this news release, which may prove to be incorrect, include, but are not limited to: that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, that metal prices and exchange rates between the Canadian and United States dollar will be consistent with the Company's expectations, that there will be no material delays affecting operations or the timing of ongoing development projects, including the LDI mine ramp-up, that prices for key mining and construction supplies, including labour costs, will remain consistent with the Company's expectations and that the Company's current estimates of mineral reserves and resources are accurate. The forward-looking statements are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

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Condensed Interim Consolidated Balance Sheets
(expressed in thousands of Canadian dollars)
(unaudited)

	September 30 2014	December 31 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 11,792	\$ 9,793
Accounts receivable	52,536	38,556
Inventories	14,827	14,239
Other assets	1,094	6,968
Total Current Assets	80,249	69,556
Non-current Assets		
Mining interests	446,792	456,239
Total Non-current Assets	446,792	456,239
Total Assets	\$ 527,041	\$ 525,795
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 18,342	\$ 48,797
Credit facility	25,114	17,834
Current portion of obligations under finance leases	3,210	2,988
Current portion of long-term debt	7,704	173,656
Current derivative liability	1,098	492
Total Current Liabilities	55,468	243,767
Non-current Liabilities		
Income taxes payable	125	1,286
Asset retirement obligation	15,347	13,638
Obligations under finance leases	8,405	8,744
Long-term debt	212,490	35,864
Total Non-current Liabilities	236,367	59,532
Shareholders' Equity		
Common share capital and purchase warrants	866,108	798,411
Stock options and related surplus	9,554	9,128
Equity component of convertible debentures, net of issue costs	6,931	6,931
Contributed surplus	8,873	8,873
Deficit	(656,260)	(600,847)
Total Shareholders' Equity	235,206	222,496
Total Liabilities and Shareholders' Equity	\$ 527,041	\$ 525,795

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(expressed in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue	\$ 46,441	\$ 33,348	\$ 145,674	\$ 113,651
Mining operating expenses				
Production costs	30,116	21,663	90,206	76,305
Smelting, refining and freight costs	4,007	2,922	12,320	10,130
Royalty expense	1,761	1,464	6,019	4,865
Depreciation and amortization	6,894	6,144	25,436	19,233
Loss (gain) on disposal of equipment	150	(24)	1,370	1,030
Total mining operating expenses	42,928	32,169	135,351	111,563
Income from mining operations	3,513	1,179	10,323	2,088
Other expenses				
Exploration	2,566	3,874	5,225	10,906
General and administration	2,120	2,920	7,285	8,019
Interest and other income	(1,524)	(214)	(3,924)	(1,746)
Interest expense and other costs	10,245	2,536	39,229	5,720
Financing costs	(915)	677	7,469	3,076
Loss on extinguishment of long-term debt	-	-	-	11,035
Foreign exchange loss (gain)	9,811	(3,290)	10,452	2,027
Total other expenses	22,303	6,503	65,736	39,037
Loss from continuing operations before taxes	(18,790)	(5,324)	(55,413)	(36,949)
Income and mining tax recovery	-	-	-	-
Loss and comprehensive loss from continuing operations for the period	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (36,949)
Income and comprehensive income from discontinued operations for the period	-	-	-	2,509
Loss and comprehensive loss for the period	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (34,440)
Loss per share				
Basic	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.19)
Diluted	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.19)
Loss from continuing operations per share				
Basic	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.20)
Diluted	\$ (0.05)	\$ (0.03)	\$ (0.17)	\$ (0.20)
Income from discontinued operations per share				
Basic	\$ -	\$ -	\$ -	\$ 0.01
Diluted	\$ -	\$ -	\$ -	\$ 0.01
Weighted average number of shares outstanding				
Basic	384,432,246	194,555,425	322,842,483	183,904,755
Diluted	384,432,246	194,555,425	322,842,483	183,927,098

Condensed Interim Consolidated Statements of Cash Flows
(expressed in thousands of Canadian dollars)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Cash provided by (used in)				
Operations				
Loss from continuing operations for the period	\$ (18,790)	\$ (5,324)	\$ (55,413)	\$ (36,949)
Operating items not involving cash				
Depreciation and amortization	6,894	6,144	25,436	19,233
Accretion expense	1,711	970	1,272	2,869
Loss on extinguishment of debt	-	-	-	11,035
Share-based compensation and employee benefits	549	498	1,572	973
Unrealized foreign exchange loss (gain)	7,953	(1,892)	8,539	2,011
Loss on disposal of equipment	150	2,004	1,370	3,058
Interest expense and other	6,953	55	32,920	23
Financing costs	(915)	-	7,469	-
	4,505	2,455	23,165	2,253
Changes in non-cash working capital	3,519	(433)	(35,697)	85
	8,024	2,022	(12,532)	2,338
Financing Activities				
Issuance of common shares and warrants, net of issue costs	-	9,478	(38)	19,091
Issuance of convertible debentures, net of issue costs	(239)	-	61,204	-
Credit facility	(569)	(7,241)	5,538	6,951
Repayment of senior secured notes	-	-	-	(79,200)
Settlement of palladium warrants	-	(1,747)	-	(1,747)
Net proceeds of senior secured term loan	-	-	-	131,941
Repayment of obligations under finance leases	(930)	(595)	(2,616)	(2,168)
Interest paid	(32,203)	(1,982)	(33,768)	(7,889)
Other financing costs	(779)	-	(1,674)	-
	(34,720)	(2,087)	28,646	66,979
Investing Activities				
Additions to mining interests, net	(5,817)	(26,885)	(14,274)	(92,758)
Proceeds on disposal of mining interests, net	-	175	159	1,165
	(5,817)	(26,710)	(14,115)	(91,593)
Increase (decrease) in cash from continuing operations	(32,513)	(26,775)	1,999	(22,276)
Net cash provided by discontinued operations	-	-	-	20,142
Increase (decrease) in cash	(32,513)	(26,775)	1,999	(2,134)
Cash and cash equivalents, beginning of period	44,305	44,809	9,793	20,168
Cash and cash equivalents, end of period	\$ 11,792	\$ 18,034	\$ 11,792	\$ 18,034
Cash and cash equivalents consisting of:				
Cash	\$ 11,792	\$ 18,034	\$ 11,792	\$ 18,034
Short-term investments	-	-	-	-
	\$ 11,792	\$ 18,034	\$ 11,792	\$ 18,034
Foreign exchange included in cash balance	\$ 558	\$ 211	\$ 558	\$ 211