

NORTH AMERICAN PALLADIUM LTD

FORM 40-F (Annual Report (foreign private issuer))

Filed 04/01/14 for the Period Ending 12/31/13

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Industry	Gold & Silver
Sector	Basic Materials
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

Commission File Number: 1-15142

North American Palladium Ltd.

(Exact name of Registrant as specified in its charter)

Canada

(Province or other Jurisdiction of Incorporation or Organization)

1000

(Primary Standard Industrial Classification Code Number)

Not Applicable

(I.R.S. Employer Identification No.)

200 Bay Street
Royal Bank Plaza, South Tower
Suite 2350, Toronto, Ontario
Canada M5J 2J2
(416) 360-7590

(Address and telephone number of Registrant's principal executive offices)

CT Corporation System
111 Eighth Avenue
New York, NY 10011
(212) 894-8940

(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

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

Title of Each Class
Common Shares, No Par Value

Name of Each Exchange on Which Registered
NYSE MKT LLC

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

For annual reports, indicate by check mark the information filed with this Form:

☒ Annual information form

☒ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

The Registrant had 197,109,925 Common Shares outstanding as at December 31, 2013.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☐ No ☐

**CAUTIONARY NOTE TO UNITED STATES INVESTORS CONCERNING
ESTIMATES OF MEASURED, INDICATED AND INFERRED MINERAL RESOURCES**

Unless otherwise indicated, all reserve and resource estimates included in this Annual Report on Form 40-F (this “**Annual Report**”) have been prepared in accordance with Canadian National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”) and the Canadian Institute of Mining, Metallurgy and Petroleum classification system. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission (the “**SEC**”), and reserve and resource information included herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, this Annual Report uses the terms “measured resources,” “indicated resources” and “inferred resources.” U.S. investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. The requirements of NI 43-101 for the identification of “reserves” are also not the same as those of the SEC, and reserves reported by the Registrant in compliance with NI 43-101 may not qualify as “reserves” under SEC standards. Under U.S. standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. U.S. investors are cautioned not to assume that any part of a “measured resource” or “indicated resource” will ever be converted into a “reserve.” U.S. investors should also understand that “inferred resources” have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of “inferred resources” exist, are economically or legally mineable or will ever be upgraded to a higher category. Under Canadian rules, estimated “inferred resources” may not form the basis of feasibility or pre-feasibility studies except in rare cases. In addition, disclosure of “contained ounces” in a mineral resource is permitted disclosure under Canadian regulations. However, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC standards as in place tonnage and grade, without reference to unit measures. Accordingly, information concerning mineral deposits set forth in this Annual Report may not be comparable with information made public by companies that report in accordance with U.S. standards.

A. Disclosure Controls and Procedures

Disclosure controls and procedures are defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), as those controls and other procedures that are designed to ensure that information required to be disclosed by the Registrant in reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Rule 13a-15(e) also provides that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Registrant is accumulated and communicated to the Registrant’s management as appropriate to allow timely decisions regarding required disclosure.

The Registrant’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Registrant’s disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act, as of December 31, 2013 and have determined that such disclosure controls and procedures were effective as of December 31, 2013.

B. Management’s Annual Report on Internal Control Over Financial Reporting

The Registrant’s management is responsible for establishing and maintaining adequate internal control over financial reporting. Rules 13a-15(f) and 15d-15(f) under the Exchange Act define “internal control over financial reporting” as a process designed by, or under the supervision of, the Registrant’s principal executive and principal financial officers and effected by the Registrant’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Registrant; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Registrant are being made only in accordance with authorizations of management and directors of the Registrant; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Registrant’s assets that could have a material effect on the financial statements.

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. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Registrant’s internal control over financial reporting as at December 31, 2013. In making this assessment, the Registrant’s management used the criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Registrant’s management has concluded that the Registrant’s internal control over financial reporting was effective as of December 31, 2013 and no material weaknesses were discovered.

The Registrant's auditor, the registered public accounting firm that audited the financial statements filed as an exhibit to this Annual Report, has issued an attestation report on management's assessment of internal control over financial reporting as at December 31, 2013. The auditor's attestation report on management's assessment of the Registrant's internal control over financial reporting is filed as Exhibit 1.4 to this Annual Report.

C. Attestation Report of the Registered Public Accounting Firm

The attestation report of KPMG LLP on management's assessment of internal control over financial reporting as at December 31, 2013 is filed as Exhibit 1.4 to this Annual Report.

D. Changes in Internal Control Over Financial Reporting

During the period covered by this Annual Report, there have been no changes identified in connection with the evaluation of the Registrant's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

E. Notice of Pension Fund Blackout Period

The Registrant was not required by Rule 104 of Regulation BTR to send any notice to any of its directors or executive officers during the fiscal year ended December 31, 2013.

F. Audit Committee Financial Expert

The Registrant's board of directors has determined that Mr. Gregory J. Van Staveren, an individual serving on the audit committee of the Registrant's board of directors, is an audit committee financial expert within the meaning of General Instruction B(8)(b) of Form 40-F under the Exchange Act and is independent within the meaning of Rule 10A-3 under the Exchange Act and applicable Canadian requirements.

The SEC has indicated that the designation or identification of a person as an audit committee financial expert does not make such person an "expert" for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or board of directors.

G. Code of Ethics

The Registrant's board of directors has adopted a code of ethics that applies to all directors, officers and employees, including its Chief Executive Officer, Chief Financial Officer and other senior officers. The Registrant will provide a copy of the code of ethics without charge to any person that requests a copy by contacting the Corporate Secretary of the Registrant at the address that appears on the cover page of this Annual Report.

H. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed by KPMG LLP, Chartered Professional Accountants, the Registrant's external auditors, for the fiscal years ended December 31, 2013 and 2012 for audit services, including professional services that are normally provided by external auditors in connection with statutory and regulatory filings or engagements for such years were Cdn\$508,500 and Cdn\$543,282, respectively.

Audit-Related Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2013 and 2012 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Registrant's financial statements and that are not reported above as audit fees were Cdn\$49,000 and Cdn\$67,000, respectively. In 2013 and 2012, these fees were paid for services rendered in connection with French translation services for various documents included in the quarterly financial statements and Management's Discussion and Analysis of Operations and Financial Position.

Tax Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2013 and 2012 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were Cdn\$73,600 and Cdn\$63,812, respectively. In 2013, such fees were paid for the preparation of federal/provincial tax returns and other tax advisory services. In 2012, such fees were paid for the preparation of federal/provincial tax returns and other tax compliance and tax advisory services.

All Other Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2013 and 2012 other than for the services reported in the preceding three paragraphs, were Cdn\$nil, and Cdn\$nil, respectively.

Audit Committee Pre-Approval Policies and Procedures

All audit and non-audit services performed by the Registrant's external auditor must be pre-approved by the audit committee of the Registrant.

For the fiscal year ended December 31, 2013, all audit and non-audit services performed by KPMG LLP were pre-approved by the audit committee of the Registrant.

The Registrant has established a Delegation of Authority Policy which contains a Schedule of Financial Authority. The Delegation of Authority Policy when read and applied in conjunction with all other policies and procedures of the Registrant establishes authorization limits for certain types of transactions.

I. Off-Balance Sheet Arrangements

The Registrant is not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

J. Tabular Disclosure of Contractual Obligations

See "Management's Discussion and Analysis of Operations and Financial Position—Financial Condition, Cash Flows, Liquidity and Capital Resources—Contractual Obligations," included in Exhibit 1.2 to this Annual Report.

K. Identification of the Audit Committee

The Registrant has established a separately-designated standing audit committee in accordance with Section 3(a)(58)(A) of the Exchange Act. The audit committee is comprised of Messrs. Steven R. Berlin (Chairman), Gregory J. Van Staveren, and C. David A. Comba. Messrs. Berlin, Van Staveren and Comba are independent as such term is defined under the rules and regulations of the NYSE MKT LLC.

L. Critical Accounting Policies

See “Management’s Discussion and Analysis of Operations and Financial Position—Critical Accounting Policies and Estimates,” included in Exhibit 1.2 to this Annual Report.

M. Interactive Data File

The Registrant is not currently required to submit to the Commission, nor post to its corporate website, an Interactive Data File.

N. Mine Safety

The Registrant is not currently required to disclose the information required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises or transactions in said securities.

B. Consent to Service of Process

The Registrant has previously filed with the SEC a Form F-X in connection with its common shares. Any change to the name or address of the agent for service of process shall be communicated promptly to the SEC by an amendment to the Form F-X.

EXHIBITS

The following exhibits are filed as part of this Annual Report:

<u>Number</u>	<u>Document</u>
1.1	Annual Information Form for the year ended December 31, 2013
1.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2013
1.3	Audited Consolidated Financial Statements for the year ended December 31, 2013, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, including the report of the auditors thereon
1.4	Reports of Independent Registered Public Accounting Firm on the Registrant's Audited Consolidated Financial Statements and on internal control over financial reporting as of December 31, 2013
23.1	Consent of KPMG LLP
23.2	Consent of Chris Roney
23.3	Consent of Dave Peck
23.4	Consent of Richard Brummer
23.5	Consent of David Penna
23.6	Consent of Denis Decharte
23.7	Consent of John Cooney
23.8	Consent of Cameron McKinnon
23.9	Consent of Philip Bridson
23.10	Consent of Wenchang Ni
23.11	Consent of William Richard McBride
31.1	Certification of the CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

NORTH AMERICAN PALLADIUM LTD.

Dated: March 31, 2014

By: /s/ Phil du Toit

Name: Phil du Toit

Title: President & Chief Executive Officer

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North American Palladium Ltd.

NORTH AMERICAN PALLADIUM LTD.

ANNUAL INFORMATION FORM

For the year ended December 31, 2013

Dated as of March 31, 2014

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FORWARD-LOOKING STATEMENTS

This Annual Information Form (“**AIF**”) contains ‘forward-looking statements’ and/or ‘forward-looking information’, which include future-oriented financial information, 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’, ‘target’, ‘plan’, ‘may’, ‘will’, ‘intend’, ‘estimate’, and similar expressions identify forward-looking statements, although these words may not be present in all forward-looking statements. Forward-looking statements included in this AIF include, without limitation: information as to the Company’s (as defined below) strategy, plans or future financial or operating performance, such as the Company’s expansion plans at the LDI Mine (as defined below), project timelines, production plans, projected cash flows or capital expenditures, liquidity, cost estimates, mining or milling methods, projected exploration results, reserve and resource estimates and other statements that express management’s expectations or estimates of future performance.

Forward-looking statements, including future-oriented financial information, are necessarily based on 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 AIF, which may prove to be incorrect, include, but are not limited to, the following:

- that additional financing for the Company’s capital and development plans will be available, including on reasonable terms;
- that the Lac des Iles Mine (the “**LDI Mine**”) will be and will remain viable operationally and economically;
- that mill feed head grade, recovery rates and mill performance will be as expected at the LDI Mine;
- that plans for mine production, mine development projects, mill production and exploration will proceed as expected and on budget;
- that the Company will pursue future development projects;
- that market fundamentals will result in reasonable demand and prices for palladium and by-product metals in the future;
- that the Company will not be subject to any environmental disasters, significant regulatory changes or material labour disruptions;
- that the information and advice the Company has received from its employees, consultants and advisors relating to matters such as mineral resource and mineral reserve estimates, engineering, mine planning, metallurgy, permitting and environmental matters is reliable and correct and, in particular, that the models used to calculate mineral reserves and mineral resources are appropriate and accurate; and
- that the Company and its contractors will be able to attract and retain sufficient qualified employees.

North American Palladium Ltd. and its subsidiaries (“**NAP**” or the “**Company**”) caution the reader that such forward-looking statements involve known and unknown risks that may cause the

actual results to be materially different from those expressed or implied by the forward-looking statements. Such risks include, but are not limited to: the possibility that commodity prices and foreign exchange rates may fluctuate; the possibility that general economic conditions may deteriorate; the inability to meet production level and cost estimates; inaccuracy of mineral resource and reserve estimates; decreases in the market price of palladium or other metals may render the mining of reserves uneconomic; the demand for, and cost of, exploration, development and construction services; the possibility of construction and commissioning delays; the risks related to future exploration programs, including the risk that future exploration will not replace mineral reserves and mineral resources that become depleted; inherent risks associated with mining and processing including environmental hazards; the uncertainty as to the Company's ability to achieve or maintain projected production levels at the LDI Mine; the potential uncertainty related to title to the Company's mineral properties; the risk that the Company may not be able to obtain external financing necessary to continue its development and production plans; the Company's reliance on third parties for smelting and refining the concentrate that is produced at the Lac des Iles mill; employment disruptions, including in connection with collective agreements between the Company and unions; environmental and other regulatory requirements; the costs of complying with environmental legislation and government regulations; the risk that permits and regulatory approvals necessary to conduct operations will not be available on a timely basis, on reasonable terms or at all; loss of key personnel; competition from other producers of platinum group metals (" **PGMs** ") and from potential new producers; risks involved in current or future litigation (including class actions) or regulatory proceedings; the development of new technology or new alloys that could reduce the demand for palladium; the ability of the Company to comply with the terms of its loan agreement and convertible debentures or future credit facilities; risks related to the Company's hedging strategies; lack of infrastructure necessary to develop the Company's projects; the ability of the Company to maintain adequate internal control over financial reporting and disclosure controls and procedures.

All of the forward looking statements made in this AIF are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the projected results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The forward-looking statements are not guarantees of future performance. All forward looking statements in this AIF are made as at December 31, 2013, unless otherwise indicated, and 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.

REPORTING CURRENCY, FINANCIAL AND RESERVE INFORMATION

The information in this AIF is presented as at December 31, 2013 unless otherwise indicated.

Unless otherwise indicated, all dollar amounts referred to herein are in Canadian dollars.

Unless otherwise indicated, all financial information included herein has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (" **IFRS** ").

Unless otherwise indicated, all reserve and resource estimates included in this annual information form have been prepared in accordance with Canadian National Instrument 43-101 –

Standards of Disclosure for Mineral Projects (“**NI 43-101**”) and the Canadian Institute of Mining, Metallurgy and Petroleum classification system. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission (the “**SEC**”), and reserve and resource information included herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, this document uses the terms “measured resources,” “indicated resources” and “inferred resources”. Investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. The requirements of NI 43-101 for identification of “reserves” are also not the same as those of the SEC, and reserves reported by the Company in compliance with NI 43-101 may not qualify as “reserves” under SEC standards. Under U.S. standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. U.S. investors are cautioned not to assume that any part of a “measured resource” or “indicated resource” will ever be converted into a “reserve”. U.S. investors should also understand that “inferred resources” have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of “inferred resources” exist, are economically or legally mineable or will ever be upgraded to a higher category. Under Canadian rules, estimated “inferred resources” may not form the basis of feasibility or pre-feasibility studies except in rare cases. In addition, disclosure of “contained ounces” in a mineral resource is permitted disclosure under Canadian regulations. However, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC standards as in place tonnage and grade, without reference to unit measures. Accordingly, information concerning mineral deposits set forth in this AIF may not be comparable with information made public by companies that report in accordance with U.S. standards.

CORPORATE STRUCTURE

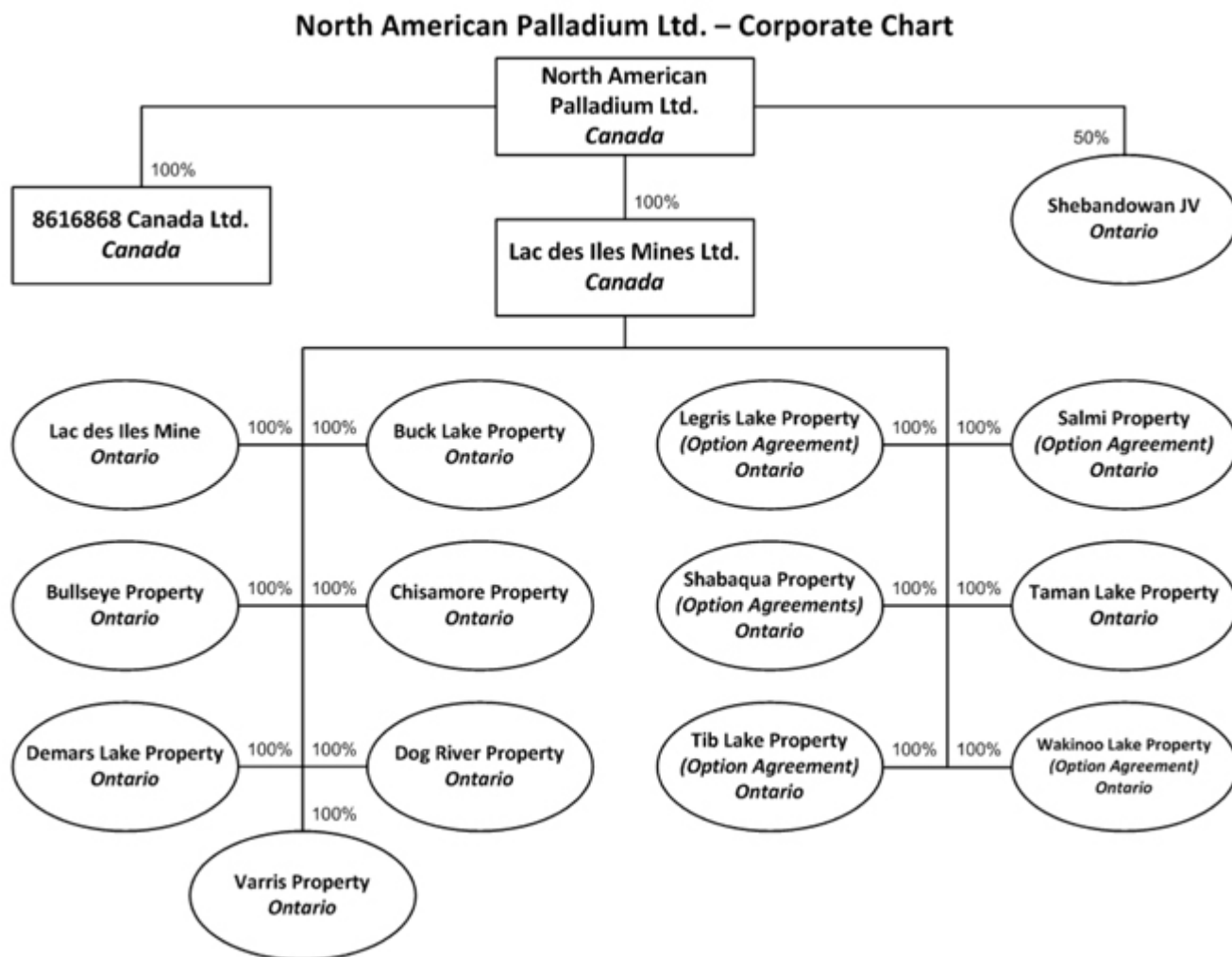
The Company is the successor to Madeleine Mines Ltd., a company incorporated under the *Mining Companies Act* (Quebec) by letters patent in 1968. The Company completed its initial public offering in 1968 and has been listed with the Toronto Stock Exchange (the “**TSX**”) since December 19, 1968. In January 1992, Madeleine Mines Ltd. was amalgamated with 2945-2521 Quebec Inc. and the amalgamated company was wound up into the federally incorporated parent company, 2750538 Canada Inc. (“**2750538**”). 2750538 changed its name to Madeleine Mines Ltd. and, in June 1993, the name was changed to North American Palladium Ltd. The Company continues to exist under the *Canada Business Corporations Act* (“**CBCA**”). The Company has two wholly-owned subsidiaries: Lac des Iles Mines Ltd. (“**LDI**”) and 8616868 Canada Ltd. (“**8616868**”). On March 22, 2013, the Company sold its Quebec-based gold division, NAP Quebec Mines Ltd., which included the Vezza mine, the Sleeping Giant mine and mill complex and its nearby portfolio of exploration properties to Maudore Minerals Ltd.

In 1991, LDI was incorporated under the CBCA as a subsidiary of Madeleine Mines Ltd. to hold a 50% interest in the Lac des Iles palladium property located approximately 85 kilometres northwest of the city of Thunder Bay in the province of Ontario. In 1994, LDI acquired the remaining 50% interest in the Lac des Iles property from Sheridan Platinum Group Ltd. to become the sole owner of the property.

8616868 was incorporated under the CBCA on August 26, 2013. The Company, through 8616868, plans to carry out mineral exploration in Ontario and Quebec.

The Company's head and registered office is located at 200 Bay Street, Suite 2350, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2J2, Canada, Telephone: (416) 360-7590, Facsimile: (416) 360-7709.

The following chart describes the Company's subsidiaries and properties as at March 28, 2014. The percentage ownership is indicated for each entity. Several of the option agreements referenced below have not been fully exercised.



DESCRIPTION OF THE BUSINESS AND GENERAL DEVELOPMENTS

Three Year History

2011

On February 18, 2011, the Company announced the completion of a bought deal prospectus offering of 2,667,000 flow-through Common Shares at a price of \$8.25 per share for total gross proceeds of \$22,002,750.

On March 22, 2011, the Company announced that its board of directors (the “**Board**”) approved the adoption of a shareholder rights plan (the “**Rights Plan**”), which was subsequently approved by the Company’s shareholders at the annual and special meeting held on May 11, 2011. The Rights Plan is similar to plans adopted by other public companies in Canada, and was adopted to ensure shareholders are given fair treatment in the event of any take-over bid for the Company’s common shares and to provide shareholders adequate time to properly evaluate an offer. The full text of the Rights Plan can be found under NAP’s SEDAR profile at www.sedar.com.

On March 30, 2011, the Board adopted a Majority Voting Policy for the election of directors in uncontested elections. Pursuant to that policy, if a nominee does not receive the affirmative vote of at least the majority of votes cast at the meeting of shareholders, the director shall forthwith submit his or her resignation. The Board will then determine whether to accept the resignation as soon as possible and in any event within 90 days of the shareholders’ meeting.

On June 13, 2011, the Company released an updated mineral resource estimate for the Offset Zone at the LDI Mine.

On June 13, 2011, the Company filed a new NI 43-101 report for the previously owned Sleeping Giant mine entitled, “Technical Report, The Sleeping Giant Mine, Northwestern Quebec Reserves and Resources on December 31, 2010” prepared by Vincent Jourdain, Eng., Donald Trudel, Geo. and Marc-André Lavergne, Eng.

On June 28, 2011, the Company provided an update on the first tranche of drill results from its 2011 exploration program at the LDI Mine, including additional platinum group elements (“**PGE**”) intersections from an area known as the Cowboy Zone located west of the Offset Zone.

On July 12, 2011, the Company released results from its 2011 exploration program at the Company’s previously owned gold division in Quebec’s Abitibi region, including surface and underground drilling results at the Vezza project.

In July 2011, the Company increased its operating line of credit with a major Canadian bank from \$30 million to \$60 million to provide the Company with the financial flexibility to advance its development projects (the “**Credit Facility**”). The Credit Facility is secured by a first priority security over the Company’s accounts receivable and inventory.

In August 2011, the Company entered into an option and purchase agreement to purchase a 100% interest in the Salmi property, located near the LDI Mine.

On August 26, 2011, the Company released a mineral resource update for its previously owned Flordin property.

On September 14, 2011, additional results were released for the Lac des Iles property exploration program, including positive infill drill results in the Offset Zone and significant mineralization close to the deepest limit of the then current resource wireframe.

On October 4, 2011, the Company sold \$70 million of senior secured notes (“**Notes**”) by way of a private placement with Sprott Resource Lending Corp., who was the lead investor in the Notes. The Notes bore interest at a rate of 9.25% per year, payable semi-annually commencing on March 31, 2012, with a maturity date of October 4, 2014. The Company also issued a palladium warrant with each \$1,000

note. Each palladium warrant entitles the holder to purchase 0.35 ounces of palladium at a purchase price of US\$620 per ounce anytime up to October 4, 2014. The Company sold an additional \$2 million of Notes and related palladium warrants on November 1, 2011.

On October 5, 2011, the Company provided an update on its mine expansion plan for the LDI Mine that factored in certain scope changes from its previous approach. The updated plan took into account the increased size of the Offset Zone resources, updated price assumptions for capital expenditures, newly available seismic information, and updated certain details of the mine design. The Company provided an update on its development progress, as well as clarifying certain details related to mining method, stope design, and capital expenditures.

2012

On January 17, 2012, the Company announced that the previously owned Vezza project commenced processing a bulk sample at the Sleeping Giant mill, achieving results in line with expectations. The Company also announced its intention to cease mining operations at the Sleeping Giant mine and that it would restructure the gold division, resulting in a non-cash impairment charge on the Company's gold assets of approximately \$50 million, which was reflected in fourth quarter 2011 financial results.

On January 30, 2012, the Company provided an update on the third and final tranche of drill results from its 2011 exploration program at the LDI Mine. Mineralization was discovered 300 metres to the west of the Offset, Cowboy and Outlaw zones and surface mineralization was encountered from trenches along the North VT Rim (northeast of the Lac des Iles open pit).

On February 24, 2012, the Company announced the appointment of Dr. David C. Peck as Head of Exploration of the Company, effective March 1, 2012.

On April 30, 2012, the Company announced the completion of a bought deal flow-through financing of 11,300,000 flow-through shares for total gross proceeds of \$35,030,000.

On May 2, 2012, the Company entered into an agreement with Vale Canada Limited (“**Vale**”) for the smelting and refining of concentrate from the LDI Mine at the Vale Copper Cliff Nickel Smelter.

On May 3, 2012, the Company entered into an option and purchase agreement with Houston Lake Mining Inc. whereby the Company obtained an option to purchase a 100% interest in the Tib Lake property located northwest of the LDI Mine, subject to a 2.5% NSR royalty in favour of a third party on a portion of the claims and a 2.5% NSR royalty in favour of Houston Lake Mining Inc. for the rest of the claims.

On July 9, 2012, after receiving necessary final production permits, the Company announced that it would delay commercial production at the Vezza project and begin exploring divestiture opportunities for its gold assets.

On July 10, 2012, the Company announced a bought deal financing of \$43,000,000 principal amount of 6.15% convertible unsecured subordinated debentures with a maturity date of September 30, 2017. The offering was completed on July 31, 2012.

On July 16, 2012, the Company provided an update on its 2012 exploration program at the LDI Mine, including drill results from Offset Zone infill drilling, and confirmation that the area known as the Sheriff Zone located east of the Offset Zone extends to the surface.

On August 8, 2012, the Company released an updated mineral reserve and mineral resource estimate for the LDI Mine.

On September 13, 2012, the Company announced that its Chairman André Douchane would be appointed Interim Chief Executive Officer, replacing William Biggar who would be retiring effective September 30, 2012. The Company also announced that it commenced an executive search for a new permanent Chief Executive Officer.

On September 26, 2012, the Company entered into a purchase agreement with Platinex Inc. whereby the Company purchased a 100% interest in four unpatented mining claims near the Tib Lake property, subject to a 0.5% NSR royalty in favour of Platinex Inc.

On October 15, 2012, the Company provided a development update on its LDI Mine expansion, disclosing that the operation of the shaft was expected to be delayed until the third quarter of 2013 and all other development was progressing on schedule.

On November 30, 2012, the Company announced the completion of a bought deal flow-through financing of 2,425,000 flow-through shares of the Company on a private placement basis for total proceeds of \$4,001,250.

On December 11, 2012, the Company provided an update on its exploration activities at the LDI Mine including infill and extension drilling targeting the Offset Zone, and other greenfields properties in Ontario.

On December 13, 2012, the Company announced the resignation of Jeffrey Swinoga, Vice President, Finance and Chief Financial Officer of the Company, effective January 4, 2013.

On December 19, 2012, Tess Lofsky was appointed Vice President, General Counsel and Corporate Secretary.

2013

On January 14, 2013, the Company provided a development update on its LDI Mine expansion. The Company disclosed that it had made significant progress advancing the critical aspects of the expansion including completion of the major construction components on surface, while shaft sinking was progressing well, in line with the Company's scheduled rates of advancement.

On January 22, 2013, Dave Langille was appointed Chief Financial Officer of the Company.

On January 31, 2013, the Company provided an update on its drill results from the second half of its 2012 underground and surface exploration programs at the Lac des Iles property. Definition drilling resulted in broad zones of lower grade palladium mineralization, containing local higher-grade intervals which enhanced the Sheriff Zone near-surface resource potential.

On February 13, 2013, the Company announced the filing of a final base shelf prospectus allowing the Company to make offerings of Common Shares (including flow-through shares), debt securities, warrants and subscription receipts in an aggregate principal amount of up to US\$300 million during the 25-month period that the shelf prospectus remains effective.

On February 19, 2013, the Company filed a new NI 43-101 report titled “Technical Report Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase 1” prepared by Tetra Tech WEI Inc. (“**Tetra Tech**”) for the LDI Mine (the “**2013 LDI Report**”), which included an initial mineral reserve estimate and prefeasibility study for Phase I of the Offset Zone. For the purposes of the 2013 LDI Report, the mineral reserves were effective as at March 31, 2012 included the Phase I portion of the Offset Zone above the 990-metre mine level (4,490 metres elevation), which qualified due to density of drilling. The diluted mineable mineral reserves contained within the stope wireframe at a 2.5 grams/tonne (“**g/t**”) Pd cut-off grade were estimated to be 7,741,000 tonnes at a grade of 4.30 g/t Pd.

On February 21, 2013, the Company announced that at December 31, 2012, it had concluded that the recoverable amount of the gold division was lower than the carrying value. As a result, the Company recognized an impairment charge of \$56.0 million on the gold division assets for the year ended December 31, 2012.

On March 4, 2013, the Company announced the appointment of Mr. Robert Quinn to the position of Chairman and that Mr. Andre Douchane would continue to perform Chief Executive Officer responsibilities.

On March 15, 2013, the Company announced that its Board had adopted an advance notice by-law (the “**By-Law**”) to provide shareholders, directors and management of the Company with a clear framework for nominating directors for election to the Board and timely information in connection with such nominations. Among other things, the By-Law requires that advance notice be given to the Company in circumstances where nominations of persons for election are made by shareholders other than pursuant to (i) a requisition of a meeting made pursuant to the provisions of the CBCA; or (ii) a shareholder proposal made pursuant to the provisions of the CBCA. No person will be eligible for election as a director of the Company unless nominated in accordance with the provisions of the By-Law. The shareholders of the Company confirmed and ratified the By-Law at the annual and special meeting of shareholders held on May 9, 2013. The full text of the By-Law can be found under NAP’s SEDAR profile at www.sedar.com.

On March 21, 2013, the Company announced the appointment of Mr. Phil du Toit as President and Chief Executive Officer effective March 25, 2013.

On March 22, 2013, the Company sold its Quebec-based gold division, NAP Quebec Mines Ltd., which included the Vezza mine, the Sleeping Giant mine and mill complex and its nearby portfolio of exploration properties to Maudore Minerals Ltd.

On May 6, 2013, the Company announced the resignation of Mr. Greg Struble as Vice President and Chief Operating Officer effective May 15, 2013.

On June 7, 2013, the Company entered into a subscription agreement in respect of a fully subscribed private placement of flow-through shares (the “**Flow-Through Shares**”) for aggregate gross proceeds of approximately \$20 million. The Company issued the Flow-Through Shares in two tranches. The first tranche closed on June 19, 2013 and the second tranche closed on July 23, 2013.

On June 7, 2013, the Company extended its Credit Facility by an additional year to July 4, 2014.

On June 7, 2013, the Company announced the completion of a US\$130 million term loan financing (the “**Brookfield Debt**”) with Brookfield Capital Partners Ltd. (“**Brookfield**”) which bears interest at 15% per annum and is due June 7, 2017. The Brookfield Debt was amended on November 29, 2013, resulting in an additional advance of US\$21.4 million in cash to support the Company’s working capital needs and continue funding operating and capital expenditures at the LDI Mine. The cash received consisted of an additional US\$15 million of term loan and a refund of US\$6.4 million of cash interest previously paid to Brookfield, which was added to the existing facility. Pursuant to the amendment, the Company’s interest rate increased by 4% to 19%. The Brookfield Debt is secured by first priority security over the Company’s and LDI’s assets other than the accounts receivable and inventory.

On September 4, 2013, the Company announced the appointment of Mr. James E. Gallagher to the position of Chief Operating Officer effective October 1, 2013.

On September 5, 2013, the Company provided an update on its drill results from the first half of its 2013 underground and surface exploration program at the LDI Mine and announced that it had completed estimates for some near-surface mineral resources on the North VT Rim and the Sheriff Zone of the LDI property.

On October 21, 2013, the Company announced that it had begun hoisting material through the new shaft at the LDI Mine and that the production, service and auxiliary hoists were fully operational and the skipping system had been successfully tested with full loads of material. The Company also announced that it planned to defer Phase II of the shaft expansion at depth.

On November 14, 2013, the Company announced that the Phase I expansion, which entailed sinking a shaft to approximately 825 metres below surface and setting up the required infrastructure to mine and transport the underground Offset Zone ore, was essentially completed and operations were transitioning from ramp to shaft haulage with both ore and waste being hoisted through the shaft.

On December 23, 2013, the Company provided an update on its drill results from the second half of its 2013 underground and surface exploration program at the LDI Mine. Surface mineralization was discovered on the upper Roby Zone northeast extension.

2014 Year to Date

On January 31, 2014 and February 10, 2014, the Company closed the first tranche of a public offering of up to \$75 million principal amount (in two tranches) of 7.5% convertible unsecured subordinated debentures and associated warrants for aggregate gross proceeds of \$32 million. The warrants were subject to disinterested shareholder approval. On March 28, 2014, the Company held a special meeting of shareholders pursuant to which disinterested shareholders: (i) approved the exercise of the warrants associated with the \$32 million first tranche offering of convertible debentures; (ii) approved the second tranche offering of up to \$43 million of convertible debentures and associated warrants; and (iii) approved an alternative offering in the event that the second tranche offering is delayed or abandoned.

On March 21, 2014, the Company provided an update on its mineral reserve and mineral resource estimates and life of mine plan for the LDI Mine, as well as an update on 2014 operations and production. Total reserves were estimated to be 15.0 million tonnes at a grade of 2.8 g/t Pd. Palladium production and operating costs in January and February were ahead of guidance.

On March 31, 2014, the Company filed a new NI 43-101 report titled “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study of Life of Mine Plan” prepared by Tetra Tech for the LDI Mine (the “**2014 LDI Report**”). The report includes an update on the previously announced mineral reserve and resource estimates and life of mine plan for the LDI Mine.

Business Overview

The following contains forward-looking statements and future-oriented financial information about the Company's business. Reference should be made to “Forward-Looking Statements” on page 2. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in the following, please see “Risk Factors” beginning on page 54.

North American Palladium Ltd. is an established precious metals producer that has been operating its flagship LDI Mine in Ontario, Canada since 1993. The Company's vision is to become a low cost mid-tier precious metals producer operating in mining friendly jurisdictions.

The Lac des Iles property (including the LDI Mine and mill complex) is the Company's only material property. LDI is one of two primary palladium producers in the world, offering investors exposure to the price of palladium. In 2013, the Company completed Phase I of the LDI Mine expansion, including the construction of a mining shaft and commissioning of the shaft and the underground ore handling system. The production ramp up utilizing the new shaft infrastructure is progressing well and the Company will focus on increasing underground production through the shaft. It is expected that this expansion will result in increased palladium production at a reduced cash cost per ounce.

Through an investment of \$109.5 million excluding capitalized interest in 2013, the Company achieved a number of critical development milestones and was able to significantly advance the project. In 2013, the mine expansion development was primarily focussed on completing the development work related to the new shaft infrastructure and commissioning the shaft and underground ore handling system.

There remains significant exploration upside at the LDI Mine. Management will focus on advancing work to potentially extend the life of mine through the future successful conversion of resources into reserves. The exploration upside is further complemented by the LDI Mine's significant excess mill capacity and established infrastructure. Outside of the LDI Mine property, the Company's regional PGE greenfields properties cover approximately 29,016 hectares (71,701 acres), including several of the most prospective mafic complexes in the area. The Company remains committed to maintaining a portfolio of development-stage and exploration-stage projects at and near the LDI Mine property and is actively engaged in significant exploration programs aimed at increasing its mineral reserves and mineral resources.

The Company also owns other advanced projects including 50% ownership of the Shebandowan West project. The Company does not consider this property to be material at this time.

For the 2013 fiscal year, the Company's revenue totalled \$153.2 million. The Company's revenue by commodity totalled \$103.1 million for palladium, \$15.6 million for platinum, \$14.7 million for gold, \$9.9 million for nickel, \$9.7 million for copper and \$0.2 million for other metals, representing approximately 67.3%, 10.2%, 9.6%, 6.5%, 6.3% and 0.13% respectively of its total consolidated revenue.

As of December 31, 2013, the Company had 429 employees. Of this number, 390 employees worked at the Lac des Iles property, 19 out of an exploration office in Thunder Bay, eight at the Company's finance and administration office in Thunder Bay and 12 at the Company's corporate head office in Toronto.

General Description of Palladium

The Company produces concentrate at the Lac des Iles mill and may sell the concentrate directly to smelters for processing, into the spot market, or directly to end users after the palladium is refined. In each instance the price for palladium is expected to be determined with reference to prevailing spot market prices.

Platinum group metals are rare precious metals with unique physical characteristics that are used in diverse industrial applications and in jewellery. The unique characteristics of PGMs include: (1) strong catalytic properties; (2) excellent conductivity and ductility; (3) a high level of resistance to corrosion; (4) strength and durability; and (5) a high melting point. The six PGMs also include platinum, rhodium, ruthenium, iridium and osmium.

Demand for palladium is diversified by geography and end market. Palladium is primarily used in the manufacture of catalytic converters in the automotive industry, as well as in the manufacture of jewellery and electronics, and in dental and chemical applications. As a precious metal, there is also investment demand for palladium in the form of doré bars, generally held as physical inventory by exchange traded funds ("ETFs") and institutional investors.

Palladium is typically produced as a by-product metal from either platinum mines in the Republic of South Africa (approximately 38% of world mine production) or Norilsk Nickel's mines in Russia (approximately 41% of world mine production). North America contributes approximately 14% to the world's supply of palladium. The Company's LDI Mine is one of only two primary producers of palladium in the world.

Palladium Supply and Demand Fundamentals

Mine Supply

There are very few palladium producing regions worldwide and few known economically viable ore bodies. Russia and South Africa, which are known to be higher-risk jurisdictions, account for almost 80% of global mine palladium production, which was estimated to be approximately 6.43 million ounces in 2013. Growth in palladium mine supply is constrained, largely owing to political, infrastructure cost and labour issues in South Africa, declining palladium production in Russia, and a limited number of new projects on the horizon in the near term.

In particular, South African production is challenged by deeper mines, power and water limitations, higher operating costs, geopolitical risks, shortage of skilled labour, the strengthening of

currencies and labour disruptions. There do not appear to be any near-term solutions in place and as a result the South African PGM mining industry has begun contracting.

Secondary Supply

Secondary supply is derived from recycling (which is estimated to have contributed approximately 2.2 million ounces in 2012 , and from a Russian government stockpile. The stockpile is believed to have contributed about 1 million ounces per year to the market in the past decade, and was consequently considered to be a major overhang on the palladium price. It is estimated by industry experts that the Russian stockpile contribution has fallen to under 250,000 ounces in 2012 (record low), while declining even further in 2013. Accordingly this stockpile is now believed to be essentially depleted, or to no longer be a significant contributor to secondary supply.

Fabrication Demand

The primary source of fabrication demand is from the automotive sector, which consumes approximately 67% of world palladium production for the manufacture of catalytic converters. Palladium is used in a car's exhaust system to help reduce harmful emissions into the environment by converting them into less harmful carbon dioxide, nitrogen and water vapour. Palladium, platinum and rhodium are the primary components in catalytic converters.

The demand for palladium in the automotive industry has more than doubled in the last ten years due to an increase in global automotive production and the tightening of emissions standards worldwide, resulting in steady growth in the use of catalytic converters.

The primary driver of growth in the automotive sector is from the emerging economies – Brazil, Russia, India and China (“**BRIC**”) – where there is emerging affluence, very low penetration of vehicles per capita, and the affordability factor is high due to low interest rates and leasing programs. Light global vehicle production is forecasted by IHS Automotive to increase at a compound annual growth rate of 4% to over 100 million units by 2017, with most of that growth driven by the BRIC economies.

Underpinning the demand for catalytic converters is the adoption of emission control standards in the BRIC economies, which mandate the use of catalytic converters. As the emission standards get more stringent, this translates into increased palladium usage in the catalytic converter. Catalytic converter manufacturers have also started to substitute palladium in place of platinum for use in diesel powered engines. There is approximately 30% substitution of platinum with palladium in diesel engines.

Other sources of fabrication demand include: 12% from electronics, 5% from dental, 5% from chemical, and 5% from jewellery. In the electronics industry, palladium's demand has been rising in recent years. This increase is largely attributable to an increase in demand for palladium bearing semiconductors that are used in many electronic devices, including cellular telephones, personal and notebook computers, fax machines and home electronics. In the dental industry, palladium is widely used in alloys for dental restoration. Palladium is also used in the manufacture of jewellery and may be used either on its own or as an alloy in white gold. Additionally, palladium is used in crude oil refining catalysts, chemical process catalysts and various chemical applications, including the manufacture of paints, adhesives, fibres and coatings.

Investment Demand

An important macroeconomic trend has been the increase in demand for palladium for investment purposes. Strong investor sentiment for precious metals has provided support for a favourable palladium pricing environment. Increased participation by a greater variety of market participants, the resulting improvement in liquidity and the introduction of new investment vehicles are all improving investment demand for palladium.

Like gold, platinum and silver, palladium is increasingly viewed as an attractive precious metal that can help diversify investment portfolios. Together, the ETFs are believed to hold over 2 million ounces, and they are physically backed by palladium bars.

Price Outlook

The palladium market is forecasted by industry experts to remain in a substantial supply deficit that started in 2012 due to the favourable outlook of strong fabrication and investment demand, constrained supply due to operational challenges in South Africa and a belief that the Russian palladium stockpile is nearing depletion. Other factors contributing to the projected deficit are the expected positive net investment in the ETF market, lower sales of palladium from Russia and South Africa, and increasing demand in autocatalyst applications.

In 2013, the average price of palladium was US\$725 per ounce, ranging from a low of US\$643 per ounce, to a high of US\$774 per ounce. As of March 28, 2014, the price of palladium was US\$771 per ounce.

The Lac des Iles Property

For a description of the meaning of certain technical terms used in this AIF, please see the “Glossary of Terms” beginning on page 74.

The Company’s only material property is the Lac des Iles property. The property is located approximately 90 kilometres northwest of the city of Thunder Bay, Ontario, Canada. The property consists of an open pit, an underground mine accessible by ramp or by shaft, and a mill with a nominal capacity of approximately 15,000 tonnes per day. The primary deposits on the property are the Roby Zone and the Offset Zone; both disseminated magmatic nickel-copper-PGM deposits. The Company has also identified other mineralized areas on the property, including the North VT Rim, Sheriff Zone, Baker Zone, and Moore Zone. The Cowboy and Outlaw Zones now form part of the area known as the Offset Footwall Zone.

The Company began mining the Roby Zone open pit in 1993 and in April of 2006, the Company also began commercial production underground by mining the higher grade portion of the Roby Zone. On October 29, 2008, the LDI Mine was placed on temporary care and maintenance due to declining metal prices during the global financial crisis.

On December 8, 2009, following improvements in palladium prices, the Company announced its intention to restart underground operations in the Roby Zone, and on April 14, 2010, the Company announced that it had resumed production from the Roby Zone.

In late 2010, the Company commenced the expansion of its LDI Mine in order to access the Offset Zone. The purpose of the expansion is to transition operations from mining via ramp access to mining via shaft while utilizing a high volume bulk mining method. As part of the expansion, the Company installed a shaft to a depth of approximately 825 metres below surface and extended the ramp from the Roby Zone to the Offset Zone.

The following is a description of the LDI property that has been summarized from the 2014 LDI Report filed on March 31, 2014, which is available for review on SEDAR at www.sedar.com, and is subject to, and is qualified in its entirety by reference to the 2014 LDI Report. The authors of the 2014 LDI Report are “qualified persons” under NI 43-101. The mineral reserve and mineral resource estimates for the LDI property were prepared with an effective date of December 31, 2013.

Property Description and Location

The LDI property is located at latitude 49°10' north, longitude 89°37' west, 90 kilometres northwest of the community of Thunder Bay in northwestern Ontario. The LDI property comprises approximately 8,623 hectares (21,307 acres) of mineral claims and leases. LDI, a wholly owned subsidiary of NAP, holds a 100% interest in six mining leases, comprising 3,513 hectares (8,680 acres). Contiguous with these leases are 54 mineral claims (consisting of 331 claim units) held 100% by LDI and covering 5,109 hectares (12,624 acres).

Figure 1 : LDI property location map



On August 31, 1994, LDI, Sheridan Platinum Group Ltd. (“**SPG**”) and John Patrick Sheridan (“**Sheridan**”) entered into a royalty agreement pursuant to which SPG and Sheridan transferred certain LDI property claims and leases to LDI in exchange for a NSR royalty. Pursuant to the royalty agreement, NAP is required to pay SPG and Sheridan 5% of the NSR royalty at LDI Mine until the expiration of the LDI property leases. Four of the six mining leases expire on August 31, 2027, and the remaining two leases expire on September 30, 2027.

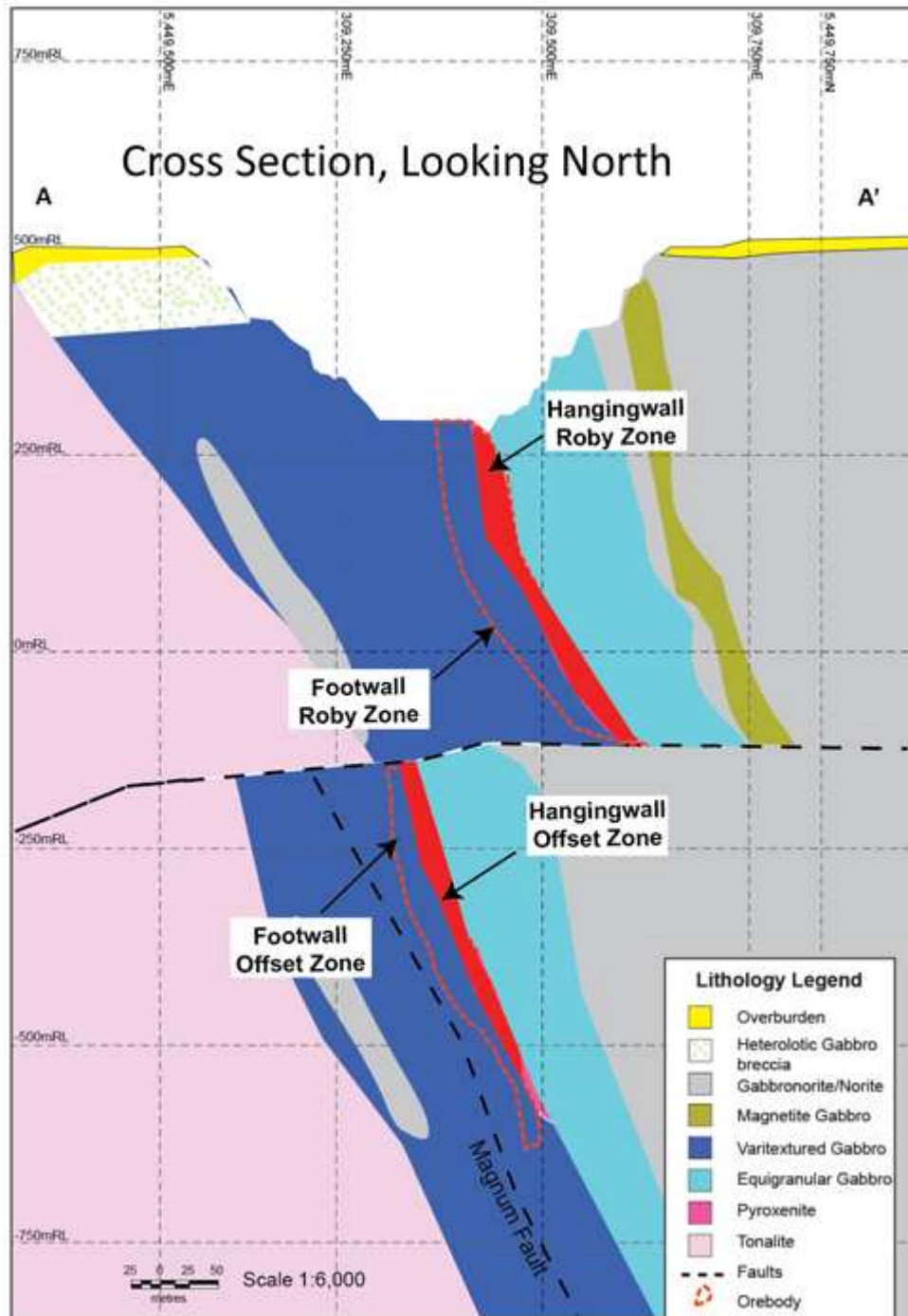
The LDI property is underlain by mafic to ultramafic rocks of the Lac des Iles intrusive complex in the Wabigoon Subprovince of the Canadian Shield. The intrusive complex is an irregularly-shaped Neoproterozoic-age mafic-ultramafic intrusive body having maximum dimensions of approximately 9 kilometres in the north-south direction and approximately 4 kilometres in the east-west direction. The complex incorporates three discrete intrusive bodies: (i) the North Lac des Iles intrusion characterized by

a series of relatively flat-lying and nested ultramafic bodies with subordinate mafic rocks; (ii) the Mine Block intrusion (“**MBI**”), host to all of the stated Lac des Îles mineral reserves and resources and (iii) the South Lac des Îles intrusion, a predominantly mafic (gabbroic) intrusion having many similarities to the MBI in terms of rock types and textures.

To date, NAP’s exploration activities have been focused on the MBI. The MBI is a small, teardrop-shaped mafic complex with maximum dimensions of 3 kilometres by 1.5 kilometres and having an elongation in an east-northeast direction. The MBI consists of gabbroic (noritic) rocks having highly variable plagioclase: pyroxene proportions, textures, and structures. The MBI was emplaced into predominantly intermediate orthogneiss basement rocks. The MBI is intersected by a series of brittle to ductile faults and shear zones, some of which appear to control the distribution of higher grade palladium mineralization. A major north-trending shear zone appears to have cut the western end of the MBI and is spatially associated with the development of high-grade palladium mineralization. Textural and mineralogical variability is greatest in the outer margins of the MBI, especially along the well documented western and northern margins that host most of the known palladium resources. Commonly observed textures in the noritic marginal units of the MBI include equigranular, fine- to coarse-grained (seriate textured), porphyritic, pegmatitic and varitextured.

For purposes of the 2014 LDI Report, the resources contained in the Roby and Offset Zone deposits have been separated into discrete hangingwall and footwall zones (See Figure 2 below). The Roby Zone deposit extends to a minimum depth of 650 metres below surface. It includes a thick footwall zone in the west (tens to hundreds of metres wide) and a thinner, approximately 5 to 20 metre-thick hangingwall zone in the east. The Offset Zone deposit shows similar grade distributions to the Roby Zone. The former is believed to represent the along strike continuation of the Roby Zone deposit but having been displaced from the latter along the east-striking and north dipping Offset Fault. The Offset Zone deposit remains open toward surface, to the southeast and at depth (greater than 1,500 metres below surface). The Offset Zone is host to a majority of higher-grade palladium resources on the LDI property and is the focus for current underground mine production, development and exploration drilling.

Figure 2: Type Geological Section through the Offset Zone Deposit (looking North through the central portion of the deposit)



The following are the mineralized zones on the LDI property:

Roby Zone

- **Main Roby Zone:** The main part of the Roby Zone is a palladium-enriched disseminated sulphide deposit with a strike length of approximately 1,000 metres and a maximum width of approximately 800 metres. The Roby Zone deposit extends to a minimum depth of 650 metres below surface. The deposit includes a thick footwall zone in the west (tens to hundreds of metres)

wide) and a thinner, approximately 5 to 20 metre thick hanging wall zone in the east. Underground mining of the Roby Zone commenced in 2006 and has been confined to the higher-grade part of the deposit, the hanging wall zone. By the end of 2013, most of the underground reserves in the Roby hanging wall zone had been mined out. However, most of the lower-grade footwall mineralization beneath the current floor of the Roby open pit is undeveloped.

- Roby Zone Northeast Extension: Historical and recent exploration and infill drilling on the northern end of the Roby Zone has shown that the Roby hanging wall zone extends, at least intermittently, along an apparent curvilinear trend toward the northeast, possibly connecting to the western end of the North VT Rim. Additional infill and extension drilling will be required to assess whether economic grade-width palladium mineralization is developed along the Roby Northeast Extension.
- Roby Zone Southeast Extension: An internal review of results obtained from historical drilling on the southern Roby Zone confirmed that the hanging wall zone extends beyond the southern limit of the historical resource shell until it reaches the Offset fault, where it is abruptly terminated. As observed in the Northeast Extension, high-grade palladium mineralization tends to become narrower and more erratically distributed moving beyond the historical limits to the hanging wall zone resource shell. Nonetheless, the Roby Zone Southeast Extension remains a potential longer-term development opportunity that will be assessed through future engineering studies and economic analyses.

Offset Zone

- Offset Zone: Discovered in 2001, this zone is located below the Offset fault structure, where it is displaced down and approximately 300 metres to the west. The Offset Zone was previously divided into three grade and geology-based subzones: the high grade subzone, the mid subzone, and the footwall subzone. However, recent resource modeling indicates that this subdivision is arbitrary and that from both a mining and geological perspective, the footwall subzone and mid subzone together with the former Cowboy and Outlaw zones are more appropriately considered as a single unit of lower-grade mineralization displaying significant local grade variability, herein defined as the Offset Footwall Zone.
- Offset Hanging Wall Zone: Hanging wall zone mineralization is a broadly stratabound unit developed along a northstriking and steeply (east) dipping contact between the equigranular (“**EGAB**”) in the east and the varitextured gabbro (“**VGAB**”) hosted low-grade subzone in the west. Its width varies from 4 to 30 metres, with an average of 15 metres. Approximately 2% of the Offset Hanging Wall Zone is occupied by late dikes (dilution) and approximately 1% is occupied by shears and faults. The southern part of the Hanging Wall Zone appears to gradually disappear over a distance of 50 to 100 metres along strike and immediately to the south of the new shaft. Underground mining of the Offset Hanging Wall Zone commenced in 2013 in the upper part of the currently defined reserves and resources.
- Offset Footwall Zone: The lower-grade Offset Footwall Zone is equivalent to the Roby Footwall Zone. It is a northstriking mineralized package having widths of tens to hundreds of metres and extending west to the poorly defined western contact with basement gneiss. It has a sharp contact with the Offset Hanging Wall Zone on its eastern margin. The exact western limit to the Offset Footwall Zone remains poorly constrained. Additional exploration drilling will be required

to adequately define the position and form of the basement MBI contact and the extent and quality of palladium mineralization on the footwall side of the Offset Zone deposit.

- Potential Upper and Southeast Extensions to the Offset Zone: Exploration drilling in 2013 has shown that palladium mineralization is intermittently present along a postulated southeast extension branch or “pantleg” to the main Offset Zone deposit that was interpreted from a 3D model of the EGAB unit. Follow up drilling is planned for this area during the 2014 exploration program.

North VT Rim

- North VT Rim Zone: The North VT Rim Zone is a 2 kilometre long, east-to-northeast-striking mineralized zone consisting of sheared and altered VGAB and heterolithic gabbro breccia (“**HGABBX**”) and subordinate, boudinaged melanorite layers, mafic dikes, aplitic to pegmatitic granitic veins, and quartz veins. Palladium grades are extremely variable within the North VT Rim Zone and to date, no mineral reserves have been declared. Exploration has largely been restricted to trenching and shallow drilling, particularly in the westernmost end of the North VT Rim subzone where a small near-surface mineral resource was defined in 2013.
- Creek Subzone: Located approximately 2 kilometres northeast of the Roby Pit in the northeastern nose of the MBI, near the contact with the north Archean Lac des Iles Intrusive Complex.

Sheriff Zone

- Sheriff Zone: The Sheriff Zone is a combination of the former Southeast Roby, Twilight and South Pit zones connected through additional drilling and with some material recently moved into a NI 43-101 compliant resource. The Sheriff Zone has been subdivided into North and South subzones based on location relative to the Offset fault. Very recent exploration drilling has identified an area of atypically high-grade palladium mineralization located within the Sheriff North subzone and within 40 to 50 metres of surface. The zone is generally poorly exposed.

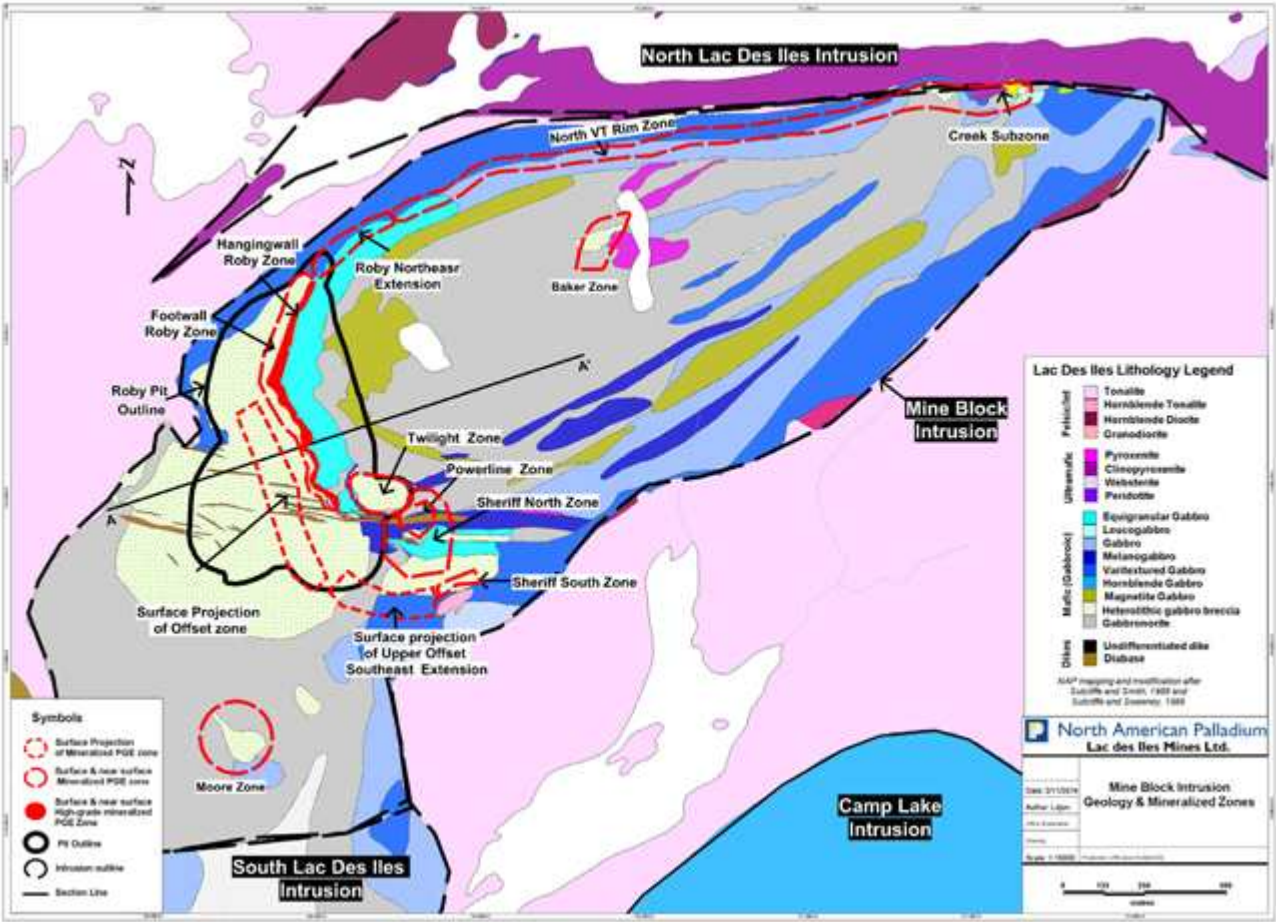
Baker Zone

- Baker Zone: Located approximately 500 metres to the south of the North VT Rim Zone in the central part of the MBI.

Moore Zone

- Moore Zone: A low-grade, presently uneconomic, mineralized zone, located approximately 500 metres south of the current Roby Pit with similar lithologies and textures to other MBI breccias.

Figure 3 : Geological map of the Lac des Iles mine block intrusion showing the location of the currently defined mineralized zones on the Lac des Iles mine property.



The Company reports that its operations and facilities comply in all material respects with legislation in effect as of the date of the 2014 LDI Report and that it holds all necessary approvals and licenses for its operations at the mine and for all planned expansion projects. The Company believes that the LDI Mine is current with its permitting and licensing requirements.

Summary of Permits

Approval	Reason for Approval
Air CoA (Amended) 0112-889QZX Industrial Sewage Works CoFA 4-0048-92-936 Municipal and Private Sewage Works CoA 6806-4KTPB9 Land Use Permit LUP SPR1056 Land Use Permit LUP SPR1055 Land Use Permit LUP SPR1054	Approval for site wide air emissions Approves the TMF; the discharge of sanitary sewage to the facility, and landfill Approves sewage treatment plant at operation camp Approves the hydro line to Silver Falls Approves the operations camp and parking lot Approves the expansion TMF

<u>Approval</u>	<u>Reason for Approval</u>
Permit to take water 8583-8WPL3N	Approved withdraw of 908 L/min or 1,307,520 L/d
Permit to take water 002097NJES	Approved withdraw of 24,000 L/min or 35,000,000 L/d
Permit to take water 1607-7S8LCB	Approved withdraw of 1,900 L/min or 27,000,000 L/d
Lac Des Iles Mine Closure Plan	Approved the Project and is updated when changes to the mine site occur
Generator Registration Number	Allows the disposal of subject wastes, as per Regulation 501/01
CofA Air 9997-6M413B	Air
CofA Sewage 2018-7X4HML	Industrial sewage works
CofA Building 3-1404-98-006	Old administration building
CofA Sewage 8678-4QGGY5	Assay laboratory and mill
CofA Waste Management A900369	Provisional approval waste management system
CofA Waste Disposal Site A770072	Provisional approval waste disposal site

The Company is responsible for all costs of closure and reclamation at the LDI Mine and the current mine closure plan currently provides for approximately \$13.6 million of closure and reclamation costs. This obligation is secured by a letter of credit in the amount of approximately \$14.1 million. A closure plan amendment was recently submitted to MNM to include new developments within the footprint, including the shaft, and the Company's plan to potentially expand mining operations by developing the north expansion of the existing pit and the Baker Zone.

Accessibility, Climate, Local Resources, Infrastructure and Physiology

The LDI property is located approximately 90 kilometres northwest of Thunder Bay. Access to the site is provided by a year-round gravel access road (which is open to the public and maintained by the Company) that connects to Provincial Highway 527 at a point 16 kilometres east of the mine. The nearest access to rail transport would be at Thunder Bay or Armstrong, Ontario, approximately 90 kilometres to the south and 133 kilometres to the north, respectively. Air access is available in Thunder Bay and Armstrong, Ontario. Thunder Bay has an international airport which is serviced by several major airlines. Thunder Bay provides most of the services and mine and mill consumables required by NAP's LDI property, as well as access to experienced staff and personnel with good mining and processing expertise.

The LDI property is located in northwestern Ontario which lies within the Superior Province of the Canadian Precambrian Shield. The topography of the site is favourable for the placement of facilities, being generally of low relief. Elevations on the LDI property range from 418 to 550 metres above sea level, exclusive of the open pit.

The LDI property experiences hot summers and cold winters, which are typical of the region. Maximum and minimum temperatures range from an extreme low of -30°C in the winter months to an

extreme high of 38°C in the summer months. The average winter and summer temperatures are -13°C and 15°C, respectively. Mean annual precipitation for the LDI property is approximately 469 millimeters. Mill operations are enclosed and are not exposed to the weather other than feed inputs. Weather conditions are rarely severe enough to halt mining operations, although it does impact safe traction on the access roads and ramps within the open pit.

Water and sewer services are supplied independently for each facility and are considered by the Company to be adequate for current needs. Expansion of potable water and sewer services were completed in 2011 for the underground workforce additions. Electrical power is supplied by Hydro One via a 115 kilovolt line to three main substations on-site. In December 2013, approval was received for LDI Mine to increase supply power from 38 to 47 mega watts from the Hydro One power grid.

The Company intends on retaining its current practice of using natural elevation differences where possible, such that water is diverted away from buildings and drains away in existing ditches to the lower lying areas, for storm water management. There is no requirement for additional storm water management to be put in place as a result of the Offset Zone Phase I Project.

The main facilities on the LDI property are: the operations camp; the old camp; the main office and tire shop; the old mill area; the new mill complex; the open pit shops; the warehouse and operational offices; the old concentrator building; the open pit and stockpile area; the underground portal and related ventilation accesses; and the tailings management facility (the “**TMF**”). There is also new infrastructure related specifically to the Offset Zone, which has been constructed in the past two years to accommodate the future mine expansion, including the shaft headframe, the hoist house, the compressor building, the mine dry, the substation and the surface load out facility.

In 2006, a 324-person operations camp and recreational complex was built in conjunction with the construction of the new mill. It is expected that this facility will be sufficient to accommodate the underground workforce once construction activities wind down. A construction camp was established in 2011, to accommodate added surface and underground construction workers during the peak construction period associated with readying the Offset Zone Phase I for production through the shaft facilities. The construction camp added approximately 200 spaces and will be decommissioned once the mine related workforce requirements are reduced.

The LDI Mine has been operating a TMF since 1990. The TMF has three sections, the South TMF, West TMF and the East TMF, which are located adjacent to one another, southwest of the open pit. Currently, all wastes created by the milling process are deposited in the South TMF. The West TMF has been closed upon reaching capacity and is undergoing progressive remediation. The tailings area is monitored according to industrial sewage works requirements set out by the Ministry of Environment (Ontario).

History

Geological investigations in the area began with reconnaissance mapping in the early 1930s, and again in the late 1960s, sparked by the discovery of aeromagnetic anomalies in the late 1950s. Various exploration programs were undertaken over the next 25 years by a number of companies, including F.H. Jowsey Limited, Gunnex, Anaconda American Brass Limited, Boston Bay, and Madeleine Mines.

In 1992, the Company acquired the LDI property, with open pit production commencing in 1993. Until 2008, the Company operated a combined open pit and underground mine from the Roby Zone and

a 14,000 tonnes per day (“t/d”) processing plant, producing a bulk nickel-copper-PGE concentrate with gold credits. On October 21, 2008, NAP announced that, due to depressed metal prices, it was temporarily placing the LDI property on care and maintenance effective October 29, 2008. The LDI Mine produced 212,046 oz. of palladium in 2008 prior to going on care and maintenance.

When palladium prices began to recover in December 2009, NAP announced that it would restart operations exclusively from underground reserves. On April 14, 2010, NAP announced that the Roby underground mine was back in production, with a potential 2 to 3 year mine life.

In 2010, the LDI Mine produced 95,057 oz. of palladium, and in late 2010 the Company commenced its underground mine expansion to access the Offset Zone. The Offset Zone is believed to be the fault-offset, down-dip extension of the Roby Zone, a disseminated magmatic nickel-copper-PGE deposit. Mine expansion plans consisted of shaft sinking and extension of the ramp from the Roby Zone to the Offset Zone.

In 2011, while the Company balanced underground development with production, the LDI Mine produced 146,157 oz. of palladium from the blending of underground ore with lower-grade surface stockpile sources. In 2012, the Roby Zone open pit was restarted and blended with underground production from the Roby Zone and Offset Zone. As of year-end 2012, the LDI Mine produced 161,845 oz. of palladium from both underground and surface sources. Mining of the first Offset Zone stope commenced in the fourth quarter of 2012.

In 2013, the LDI Mine produced 135,158 oz. of palladium primarily sourced from the Offset Zone, low-grade surface stockpiles and residual ore from the Roby Zone.

Geological Setting

The LDI Mine area is underlain by mafic to ultramafic rocks of the Archean LDI Intrusive Complex. These rocks have intruded granites and greenstones of the Wabigoon Subprovince of the Superior Province. The complex occurs along the boundary of the Wabigoon-Quetico Subprovince. The Archean LDI Intrusive Complex is the largest of a series of mafic and ultramafic intrusions that occur along the boundary and which collectively define a 30 kilometres in diameter circular pattern. The LDI Mine lies in the southern portion of the Archean LDI Intrusive Complex, in a roughly elliptical mafic intrusive package measuring 3 kilometres long by 1.5 kilometres wide, termed the MBI.

The MBI hosts a number of PGE deposits. The most important of these are the Roby Zone and the Offset Zone. The MBI comprises rocks with a very wide range of textures, and mafic and ultramafic compositions. The principal rock types in the Offset Zone area include: EGAB; HGABBX; VGAB; Pyroxenite; Gabbro-norite; Basement Orthogneiss and Mafic to Intermediate Dikes.

The Offset Zone is a high-grade zone located below the Offset Fault structure where it is displaced down and approximately 300 metres to the west. The Offset Zone is believed to represent the along strike continuation of the Roby Zone but having been displaced from the latter along the east-striking Offset fault. The Offset Zone deposit remains open toward surface, to the southeast and at depths greater than approximately 1,000 metres to the north. The Offset Zone mineral resources comprise a relatively thick footwall zone and a relatively thin hanging wall zone. The hanging wall zone in both the Roby Zone and Offset Zone deposits are believed to be exact equivalents and form useful visual marker horizons. Based on their relative positioning it is believed that the vectors of displacement of the Offset Zone relative to the Roby Zone were both downward (unconstrained) and right-lateral (300

metres of apparent westward displacement of the Offset Zone on the south side of the Offset fault). The Offset Zone was previously divided into three grade- and geology-based subzones: the high grade subzone, the mid subzone, and the footwall subzone. However, recent resource modeling indicates that this subdivision is arbitrary and that from both a mining and geological perspective, the footwall subzone and mid subzone together with the former Cowboy and Outlaw zones are more appropriately considered as a single unit of lower-grade mineralization displaying significant local grade variability, herein defined as the Offset Footwall Zone.

Mineralization

PGE mineralization in the MBI is found in a variety of structural and geological settings but in general is characterized by the presence of small amounts (less than 1 to 3%) of fine- to medium-grained disseminated iron-copper-nickel sulphides within broadly stratabound zones of PGE and gold enrichment associated with VGAB rocks, coarse-grained noritic rocks and local, intensive zones of amphibolitization, chloritization and shearing. An important, distinguishing characteristic of the MBI mineralization relative to other PGE deposits is the consistently high palladium:platinum ratio, commonly averaging 10:1 or more in most of the known zones. Although many ideas have been advanced to account for the high palladium:platinum ratios, it remains equivocal what specific magmatic and/or postmagmatic processes have led to the extreme enrichment in palladium over platinum in the MBI. Sulphide mineralogy is dominated by pyrite with lesser pyrrhotite, chalcopyrite, pentlandite and millerite. Much of the nickel in the published resources is hosted by silicate minerals (chlorite, amphibole) and is the primary reason for typically low nickel recoveries (generally less than 40%) reported by the LDI mill.

Nearly all of the known mineralized zones in the MBI occur in the marginal units of the intrusion. In recent years, a much clearer picture of the relationship between previously interpreted disparate mineralized zones has emerged; based on over two decades of intensive exploration and development work on the LDI property. This picture can be summarized as follows:

- The majority of the currently defined palladium-platinum-gold-copper-nickel mineral resources is restricted to the western end of the MBI and consists of a thicker but lower-grade footwall zone and a thinner, higher grade hanging wall zone.
- The footwall portion of the Roby Zone has only been mined from the Roby open pit and is typically hosted by VGAB and HGABBX. This style of lower-grade palladium mineralization extends to the full strike and depth extent of both the Offset Zone and Roby Zone deposits and is also the dominant style of mineralization in the Twilight Zone, Sheriff Zone, and Baker Zone.
- The higher-grade hanging wall zone in both the Roby and Offset zone deposits is typically restricted to a schistose PYXT unit that is currently interpreted by NAP to represent an intensely hydrated and recrystallized (magmatic fluid alteration and metasomatism) melanocratic norite with schistosity and alteration having been focused along a steeply east-dipping and generally north-striking shear zone.
- The Roby Zone and Offset Zone deposits were likely part of a single contiguous deposit that was subsequently pulled apart by predominantly dextral displacement along the east-northeast striking and north dipping Offset fault.

- Satellite zones of palladium mineralization such as the Moore, Sheriff, and Baker zones appear to represent localized development of similar styles of deformation, recrystallization, and textural and lithological variability that characterize the footwall portions of both the Roby Zone and Offset Zone deposits.
- The North VT Rim Zone is currently interpreted to represent the along strike extension of the Roby Zone with palladium mineralization becoming telescoped into a less than one- to several-metre thick mineralized VGAB containing discontinuous decimeter- to metre-thick bands of more melanocratic and variably recrystallized norite. Palladium grades in the North VT Rim Zone show much more local-scale variability than is generally observed in the Roby Zone or Offset Zone deposits, including discontinuous bonanza grades of up to 63 g/t palladium over 1 metre. The mineralization in part follows and in part is cut by northeast-striking ductile shear zones that are sub-parallel to the strike of the northern margin of the MBI. A distinctive feature of the North VT Rim Zone palladium mineralization is the absence of visible sulphides and very low copper and nickel abundances.
- The primary controls on the localization of economic grade and width palladium mineralization on the LDI property are currently interpreted as a combination of two contemporaneous and high-temperature magmatic processes:
 - a volatile-enriched magmatic fluid focused high-grade palladium mineralization and subordinate platinum, gold, copper and nickel within actively deforming major structures (i.e., magma-fluid pathways). This led to the development of the hanging wall portions of the Roby Zone and Offset Zone deposits that are hosted by schistose and filter-pressed melanocratic norite; and
 - accumulations (rarely exceeding one weight percent) of moderately PGE enriched magmatic sulphides in feeder faults and within the texturally heterogeneous marginal units of the MBI (e.g., VGAB-hosted footwall zones of the Roby and Offset deposits).
- The palladium:platinum ratio increases systematically with palladium grade suggesting preferential fixing of palladium relative to platinum in the known, mineralized zones and especially in the schistose hanging wall portions of the Roby Zone and Offset Zone deposits. This is apparently a fairly unique, high temperature feature of the mineralizing processes at LDI relative to other, well-documented PGE (copper, nickel) deposits.

Exploration

In addition to diamond drilling as described below, the Company has conducted surface exploration on the property using the overburden stripping technique.

In 2010, 18 separate trenches were dug for a total length of 908 metres. In 2011, 14 separate trenches were opened for a total of approximately 1,000 metres. In 2012, eight trenches were completed for a total of 1,245 metres. In 2013, four previously stripped areas were expanded on and a total of 1,828 channel samples were taken.

Drilling

Prior owners of the LDI Mine drilled 135 holes totalling 21,425 metres on the LDI Mine before 1986, while the Company and its predecessor company have drilled 1,962 holes totalling 670,186 metres on the LDI Mine since 1986.

In 2013, 215 holes were collared and 54,277 metres drilled on five major target areas spread across the entire MBI.

- Offset Zone Targets: 102 surface and underground holes/34,996 metres.
- Roby Northeast Extension Targets: 43 surface holes/7,215 metres.
- Sheriff and North Sheriff Targets: 20 surface holes/4,060 metres.
- North VT Rim to Baker Zone/Shorty Lake Targets: 38 surface holes/4,846 metres.
- South VT Rim to Creek Zone Targets: 12 surface holes/3,160 metres.

All underground and surface NQ core drilling within the MBI from January to April 2013 was completed by Major Drilling Group International of Moncton, New Brunswick. All surface NQ drilling from June to October 2013 was completed by Orbit Garant Drilling Inc. of Val d'Or, Quebec.

The authors of the 2014 LDI Report are of the opinion that the diamond drilling procedures at LDI meet industry standards and are acceptable to use for resource estimation.

Sampling and Analysis, and Security of Samples

Core boxes are delivered from the drill site to the core logging facilities on the LDI property by the drill contractor. Core samples at the core facility were stored in a secure warehouse only accessible to key NAP personnel. Additionally, the mine has a gate house and barriers that restrict public access.

For the 2013 series drilling, Courtesy Courier transported samples from the mine site to Activation Laboratories Ltd. (“**ActLabs**”) in Thunder Bay and Exploration personnel transported samples from the Thunder Bay facility to ActLabs. As of April 2013, all core samples were processed and secured in the logging/sampling facility at the mine site. Courtesy Courier continued transporting samples from the mine site to ActLabs in Thunder Bay up until the end of June 2013, after which exploration personnel handled sample transportation.

Sample lengths may vary, but the most common sample has a 1 metre sample length starting and ending on the metre-spaced fiducial marks. Since 2008, NAP's Thunder Bay Exploration office has been using Century Systems Technology Inc.'s (acquired by CAE Mining in January 2011) Fusion Data Management suite of software to manage borehole data, including analytical results. Boreholes were created within the software and geologists and technicians entered the required information, including collar, survey, geological logs, rock quality designation, specific gravity and lists for sample analysis. ActLabs reported analytical results digitally and imported those results into the software. Digital copies of the result certificates are maintained on the exploration file server catalogued by certificate number.

The core boxes were photographed four or five boxes at a time, and these photos were backed-up daily on the main server by the logging geologist. The core was then transferred to pallets, strapped for secure transport, and then moved to a core splitting facility on site where it was offloaded onto core

racks. A sample list was prepared and printed for use in continuous monitoring of sample progress and proper incorporation of control samples.

Core was broken to less than 10 centimetres lengths and consistently placed on the anvil so the same side of the core drops into the sample tray when mechanically split in half. One half was tightly packed in the core box retaining the original sequence. The other half was transferred to a new clear plastic sample bag which has been previously labeled with a machine-printed tag bearing the unique sample identifier. One machine-printed sample tag placed at the end of the sample during sample layout is verified against the sample bag number and placed inside of the bag with the core sample. The other tag is placed in the bottom of the channel in the core box at the end of the sample and covered by a piece of split core. Once all the samples have been split from a core box, it is returned to the core rack and the next box is loaded onto the splitter bench.

Control samples without source identification are inserted into the same new clear plastic sample bags having a machine-printed tag bearing the unique sample identifier and added to the rice bags in numerical order. The commercial supplier's identification label is peeled off the kraft paper bag containing the standard or blank pulp and this label affixed to the sample list next to its corresponding sample number for QA/QC assurance. Each core sample or control sample bag is sealed with a plastic tie strap/electrical tape and placed in hand-labelled rice bags for efficient storage, shipping and handling. Rice bags are sealed using zip-ties. Core-splitter collection pans and the splitter anvil and blade are manually brush-cleaned after each sample.

Core boxes of half core are transferred from the splitting facility core rack to pallets and strapped for transport and short- or long-term storage. Core is kept outdoors on strapped pallets or in outdoor covered racks for future reference.

A minimum of one in five Offset Zone boreholes are split to maintain the Lac des Iles Mine core reference library with the remaining boreholes being whole-core sampled. Whole-core sampled holes have samples taken at the core logging benches following logging, sample layout, and photography. As for split core sampling, the printed sample tag placed in the core box at the end of each sample is verified to a machine-printed label on the bags before putting broken to less than 10 cm lengths in the sample bag. While on site, all rice bagged samples are stored under cover until loaded onto NAP pickup trucks and delivered directly to the Commercial Labs prep facility in Thunder Bay, Ontario by LDI personnel.

The authors of the 2014 LDI Report are of the opinion that the core logging and core sampling procedures meet industry standards and are acceptable to use for resource estimation.

For the 2013 series drilling, NAP used ActLabs for core sample preparation and analysis. Sample preparation at ActLabs was as follows:

- Samples are sorted, opened and dried at 60°C.
- Logged onto LIMS database.
- Samples are crushed to 80% -2 mm.
- Samples are split to 250 grams ("g") using a Jones Riffle.
- 250 g portion is pulverized to 95% -100 µm.

-
- There are pulp duplicates taken every 30 samples.
 - There are fine crush duplicates taken every 50 samples.
 - Crusher jaws and work stations are cleaned between each sample with compressed air.
 - The grinding bowls are cleaned between each sample with an abrasive cleaning sand and then cleaned with compressed air.

Pulps and rejects are retained at ActLabs for a period of time. Once QA/QC checks have been completed the pulps and rejects are then shipped back to the mine where they are stored in sea-can shipping containers.

Two main analytical packages were used for samples from holes drilled in the mine operations area. These are referred to as EXPLO2013PROD (early 2013 diamond drillhole) and EXPLO2013 (later 2013 diamond drillhole).

EXPLO2013PROD

A sample size of 5 to 50 g can be used but a 30 g sample size was used for rock pulps. The sample is mixed with fire assay fluxes and with silver added as a collector. The mixture is placed in a fire clay crucible and is preheated at 950°C and finished at 1,060°C. After cooling, the lead button is separated from the slag and cupelled at 950°C to recover the silver (doré bead), gold, platinum and palladium. The silver doré bead is digested in hot nitric acid and hydrogen chloride. After cooling, the sample solution is analyzed for gold, platinum and palladium. A blank and a digested standard are run every 15 samples. The instrument is recalibrated every 45 samples. One duplicate is run for every 10 samples. If values exceed upper limits, re-analysis by fire assay gold, platinum, palladium (Code 8) is recommended (same procedure as above but digested and diluted in larger test tubes/flasks).

To minimize the matrix effects of the samples, the heavy absorber fusion technique is used for major element (oxide) analysis. Prior to fusion, the loss-on-ignition, which includes water and carbon dioxide, sulphur, and other volatiles can be determined from the weight loss after roasting the sample at 1,050°C. The fusion disk is made by mixing a 0.5 g equivalent of the roasted sample with 6.5 g of a combination of lithium metaborate and lithium tetraborate with lithium bromide. Samples are fused in crucibles using an automated crucible fluxer and poured into platinum molds for casting. The intensities are then measured and the concentrations are calculated against the standard G-16 provided by Dr. K. Norrish of CSIRO, Australia. Matrix corrections were done by using the oxide alpha; influence coefficients provided also by Dr. Norrish. In general, the limit of detection is about 0.01 wt% for most of the elements.

EXPLO2013

A sample size of 5 to 50 g can be used but a 30 g sample size was used for rock pulps. The sample is mixed with fire assay fluxes and with silver added as a collector. The mixture is placed in a fire clay crucible and is preheated at 950°C and finished at 1,060 °C. After cooling, the lead button is separated from the slag and cupelled at 950°C to recover the silver (doré bead), gold, platinum, palladium. The silver doré bead is digested in hot nitric acid + hydrogen chloride. After cooling the sample solution is analyzed for gold, platinum, palladium. A blank and a digested standard are run every 15 samples. The instrument is recalibrated every 45 samples. One duplicate is run for every 10 samples.

If values exceed upper limits, reanalysis by fire assay gold, platinum, palladium (Code 8) is recommended (same procedure as above just digested and diluted in larger test tubes/flasks).

A 0.25 g sample is digested with four acids beginning with hydrofluoric, followed by a mixture of nitric and perchloric acids, and heated which takes the samples to incipient dryness. After incipient dryness is attained, samples are brought back into solution using aqua regia.

A review of pulp duplicate analyses for 2013 drill core samples was still in progress as of the effective date of the 2014 LDI Report. As of such date, 3,026 duplicate results have been received from drilling completed in 2013 on the MBI, including samples from the Offset Zone. Duplicate analyses were performed by ActLabs.

As of the effective date of the 2014 LDI Report, 1,298 results have been received from drill core samples obtained from the 2013 exploration program on the MBI. Approximately 10% of the samples were selected, both specifically and randomly, by NAP personnel and the requested samples were forwarded by ActLabs to the NAP designated check assay commercial laboratory SGS Lakefield Research Ltd. (“**SGS**”), located in Lakefield, Ontario. Check assays were performed on an approximate 100 g split of pulp reject from each of the selected samples. SGS provided the following information regarding the analytical procedures used for the check fire assays for 2013.

Blanks and standards were inserted into the drill core continuous sampling series at regular intervals during the 2013 drill program.

During 2013, most samples were submitted to ActLabs in batches of 34 samples except for those at the end of the holes. The first three samples in a batch were reference materials inserted following this pattern: sample 1 was a blank crush, sample 2 was a CDN Resources Laboratories (“**CDN**”) standard, sample 3 was a CDN blank. A CDN standard was also inserted into the batch in a middle position and as the last sample in the batch.

The CDN blank samples and the blank crush samples are considered failed if one or more of the palladium, platinum or gold results exceed the maximum allowable upper limit value of 10 parts per billion (“**ppb**”). Once a failure is detected, the lab is instructed to re-assay from pulps all samples from the preceding blank or standard that passed to the following blank or standard that passed. These re-assays are then used in the drillhole database. If a pulp re-assay also fails then the samples are re-processed from coarse rejects and new analyses for these materials are used in the database.

The CDN standard samples results for palladium, platinum and gold are assessed based on their recommended values and standard deviations reported on the CDN certificates. Palladium fails if it exceeds two standard deviations. Platinum and gold fail if they exceed three standard deviations. Once a failure is detected, the lab is instructed to re-assay from pulps all samples from the preceding blank or standard that passed to the following blank or standard that passed. These re-assays are then used in the drillhole database. If a pulp re-assay also fails, then the samples are re-processed from coarse rejects and new analyses for these materials are used in the database.

Tetra Tech carried out an internal validation of the diamond drillhole file against the original drillhole logs and assay certificates. The validation of the data files was completed on 18 of the 172 drillholes in the database or approximately 10% of the dataset. Data verification was completed on collar coordinates, end-of-hole depth, down-the-hole survey measurements, and “from” and “to”

intervals. No errors were encountered. A total of 10% of the assays data were validated against the original assay certificate. The error rate from this validation was 0%.

Tetra Tech imported the drillhole data into the Datamine™ program, which checks for duplicate intervals, overlapping intervals, and intervals beyond the end of a hole. The errors identified in the routine were checked against the original logs and corrected.

Tetra Tech visually observed the diamond drill setups underground at the LDI Mine. Tetra Tech also observed the mineralized zone underground.

Eighteen independent samples of mineralized course rejects were collected for check assaying representing different mineralization grade ranges. The samples were sent to ALS Minerals in Thunder Bay, Ontario. The samples were prepared in Thunder Bay and the pulps were shipped by ALS Minerals to Vancouver, British Columbia for analysis. Each course reject was processed twice to generate two duplicate assay results for each original sample. The results of the validation check samples for palladium and platinum indicate that the results of the check samples are typically high compared to the original samples.

The NAP exploration group maintains all borehole data in a Century Systems Fusion Server®. Header, survey, assays, and lithology tables are saved in the database. This is the database which is used for resource estimation.

Internal validation of all diamond drillhole data imported into the borehole database is carried out by NAP exploration personnel before a drillhole is considered to be compliant for the purpose of resource estimation. In 2013, the NAP exploration group conducted an audit of surface drillhole directional survey data. As a result of this review, several surface holes surveyed had atypical survey profiles. Where possible, these holes were re-surveyed. Holes which could not be re-surveyed were considered to be non-compliant and excluded from the resource estimation program. The Icefield survey tool was also used for several underground drillholes which could not be re-surveyed due to cementation. As a precaution it was decided to make all holes longer than 450 metres and all holes which deviated more than 10 metres from a straight line from the collar non-compliant if surveyed with the Icefields Tool. In total, 35 surface and underground drillholes were removed from consideration during the current resource estimation program. This represents 2% of the total number of drillholes (1,691 drill holes) used in the current estimation of resources on the LDI property.

Mineral Reserve and Mineral Resource Estimates

The table reproduced below summarizes the reserves and resources on the LDI property. The effective date of the mineral reserves and resources is December 31, 2013. The mineral resources set out below are exclusive of the mineral reserves.

TABLE 1: Mineral reserve and mineral resource estimates for the Lac des Iles mine property effective December 31, 2013.

NEAR SURFACE RESERVES

Category/Source	Pd Cut-Off (g/t)	Tonnes (000's)	Pd (g/t)	Pt (g/t)	Au (g/t)	Ni (%)	Cu (%)	Pd Contained (000's oz.)
<u>Proven</u>								
Low-Grade Stockpile (RGO)	0.95	4,876	0.97	0.12	0.08	0.06	0.03	152
Roby Zone Open Pit	1.09	716	1.31	0.16	0.13	0.07	0.06	30
Total Proven	—	5,592	1.01	0.13	0.09	0.06	0.03	182
<u>Probable</u>								
Roby Zone Open Pit	1.09	293	1.39	0.18	0.15	0.08	0.07	13
Total Probable	—	293	1.39	0.18	0.15	0.08	0.07	13
Total Proven + Probable	—	5,885	1.03	0.13	0.09	0.06	0.04	195

NEAR-SURFACE RESOURCES

Category/Source	Pd Cut-Off (g/t)	Tonnes (000's)	Pd (g/t)	Pt (g/t)	Au (g/t)	Ni (%)	Cu (%)	Pd Contained (000's oz.)
<u>Measured</u>								
Low-Grade Stockpile (RGO)	0.95	7,679	0.97	0.12	0.08	0.06	0.03	239
Roby Zone Pit Expansion	1.00	10,476	1.60	0.21	0.12	0.07	0.05	539
Sheriff Zone	1.50	1,725	2.06	0.21	0.11	0.06	0.07	114
North VT Rim	1.00	437	2.03	0.12	0.03	0.03	0.01	28
Total Measured	—	20,317	1.41	0.17	0.10	0.07	0.04	921
<u>Indicated</u>								
Roby Zone Pit Expansion	1.00	5,393	1.53	0.21	0.11	0.07	0.05	265
Sheriff Zone	1.50	35	1.74	0.20	0.14	0.07	0.09	2
North VT Rim	1.00	14	1.75	0.12	0.03	0.03	0.01	1
Total Indicated	—	5,442	1.53	0.21	0.11	0.07	0.05	268
Total Measured + Indicated	—	25,759	1.44	0.18	0.10	0.07	0.04	1,189

UNDERGROUND RESERVES - HANGINGWALL ZONES

Category/Source	Pd Cut-Off (g/t)	Tonnes (000's)	Pd (g/t)	Pt (g/t)	Au (g/t)	Ni (%)	Cu (%)	Pd Contained (000's oz.)
<u>Proven</u>								
Offset Hangingwall Zone	2.60	4,499	4.06	0.28	0.28	0.11	0.08	587
Roby Hangingwall Zone	2.40	847	3.51	0.23	0.20	0.05	0.04	96
Total Proven	—	5,346	3.97	0.27	0.27	0.10	0.07	683

<u>Probable</u>								
Offset Hangingwall Zone	2.60	3,564	3.82	0.27	0.27	0.10	0.09	438
Roby Hangingwall Zone	<u>2.40</u>	<u>251</u>	<u>3.17</u>	<u>0.22</u>	<u>0.18</u>	<u>0.05</u>	<u>0.04</u>	<u>26</u>
Total Probable	<u>—</u>	<u>3,815</u>	<u>3.78</u>	<u>0.27</u>	<u>0.26</u>	<u>0.10</u>	<u>0.09</u>	<u>463</u>
Total Proven + Probable	<u>—</u>	<u>9,161</u>	<u>3.89</u>	<u>0.27</u>	<u>0.27</u>	<u>0.10</u>	<u>0.08</u>	<u>1,146</u>

UNDERGROUND RESOURCES - HANGINGWALL ZONES

<u>Category/Source</u>	<u>Pd Cut-Off (g/t)</u>	<u>Tonnes (000's)</u>	<u>Pd (g/t)</u>	<u>Pt (g/t)</u>	<u>Au (g/t)</u>	<u>Ni (%)</u>	<u>Cu (%)</u>	<u>Pd Contained (000's oz)</u>
<u>Measured</u>								
Offset Hangingwall Zone	2.50	2,418	4.34	0.31	0.28	0.11	0.08	337
<u>Indicated</u>								
Offset Hangingwall Zone	<u>2.50</u>	<u>3,234</u>	<u>4.19</u>	<u>0.30</u>	<u>0.29</u>	<u>0.12</u>	<u>0.10</u>	<u>436</u>
Total Measured + Indicated	<u>2.50</u>	<u>5,652</u>	<u>4.25</u>	<u>0.30</u>	<u>0.29</u>	<u>0.12</u>	<u>0.09</u>	<u>773</u>
<u>Inferred</u>								
Offset Hangingwall Zone	2.50	5,942	3.75	0.23	0.23	0.10	0.09	

UNDERGROUND RESOURCES - FOOTWALL ZONES

<u>Category/Source</u>	<u>Pd Cut-Off (g/t)</u>	<u>Tonnes (000's)</u>	<u>Pd (g/t)</u>	<u>Pt (g/t)</u>	<u>Au (g/t)</u>	<u>Ni (%)</u>	<u>Cu (%)</u>	<u>Pd Contained (000's oz)</u>
<u>Measured</u>								
Offset Footwall Zone	1.50	11,011	2.24	0.23	0.16	0.08	0.06	793
Roby Footwall Zone	<u>1.50</u>	<u>4,159</u>	<u>2.43</u>	<u>0.21</u>	<u>0.18</u>	<u>0.06</u>	<u>0.05</u>	<u>325</u>
Total Measured	<u>1.50</u>	<u>15,170</u>	<u>2.29</u>	<u>0.22</u>	<u>0.17</u>	<u>0.07</u>	<u>0.06</u>	<u>1,118</u>
<u>Indicated</u>								
Offset Footwall Zone	1.50	8,810	2.12	0.22	0.16	0.08	0.07	600
Roby Footwall Zone	<u>1.50</u>	<u>2,341</u>	<u>2.34</u>	<u>0.20</u>	<u>0.17</u>	<u>0.06</u>	<u>0.05</u>	<u>176</u>
Total Indicated	<u>1.50</u>	<u>11,151</u>	<u>2.17</u>	<u>0.22</u>	<u>0.16</u>	<u>0.08</u>	<u>0.07</u>	<u>777</u>
Total Measured + Indicated	<u>1.50</u>	<u>26,321</u>	<u>2.24</u>	<u>0.22</u>	<u>0.16</u>	<u>0.08</u>	<u>0.07</u>	<u>1,895</u>
<u>Inferred</u>								
Offset Footwall Zone	1.50	9,530	2.16	0.15	0.12	0.06	0.05	
Roby Footwall Zone	<u>1.50</u>	<u>248</u>	<u>2.43</u>	<u>0.18</u>	<u>0.08</u>	<u>0.03</u>	<u>0.02</u>	
Total Inferred	<u>1.50</u>	<u>9,778</u>	<u>2.17</u>	<u>0.15</u>	<u>0.12</u>	<u>0.06</u>	<u>0.06</u>	

COMBINED RESERVES AND RESOURCES - ALL SOURCES

<u>Category/Source</u>	<u>Tonnes (000's)</u>	<u>Pd (g/t)</u>	<u>Pt (g/t)</u>	<u>Au (g/t)</u>	<u>Ni (%)</u>	<u>Cu (%)</u>	<u>Pd Contained (000's oz)</u>
<u>Sub-Category</u>							
Total Proven + Probable	<u>15,046</u>	<u>2.77</u>	<u>0.21</u>	<u>0.20</u>	<u>0.08</u>	<u>0.06</u>	<u>1,341</u>
Total Measured + Indicated	<u>57,732</u>	<u>2.08</u>	<u>0.21</u>	<u>0.15</u>	<u>0.08</u>	<u>0.06</u>	<u>3,857</u>
Total Inferred	<u>15,720</u>	<u>2.77</u>	<u>0.18</u>	<u>0.16</u>	<u>0.07</u>	<u>0.07</u>	

Notes:

1. Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues.
2. Mineral resources listed in Table 1 are exclusive of mineral reserves. Mineral reserves and mineral resources reflect depletion from mining activities to December 31st, 2013.
3. Tonnages are rounded to nearest '000 tonnes. Pd, Pt and Au grades are rounded to nearest .01 g/t. Ni and Cu grades are rounded to nearest .01%. Rounded numbers were used to calculate contained Pd (oz.) and average resource and reserve tonnage and grades.
4. All mineral reserve and mineral resource estimates were prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum classification system.
5. The mineral resource for the Offset hangingwall and footwall zones was estimated as of December 31, 2013 by Denis Decharte P.Eng, an employee of LDI and a "qualified person" under NI 43-101. The mineral resource calculation uses a minimum 2.5 g/t palladium resource block cut-off for the hangingwall zone and a minimum 1.5 g/t palladium resource block cut-off for the footwall zone. The mineral resource estimate is based on the combination of geological modeling, geostatistics and conventional block modelling (5m by 5 metre by 5 metre blocks). 1 metre composite intervals were used with a grade capping at 30 g/t for palladium and 3 g/t for gold. Grade capping was determined not to be necessary for others metals. The Offset Zone resource models used the ordinary kriging ("OK") grade interpolation method within a 3DI block model with mineralized zones defined by wireframe solids. The mineral resource is exclusive of mineral reserve and mined-out material as of December 31, 2013.
6. The mineral resource for the Roby footwall zone was estimated as of December 31, 2013 by Mr. Denis Decharte P.Eng, an employee of LDI and a "qualified person" under NI 43-101. The mineral resource calculation uses a minimum 1.5 g/t palladium resource block cut-off. The mineral resource estimate is based on the combination of geological modeling, geostatistics and conventional block modelling (5 metre by 5 metre by 5 metre blocks). Grade capping was determined not to be necessary, however influence of composite intervals with palladium grade higher than 50 g/t were limited in space. The Roby zone resource models used the OK grade interpolation method within a 3DI block model with mineralized zones defined by wireframe solids. The mineral resource is exclusive of mineral reserve and mined-out material as of December 31, 2013.
7. Mineral resource estimates for the near-surface portion of the western part of the North VT Rim zone (west and East-deep zones) at the LDI mine property was prepared by Chris Roney, P.Geo., a "qualified person" under NI 43-101 and a private consultant to LDI. This resource estimate was based on a 1.0 g/t Pd cut-off grade. The North VT Rim zone mineral resources were estimated from drilling completed to April 15, 2013. The mineral resource uses a minimum 1.0 g/t Pd resource block cut-off. The mineral resource estimate is based on the combination of geological modeling, geostatistics and conventional block modeling (5 metre x 5 metre x 5 metre blocks). The North VT Rim resource models used the inverse distance squared (ID 2) grade interpolation method.
8. Mineral resource estimates for the low-grade stockpile ("RGO") were prepared by David N. Penna, P.Geo., an employee of LDI and a "qualified person" under NI 43-101.
9. As with mineral resources, the estimate of mineral reserves may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues. The mineral reserves were estimated from geological block models provided by Denis Decharte P.Eng. and from RGO stockpile resource information provided by David N. Penna, P. Geo., employees of LDI and "qualified persons" under NI 43-101. The geological block models reflect updates that are based upon diamond drilling completed after March 31, 2012 and before December 31st, 2013.
10. The mineral reserves were estimated by William Richard McBride, P.Eng. of Tetra Tech and Wenchang Ni, P.Eng. of Tetra Tech; with input by David N. Penna, each a "qualified person" under NI 43-101 on allocation of indirect mining costs and John Cooney, P. Eng., an employee of LDI and a "qualified person" under NI 43-101 on the use of the Lac Des Isle Mine 2014 budget for unit cost determinations; and with additional input by Cam McKinnon, P.Eng. of Tetra

Tech on recoveries; and Philip Bridson, P.Eng. of Tetra Tech on metal prices and exchange rate, independent “qualified persons” under NI 43-101.

11. Mineral reserves were estimated to the 1065 Mine Level (4,435 metre elevation), a maximum depth of 1,072.5 metres.
12. The following metal price assumptions were used for mineral reserve estimation: US\$700/oz. palladium, US\$1,453/oz. platinum, US\$1,320/oz. gold, US\$6.47/lb nickel, and US\$3.26/lb copper. A CDN\$/US\$ exchange rate of CDN\$1.00 = US\$0.95 was also applied.
13. An average production rate of 5,272 t/d was used to determine the reserves. The following recoveries were used in the assumptions to determine the reserves: 86.3% palladium, 80.3% platinum, 80.4% gold, 38.8% nickel, and 88.7% copper. The effective date of NAP’s LDI Mine resource models for the Offset Zone and for the Roby Zone, as prepared by LDI’s Denis Decharte, is December 31, 2013 and as a result of “mining depletion” the user of this reserve information should ensure that this is based upon the most recent resource estimate for the property.
14. It should also be noted that the mineral reserve estimate for the Offset Zone as provided in 2013 as part of the technical report labeled “Technical Report Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I, effective January 31, 2013” reflected a different mining method with a different set of economic circumstances that thereby lead to that January 2013 reserve estimate in that prior report to be non-applicable to the unconsolidated fill mining method demonstrated as being viable by this prefeasibility study work. It should be further noted that “mining depletion” during 2013 is not accounted for in the mineral reserves, as in place underground mining developments were removed from the resource model prepared by NAP’s Denis Decharte P.Eng., and thereby from the reserve numbers; and a 0% mining recovery was applied to known mined-out stopes. The projected top down, long-hole with unconsolidated fill mining method, its potential production profile and the plans referred to in this prefeasibility study are preliminary in nature and additional technical studies will need to be completed in order to prove out their viability. There is no certainty that this mining method will be realized or that the production capabilities as represented will be realized. A mine production decision that is made without a feasibility study carries additional potential risks which include but are not limited to the lack of details pertaining to geotechnical and ventilation field study inputs for mine design, ore handling upgrades and their impact on mining schedules, metallurgical flow sheets and process plant designs that in themselves may require additional economic analysis and internal studies to ensure satisfactory operational conditions and decisions regarding future targeted production.
15. Numbers may not add due to rounding.

Mining Operations

Mining Method

Mining has commenced in the Offset Zone between the 825 mL and the 765 mL and the area from the 735 mL to the 600 mL is mostly mined out with one large stope and a couple of high grade pillars remaining. The 765 mL to 735 mL area is a sill pillar that was to be mined out after extraction and filling of the 825 mL to 765 mL block.

The ramp development below the 825 mL was stopped at the end of 2013. Stope production from the yet to be developed 915 mL in the Offset Zone is scheduled to commence in May 2015. Achievement of this production start-up date requires an advancement of the planned date for re-starting the ramp and level development. With the ensuing 990 mL stope production expected to start in the second quarter of 2016 and the 1065 mL stope production expected to start at the end of fourth quarter of 2016, the ramp and level development rates cannot be allowed to return to the current below normal expectations.

The chosen mining method is longhole stoping with unconsolidated rock fill. This method takes into consideration a growing orebody, the future mining of potential expansion targets, and updated

information pertaining to geotechnical effects on the Offset Zone's rock mass. Substantial crown pillars have been removed from the mining plan by employing a top down mining sequence. The rib pillars between the stopes on each of the levels provides for the needed flexibility to achieve a nominal 5,500 t/d run of mine (" **RoM** ") production rate.

The stope plans and sequencing, along with the development plans, have been applied keeping in mind the future growth potential of the remaining resource. The concept of leveraging the development of additional reserves through extension of the existing mine development to readily access this anticipated growth area, as well as to provide the exploration platform required to discover new material that would add to the global resource is generally credible, but requires further study to be certain.

To conserve energy, the LDI Mine is currently running on an intermittent operating schedule, resulting from an irregular ore supply to the mill. The mine currently runs 14 day campaigns at 12,800 t/d followed by 14 days off. A limited number of contract miners operate on a 21-day campaign followed by 14 days off. The mill design capacity is 15,000 t/d.

A grinding study was completed by SGS Lakefield Research Ltd. in 2008 to evaluate different grinding circuit scenarios based on the equipment currently available on site. The evaluations were made using JKSimMet simulations. These scenarios however were based on a primary grind size that was too large to achieve an optimum palladium flotation recovery. They were also based on mill throughputs which are lower than what is currently fed to the mill.

A subsequent metallurgical investigation of samples from the Roby and Offset zones by Xstrata Process Support (" **XPS** ") in 2010 determined that a grind size of 80% passing 38 µm would achieve the optimum palladium flotation recovery. A semi-autogenous/ball mill/crushing grinding circuit arrangement with a Vertimill™ for tertiary grinding is used to approach this optimum grind size. The investigation by XPS also determined that the Roby and Offset zones behaved similarly with the optimum flotation parameters.

In 2012, an additional test program was undertaken by NAP's staff at the LDI site to evaluate the feasibility of introducing flash flotation to the tertiary grinding circuit. The testing showed that very promising recoveries could be obtained with flash flotation on the Vertimill hydrocyclones underflows.

Production Forecast

The LDI Mine is currently operating with over 1.3 Mt of ore budgeted to come from the Offset Zone above the 825 mL, over 0.1 Mt of ore budgeted from Roby Zone's Block 6 and over 1.0 Mt budgeted from the RGO stockpile, providing an overall mill feed of 2.4 Mt in 2014. Production from the new shaft commenced in 2013, however, considerable tonnage still comes via truck haulage up the main ramp due to restrictions in the new ore handling system. These restrictions became apparent upon commissioning of the shaft. Capital funds have been placed in the 2014 budget and into the mine's long range plan for 2015 to allow for upgrades to the newly installed ore handling system.

The 2014 budgeted production profile was based upon removal of all bottlenecks by the 4th quarter of 2014. The budgeted approximately 3,100 t/d in the 1st quarter of 2014 is shown to increase to approximately 5,272 t/d in the 4th quarter of 2014. The shaft has been sunk to the 825 Level and the shaft capacity itself has been found to not be an issue when hoisting from its 740 mL Loading Pocket.

A summary of the mine production forecast by mining zone is shown in Table 2. Full annual production (2,640,100 t/a) is expected to be achieved at the start of 2015.

TABLE 2: Yearly Build-up to Full Production

Days	Year						Total
	2014	2015	2016	2017	2018	2019	
	365	365	365	365	365	306	2131
RGO	893,465	632,603	627,600	632,511	945,526	1,144,352	4,876,056
Open Pit	0	0	0	0	89,809	919,613	1,009,422
Roby Zone 6 Block	115,933	0	0	0	0	0	115,933
Roby Zone Sill Pillars & Lower	45,688	182,500	183,000	182,500	150,639	0	744,327
Offset Zone (600 mL to 1065 mL)	1,197,714	1,642,497	1,647,000	1,642,589	1,271,626	0	7,401,427
Direct Cost Reserves	38,149	182,500	183,028	182,500	312,926	0	899,103
Total Mine Production	2,290,949	2,640,100	2,640,628	2,640,100	2,770,526	2,063,965	15,046,267
Full Production (%)	87	100	100	100	105	78	—
Palladium (g/t)	2.857	3.190	3.196	3.190	2.728	1.132	2.773
Platinum (g/t)	0.218	0.237	0.237	0.237	0.214	0.142	0.217
Gold (g/t)	0.200	0.224	0.225	0.224	0.193	0.105	0.199
Copper (%)	0.059	0.067	0.067	0.067	0.059	0.044	0.061
Nickel (%)	0.085	0.090	0.091	0.090	0.083	0.066	0.085

In 2014, development ore comes from the lower area of the Roby Zone with development of the 650 mL and the 685 mL for mining in 2015. Once 650 mL finishes mining, continuation of mining in the Roby Zone throughout the LOM plan is generally from partial recovery of the sill pillars.

Critical to achieving the production forecast for 2015 and beyond is an acceleration of the all mine development program with insertion of added LDI crews to increase the daily performance as outlined in Table 2 above.

Mine Life

The life of the LDI Mine is approximately six years. Final recovery of the historical open pit is included in the LOM plan upon conclusion of all underground activities. Infrastructure associated with underground mining will be removed at that time and benches that provided the locations for that infrastructure will be freed up for an open pit ore recovery program at the end of the mine life.

In addition to the normal underground and open pit activities accounted for by the LOM plan, there is a RGO stockpile that accumulated during the historical open pit mining at the LDI Mine. This RGO stockpile is a lower grade material placed aside during periods of lower metal prices and upon assessment of the cost to move this stockpiled material into the mill and process the material has been added to the LOM plan as a supplemental feed.

Payback Period of Capital and Taxes

Post-tax cash flow determined as net revenue less operating, capital and tax expense is \$195 million (excluding working capital). The project repays itself within the first year; therefore the payback period is 0 years. No taxes are payable during the LOM of the LDI Mine.

Smelting Contracts

During the second quarter of 2012, NAP entered into an agreement with Vale for the smelting of LDI Mine concentrate. The agreement with Vale includes an advance payment option to NAP (less processing charges). Accountabilities for payable metals are within industry norms. The agreement expires June 30, 2015.

During the second quarter of 2012, NAP entered into an agreement with Aurubis AG (“Aurubis”) for the smelting of LDI Mine concentrate. The agreement includes an advanced payment option to NAP (less treatment and refining charges). The agreement expires March 31, 2014.

Environmental

Annual monitoring for physical and chemical stability of water surrounding the LDI property is ongoing and will be continued years after the mine has closed.

Every three years there is an extensive biological monitoring study that covers an area of 300 km² around the mine site. This includes the monitoring of fisheries, plants, soils, water, and benthic invertebrates, as well as algae quality and assessment. No negative trends have been associated with the LDI property on the surrounding ecosystem.

The Company complies in all material respects with current legislation, and it has all necessary approvals and licenses for the operation of the mine and for all planned expansion projects.

The mine sits in an area of interest to five Aboriginal groups which have asserted treaty rights and/or traditional usage, in accordance with federal government criteria. The mine regularly interacts with these groups in a number of ways to ensure that any concerns, issues, or questions are addressed.

Development

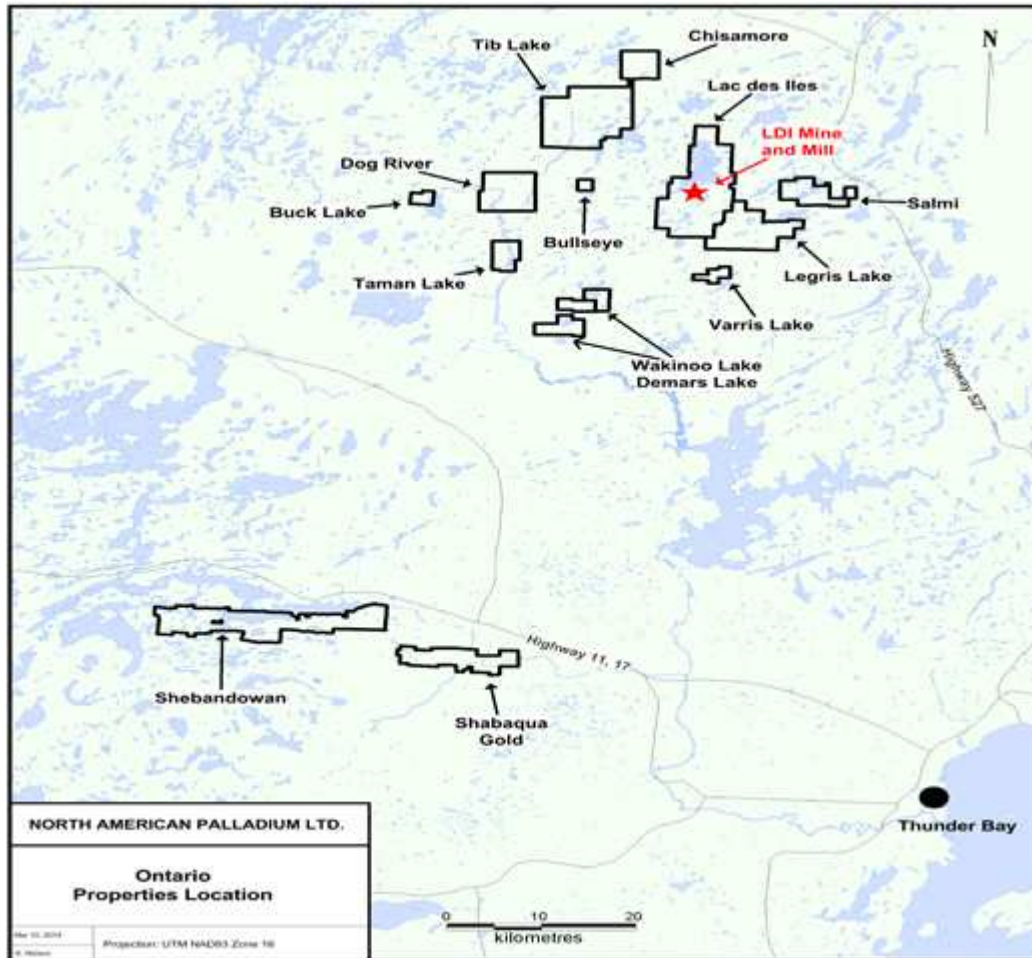
The LDI property expansion plans currently consist of the following:

- Continue TMF expansion to meet future requirements.
- Develop the LDI Mine to 900 Level.

Other Mineral Properties in Ontario

In addition to the wholly-owned 8,649 hectares (21,371 acres) Lac des Iles property, the Company holds the rights to several PGE and gold properties in Ontario. The Company also maintains 50% ownership in a joint venture with Vale for the Shebandowan nickel-copper-PGE property, including the past-producing Shebandowan nickel sulfide mine. The complete Ontario land package, including the LDI Mine, PGE greenfields properties, gold properties and the Shebandowan joint venture property totals 43,365 hectares (107,157 acres).

Figure 4 : Ontario mineral properties location map



Greenfields PGE Properties

NAP's current northwestern Ontario PGE greenfields property portfolio, including exploration-stage properties such as the North and the South Lac des Iles Intrusive Complex which form part of the LDI property, comprises 29,016 hectares of land (71,701 acres) within 166 claims and three mining leases. The PGE greenfields properties comprise several mafic-ultramafic intrusive bodies, all of which

are believed to be related to a single, major Late Archean mafic-ultramafic magmatic event (Lac des Iles magmatic suite) that was responsible for the formation of the MBI and its attendant PGE deposits. The portfolio includes the North and South LDI intrusions that are part of the LDI mafic-ultramafic intrusive complex and remain underexplored despite falling within the Company's LDI Mine property.

The Company intends to leverage its advanced understanding of PGE mineralizing processes at LDI to explore other similar mafic-ultramafic complexes. NAP now controls the mineral rights for a majority of the known LDI suite of intrusions that, despite intermittent historic work, have never been systematically explored. All of these PGE greenfields properties are located within 30 kilometres of the LDI Mine and mill complex. As part of its development strategy, the Company intends to stake or acquire additional mining claims and properties in the LDI region, where such transactions are economically and strategically justified.

In October 2012, the Company began a several thousand metre fall/winter drill program targeting several of the PGE greenfields properties. As part of the drilling program, the Company completed 11 diamond drill holes for a total of approximately 4,940 metres of surface exploration drilling on its PGE greenfields properties in 2013. The drilling program was completed in early March, 2013.

Selected PGE greenfields properties are discussed below.

North Lac des Iles Intrusive Complex (part of the Lac des Iles property)

The North Lac des Iles property encompasses a discrete ultramafic-dominant intrusive complex that is believed to be related to the same magmatic event that produced the adjacent MBI to the south. The North Lac des Iles property consists of one mining lease and 39 claims covering an area of 3,236 hectares (7,996 acres). Despite hosting widespread, encouraging PGE values from surface sampling programs, the North LDI complex has not had any systematic drilling. In 2013, the Company completed one hole totaling approximately 708 metres of diamond drilling on this part of the LDI property.

South Lac des Iles Intrusive Complex (part of the Lac des Iles property)

The South Lac des Iles property incorporates two discrete mafic intrusions (Camp Lake intrusion and South LDI intrusion) that are generally contiguous with the MBI. Both the South LDI and Camp Lake intrusions are believed to represent the products of separate magma pulses that formed during the emplacement of the LDI intrusive complex. Numerous anomalous PGE values are reported from the South Lac des Iles property and most of these occur within the South LDI intrusion, which is directly along strike and south of the Offset Zone deposit on the MBI. The property includes 15 claims and two mining leases covering an area of 4,441 hectares (10,974 acres). No work was done by the Company on the property in 2013.

Legris Lake Property

The Company has an option to acquire 100% of the Legris Lake PGM property (located adjacent to the south east portion of Lac des Iles) in exchange for cash payments and a 2.5% NSR royalty on future production from the property and a 1.5% NSR royalty on future production from certain mineral claims adjacent to the property. NAP has the right to purchase 1% of the NSR royalty on future production from the property and 1% of the NSR royalty on future production from certain mineral claims adjacent to the property upon payment of \$1,000,000. The property is at a preliminary

exploration stage, however its PGM potential and close proximity to the LDI mill presents an exciting exploration target. No work was done by the Company on the property in 2013.

Buck Lake Property

The Buck Lake property lies on the western end of a linear magnetic feature related to the Buck Lake intrusion, comprising both gabbroic and ultramafic rocks. The Buck Lake property consists of two claims covering 439 hectares (1084 acres). The property was staked by the Company in 2012. In 2013, the Company completed one hole totalling approximately 545 metres of diamond drilling on the property.

Bullseye Property

The Bullseye property covers a discrete, positive magnetic anomaly that was recently identified by the Company as a possible unrecognized LDI suite intrusion. The Bullseye property consists of one claim covering 255 hectares (630 acres). In 2013, the Company completed one hole totalling approximately 374 metres of diamond drilling on the property.

Chisamore Property

The Chisamore property covers a positive magnetic anomaly that may connect to the magnetic high associated with the Tib Lake intrusion located to the south. The Chisamore property consists of eight claims covering 1,642 hectares (4,058 acres). In 2013, the Company completed two holes totalling approximately 1,012 metres of diamond drilling on the property.

Demars Lake Property

The Demars Lake property covers a portion of a mafic-ultramafic intrusion that has seen limited, prior exploration. Since 1975, the Demars Lake mafic-ultramafic intrusion has been the target of several early-stage exploration programs. It seems to consist primarily of feldspathic websterite and peridotite however rock types around the mineralized showing are quite varied, including gabbro, norite, and varitextured gabbro/norite. The property consists of three claims covering 660 hectares (1,630 acres) and was staked by the Company in 2012. In 2013, the Company completed two holes totalling approximately 682 metres of diamond drilling on the property.

Dog River Property

The Dog River property covers an approximately five kilometres wide layered mafic-ultramafic intrusion located 20 kilometres to the west of the LDI Mine. The property was staked by the Company in 2012 and includes 17 claims covering 3,218 hectares (7,952 acres). No work was done by the Company on the property in 2013.

Taman Lake Property

The Taman Lake property was staked in July, 2012. The property comprises six claims covering 1,176 hectares (2,905 acres). The property covers a series of irregularly-shaped mafic-ultramafic intrusions. In 2013, the Company completed one hole totalling approximately 476 metres of diamond drilling on the property.

Tib Lake Property

The Tib Lake property covers most of the known extent of the eight kilometres diameter Tib Lake mafic-ultramafic intrusion. On May 8, 2012, the Company entered into an option and purchase agreement with Houston Lake Mining Inc. whereby the Company obtained an exclusive right and option to purchase a 100% interest in 20 claims located northwest of the LDI Mine, known as the Tib Lake property. The property is subject to a 2.5% NSR royalty in favour of a third party on a portion of the claims and a 2.5% NSR royalty in favour of Houston Lake Mining on the remaining claims. The property includes an additional 19 claims staked by the Company in 2012 and four claims purchased from Platinex Inc. in September 2012. The complete Tib Lake property totals 7,389 hectares (18,259 acres). No work was done by the Company on the property in 2013.

Wakino Lake Property

The Wakino Lake property is adjacent to the Demars Lake property and comprises nine claims (six staked by the Company and three under option) covering 1,759 hectares (4,347 acres). The 3.5 km² Wakino Lake mafic intrusion has been the target of exploration programs since 1972. Historic PGE exploration efforts have focused on gabbroic rocks southwest of Wakino Lake, near the original 1976 PGE (Texas Gulf) showing. In 2013, the Company completed three holes totalling approximately 1,143 metres of diamond drilling on the property.

Varris Property

The Varris lake property was staked in 2013 by the Company and comprises three claims covering 545 hectares (1,347 acres). The property covers a portion of the Vande Zone within the Towle Lake Intrusive Complex, known to host several PGE occurrences. No work was done by the Company on the property in 2013.

Greenfields Gold Properties

Salmi Property

The Salmi property is located in the Central Wabigoon subprovince of the Archean Superior Structural Province, in the Lac des Iles greenstone belt. The geology of the Salmi property is mainly comprised of NE-SW trending mafic and felsic metavolcanics, with small patches of mafic and felsic intrusive rocks, and somewhat irregular zones of chemical sediments and iron formation. These are then intruded by the Nipigon Sills diabase. The southern portion of the property contains a number of sheared quartz veins trending approximately NE-SW and NW-SE.

On August 1, 2011, the Company entered into an option and purchase agreement whereby the Company obtained the exclusive right to conduct exploration and development activities as well as an exclusive right and option to acquire a 100% undivided interest in all or part of the Salmi property, located near the LDI property. The option and purchase agreement is subject to a 2% NSR royalty on future production from the property with the Company having the right to buy back 1% of the NSR royalty. The property is comprised of 13 claims totalling 2,135 hectares (5,276 acres). No work was done by the Company on the property in 2013.

Shabaqua Property

The Shabaqua Gold property is an amalgamation of three optioned properties and additional claims staked by the Company. In 2010 and 2011, the Company entered into option agreements for the Moose Calf (13 claims), K. Kukkee (six claims), P. Kukkee (one claim) and Sand Lake (three claims) gold properties located west of Thunder Bay near McGraw Falls. The options on the two Kukkee properties (K. Kukkee and P. Kukkee) were exercised in 2012 and the seven claims transferred to LDI on March 15, 2012. The Sand Lake property was returned to the optionor in early 2014 and no longer forms part of the Shabaqua Property. The Shabaqua Property is currently comprised of 31 claims totaling 3,246 hectares (8,020 acres). No work was done by the Company on the property in 2013.

Shebandowan Property and Shebandowan West Project

On December 10, 2007, the Company earned a 50% interest in the Shebandowan property (comprised of the former producing Shebandowan mine and the surrounding Haines and Conacher properties) pursuant to an option and joint venture agreement with Vale. The property is located approximately 90 kilometres west of Thunder Bay, Ontario and approximately 100 kilometres southwest of the LDI property. Vale retains a back in right to become operator of the joint venture and increase its interest from 50% to 60%, exercisable in the event that a feasibility study on the property results in a mineral reserve and mineral resource estimate equal to 200 million pounds of nickel and other metals. Vale must incur expenditures equalling 200% of NAP's total expenditures incurred as of the time of the delivery of notice from Vale to become operator.

The Shebandowan West project lies within the north-western portion of the Shebandowan property, and encompasses three mineralized zones, all of which are located at shallow depths. The Shebandowan West project is located along the western strike extension of the former Shebandowan mine, and exhibits many similar geological features and controls to those found at the mine-site. The Shebandowan West project's nickel copper-PGM mineralization is believed by management to represent the western extension of the Shebandowan mine orebody. No work was done by the Company on the property in 2013.

ENVIRONMENT

The Company's mining, exploration, and development activities are subject to various levels of federal, provincial, and municipal laws and regulations relating to protection of the environment, including requirements for closure and reclamation of mining properties. In all jurisdictions in which the Company operates, environmental licenses, permits and other regulatory approvals are required in order to engage in exploration, mining and processing, and mine closure activities.

The Company's operating facilities have environmental monitoring processes and procedures in place to identify and eliminate or mitigate environmental risks. These processes are designed to identify risks early on and allow the Company to respond to risks as they arise. Monitoring processes include Environmental Effects Monitoring studies, toxic substance reduction plans, green house gas emissions monitoring and reporting, National Pollutant Release Inventory monitoring and reporting, baseline monitoring and other regulatory compliance monitoring in order to protect water quality and reduce the potential for contamination of surface or groundwater. The Company also has various programs to reuse and conserve water at its operations. In order to mitigate the impact of dust produced by its operations, the Company uses dust suppression techniques.

The Company also has a practice of participating in third party and internal environmental compliance audits of its business activities on a regular and scheduled basis, in order to evaluate its operations. An External Environmental Compliance Assessment Audit was performed on the LDI Mine by AECOM in 2010 and in 2012 and 2013 the Ministry of Environment performed numerous audits on site. The audits assess compliance with applicable laws and regulations, permit and license requirements, company policies and management standards including guidelines and procedures and identify areas where improvements are needed so that any issues can be addressed proactively. In most cases emissions are significantly below regulatory limits.

As part of the Company's goal to minimize the impact on the environment from its projects and operations, the Company has developed comprehensive closure and reclamation plans during the initial project planning and design. The Company periodically reviews and updates closure plans and believes that it will meet current regulatory requirements. The Company's rehabilitation and remediation plans include re-vegetation and dust suppression measures. The Company's rehabilitation program on its recently deactivated tailings management areas at the LDI Mine include several trial based treatments in an effort to successfully re-vegetate and mitigate dusting events on these areas through continual experimentation and monitoring. The Company will continue to implement innovative rehabilitation treatments on its tailings management areas through research and monitoring initiatives including the Scientific Research & Experimental Design tax credit program. These efforts have received international peer recognition and are consistent with the Company's corporate direction to meet and surpass environmental standards.

During 2013, the mine closure obligation for the LDI Mine was revised to reflect the Company's most current closure cost estimates, expected mine life and market rate assumptions. The LDI Mine closure plan provides for approximately \$13.6 million of closure and restoration costs. This obligation of the Company is secured by a letter of credit in the amount of approximately \$14.1 million.

The Company has developed environmental policies, which are communicated to employees through monthly safety training. A committee of the Board reviews the Company's environmental policies and programs periodically and oversees the Company's environmental performance.

DIVIDENDS

The Company has not paid any dividends to date on the Common Shares. The Company intends to retain its earnings, if any, to finance the growth and development of its business. Accordingly, the Company does not expect to pay any dividends on its Common Shares in the near future. The actual timing, payment and amount of any dividends will be determined by the Board from time to time based upon, among other things, cash flow, results of operations and financial condition, the need for funds to finance ongoing operations and such other business considerations as the Board may consider relevant.

CAPITAL STRUCTURE

Common Shares

The authorized share capital of the Company consists of an unlimited number of Common Shares. As of March 28, 2014, there were 273,992,149 Common Shares issued and outstanding. The Common Shares issued and outstanding as of March 28, 2014 exclude 3,183,421 Common Shares reserved for issuance pursuant to outstanding stock options, which are exercisable at a weighted average exercise price of \$1.91 per Common Share. The Common Shares issued and outstanding as of

March 28, 2014 also excludes shares issuable on conversion of convertible debt and exercise of warrants.

Each Common Share entitles the holder thereof to one vote at all meetings of shareholders other than meetings at which only the holders of another class or series of shares are entitled to vote. Each Common Share entitles the holder thereof to receive any dividends declared by the Board and the remaining property of the Company upon dissolution.

There are no pre-emptive or conversion rights that attach to the Common Shares. All Common Shares now outstanding and to be outstanding are, or will be when issued, fully paid and non-assessable, which means the holders of such Common Shares will have paid the purchase price in full and the Company cannot ask them to pay additional funds.

The Company's by-laws provide for certain rights of its shareholders in accordance with the provisions of the CBCA. Such by-laws may be amended either by a majority vote of the shareholders or by a majority vote of the Board. Any amendment of the by-laws by action of the Board must be submitted to the next meeting of the shareholders whereupon the by-law amendment must be confirmed as amended by a majority vote of the shareholders voting on such matter. If the by-law amendment is rejected by the shareholders, the by-law ceases to be effective and no subsequent resolution of the Board to amend a by-law having substantially the same purpose or effect shall be effective until it is confirmed or confirmed as amended by the shareholders.

Shareholders do not have cumulative voting rights for the election of directors. Therefore, the holders of more than 50% of the Common Shares voting for the election of directors could, if they choose to do so, elect all of the directors and, in such event, the holders of the remaining Common Shares would not be able to elect any directors.

The foregoing description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Company's constating documents, as amended.

2011 Senior Secured Notes and Palladium Warrants

On October 4, 2011 and November 1, 2011, the Company issued an aggregate of 72,000 Notes in the aggregate amount of \$72,000,000. The Notes bore interest at a rate of 9.25% per year, payable semi annually commencing on March 31, 2012, with a maturity date of October 4, 2014, and were subject to a Company option to extend for an additional year.

In conjunction with the issuance of the Notes, the Company issued 72,000 palladium warrants. The palladium warrants entitle the holders thereof to purchase 0.35 ounces of palladium at a purchase price of US\$620 per ounce at any time prior to their expiration on October 4, 2014.

All of the Notes were redeemed by the Company in June 2013 in connection with the Brookfield Debt. As at March 28, 2014, 12,000 palladium warrants were outstanding.

2012 Convertible Debentures

On July 31, 2012, the Company issued convertible debentures in the aggregate principal amount of \$43,000,000 (the "**2012 Debentures**"). The 2012 Debentures were issued under a trust indenture dated July 31, 2012 between the Company and Computershare Trust Company of Canada

(“ **Computershare** ”), as trustee. The aggregate principal amount of the 2012 Debentures authorized for issue immediately was limited to the aggregate principal amount of \$43,000,000. However, the Company may, from time to time, without the consent of holders of 2012 Debentures, issue additional debentures of the same series or of a different series under the trust indenture.

The 2012 Debentures have a maturity date of September 30, 2017 and bear interest from the date of issue at 6.15% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2012. The first interest payment included interest accrued from the date of issuance of the debentures to, but excluding, September 30, 2012.

Holders may convert their 2012 Debentures into Common Shares at any time prior to the close of business on the earlier of (i) the business day immediately preceding September 30, 2017, (ii) the business day immediately preceding the date specified by the Corporation for redemption of the 2012 Debentures, and (iii) if being repurchased on a change of control, on the business day immediately preceding the payment date, at a conversion price of \$2.90 per Common Share, being a conversion rate of approximately 344.8276 Common Shares per \$1,000 principal amount of 2012 Debentures, subject to adjustment in certain events as described in the trust indenture.

The 2012 Debentures will, except in the event of certain circumstances, not be redeemable before October 4, 2015. On and after October 4, 2015, and prior to September 30, 2017, the 2012 Debentures may be redeemed in whole or in part at any time from time to time, at the option of the Company on not more than 60 days and not less than 40 days prior notice at a price equal to their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption, provided that the market price on the date on which the notice of redemption is given is not less than 125% of the conversion price.

The foregoing description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Company’s trust indenture dated July 31, 2012 between the Company and Computershare, as trustee.

2014 Convertible Debentures and Warrants

On January 31, 2014 and February 10, 2014, the Company issued an aggregate of \$32 million gross principal amount of convertible unsecured subordinated debentures (the “ **2014 Debentures** ”) of the Company at a price of \$1,000 per 2014 Debenture including warrants to purchase approximately 16.8 million Common Shares. The conversion price of the 2014 Debentures is \$0.635 per share and the exercise price of the warrants is \$0.762 per share, subject to adjustment. The 2014 Debentures mature on January 31, 2019 and bear interest at an annual rate of 7.5% payable on January 31 and July 31 of each year. The warrants were subject to disinterested shareholder approval and were approved at a special meeting of shareholders held on March 28, 2014. The warrants will expire on March 28, 2017.

As of March 28, 2014, \$31,699,000 gross principal amount of 2014 Debentures have been converted into 76,407,815 Common Shares.

The foregoing description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Company’s convertible debenture indenture dated as of January 31, 2014 between the Company and Computershare and the first supplemental indenture dated January 31, 2014 between the Company and Computershare.

MARKET FOR SECURITIES

The Common Shares are listed for trading on the NYSE MKT, LLC (“**NYSE MKT**”) under the trading symbol “PAL” and on the TSX under the trading symbol “PDL”. The following table sets out the reported high and low closing prices and trading volumes of the Common Shares on the NYSE MKT and the TSX for the periods indicated.

	NYSE MKT			TSX		
	High (US\$)	Low (US\$)	Volume	High (Cdn\$)	Low (Cdn\$)	Volume
2014						
March (1 - 28)	0.59	0.41	180,504,657	0.66	0.46	22,808,072
February	0.41	0.31	117,314,207	0.45	0.34	30,957,789
January	0.90	0.42	103,441,248	0.96	0.45	22,795,134
2013						
December	0.79	0.38	72,737,415	0.76	0.40	5,393,972
November	0.85	0.47	48,237,880	0.88	0.50	5,435,370
October	0.98	0.88	17,872,153	1.03	0.92	1,928,235
September	1.02	0.95	18,883,950	1.08	0.99	1,348,549
August	1.22	1.01	31,977,486	1.28	1.06	2,754,960
July	1.23	1.02	29,789,025	1.28	1.07	2,014,990
June	1.15	0.91	29,787,181	1.20	0.97	6,154,725
May	1.36	1.01	52,214,352	1.38	1.01	6,895,190
April	1.72	1.37	49,709,216	1.69	1.37	7,379,505
March	1.58	1.33	28,495,185	1.60	1.36	3,317,474
February	1.94	1.36	54,224,779	1.95	1.40	9,310,406
January	1.77	1.50	58,969,883	1.77	1.48	8,453,299

The Company’s outstanding 2012 Debentures are listed for trading on the TSX under the trading symbol “PDL.DB”. The 2012 Debentures commenced trading on the TSX on July 31, 2012. The following table sets out the reported high and low closing prices and trading volume of the debentures on the TSX for the periods indicated.

	TSX		
	High (Cdn\$)	Low (Cdn\$)	Volume
2014			
March (1 - 28)	64.25	49.00	8,170
February	55.00	45.26	11,310
January	64.00	41.00	14,860
2013			
December	46.90	38.00	16,380
November	68.00	39.00	12,640
October	70.99	68.00	11,070
September	69.00	68.00	4,370
August	69.10	62.56	6,640
July	66.90	59.00	13,940
June	71.49	63.50	120,270
May	84.00	63.00	34,910
April	91.00	83.00	16,890
March	90.00	84.51	6,830
February	95.50	88.00	49,910
January	96.10	78.00	14,280

The Company's outstanding 2014 Debentures are listed for trading on the TSX under the trading symbol "PDL.DB.A". The 2014 Debentures commenced trading on the TSX on January 31, 2014. The following table sets out the reported high and low closing prices and trading volume of the debentures on the TSX for the periods indicated.

	TSX		
	High (Cdn\$)	Low (Cdn\$)	Volume
2014			
March (1 - 28)	130.02	98.00	40
February	99.00	92.00	71,860
January	94.00	94.00	1,020

PRIOR SALES

In conjunction with the issuance of the 2011 Senior Secured Notes, the Company issued 72,000 palladium warrants. As at March 28, 2014, 12,000 palladium warrants were outstanding. The palladium warrants entitle the holders thereof to purchase 0.35 ounces of palladium at a purchase price of US\$620 per ounce at any time prior to their expiration on October 4, 2014.

In conjunction with the issuance of the 2014 Debentures, the Company issued warrants to purchase approximately 16.8 million Common Shares. The exercise price of the warrants is \$0.762 per share, subject to adjustment. The warrants will expire on March 28, 2017.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information about the directors and executive officers of the Company as of the date hereof. Each director's current term as director will end on June 23, 2014, or when he or she resigns or ceases to be a director by operation of law.

<u>Name and Municipality of Residence</u>	<u>Position(s) Held</u>	<u>Principal Occupation</u>
Steven R. Berlin ⁽¹⁾⁽²⁾ Tulsa, Oklahoma, USA	Director	Retired Financial Executive
C. David A. Comba ⁽¹⁾⁽³⁾ Burlington, Ontario, Canada	Director	Retired Mining Executive
André J. Douchane ⁽³⁾ Toronto, Ontario, Canada	Director	President and Chief Executive Officer, Mahdia Gold Corporation
Robert J. Quinn Houston, Texas, USA	Chairman and Director	Partner, Quinn & Brooks LLP
Gregory J. Van Staveren ⁽¹⁾⁽²⁾ Toronto, Ontario, Canada	Director	President, Strategic Financial Services
William J. Weymark ⁽²⁾⁽³⁾ West Vancouver, B.C., Canada	Director	President, Weymark Engineering Ltd.

Phil du Toit ⁽⁴⁾ Toronto, Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, North American Palladium Ltd.
James E. Gallagher ⁽⁵⁾ Sudbury, Ontario, Canada	Chief Operating Officer	Chief Operating Officer, North American Palladium Ltd.
Dave Langille ⁽⁶⁾ Richmond Hill, Ontario, Canada	Chief Financial Officer	Chief Financial Officer, North American Palladium Ltd.
Tess Lofsky Toronto, Ontario, Canada	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel and Corporate Secretary, North American Palladium Ltd.
David Peck Brandon, Manitoba, Canada	Head of Exploration	Head of Exploration, North American Palladium Ltd.

(1) Member of the Audit Committee.

(2) Member of the Governance, Nominating and Compensation Committee.

(3) Member of the Technical, Environment, Health and Safety Committee.

(4) Mr. du Toit joined the Company as President and Chief Executive Officer, effective March 25, 2013.

(5) Mr. Gallagher joined the Company as Chief Operating Officer, effective October 1, 2013.

(6) Mr. Langille joined the Company as Chief Financial Officer, effective January 22, 2013.

Steven R. Berlin: Mr. Berlin was appointed to the Board in February 2001, and is also a director of Orchids Paper Products Company, an NYSE MKT listed company. At the end of 2005, Mr. Berlin retired from his position as Vice-President of Kaiser-Francis Oil Company (“**KFOC**”) where he worked part-time for two years following four years of full-time work as Vice-President and Chief Financial Officer. Prior to joining KFOC, Mr. Berlin taught at the University of Tulsa for three years where he also served a year as acting associate Dean of the College of Business and acting Director of the School of Accounting. Before joining the University of Tulsa, Mr. Berlin spent 25 years with Citgo Petroleum Corporation, where he retired as Senior VP Finance and Administration and Chief Financial Officer. Mr. Berlin has a Bachelor’s degree from Duquesne University, a Master of Business Administration from the University of Wisconsin Madison and has completed the Executive Management program at Stanford University.

C. David A. Comba : Mr. Comba, who has over four decades of experience as an exploration advocate and senior mining executive, was appointed to the Board in March 2006. As Chief Exploration Geologist of Falconbridge Ltd. in Sudbury, Ontario, he led the team that discovered the high-grade footwall deposit that allowed the Thayer Lindsley mine to go into production. Prior to its takeover by Kinross Gold Corporation, Mr. Comba was Vice-President, Exploration of Falconbridge Gold Corporation. Following the takeover, he became President and Chief Executive Officer of Pentland Firth Venture Ltd. (“**Pentland**”), a Kinross-controlled junior gold exploration company listed on the TSX. Pentland’s work added the first couple of million ounce resource to the Hammond Reef property Atikokan, Ontario. Mr. Comba was Director of Issues Management with the Prospectors and Developers Association of Canada from 1998 to 2005, during which time he led the successful lobby effort for the re-introduction of enhanced or “super” flow-through shares. Mr. Comba has Bachelor’s and Masters’ degrees in geology from Queen’s University in Kingston, Ontario.

André J. Douchane : Mr. Douchane is a seasoned mining executive with over 40 years of experience in the mining industry with a solid track record of successfully bringing development projects into production. He was appointed to the Board in April 2003, and served as the President and Chief Executive Officer until January 2006 and as the Interim Chief Executive Officer of the Company from September 13, 2012 until March 25, 2013. Mr. Douchane is currently the President and Chief Executive Officer of Mahdia Gold Corporation. He previously held senior positions with several precious and base

metal international mining companies including President and Chief Executive Officer of THEMAC Resources Group Limited, President and Chief Executive Officer of Starfield Resources Inc., President and Chief Operating Officer of Chief Consolidated Mining Co., and Vice President, Operations of Franco and Euro-Nevada (Newmont Mining Corporation). Mr. Douchane holds a Bachelor's degree in Mining Engineering from the New Mexico Institute of Mining and Technology and is a graduate of the Executive Business Program at the Kellogg School of Business.

Robert J. Quinn : A founding partner of the Houston mining transactional law firm Quinn & Brooks LLP, Mr. Quinn has over 30 years of legal and management experience, including as Vice President and General Counsel for Battle Mountain Gold Company. Appointed to the Board in June 2006, he has extensive experience in merger and acquisition transactions, corporate governance, public disclosure, governmental affairs, environmental law and land management. Mr. Quinn has a Bachelor of Science degree in Business Administration from the University of Denver, a juris doctorate degree from the University of Denver College of Law and has completed two years of graduate work in mineral economics at the Colorado School of Mines.

Gregory J. Van Staveren : Since September 2001, Mr. Van Staveren has been the President of Strategic Financial Services, a private company providing business advisory services. During this period he has sat on the board of a number of publicly traded corporations and was appointed to the Board in February 2003. Mr. Van Staveren is a Chartered Professional Accountant and a Certified Public Accountant and holds a Bachelor of Math (Honours) degree from the University of Waterloo. From February 1998 until September 2001, Mr. Van Staveren was the Chief Financial Officer of MartinRea International Inc. (MRE-TSX), and prior to that he was partner in the mining group of KPMG, which he joined in 1980, and where he provided accounting, and advisory services to his clients.

William J. Weymark : Appointed to the Board in January 2007, Mr. Weymark is President of Weymark Engineering Ltd., a Company providing consulting services to businesses in the private equity, construction and resource sector. He is also a director of the VGH & UBC Hospital Foundation Board, and several private companies. Mr. Weymark is also a Member of the Industry Advisory Committee for the Norman B. Keevil Institute of Mining Engineering at the University of British Columbia. Until June 2007, Mr. Weymark was President and Chief Executive Officer of Vancouver Wharves/BCR Marine, a transportation firm located on the west coast of British Columbia. Prior to joining Vancouver Wharves in 1991, Mr. Weymark spent 14 years in the mining industry throughout western Canada working on the start-up and operation of several mines. Mr. Weymark is a Professional Engineer and holds a Bachelor of Applied Science in Mining and Mineral Process Engineering from the University of British Columbia and is a graduate of the Institute of Corporate Directors', Directors Education Program.

Phil du Toit: Mr. du Toit is an accomplished mining executive with a proven track record for executing on his management mandates throughout his career. Mr. du Toit joined the Company as Chief Executive Officer in March 2013. Mr. du Toit brings significant project management expertise to the Chief Executive Officer role, developed during his 37 years of global experience in the mining industry which includes senior roles for some of the world's leading mining companies, and the successful development of multiple large capital projects. Recently, Mr. du Toit served as Executive Vice President and Head of Mining Projects and Exploration for ArcelorMittal, the world's leading integrated steel and mining company, where he was responsible for mining strategy, exploration, project and business development. His experience also includes serving as Interim Chief Executive Officer of Baffinland Iron Mines Corp., as well as having held various senior management positions for Vale, Diavik Diamond

Mines (a subsidiary of Rio Tinto plc), Voest Alpine Inc., and Gencor Ltd. Mr. du Toit holds a Bachelor of Science degree in Civil Engineering from the University of Pretoria in South Africa.

James E. Gallagher: Mr. Gallagher is a seasoned mining executive with over 30 years of experience in a series of roles spanning operations, projects, engineering, technology and consulting and joined the Company as Chief Operating Officer in October 2013. Prior to joining the Company, Mr. Gallagher served as Global Director of Mining at Hatch Ltd. for seven years, where he led the firm's global mining group involved in transitioning projects to normal operations. Prior to Hatch Ltd., the foundational part of Mr. Gallagher's experience came from his 24-year career at Falconbridge Ltd. in a variety of operations and project management roles, most of which were based in Northern Ontario. Mr. Gallagher also has a track record for identifying improvement opportunities and building out technical capabilities. Mr. Gallagher holds a Bachelor of Mining Engineering degree from Laurentian University in Canada.

David Langille: Mr. Langille is a seasoned finance executive with over 26 years of international public company experience and joined the Company as Chief Financial Officer in January 2013. He brings a wealth of international financial expertise to NAP, notably a solid track record of optimizing operations to improve operating margins, along with merger and acquisition experience, and raising capital through a broad range of capital market products. Most recently, Mr. Langille served as the Chief Financial Officer and Vice President, Finance of Breakwater Resources Ltd. Prior to this, he served in senior financial positions for various public companies, including Lindsey Morden Group Inc., Capital Environmental Resource Inc., Cott Corporation, and TVX Gold Inc. Mr. Langille received an Honours Bachelor of Business Administration from Wilfrid Laurier University in Waterloo, Ontario, Canada in 1985, and has been a member of the Institute of Chartered Professional Accountants of Ontario and the Society of Management Accountants of Ontario since 1987.

Tess Lofsky : Ms. Lofsky joined the Company in June 2010 as Corporate Counsel and was appointed Vice President, General Counsel and Corporate Secretary in December 2012. Prior to joining NAP, Ms. Lofsky worked as a lawyer in the corporate law department of Stikeman Elliott LLP, with a particular emphasis on mining. Ms. Lofsky has worked on a number of transactions, including equity and debt financings, mergers and acquisitions and other mining transactions. She has also had significant involvement in development projects and regional exploration initiatives. Ms. Lofsky holds an Hon B.Soc.Sc. from the University of Ottawa and an LL.B from Queen's University, and is a member of the Law Society of Upper Canada.

David Peck : Dr. Peck is a Professional Geoscientist with nearly 30 years of exploration and research experience specializing in magmatic nickel-copper-PGE deposits. Dr. Peck holds global recognition as an expert in PGE exploration after serving as a senior technical and strategic consultant to several public and private companies and having worked on exploration and mining projects in more than a dozen countries. He was directly involved in several significant magmatic nickel-copper-PGE discoveries in Canada and overseas. Recently, Dr. Peck served as President and Senior Technical and Strategic Consultant at Revelation Geoscience Ltd., and prior to this, he served as Global Nickel Commodity Leader at Anglo American plc, a Senior Geologist for Falconbridge Ltd., a Senior Mineral Deposits Geologist with the Manitoba Geological Survey, held various academic roles in Canadian universities, and was the technical lead on a multi-year mineral potential study funded by the Ontario Geological Survey. He has authored numerous public presentations and government and academic publications addressing his area of specialization.

Security Holdings

As of the date hereof, the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, by all directors and senior officers of the Company is approximately 254,141, which is less than 1% of the Common Shares issued and outstanding.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Berlin was a director of Ozark Airlines, Inc. (“**Ozark**”), doing business as Great Plains Airlines, Inc., which filed a voluntary bankruptcy petition under Chapter 11 of the United States Bankruptcy Code on January 23, 2003. Mr. Berlin resigned from the board of directors of Ozark on December 14, 2004. Ozark filed a motion to convert the bankruptcy to Chapter 7, which was granted on March 11, 2005.

Mr. Comba was a director of Black Pearl Minerals Consolidated Inc. (“**Black Pearl**”) from December 1998 to April 2004. In July 2002, the Ontario Securities Commission (“**OSC**”) issued a cease trading order against Black Pearl for failing to meet its continuous disclosure obligations, which order was revoked on October 3, 2002. A second cease trading order was issued by the OSC on February 3, 2004 for failure to file financial statements, which order was revoked on February 18, 2004.

Mr. Quinn is a director of Mercator Minerals Ltd. (“**Mercator**”). On November 8, 2011, an order was issued by the SEC revoking the registration of Mercator’s common shares in the United States for failing to file periodic reports. On November 8, 2011, Mercator filed a Form 40-F registration statement with the SEC to re-register Mercator’s common shares in the United States. The Form 40-F registration statement became effective on January 9, 2012.

Mr. Van Staveren’s consulting company, Strategic Financial Services, provided the part-time services of Mr. Van Staveren to act as the Chief Financial Officer of Starfield Resources Inc. (“**Starfield**”) from September 14, 2007 to March 23, 2012. Approximately one year after the termination of this agreement, on March 7, 2013, Starfield filed a Notice of Intention to Make a Proposal pursuant to the provisions of Part III of the *Bankruptcy and Insolvency Act* (Canada).

Conflicts of Interest

There may be potential conflicts to which the directors of the Company are subject in connection with the business and operations of the Company. The individuals concerned are governed in any conflicts or potential conflicts by applicable law. As of the date hereof, the following directors and officers of the Company hold positions with other companies that explore for or produce PGMs or gold or have other business interests which may potentially conflict with the interests of the Company.

Mr. Comba is the chairman of First Nickel Inc., a TSX-listed company, which owns the Lockerby mine in Sudbury, Ontario, Canada. First Nickel Inc. is a nickel, copper and cobalt producer with platinum group credits that is actively exploring for nickel deposits in Sudbury and south-eastern, Ontario.

LEGAL PROCEEDINGS

The following is a summary of material legal proceedings of which the Company is or has been a party.

In 2000, LDI and B.R. Davidson Mining & Development Ltd. (“Davidson”) entered into a construction contract whereby Davidson agreed to construct an expanded tailings management facility at the LDI Mine. LDI declared Davidson to be in default of the contract on February 2, 2001 and made a demand under a performance bond issued by AXA Pacific Insurance Company (“AXA”). Davidson was the principal named in the bond and the indemnitors were B.R. Davidson Mining & Development Ltd., Atikokan Ready Mix Ltd., Blaine R. Davidson, Bruce R. Davidson and Marlene Davidson. AXA commenced an action against the indemnitors. All of the indemnitors other than Marlene Davidson commenced a third party action against LDI, Sitka Corp., LDI’s engineers, and Aon Reed Stenhouse, the bond broker. The third party action is for some \$10.9 million in the event that the construction contract is enforced or some \$3 million in the event the construction contract is not enforced, plus other claims in damages for a total of between \$10 and \$15 million plus costs and interest. LDI has a counterclaim against Davidson for some \$10.7 million in liquidated damages for breach of contract. LDI is also the assignee of judgments against Davidson related to subtrade liens, which currently amount to approximately \$2.6 million in principal and interest. A pre-trial was held in January 2013 and a mediation has been scheduled for June 2014. The matter has been set own for trial starting in October 2014. At this stage, a reliable estimate of the outcome of this third party action and counterclaim is not determinable and accordingly the Company has not recorded any provisions related to this action within its consolidated financial statements at December 31, 2013.

In 2011, the Company became aware that a statement of claim had been filed with the Ontario Superior Court of Justice against the Company and two of its officers regarding a potential class action lawsuit. The statement of claim sought permission of the court to commence a class action proceeding for alleged misrepresentations in the Company’s public disclosure. The Company has retained legal counsel and intends to vigorously defend the potential claim. In 2012, a fresh Statement of Claim was filed increasing the amount of the claim to \$100 million. In December 2012, the plaintiffs filed a motion record for certification and for leave. The Company filed its responding motion record in February 2014 and a mediation has been scheduled for April 2014. At this stage, a reliable estimate of the outcome of the potential action is not determinable and accordingly, the Company has not recorded any associated provisions within its consolidated financial statements at December 31, 2013.

From time to time, the Company is involved in other litigation, investigations or proceedings related to claims arising out of its operations in the ordinary course of business. In the opinion of the Company’s management, these other claims and lawsuits individually and in the aggregate, even if adversely settled, would not be expected to have a material effect on the results of operations or financial condition of the Company and would not exceed ten percent of the current assets of the Company.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer, shareholder owning, directly or indirectly, or exercising control or direction over, 10% or more of the voting securities of the Company or any associate or affiliate of any of the foregoing has or had a material interest, direct or indirect in any transaction since January 1, 2011 that has materially affected or will materially affect the Company.

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc. is the registrar and transfer agent of the Common Shares in Canada, and Computershare Trust Company, N.A. is the co-transfer agent for the Common Shares in the United States.

MATERIAL CONTRACTS

Except for the agreements listed below, the Company has not entered into any material contracts, other than in the ordinary course of business:

- (a) The smelting and refining agreement with Vale dated May 3, 2012 described in the section titled “Description of the Business and General Developments – The Lac des Iles Property – Mining Operations”;
- (b) The convertible debenture indenture dated as of July 31, 2012 between the Company and Computershare in respect of the Company’s issuance of 43,000 convertible debentures for gross proceeds of \$43 million;
- (c) The loan agreement dated June 7, 2013 between the Company, Brookfield and LDI, as amended on November 29, 2013, described in the section titled “Description of the Business and General Developments – 2013”; and
- (d) The convertible debenture indenture dated as of January 31, 2014 between the Company and Computershare and the first supplemental indenture dated January 31, 2014 between the Company and Computershare in respect of the 2014 Debentures.

INTERESTS OF EXPERTS

Information relating to the Company’s LDI property in this AIF has been derived from the 2014 LDI Report prepared by Tetra Tech under the supervision of Cameron McKinnon, Chris Roney, David D. Peck, David N. Penna, Denis Decharte, John Cooney, Philip Bridson, Richard K. Brummer, William Richard McBride and Wenchang Ni and has been included in reliance on such persons’ expertise. Each of these individuals is a “qualified person” as such term is defined in NI 43-101 and, with the exception of David N. Penna, Denis Decharte who are employees of the Company and David D. Peck and Chris Roney who are private consultants engaged by the Company, is independent from the Company.

None of Tetra Tech, Cameron McKinnon, Chris Roney, David D. Peck, David N. Penna, Denis Decharte, John Cooney, Philip Bridson, Richard K. Brummer, William Richard McBride or Wenchang Ni, each being companies or persons who have prepared or supervised the preparation of reports relating to the Company’s mineral properties, or any director, officer, employee or partner thereof, as applicable, received or has received a direct or indirect interest in the property of the Company or of any associate or affiliate of the Company. To the knowledge of the Company, as at the date hereof, the aforementioned persons and persons at the companies specified above who participated in the preparation of such reports, as a group, beneficially own, directly or indirectly, less than one percent of the outstanding securities of the Company.

Other than as indicated above, neither the aforementioned persons, nor any director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships, is currently

expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

KPMG LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation, and that they are independent accountants with respect to the Company under all relevant US professional and regulatory standards.

RISK FACTORS

The Company's securities are subject to the following risks. If any of the risks occur, the Company's business, operating results and financial condition could be materially adversely affected, the trading price of the Company's securities could decline and all or part of any investment may be lost. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations.

The Company may not be able to continue as a going concern.

While the Company has operations that generate revenue, the Company incurred net losses of approximately \$65.2 million, \$66.0 million and \$46.2 million in the years ended December 31, 2011, 2012 and 2013, respectively.

After including working capital changes, the Company expects to generate negative cash flows from operations in fiscal 2014, primarily as a result of a decrease in accounts payable as the Company transitions away from intensive construction activity and an expected increase in accounts receivable as production ramps up at the LDI Mine. The Company does not currently have sufficient committed available debt or equity financing in place to continue exploration and development activities and fund all of its planned capital expenditures, and the borrowing availability under the Credit Facility is limited based on a borrowing base calculation. The Brookfield Debt and Credit Facility contain several financial covenants, which, if not met would result in an event of default. These loans also include limits on liens, material adverse change provisions and cross-default provisions. Certain events of default result in these loans becoming immediately due. Other events of default entitle the lender to demand repayment and the Brookfield Debt provides for the payment of a prepayment fee and penalty interest upon an event of default. Should the Company be unable to obtain sufficient financing, or if the Company's lenders were to demand repayment of outstanding amounts, the Company would not have sufficient funds to repay its obligations when due, and could cause the Company to seek protection from its creditors, or seek to restructure its obligations. As a result, the Company's ability to continue as a going concern is dependent on the Company securing additional financing. Failure to obtain necessary financing at the time required may result in the delay or indefinite postponement of exploration, development or production on any or all of the Company's properties, or the loss of one or more of its property interests, and could ultimately cause the Company to cease operations.

Commodity price fluctuations.

The Company's financial results are directly related to commodity prices as its revenues are derived from sales of palladium, and to a lesser extent, gold, platinum, nickel and copper produced from the LDI Mine. Commodity prices can fluctuate widely and are affected by numerous factors beyond the Company's control, including production at other mines, supply from recycling, producer hedging activities, the state of the automotive industry, other production and investor demands and overall political and economic conditions. The price of palladium is affected by global supply and demand for the commodity, and the availability and cost of substitutes for palladium, such as platinum, and supply from Russia and South Africa, the two major PGM producing countries. An increased supply of palladium or platinum from Russia or South Africa could have a negative impact on the price of palladium. Further, the prices of palladium and platinum have on occasion been subject to very rapid short-term changes because of the smaller size of the market relative to other metals. The aggregate effect of these factors is impossible to predict.

If the price of palladium drops, this will adversely affect the Company's financial performance and results of operations. Historically, changes in the market price of palladium have significantly impacted the Company's profitability and the trading price of the Common Shares.

Fluctuations in foreign currency exchange rates in relation to the U.S. dollar.

Changes in the Canadian dollar/U.S. dollar exchange rate significantly affect the Company's operating results and cash flows as all of the Company's revenues are earned in U.S. dollars but most of its operating and capital costs are incurred in Canadian dollars. As a result, a strengthening Canadian dollar relative to the U.S. dollar will result in reduced profit or increased losses for the Company. The Canadian dollar/U.S. dollar exchange rate has varied significantly over the last several years. From time to time, the Company may engage in hedging activities to manage its exposure related to changes in exchange rates, interest rates and commodity prices, but those hedging activities may not be successful in mitigating the Company's exposure to those changes. There can be no assurance that future foreign exchange fluctuations will not materially adversely affect the Company's financial performance and results of operations.

In addition, changes in currency exchange rates, and particularly a significant weakening of the South African rand relative to the U.S. dollar, could reduce relative costs of production and improve the competitive cost position of South African PGM producers.

The Company will require substantial additional financing to fund long-term investment capital requirements.

Based on management's preliminary internal review, significant additional capital expenditures will be required in order to expand the LDI Mine at depth. The Company's management currently believes that development of the LDI Mine at depth will be critical to satisfying the Company's financial obligations and for its long-term profitability. Additional diamond drilling followed by appropriate technical studies are required in order to determine the economic viability and capital cost of deepening the shaft and developing the mine at depth.

Capital expenditures associated with expanding the LDI Mine at depth will require significant additional financing. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. In addition, the consent of the lenders under the Company's then existing debt facilities may be required for any such financing transaction. There can be no assurance that such consents would be obtained. The Company's inability to obtain additional financing would severely limit the Company's long-term profitability, and may ultimately require the Company to cease operations.

The Company currently has a substantial amount of indebtedness and significant interest payment requirements.

The Company currently has a substantial amount of indebtedness and significant interest payment requirements. This substantial degree of leverage could have important consequences, including the following:

- it may limit the Company's ability to obtain additional debt or equity financing, or limit the Company's ability to obtain such financing on acceptable terms;

- a substantial portion of the Company's cash flows from operations will be dedicated to the payment of principal and interest on indebtedness and will not be available for other purposes;
- the debt service requirements could make it more difficult to satisfy the Company's other financial obligations; and
- certain of the Company's borrowings, including borrowings under the Credit Facility, are at variable rates of interest, exposing it to the risk of increased interest rates.

The Company may not be able to generate sufficient cash to service all of its indebtedness and may be forced to take other actions to satisfy its obligations under its indebtedness, which may not be successful.

The Company's ability to make scheduled payments of interest and principal on its outstanding indebtedness or to refinance its debt obligations depends on its financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond its control. No assurances can be provided that the Company will generate sufficient cash flow from operating activities to permit it to pay the principal, premium, if any, and interest on its indebtedness. While the Company currently has the ability to accrue interest on the Brookfield Debt, the terms of the Brookfield Debt require that the Company begin to pay cash interest after May 31, 2015.

In addition, the Brookfield Debt and the Credit Facility each require the Company to maintain a maximum senior debt to EBITDA ratio beginning in October 2014. In October 2014, the maximum EBITDA Ratio permitted is 12:1, which falls to 10:1, 9:1, 8:1, and 7:1 over the next four subsequent months respectively, to 6:1 for an additional two months, to 5:1 for the following three months and to 4:1 thereafter. If the Company's EBITDA is not sufficient, or if the Company's senior debt increases (including as a result of the Company accruing further amounts of interest payable on the Brookfield Debt as principal), the Company may not be able to satisfy the EBITDA Ratio. EBITDA in this AIF has the meaning set forth in each of the Brookfield Debt or Credit Facility as applicable. See "Risk Factors – The Company may be required to record impairment charges which may adversely affect financial results and could cause the Company to breach its covenants under the Brookfield Debt and the Credit Facility".

If cash flows, capital and other resources are insufficient to fund the Company's debt service obligations, the Company may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance its indebtedness. No assurances can be made that the Company would be able to take any of these actions, that these actions would be successful and permit the Company to meet its scheduled debt service obligations, or that these actions would be permitted under the terms of existing or future debt agreements, including the Credit Facility and the Brookfield Debt. The Credit Facility and the Brookfield Debt currently restrict the Company's ability to dispose of assets and use the proceeds from such dispositions and, accordingly, the Company may not be able to dispose of assets or to obtain or use the proceeds of dispositions.

If the Company cannot make scheduled payments on its debt, or comply with its covenants, it will be in default of such indebtedness and, as a result:

- holders of such debt could declare all outstanding principal and interest to be due and payable;

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- the lenders under the Credit Facility could terminate their commitments to lend the Company money;
 - the holders of the Company's secured debt could realize upon the assets securing their borrowings;
 - the Company would cross-default under certain material agreements;
 - the Company could become the subject of restructuring, insolvency, bankruptcy or liquidation proceedings; and
 - the value of the Company's securities could decline.

Deterioration of economic conditions will adversely impact the Company's revenues.

The unprecedented events in global financial markets in the past several years have had a profound impact on the global economy. The deterioration of economic conditions generally could negatively impact the Company's business in several ways. For instance, in recent years, financial conditions have been characterized by market volatility, tight credit markets and reduced consumer confidence and business activity, which have negatively impacted the Company's revenues and the market price of the Common Shares.

In addition, a prolonged or significant global economic contraction could put downward pressure on market prices of PGMs, particularly if demand for PGMs decline in connection with consumer demand, since PGMs are used in the production of items such as automobiles, electronics and jewellery.

In addition, some purchasers of PGMs, such as automobile manufacturers, could experience serious cash flow problems due to deteriorating global capital markets. Approximately half of global demand of palladium and platinum is for the manufacture of automotive catalytic converters. Auto companies and other PGM purchasers may be forced to reduce their product lines or production, shut down their operations or file for bankruptcy protection, which would have a material adverse effect on the Company's business.

Inability to meet production level and operating cost estimates.

Planned production levels, capital expenditures and operating costs are estimates, with the estimates in respect of the LDI property being based on technical studies as well as the Company's experience in operating the LDI Mine. All of the Company's estimates are subject to numerous uncertainties, many of which are beyond the Company's control. The Company may have difficulties attracting and maintaining a sufficient amount of qualified workers to meet projected production levels. In addition, the Company's ability to achieve or maintain projected production at the LDI Mine is uncertain due to the fact that the Company's production decisions are not based on feasibility studies of mineral reserves demonstrating economic viability. The Company cannot give assurances that its actual production levels will not be substantially lower than its estimates or that its capital expenditures and operating costs will not be materially higher than anticipated. Failure to meet production levels and operating costs estimates could adversely affect the Company's financial performance and results of operations.

Expansion of the LDI Mine involves significant risks.

The Company believes that development of the LDI Mine at depth will be critical to satisfying the Company's financial obligations and for its long-term profitability. Additional diamond drilling followed by appropriate technical studies are required in order to determine the economic viability and capital cost of deepening the shaft and development of the mine at depth. The results of the additional drilling and associated studies are uncertain, and if the results of such drilling and/or studies are unfavourable, the Company may need to find alternative sources of long-term production.

There is significant risk involved in all expansion projects. Project delays may adversely affect expected revenues and cost overruns may adversely affect project economics. In addition, completed expansion projects may not operate as expected by the Company, or result in the achievement of targeted operational results. The Company's ability to execute on its development projects on time and on budget depends on many factors beyond the Company's control, including the availability of equipment and personnel, access, weather, accidents, equipment breakdown, the need for government and regulatory approvals and unexpected or uncontrollable increases in the costs or availability of materials. Other risks include, but are not limited to, delays in obtaining sufficient financing, as well as unforeseen difficulties encountered during the expansion process including labour disputes or opposition by First Nations to the expansion and other risks that generally apply to the Company.

Calculation of mineral reserves, mineral resources and metal recovery are only estimates, and there can be no assurance about the quantity and grade of minerals until the metals are actually mined.

The calculation of mineral reserves, mineral resources and grades are merely estimates and depend on geological interpretation and statistical inferences or assumptions drawn from drilling and sampling analysis, which might prove to be inaccurate. Mineral resources that are not mineral reserves do not have demonstrated economic viability and mineral reserve estimates are based on certain assumptions, including metal prices. Until mineral reserves or mineral resources are actually mined and processed, the quantity of reserves or resources and their respective grades must be considered as estimates only. Any material change in the quantity of mineral reserves, mineral resources, grade or stripping ratio may affect the economic viability of the Company's operations.

The Company cannot guarantee that it will recover the indicated quantities of metals. Future production could differ dramatically from such estimates for the following reasons:

- actual mineralization or ore grade could be different from those predicted by drilling, sampling, technical studies or technical reports;
- resources may not be successfully converted to reserves;
- changes in the life-of-mine plan; or
- the grade of ore may vary over the life of the mine and the Company cannot give any assurances that any particular mineral reserve estimate will ultimately be recovered.

The occurrence of any of these events may cause the Company to adjust its mineral resource and reserve estimates or change its mining plans, which could negatively affect the Company's financial condition and results of operations. Moreover, short-term factors, such as the need for additional development of the orebody or the processing of new or different grades may adversely affect the Company's operations and results.

Decreases in the market price of palladium or other metals may render the mining of reserves uneconomic.

The mineral resource and reserve figures presented in this AIF are estimates, which are, in part, based on forward-looking information, and no assurance can be given that the indicated level of palladium, platinum, gold, nickel and copper will be produced. Factors such as metal price fluctuations, increased production costs and reduced recovery rates may render the present proven and probable reserves unprofitable to develop at a particular site or sites for periods of time.

The 2014 LDI Report assumes the following long-term prices: US\$700 per ounce for palladium, US\$1,453 per ounce for platinum, US\$1,320 per ounce for gold, US\$6.47 per pound for nickel and US\$3.26 per pound for copper. Mineral reserve and resource estimates would be lower than estimated to the extent that actual metal prices are lower than assumed.

The Company's operations may be affected by increased demand for, and cost of, exploration, development and construction services and equipment.

Strength of the metal market can result in an increase in exploration, development and construction activities around the world, resulting in increased demand for, and cost of, exploration, development and construction services and equipment. The costs of such services and equipment could increase in the future, which could result in delays or materially increased costs if services or equipment cannot be obtained in a timely manner or at acceptable prices.

Future exploration at the Lac des Iles property or at the Company's other exploration properties may not result in increased mineral reserves or mineral resources.

As mines have a depleting asset base, the Company actively seeks to replace and expand its mineral reserves and mineral resources through exploration and development, strategic acquisitions and joint ventures. The Company has conducted exploration programs on the LDI property and elsewhere with the objective of increasing total mineral reserves and mineral resources. Exploration for minerals involves many risks and uncertainties and is frequently unsuccessful. Among the many uncertainties inherent in any exploration and development program are the location of mineralized zones, the development of appropriate metallurgical processes, the receipt of necessary governmental permits to mine a deposit and the construction of mining and processing facilities. Assuming discovery of an economic mineralized zone, several years may elapse from the completion of the exploration phase until commercial production commences and during such time the economic feasibility of production may change. There can be no assurance that the Company's current exploration and development programs will result in economically viable mining operations or yield new mineral reserves and mineral resources to replace current mineral reserves and mineral resources. This could prevent the Company from sustaining its targeted production levels over the long term, which could affect its ability to continue as a going concern.

The risks and hazards associated with exploration, mining and processing pose operational and environmental risks.

Exploration, mining and processing operations involve many risks and hazards, including, among others:

- metallurgical and other processing problems;

- geotechnical problems;
- unusual and unexpected rock formations;
- ground or slope failures or underground cave-ins;
- environmental contamination;
- industrial accidents;
- fires;
- flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature;
- organized labour disputes or work slow-downs;
- mechanical equipment failure and facility performance problems; and
- the availability of critical materials, equipment and skilled labour.

These risks could result in: damage to, or destruction of, the Company's properties or production facilities; personal injury or death; environmental damage; delays in mining or processing; increased production costs; asset write downs; monetary losses; and legal liability.

The Company cannot be certain that its insurance will cover all of the risks associated with mining and processing or that it will be able to maintain insurance to cover these risks at economically feasible rates. The Company may also become subject to liability for hazards against which it cannot insure or against which the Company has elected not to insure because of high premium costs, commercial impracticality or other reasons. Such events could result in a prolonged interruption in operations that would have a negative effect on the Company's ability to generate revenues, profits and cash flow. Losses from such events may increase costs and decrease profitability.

The Company's future prospects will be negatively affected if the LDI Mine fails to achieve or maintain projected production levels.

The Company's future prospects will be negatively affected if the LDI Mine fails to achieve or maintain projected production levels. Unforeseen conditions or developments could arise during the ongoing development and operation of the LDI Mine or other properties, which could increase costs and adversely affect the Company's ability to generate revenue and profits. These conditions may include, among others:

- shortages or unanticipated increases in the cost of equipment, materials or skilled labour;
- delays in delivery of equipment or materials;
- labour disruptions;
- adverse weather conditions or natural disasters;
- accidents;
- unforeseen engineering, design, environmental or geotechnical problems; and
- unanticipated changes in the life-of-mine plan or the ultimate mine design.

Risks of acquisitions and the failure to integrate acquired mining properties.

The Company may acquire additional mining properties where such transactions are economically and strategically justified. However, there can be no assurance that the Company will be able to identify attractive businesses or properties in the future or that it will succeed at effectively managing the integration of acquired mining properties. If the expected synergies from such transactions do not materialize, or if the Company fails to integrate such new mining properties successfully into its existing business, or if acquired businesses or properties do not meet expectations or have unexpected liabilities, the Company's results of operations could be adversely affected.

Title to the Company's mineral properties cannot be guaranteed.

The Company cannot guarantee that title to its properties will not be challenged. The Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Company's mineral properties may be subject to prior recorded and unrecorded agreements, transfers or claims, and title may be affected by, among other things, undetected defects. Additionally, there can be no guarantee that potential First Nations claims to the Company's mineral properties will not create delays in project approval, unexpected interruptions in project progress or production, or result in additional costs to advance the project. A successful challenge to the area and location of these claims could result in the Company being unable to operate on its properties as permitted or being unable to enforce its rights with respect to its properties.

The Company is dependent on third parties for smelting and refining its palladium.

The Company has smelter agreements in place, which provide for the smelting and refining of the metals contained in the concentrates produced at the LDI property. The termination of the agreements or the failure to renew the agreements on acceptable terms, or at all, could have a material adverse effect on the Company's financial performance and results of operations until such time as alternative smelting and refining arrangements could be made or alternative purchasers of the Company's concentrates could be found. If the Company is required to make alternative refining arrangements or to find alternative purchasers, there can be no assurance that such arrangements would be on terms as favourable to the Company as its existing smelter agreements.

The Company is subject to extensive environmental and other regulatory requirements.

Environmental laws and regulations affect the exploration, development, mining and processing operations of the Company. These laws and regulations set various standards regulating the environment and require the Company to obtain various operating approvals and licenses. Environmental legislation generally provides for restrictions and prohibitions on emissions of various substances produced in association with mining operations, such as seepage from tailings containment facilities, which could result in environmental pollution.

In addition, amendments to current laws or regulations governing mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in costs, reductions in levels of production or delays in the development of new mining properties. In addition to existing requirements, new environmental legislation may be implemented in the future with the objective of further protecting human health, the environment and climate change. New environmental legislation or changes in existing environmental legislation could have a negative

effect on production levels, product demand, and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Company to predict their impact.

A breach of such legislation could result in the issuance of governmental orders, imposition of fines and penalties and, in certain circumstances, could result in the loss of operating licenses or approvals, or the suspension of the Company's operations. Significant liabilities could be imposed for damages or clean-up costs in the event of damage to the environment or non-compliance with environmental laws or regulations, which may have a material adverse impact on the Company's operations or financial results. If the Company fails to obtain or maintain the necessary operating approvals or licenses it may not be able to continue its operations in its usual manner or at all.

The Company cannot give assurances that it will at all future times be in compliance with all federal and provincial environmental legislation or that steps to bring the Company into compliance would not have a negative effect on its financial condition and results of operations.

The cost of complying with environmental legislation may be significant.

The Company's operations are subject to extensive environmental legislation. This legislation requires the Company to obtain various operating approvals and licenses and also imposes standards and controls on activities relating to exploration, development and production. The cost to the Company of obtaining such approvals and licenses and abiding by environmental legislation, standards and controls may be significant.

The Company will be responsible for all costs of closure and reclamation at the LDI property. In addition, to the extent that the Company's exploration activities at other projects disturb the land or some other environmental attribute, the Company may incur clean-up and other reclamation costs at such projects. During 2013, the Company's mine closure obligations were revised to reflect the Company's most current closure cost estimates, expected mine lives and market rate assumptions. The current mine closure obligations for the LDI property and Shebandowan West project are approximately \$14.4 million.

The Company's obligations with respect to the eventual clean-up and restoration of these sites is secured by letters of credit in the amount of approximately \$14.4 million. There can be no assurance that the closure and reclamation costs for these sites will not substantially exceed the Company's estimates, or that letters of credit will cover these costs.

Changes in environmental legislation or in its enforcement, new information on existing environmental conditions or other events, including changes in environmental controls or standards or in their enforcement, may increase future environmental expenditures or otherwise have a negative effect on the Company's financial condition and results of operations.

Compliance with current and future government regulations may cause the Company to incur significant costs.

The Company's activities are subject to extensive Canadian federal and provincial legislation governing matters such as mine safety, occupational health, labour standards, prospecting, exploration, production, exports, explosives, management of natural resources, price controls, land use, water use, and taxes. Compliance with applicable legislation could require the Company to make significant capital outlays. The enactment of new legislation or more stringent enforcement of current legislation may

increase costs, which could have a negative effect on the Company's financial position. The Company cannot make assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these laws, regulations and other regulatory requirements could lead to substantial fines, penalties or other sanctions, including possible shut-downs of the LDI property and future operations, as applicable.

The Company is required to obtain and renew governmental permits in order to conduct mining operations, which is often a costly and time-consuming process.

Throughout the normal course of business, the Company is required to obtain and renew governmental permits for exploration, operations and expansion of existing operations or for the development of new projects. Obtaining or renewing governmental permits is a complex and time-consuming process. The duration and success of permitting efforts are contingent upon many variables not within the Company's control, including the interpretation of requirements implemented by the applicable permitting authority. The Company may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed the Company's expectations. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine, which could materially adversely affect the Company's revenues and future growth.

If the Company loses key personnel or is unable to attract and retain personnel, the Company's mining operations and prospects could be significantly harmed.

The Company is dependent upon the services of a small number of members of senior management. The Company's current operations and its future prospects depend on the experience and knowledge of these individuals. The Company does not maintain any "key person" insurance. The loss of one or more of these individuals could have a material adverse effect on the Company's mining operations and results of operations.

The Company faces competition from other, larger suppliers of PGMs and from potential new sources of PGMs.

The Company competes globally with other PGM producers and suppliers, some of which are significantly larger and have access to greater mineral reserves and financial resources. In addition, recycling and new mines could increase the global supply of palladium. The Company may not be successful in competing with these existing and emerging PGM producers and suppliers.

Current and future litigation and regulatory proceedings may impact the revenue and profits of the Company.

The Company may be subject to civil claims (including class action claims) based on allegations of negligence, breach of statutory duty, public nuisance or private nuisance or otherwise in connection with its operations or investigations relating thereto. A Statement of Claim has been filed with the Ontario Superior Court of Justice, seeking leave to commence a class action proceeding for alleged misrepresentations in the Company's public disclosure, as more fully described on page 53 of this AIF. The Company has retained legal counsel and intends to vigorously defend the potential claim. While the Company is presently unable to quantify its potential liability, which may be covered in whole or in part by insurance, such liability may be material to the Company and may materially adversely affect its ability to continue operations.

In addition, the Company may be subject to actions or related investigations by governmental or regulatory authorities in connection with its activities at the LDI property or its other properties. Such actions may include prosecution for breach of relevant legislation or failure to comply with the terms of the Company's licenses and permits and may result in liability for pollution, other fines or penalties, revocations of consents, permits, approvals or licenses or similar actions, which could be material and may impact the results of operations of the Company. The Company's current insurance coverage may not be adequate to cover any or all of the potential losses, liabilities and damages that could result from the civil and/or regulatory actions referred to above, or the Company may elect not to insure against such risks.

The development of new technology or new alloys could reduce the demand for palladium and platinum.

Demand for palladium and platinum may be reduced if manufacturers in the automotive, electronics and dental industries find substitutes for palladium or platinum. The development of a substitute alloy or synthetic material which has catalytic characteristics similar to PGMs could result in a decrease in demand for palladium and platinum. Furthermore, if the automotive industry were to develop automobiles that do not require catalytic converters, such as pure electric vehicles, it could significantly reduce the demand for palladium and platinum. High prices for palladium or platinum would create an incentive for the development of substitutes. Any such developments could have a material adverse effect on the Company's financial condition and results of operations.

The Credit Facility, the 2012 Debentures, the 2014 Debentures and the Brookfield Debt provide for events of default, some of which may be beyond the Company's control.

The Credit Facility provides the Company with liquidity for day-to-day operations. The Credit Facility, the 2012 Debentures, the 2014 Debentures and the Brookfield Debt contain certain events of default, some of which may be beyond the Company's control, the occurrence of which could require the Company to pay back immediately all amounts outstanding under the Credit Facility, the 2012 Debentures, the 2014 Debentures, or the Brookfield Debt, as applicable.

Upon the occurrence of an event of default under the Credit Facility or the Brookfield Debt, the holders of such debt could proceed against the collateral granted to them to secure that indebtedness, which collateral represents substantially all of the Company's and its subsidiaries' assets. If the holders of the Company's debt accelerate the repayment of borrowings, no assurance can be made that the Company will have sufficient cash flow or assets to repay its debt or will be able to raise sufficient funds to refinance such indebtedness. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms, or acceptable terms.

The Company's hedging activities could expose it to losses.

From time to time, the Company may engage in hedging activities to manage its exposure related to currencies, interest rates and commodity prices. While hedging related to realized metal prices may protect the Company against low metal prices, it may also limit the price the Company can receive on hedged products. As a result, the Company may be prevented from realizing possible revenues in the event that the market price of a metal or currency exceeds the price stated in a forward sale or call option contract. In addition, the Company may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity.

Lack of infrastructure could impact operations, or delay or prevent the Company from developing its projects.

Operations and completion of the Company's development projects is subject to various requirements, including the availability and timing of acceptable arrangements for electricity or other sources of power, water and transportation facilities. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could impact operations or prevent or delay development of the Company's development projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that:

- operations will achieve the anticipated costs or production volumes;
- the development of the Company's projects will be completed on a timely basis, if at all; or
- the ongoing costs associated with the development of the Company's advanced projects will not be higher than anticipated.

The Company may be required to record impairment charges which may adversely affect its financial results and could cause the Company to breach its covenants under the Brookfield Debt and the Credit Facility.

Under the Brookfield Debt and the Credit Facility, the Company is required to maintain a minimum of \$200 million in shareholders' equity. As at December 31, 2013, the Company's total shareholders' equity was approximately \$222 million. If the Company is required to take an impairment charge that would cause the Company's shareholders' equity to fall below \$200 million, the Company would be in breach of the Brookfield Debt and the Credit Facility and the respective lenders thereunder may declare a default and accelerate amounts owing and/or enforce their other rights as a creditor, including realizing on their security. An impairment charge would also adversely affect the Company's financial results.

The Company may fail to achieve and maintain adequate internal control over financial reporting pursuant to the requirements of the Sarbanes-Oxley Act and equivalent Canadian legislation.

The Company documented and tested, during its fiscal year ended December 31, 2013, its internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act ("SOX") and equivalent Canadian legislation. Both SOX and Canadian legislation require management to assess annually the effectiveness of the Company's internal control over financial reporting ("ICFR").

The Company may fail to maintain the adequacy of its ICFR as such standards are modified, supplemented or amended from time to time, and the Company may not be able to ensure that it can conclude, on an ongoing basis, that it has effective ICFR in accordance with Section 404 of SOX and equivalent Canadian legislation. The Company's failure to satisfy the requirements of Section 404 of SOX and equivalent Canadian legislation on an ongoing, timely basis could result in the loss of investor confidence in the reliability of its financial statements, which in turn could harm the Company's business and negatively impact the trading price of the Common Shares or the market value of its other securities. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's operating results or cause it to fail to meet its reporting obligations. Future acquisitions of companies, if any, may provide the Company with challenges in implementing the required processes, procedures and controls in its acquired operations.

No evaluation can provide complete assurance that the Company's ICFR will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be reported. The effectiveness of the Company's processes, procedures and controls could also be limited by simple errors or faulty judgments. In addition, if the Company expands, the challenges involved in implementing appropriate ICFR will increase and will require that the Company continue to improve its ICFR.

Difficulty of investors in the United States to enforce civil liabilities against the Company based solely upon the federal securities laws of the United States.

The Company is a Canadian corporation, with its principal place of business in Canada. A majority of the Company's directors and officers and some or all of the experts named in this AIF are residents of Canada and all of the Company's assets and a significant portion of the assets of some or all of the Company's directors and officers and the experts named in this AIF are located outside the United States. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon the Company or its directors or officers or such experts who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the Securities Act of 1933, as amended. Investors should not assume that Canadian courts (1) would enforce judgments of U.S. courts obtained in actions against the Company or such directors, officers or experts predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or "blue sky" laws of any state within the United States or (2) would enforce, in original actions, liabilities against the Company or such directors, officers or experts predicated upon the U.S. federal securities laws or any such state securities or "blue sky" laws. In addition, the protections afforded by Canadian securities laws may not be available to investors in the United States.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate

The Audit Committee is responsible for assessing the performance of the Company's auditors and for reviewing the Company's financial reporting and internal controls. The Committee has adopted a mandate, ratified by the Board, which describes roles and responsibilities of the members of the Committee.

The Audit Committee mandate is set out in full beginning on page 69.

Composition of the Audit Committee

The Audit Committee is comprised of Messrs. Berlin (chairman), Van Staveren and Comba.

Relevant Education and Experience

Messrs. Berlin, Van Staveren and Comba are independent as such term is defined in NI 52-110 – *Audit Committees* and are financially literate. Each of the members has the requisite qualification to serve on the Audit Committee. Mr. Berlin has received a CPA, a bachelor's degree from Duquesne University, an MBA from the University of Wisconsin Madison and has completed the Executive Management program at Stanford University. Mr. Van Staveren has received a CA and a CPA designation and was a former partner at KPMG LLP. Mr. Comba has had extensive management and board experience in the mining industry.

Audit Committee Pre-Approval Policies and Procedures

All audit and non-audit services performed by the Company's external auditors are pre-approved by the Audit Committee.

External Auditor Service Fees

Audit Fees

The aggregate fees billed by KPMG LLP, Chartered Professional Accountants, the Company's external auditors for the fiscal years ended December 31, 2013 and 2012, for audit fees, including professional services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements for such years were \$508,500 and \$543,282, respectively.

Audit-Related Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2013 and 2012 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Company's financial statements for that year were \$49,000 and \$67,000, respectively. In 2013, these fees were paid for services rendered in connection with French translation services for various documents including quarterly financial statements and MD&A. In 2012, these fees were paid for services rendered in connection with French translation services for various documents including quarterly financial statements and MD&A.

Tax Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2013 and 2012 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were \$73,600 and \$63,812, respectively. In 2013, such fees were paid for the preparation of federal/provincial tax returns and other tax advisory services. In 2012, such fees were paid for the preparation of federal/provincial tax returns and other tax compliance and tax advisory services.

All Other Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2013 and 2012, other than for the services reported in the preceding three paragraphs, were \$nil and \$nil, respectively.

ADDITIONAL INFORMATION

We are required to file with the securities commission or authority in each of the applicable provinces of Canada annual and quarterly reports, material change reports and other information. In addition, we are subject to the informational requirements of the *United States Securities Exchange Act of 1934*, as amended (the "**Exchange Act**"), and in accordance with the Exchange Act, we also file reports with, and furnish other information to, the SEC. Under a multijurisdictional disclosure system adopted by the United States, these reports and other information (including financial information) may be prepared in accordance with the disclosure requirements of Canada, which differ in certain respects from those in the United States. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short swing profit recovery provisions

contained in Section 16 of the Exchange Act. In addition, we are not required to publish financial statements as promptly as U.S. companies.

You may read any document we file with or furnish to the securities commissions and authorities of the provinces of Canada through SEDAR and any document we file with or furnish to the SEC at the SEC's public reference room at Station Place, 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of the same documents from the public reference room of the SEC at 450 Fifth Street, N.W., Washington D.C. 20549 by paying a fee. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Certain of our filings are also available electronically on EDGAR, and which may be accessed at www.sec.gov, as well as from commercial document retrieval services.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management information circular for its most recent annual meeting of securityholders that involved the election of directors. As well, additional financial information is provided in the Company's annual financial statements for the year ended December 31, 2013 and management's discussion and analysis of operations and financial results.

AUDIT COMMITTEE MANDATE

Composition

The Audit Committee shall consist of a minimum of three directors of the Company.

- (1) The Audit Committee shall be comprised entirely of independent directors, as such term is defined by applicable laws and related rules and regulations, and rules of relevant stock exchanges (collectively referred to as “ **Applicable Laws** ”). For clarity, US Applicable Laws means those applicable to SEC registrants that are foreign private issuers.
- (2) A member is only exempt from the independence requirements if permitted by Applicable Laws. The appointment of a non-independent director shall be disclosed in the next proxy circular mailed to shareholders. If there is reliance on curing provisions, notice shall be given to the stock exchanges immediately upon learning of the circumstances that resulting in the non-compliance.
- (3) A quorum for the transaction of business at all meetings of the Audit Committee shall be a majority of members.

Qualifications and Experience

At the time of appointment or within a reasonable period of time following appointment, each member of the Committee must be financially literate, having the ability to read and understand a set of financial statements that present the breadth and level of complexity or accounting issues that are generally comparable to the breadth and complexity of the issues that can be reasonably be expected to be raised by the Company's financial statements.

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- (1) At least one member (the “ **financial expert** ”) of the Committee must have:
 - (a) An understanding of financial statements and accounting principles used by the Company to prepare its financial statements;
 - (b) The ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
 - (c) Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements, or experience actively supervising one or more persons engaged in such activities;
 - (d) An understanding of internal controls and procedures for financial reporting; and
 - (e) An understanding of audit committee functions.
 - (2) The financial expert must have acquired the foregoing attributes through one or more of the following:
 - (a) Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
 - (b) Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
 - (c) Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
 - (d) Other relevant experience.

Mandate and Responsibilities

The Audit Committee shall:

- (1) Review and assess the adequacy of the Audit Committee mandate on an annual basis;
- (2) Meet with the Company’s external auditors as necessary and before the submission of the audited annual financial statements to the Board and communicate to external auditors that they are ultimately accountable to the Board and the Audit Committee as representatives of shareholders;
- (3) Review the annual financial statements of the Company and “management’s discussion and analysis” and recommend the financial statements for approval to the Board;

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- (4) Review and approve interim financial statements of the Company and “management’s discussion and analysis” prior to filing with the securities regulatory authorities and delivery to shareholders;
 - (5) Obtain explanations from management on all the significant variances between comparative reporting periods and, in respect the annual financial statements, question management and the external auditor regarding the significant financial reporting issues discussed during the fiscal period and the method of resolution;
 - (6) Be responsible for:
 - (a) Ensuring that a written statement is obtained from the external auditor describing all relationships between the external auditor and the Company;
 - (b) Discussing with the external auditor any disclosed relationships or services that may impact the objectivity and independence of the external auditor; and
 - (c) Determining that the external auditors have a process in place to address the rotation of the lead partner and other audit partners serving the account as required under Canadian independence standards and the SEC independence rules, as applicable to foreign private issuers;
 - (7) Assess the performance of the external auditors and recommend to the Board annually or as they may otherwise determine a duly qualified external auditor to be nominated (for appointment or retention) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
 - (8) Review the plan and scope of the audit to be conducted by the internal (if any) and external auditors of the Company;
 - (9) Approve, or recommend to the Board for approval, the compensation of the external auditors;
 - (10) Directly oversee the work of the external auditors, including reviewing the Company’s critical accounting policies and practices, material alternative accounting treatments and material written communications between the external auditors and management, and the resolution of disagreements between management and the external auditor regarding financial reporting;
 - (11) Pre-approve all audit and permitted non-audit services to be provided to the Company or its subsidiary entities by its external auditors or the external auditors of the Company’s subsidiary, in accordance with Applicable Laws;
 - (12) Review all post-audit or management letters containing the recommendations of the external auditor and management’s response or follow-up of any identified weakness;
 - (13) Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with external auditors;
 - (14) Oversee the governance of management’s Disclosure Committee;

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- (15) Review all annual and interim earnings press releases;
 - (16) Determine that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements, other than disclosure in the Company's financial statements, management's discussion and analysis and earnings press releases, and periodically assess the adequacy of these procedures;
 - (17) Establish procedures for:
 - (a) The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - (b) The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
 - (18) Enquire as to the adequacy of the Company's system of internal controls and review periodic reports from management about internal controls, including an assessment of risk with respect to financial reporting;
 - (19) Review and approve all related party transactions;
 - (20) Review and approve the Company's hiring policies regarding employees and former employees of the present and former external auditors of the Company;
 - (21) Have such other duties, powers and authorities, consistent with the provisions of the *Canada Business Corporations Act*, as the Board may, by resolution, delegate to the Audit Committee from time to time.

Authority

The Audit Committee shall have the authority:

- (1) For the purpose of performing their duties, to inspect all of the books and records of the Company and its affiliates and to discuss such accounts and records and any matters relating to the financial position or condition of the Company with the officers and internal (if any) and external auditors of the Company and its affiliates;
- (2) To engage independent counsel and other advisors as it determines necessary to carry out its duties;
- (3) To set and pay the compensation for any advisors employed by the Audit Committee, including without limitation, compensation to any public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
- (4) To set and pay the ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties; and
- (5) To communicate directly with the internal (if any) and external auditors.

Proceedings

The following shall apply to the proceedings of the Audit Committee.

- (1) The business of the Audit Committee shall be transacted in person, by conference call or by resolution in writing. All questions at a meeting shall be decided in accordance with the vote of a majority of those present and the Chairman of the meeting shall not have a second or casting vote.
- (2) A resolution in writing signed by all members of the Audit Committee shall be as valid as if it had been passed at a duly called and constituted meeting. Such resolutions in writing may be in one or more counterparts.
- (3) The Audit Committee Chairman shall periodically report to the Board on the activities of the Audit Committee.
- (4) The external auditor of the Company shall, at the expense of the Company, be entitled to attend and be heard at or may be invited to any meeting of the Audit Committee.
- (5) The external auditor and senior management shall have the opportunity or may be invited to meet separately with the Audit Committee.
- (6) The minutes of the proceedings of the Audit Committee and any resolutions in writing shall be kept in a book provided for that purpose which shall always be open for inspection by any director of the Company.

IMPERIAL-METRIC CONVERSION TABLE

<u>Imperial</u>	<u>Metric</u>
1 troy ounce	31.103 grams
1 ton, short	0.907 tonnes
1 troy ounce per ton	34.286 grams per tonne
1 foot	0.305 metres
1 mile	1.609 kilometres
1 acre	0.405 hectares

GLOSSARY OF TERMS

The following is a glossary of certain terms used in this document:

“ °C ” means degrees Celsius.

“ µm ” means micrometre.

“ **2014 LDI Report** ” means the new NI 43-101 report titled “Technical Report Lac des Isles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” dated March 31, 2014 (effective date of March 21, 2014) prepared by Tetra Tech WEI Inc.

“ **Au** ” means gold.

“ **ball mill** ” means a rotary grinding mill which uses metal balls to reduce ore to a fine particle size.

“ **concentrate** ” means a product containing the valuable metal and from which most of the waste material in the ore has been removed.

“ **Cowboy Zone** ” means the underground PGM Zone at the LDI Mine located 30 to 60 metres to the west of the Offset Zone and extends for up to 250 metres along strike and 300 metres down dip.

“ **Cu** ” means copper.

“ **cut-off grade** ” is determined by the following formula parameters: estimates over the relevant period of mining costs, ore treatment costs, general and administrative costs, refining costs, royalty expenses, process and refining recovery rates and PGM prices.

“ **diamond drilling** ” means rotary drilling using diamond impregnated bits to produce a solid continuous core sample of the underlying rock.

“ **EGAB** ” means equigranular gabbro.

“ **feasibility study** ” means a program to establish whether a mineral deposit can be successfully mined considering technical and economic parameters.

“ **g** ” means gram.

“ **gabbro** ” means a dark, coarse-grained intrusive rock usually composed of angular rock fragments.

“ **grade** ” means a particular quantity of ore or mineral relative to other constituents, in a specified quantity of rock.

“ **g/t** ” means grams per tonne.

“ **head grade** ” means the quantity of valuable mineral or metal contained in each tonne of ore delivered to the concentrator.

“ **HGABBX** ” means Heterolithic Gabbro Breccia.

“ **indicated resource** ” means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

“ **inferred resource** ” means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

“ **intrusion/intrusive** ” means a mass of igneous rock that was injected and solidified within the earth’s crust.

“ **iridium** ” means hard, brittle, silver-white platinum group metal used for pen tips, jewellery, resistance wiring, electronic contacts and electrodes.

“ **km²** ” means square kilometre.

“ **lb** ” means pound.

“ **L/d** ” means litres per day.

“ **L/min** ” means litres per minute.

“ **LDI** ” means Lac des Iles Mines Ltd.

“ **LDI Mine** ” means the Lac des Iles mine.

“ **LOM** ” means life of mine.

“ **mafic rocks** ” or “ **ultramafic rocks** ” means rocks composed of 40 to 90% mafic minerals (PGM deposits are usually hosted in mafic and ultramafic intrusive rocks).

“ **MBI** ” means the Mine Block Intrusive.

“ **measured resource** ” means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

“ **mineral reserve** ” means the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

“ **mineral resource** ” means a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

“ **mineralization** ” means the concentration of metals and their chemical compounds within a body of rock.

“ **mm** ” means millimetre.

“ **mL** ” means millilitre.

“ **MNDM** ” means the Ontario Ministry of Northern Development and Mines.

“ **Mt** ” means million tonnes.

“ **Ni** ” means nickel.

“ **North VT Rim** ” means mineralization of possible economic significance located about one kilometre along strike to the east of the Roby Zone which may be contiguous to an extension of the Roby Zone.

“ **NQ** ” refers to a common diameter (47.6 mm) size of core.

“ **NSR royalty** ” means net smelter return royalty, being a royalty based on the gross proceeds received from the sale of minerals less the cost of smelting, refining, freight and other related costs.

“ **NI 43-101** ” means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* .

“ **Offset Zone** ” means the mineralized zone located below and approximately 250 metres to the west of the Lac des Iles underground mine orebody.

“ **OK** ” means ordinary kriging.

“ **ore** ” means a mixture of valuable and worthless minerals from which at least one of the minerals can be mined and processed at an economic profit.

“ **osmium** ” means a rare, hard white metal.

“ **ounce** ” or “ **oz.** ” means a troy ounce. A troy ounce is equal to one-twelfth part of a pound or 31.103 grams.

“ **Outlaw Zone** ” means the potential zone of mineralization at the LDI Mine located to the west of the Offset Zone.

“ **overburden** ” means unconsolidated material that overlies a mineral deposit and must be removed prior to mining.

“ **palladium** ” means a white, ductile, malleable precious metal that does not tarnish at normal temperatures. Wide applications range from electronics, dentistry, jewellery and automotive catalytic converters.

“ **Pd** ” means palladium.

“ **PGEs** ” means platinum group elements.

“ **PGMs** ” means “ **Platinum Group Metals** ”. Platinum Group Metals include platinum, palladium, rhodium, ruthenium, osmium and iridium. All PGMs have catalytic qualities and resist corrosion and are chemically inert over a wide range of temperatures.

“ **Pt** ” means platinum.

“ **pyroxenite** ” means an ultramafic rock which predominantly contains the mafic mineral pyroxene (Mg-rich silicate).

“ **PYXT** ” means a pyroxenite unit.

“ **QA** ” means quality assurance.

“ **QC** ” means quality control.

“ **qualified person** ” means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member in good standing of a professional association.

“ **RGO** ” means low-grade stock pile.

“ **rhodium** ” means a silver-white metal of the platinum family resistant to tarnishing and used as an electrode posit, or alloyed with platinum to manufacture thermocouples.

“ **Roby Zone** ” means the previously operated open pit and the underground mine which is currently in production on the LDI property.

“ **RoM** ” means run of mine.

“ **RQD** ” means rock quality designation measurements.

“ **Sheriff Zone** ” means the potential new PGM zone at the LDI Property, approximately 100 meters southeast of the Offset Zone.

“ **tailings** ” means that portion of the ore which remains after the valuable minerals have been extracted.

“ **t/a** ” means tonnes per year.

“ **t/d** ” means tonnes per day.

“ **Tetra Tech** ” means Tetra Tech WEI Inc.

“ **TMF** ” means tailings management facility.

“ **tonne** ” means a metric measure consisting of 2,204.6 pounds or 1,000 kilograms.

“ **ultramafic** ” means rocks composed of greater than 90% mafic minerals (PGM deposits are usually hosted in mafic and ultramafic intrusive rocks).

“ **VGAB** ” means varitextured gabbro.

“ **waste** ” means barren rock in a mine, or mineralized material that is too low in grade to be mined and milled at a profit.

“ **wt%** ” means weight percent.



North American Palladium Ltd.

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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 consolidated financial statements and related notes to assess material changes in financial condition and results of operations for the year ended December 31, 2013, compared to those of the respective periods in the prior year. This MD&A has been prepared as of February 19, 2014 and is intended to supplement and complement the consolidated financial statements and notes thereto for the year ended December 31, 2013 (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 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', 'plan', 'may', 'will', '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 Company's expansion plans, project timelines, production plans, projected cash flows or expenditures, operating cost estimates, mining including the LDI Mine expansion 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 the Company will require substantial additional 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 the LDI Mine transition from mining via ramp to mining via shaft, environmental hazards, uncertainty of mineral reserves and resources, the risk that the Company may not be able to obtain financing, the possibility that the LDI mine and may not perform as planned, changes in legislation, regulations or political and economic developments in Canada and abroad, employee relations, risks related 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 not limited to: that metal prices and exchange rates between the Canadian and United States dollar will



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be consistent with the Company's expectations, that there will be no material delays affecting operations or the timing of ongoing development projects, that there will be no material delays related to commissioning equipment, 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 leverage to the rising price of palladium.

The Company recently expanded the underground LDI Mine and is transiting from mining via ramp access to mining via shaft while utilizing bulk mining methods. Through the utilization of the shaft and the 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 considering an exploration program in 2014 targeting the lower portion of the Offset Zone. If successful, the Company intends to perform a preliminary economic assessment later in 2014 that would likely entail deepening the bottom of the shaft.

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 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.

**HIGHLIGHTS****OPERATIONAL HIGHLIGHTS**

	2013	2012	2011
Mining			
Tonnes ore mined	2,093,669	2,051,563	1,830,234
Palladium head grade (g/t)	2.7	3.2	3.9
Milling			
Tonnes ore milled	2,048,082	2,063,260	1,689,781
Palladium head grade (g/t)	2.8	3.4	3.7
Palladium recovery (%)	80.7	78.4	78.3
Payable production			
Palladium (oz)	135,158	163,980	146,624
Platinum (oz)	10,222	11,187	9,143
Gold (oz)	10,423	11,106	7,267
Nickel (lb)	1,437,311	1,348,179	816,037
Copper (lb)	2,828,271	2,592,748	1,595,185
Realized palladium price per ounce (US\$)	\$ 724	\$ 640	\$ 733
Cash cost per ounce palladium sold (US\$) ¹	\$ 560	\$ 401	\$ 448

FINANCIAL HIGHLIGHTS

(\$000s except per share amounts)

	2013	2012	2011
Revenue	\$ 153,233	\$ 160,704	\$ 143,659
Expenses			
Production costs	107,458	100,802	89,657
Smelting, refining and freight	13,994	13,679	9,206
Royalty	6,534	6,720	5,819
Depreciation and amortization	25,507	19,706	10,144
Income (loss) from mining operations	(790)	15,691	28,404
Earnings			
(Loss) income from continuing operations	\$ (48,695)	\$ (11,403)	\$ 4,392
(Loss) Income from continuing operations per share	\$ (0.26)	\$ (0.07)	\$ 0.03
Loss and comprehensive loss	\$ (46,186)	\$ (66,037)	\$ (65,154)
Loss per share	\$ (0.25)	\$ (0.39)	\$ (0.40)
Adjusted net income (loss) ¹	\$ (13,214)	\$ 7,205	\$ 14,331
EBITDA ¹	\$ (5,648)	\$ 9,386	\$ (53,497)
Adjusted EBITDA ¹	\$ 13,408	\$ 27,994	\$ 25,988
Capital spending, continuing operations	\$ 109,486	\$ 145,180	\$ 148,309

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 26-28.



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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.

- In 2013, 2,093,669 tonnes at an average grade of 2.7 g/t palladium were mined compared to 2,051,563 tonnes at an average palladium grade of 3.2 g/t in the prior year, primarily due to changes in the sources, grades and volumes of ore mined.
- The mill processed 2,048,082 tonnes of ore at an average palladium head grade of 2.8 grams per tonne and a recovery of 80.7% to produce 135,158 ounces of payable palladium in 2013.
- Revenue decreased to \$153.2 million in 2013 primarily due to lower tonnes and grades of ore milled partially offset by higher realized palladium prices.
- Production costs increased to \$107.4 million in 2013 from \$100.8 million in the prior year primarily due to unfavourable movements in inventory levels and increased power consumption partially offset by insurance proceeds received in 2013 and 2012 mine restoration costs which did not recur in 2013. Utilization of the shaft in 2014 is expected to reduce per unit operating costs.
- In 2013, capital expenditures from continuing operations totaled \$112.3 million with \$91.8 million spent of the LDI mine expansion, and an additional \$20.5 million spent primarily on the tailings management facility. For 2014, the Company expects significantly lower capital expenditures of approximately \$30.0 million.
- During 2013, the Company had a \$11.3 million loss on extinguishment of long-term debt and a \$7.4 million foreign exchange loss primarily on US\$ denominated debt.



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FINANCIAL CONDITION

(expressed in thousands of dollars)	As at December 31 2013	As at December 31 2012	As at December 31 2011
Net working capital ¹	\$ (174,211)	\$ 32,563	\$ 108,432
Adjusted net working capital (deficit) surplus ²	\$ (555)	\$ 32,563	\$ 108,432
Cash balance	\$ 9,793	\$ 20,168	\$ 50,935
Shareholders' equity	\$ 222,496	\$ 246,900	\$ 268,996
Total debt ¹	\$ 239,086	\$ 130,395	\$ 70,230

¹ Includes current portion of long-term debt of \$173,656. Please refer to note 25 of the Company's Financial Statements.

² Non-IFRS measure. Please refer to Non-IFRS Measures on pages 26-28.

SELECTED ANNUAL INFORMATION

(expressed in thousands of dollars, except per share amounts)	2013	2012	2011
Revenue	\$153,233	\$160,704	\$143,659
Income (loss) from mining operations	(790)	15,691	28,404
Income (loss) from discontinued operations	2,509	(54,634)	(69,546)
Net loss	(46,186)	(66,037)	(65,154)
Net loss per share – basic and diluted	(0.25)	(0.39)	(0.40)
(Loss) income from continuing operations per share – basic and diluted	(0.26)	(0.07)	0.03
Cash flow provided by operations prior to changes in non-cash working capital ¹	6,756	13,419	15,598
Cash flow provided by operations	6,531	55,622	31,622
Total assets	525,795	471,232	416,045
Total non-current liabilities	59,532	129,155	95,595

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 26-28.

For the year ended December 31, 2013, revenue was \$153.2 million compared to \$160.7 million in the prior year. Loss from mining operations for the year ended December 31, 2013 was \$0.8 million compared to an income from mining operations of \$15.7 million in the prior year.

PALLADIUM OPERATIONS – FINANCIAL, OPERATING & DEVELOPMENT RESULTS

The LDI mine consists of an open pit (which is now predominately mined out), an underground mine, and a mill with a processing capacity of approximately 15,000 tonnes per day. The primary underground deposits on the property are the Roby zone and the Offset zone, both of which are disseminated magmatic palladium-platinum group metal deposits.

**Operating Results**

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

	2013	2012	2011
Ore mined (tonnes)			
Underground			
Roby	143,037	664,685	871,534
Offset	673,668	137,495	116,968
	<u>816,705</u>	<u>802,180</u>	<u>988,502</u>
Surface			
Open pit	538,323	841,591	92,595
High grade stockpile	—	53,584	596,436
Low grade stockpile	738,641	354,208	152,701
	<u>1,276,964</u>	<u>1,249,383</u>	<u>841,732</u>
Total	<u>2,093,669</u>	<u>2,051,563</u>	<u>1,830,234</u>
Mined ore grade (Pd g/t)			
Underground			
Roby	4.2	5.0	6.1
Offset	4.5	5.4	2.8
	<u>4.4</u>	<u>5.0</u>	<u>5.7</u>
Surface			
Open pit	2.3	2.6	2.1
High grade stockpile	—	1.8	1.9
Low grade stockpile	1.1	1.0	1.0
	<u>1.6</u>	<u>2.1</u>	<u>1.8</u>
Average	<u>2.7</u>	<u>3.2</u>	<u>3.9</u>
Milling			
Tonnes of ore milled	2,048,082	2,063,260	1,689,781
Palladium head grade (g/t)	2.8	3.4	3.7
Palladium recoveries (%)	80.7	78.4	78.3
Tonnes of concentrate produced	16,966	17,883	11,708
Production cost per tonne milled	\$ 52	\$ 49	\$ 54
Payable production			
Palladium (oz)	135,158	163,980	146,624
Platinum (oz)	10,222	11,187	9,143
Gold (oz)	10,423	11,106	7,267
Nickel (lbs)	1,437,311	1,348,179	816,037
Copper (lbs)	2,828,271	2,592,748	1,596,185
Cash cost per ounce of palladium sold (US\$) ¹	\$ 560	\$ 401	\$ 448

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 26-28.

Mining

During 2013, the open pit and Roby zone were largely mined out in May 2013 and March 2013 respectively and significantly more material was mined from the Offset zone and processed from the low grade surface stockpile. Ore mined at LDI during the year ended December 31, 2013, consisted of 2,093,669 tonnes at an average grade of 2.7 g/t palladium compared to 2,051,563 tonnes at an average palladium grade of 3.2 g/t in the prior year. Despite significant changes in the sources of ore, similar tonnages were mined in 2013 as in 2012; however, the average grade of ore mined decreased in 2013 primarily due to the mix of tonnage and grades from the various ore sources.

Milling

During the year ended December 31, 2013, the LDI mill processed 2,048,082 tonnes of ore at an average palladium head grade of 2.8 g/t palladium and a recovery of 80.7% to produce 135,158 ounces of payable palladium (2012 – 2,063,260 tonnes milled, average palladium head grade of 3.4 g/t, recovery of 78.4%, produced 163,980 ounces of payable palladium).



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The higher mill recovery in the year ended December 31, 2013 compared to 2012 was primarily due to improvements in the mill which increased palladium recovery compared with the prior year despite the lower average palladium head grades processed. Payable metal production for the year ended December 31, 2013 was impacted by a new smelter contract which pays a lower percentage of contained metal compared to the contract in the prior year.

Total production costs per tonne milled were \$52 in the year ended December 31, 2013, compared to \$49 per tonne in 2012. The changes were primarily due to differences in tonnages milled compared with the prior periods and increased power consumption. As the mill has excess capacity relative to the mining rate, it operates on a two-week on/ two-week off schedule.

Cash Cost per Ounce of Palladium Sold

The cash cost per ounce of palladium sold increased to US\$560¹ in the year ended December 31, 2013 compared to US\$401¹ per ounce in the prior year. 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. 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 increase in cash cost per ounce of palladium in 2013 was primarily due to the effect of fewer payable palladium ounces sold, lower by-product metal revenues and increased production costs compared with the prior year. 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 26-28.*

Capital expenditures

In the year ended December 31, 2013, capital expenditures from continuing operations totaled \$109.5 million, exclusive of \$28.6 million of capitalized interest, compared with \$145.2 million in 2012. Of the \$109.5 million, \$91.8 million was spent on the LDI mine expansion including: \$23.5 million on shaft sinking and infrastructure; \$22.5 million on the ramp, level access and vertical development; \$23.8 million on surface and underground construction; \$4.4 million on procurement; \$2.0 million on parts and maintenance; \$1.9 million on capitalized exploration expenditures; \$10.3 million on general and administration, indirects and equipment charge-backs; and \$3.4 million for other development costs. The Company spent an additional \$17.7 million on capital which included \$16.1 million for the tailings management facility. For 2014, the Company expects significantly lower capital expenditures of approximately \$30.0 million.



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Financial Results

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

(expressed in thousands of dollars)	2013	2012
Revenue	\$153,233	\$160,704
Mining operating expenses		
Production costs		
Mining	71,565	71,938
Milling	29,550	27,463
General and administration	6,993	6,698
	108,108	106,099
Inventory and others	(1,913)	(1,484)
	106,195	104,615
Smelting, refining and freight costs	13,994	13,679
Royalty expense	6,534	6,720
Depreciation and amortization	25,507	19,706
Inventory pricing adjustment	675	—
Loss on disposal of equipment	1,118	293
Total mining operating expenses	154,023	\$145,013
Income (loss) from mining operations	\$ (790)	\$ 15,691

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. This measure was added in 2013 to provide information on the major components of the Company's production costs.

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. These financial contracts represent 31,000 ounces of palladium as at December 31, 2013 (December 31, 2012 – 55,000 palladium ounces) and mature from January 2014 through March 2014 at an average forward price of US\$735 per ounce (December 31, 2012 – US\$640 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 December 31, 2013 was an asset of \$0.2 million included in accounts receivable (December 31, 2012 – a liability of \$3.2 million included in accounts payable and accrued liabilities).



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Revenue for the year ended December 31, 2013

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	<u>134,955</u>	<u>10,192</u>	<u>10,416</u>	<u>1,437,311</u>	<u>2,812,214</u>	<u>n.a.</u>	<u>n.a.</u>
Realized price (US\$) ⁽¹⁾	<u>\$ 724</u>	<u>\$ 1,499</u>	<u>\$ 1,437</u>	<u>\$ 6.71</u>	<u>\$ 3.32</u>	<u>n.a.</u>	<u>n.a.</u>
Revenue before price adjustment (\$000s)	\$101,540	\$15,626	\$15,155	\$ 10,114	\$ 9,623	\$ 228	\$152,286
Price adjustment (\$000s):							
Commodities	1,503	(419)	(727)	(344)	(41)	—	(28)
Foreign exchange	44	365	301	118	145	2	975
Revenue (\$000s)	<u>\$103,087</u>	<u>\$15,572</u>	<u>\$14,729</u>	<u>\$ 9,888</u>	<u>\$ 9,727</u>	<u>\$ 230</u>	<u>\$153,233</u>

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

Revenue for the year ended December 31, 2012

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	<u>161,845</u>	<u>11,056</u>	<u>10,950</u>	<u>1,349,664</u>	<u>2,564,740</u>	<u>n.a.</u>	<u>n.a.</u>
Realized price (US\$) ⁽¹⁾	<u>\$ 640</u>	<u>\$ 1,557</u>	<u>\$ 1,677</u>	<u>\$ 7.81</u>	<u>\$ 3.58</u>	<u>n.a.</u>	<u>n.a.</u>
Revenue before price adjustment (\$000s)	\$105,161	\$17,277	\$18,392	\$ 10,744	\$ 9,310	\$ 402	\$161,286
Price adjustment (\$000s):							
Commodities	(693)	739	(3)	(374)	25	1	(305)
Foreign exchange	33	(218)	178	(145)	(119)	(6)	(277)
Revenue (\$000s)	<u>\$104,501</u>	<u>\$17,798</u>	<u>\$18,567</u>	<u>\$ 10,225</u>	<u>\$ 9,216</u>	<u>\$ 397</u>	<u>\$160,704</u>

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

During 2013, the Company was sinking the shaft and completing related infrastructure while developing and transitioning to mining the Offset zone and processing surface stockpile material. The open pit and Roby zone were largely mined out in May and March 2013 respectively. Revenue for the year ended December 31, 2013 decreased \$7.5 million or 5% compared to 2012 primarily due to lower tonnes and grades of mineralized material milled resulting in a decrease in sales volumes, partially offset by higher realized prices.

Payable palladium, platinum and gold sold decreased 26,890, 864 and 534 ounces respectively for the year ended December 2013 compared to 2012 while sales of nickel and copper increased. Realized price per ounce increased for palladium while the prices decreased for platinum, gold, nickel and copper for the year ended 2013 compared to 2012.

Palladium sales for the year ended 2013 were impacted by a new smelter contract which included lower accountability rates for the payable metal contained in concentrate compared to the contract that was in effect in the prior period.



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Spot Metal Prices* and Exchange Rates

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

	Dec-31 2013	Sep-30 2013	Jun-30 2013	Mar-31 2013	Dec-31 2012	Sep-30 2012	Jun-30 2012	Mar-31 2012
Palladium – US\$/oz	\$ 711	\$ 726	\$ 643	\$ 770	\$ 699	\$ 642	\$ 578	\$ 651
Gold – US\$/oz	\$ 1,202	\$ 1,411	\$ 1,317	\$ 1,576	\$ 1,523	\$ 1,668	\$ 1,428	\$ 1,640
Platinum – US\$/oz	\$ 1,358	\$ 1,327	\$ 1,192	\$ 1,598	\$ 1,664	\$ 1,776	\$ 1,599	\$ 1,663
Nickel – US\$/lb	\$ 6.34	\$ 6.29	\$ 6.20	\$ 7.50	\$ 7.75	\$ 8.40	\$ 7.46	\$ 7.91
Copper – US\$/lb	\$ 3.34	\$ 3.31	\$ 3.06	\$ 3.44	\$ 3.59	\$ 3.75	\$ 3.44	\$ 3.83
Exchange rate (Bank of Canada) – CDN\$1 = US\$	<u>US\$ 0.94</u>	<u>US\$ 0.97</u>	<u>US\$ 0.95</u>	<u>US\$ 0.98</u>	<u>US\$ 1.01</u>	<u>US\$ 1.02</u>	<u>US\$ 0.98</u>	<u>US\$ 1.00</u>

* Based on the London Metal Exchange

Operating Expenses from Continuing Operations

2013 was a transition year for the Company as the shaft sinking and related infrastructure was completed at the same time while the Company was developing and transitioning to mining the Offset zone. The Company continues to modify the design of the underground ore handling system which, upon completion, should increase the tonnage hoisted through the shaft and reduce mining costs. Utilization of the shaft in 2014 is expected to reduce per unit operating costs.

Production costs

For the year ended December 31, 2013, operating expenses were \$106.2 million compared to \$104.6 million in 2012. The \$1.6 million increase in operating expenses was primarily due to \$2.1 million unfavourable movements in inventory levels and increased power consumption of \$3.4 million, partially offset by \$2.0 million net receipt of insurance proceeds in 2013, and \$3.1 million of mine restoration costs in 2012 that did not recur in 2013.

Costs for the year ended December 31, 2013 were impacted by increased milling costs per tonne. Please refer to the following sections for details on mining, milling and inventory movements.

For the year ended December 31, 2013, milling costs increased \$2.1 million compared to 2012 despite fewer tonnes milled. The increase was primarily due to timing of maintenance on the mill crushing circuit, an increase in reagents used in the floatation circuit, and higher consumption.

For the year ended December 31, 2013, inventory and other costs decreased \$0.4 million primarily due to a net insurance recovery in 2013 related to the water inflows in 2012, as detailed above, partially offset by the unfavourable movements in inventory levels.

Smelting, refining and freight costs

Smelting, refining and freight costs for the year ended December 31, 2013 were \$14.0 million, compared to \$13.7 million in 2012. The increase over the prior year was primarily due to higher smelting and refining charges associated with the current smelter contracts compared to the previous contract and higher freight costs associated with an overseas customer, partially offset by lower quantities of precious metals sold.

Royalty expense

For the year ended December 31, 2013, royalty expense was \$6.5 million, compared to \$6.7 million in 2012. The decrease was primarily due to lower quantities of metal sold and higher smelting, refining and freight costs partially offset by higher payable metal prices for palladium.



Depreciation and amortization

Depreciation and amortization for the year ended December 31, 2013 was \$25.5 million, compared to \$19.7 million in 2012. The increase over the prior year was primarily due to a significant increase in depreciable assets associated with the LDI mine expansion including the Offset zone and tailings management facilities.

Income (loss) from mining operations

For the year ended December 31, 2013, loss from mining operations was \$0.8 million compared to an income of \$15.7 million in the prior year. The increase in the loss is primarily due to lower sales volume of palladium partially offset by a higher realized price, and increased depreciation and amortization.

OTHER EXPENSES

Exploration

Exploration expenditures for the year ended December 31, 2013 were \$12.3 million (2012—\$14.5 million) exclusive of an additional \$1.9 million of Offset zone exploration which was capitalized. Of the \$12.3 million expensed in 2013, \$6.8 million was spent on the Upper Offset Southeast, North VT Rim, Sheriff, Roby Northeast, South VT Rim and, and South LDI near mine targets and \$1.9 million was spent on greenfields targets including Wakinoo Lake, Demars Lake, Buck Lake, Taman Lake, Chisamore and North LDI properties. In the year ended December 31, 2013, 40,222 metres of exploration drilling was done with 35,282 metres on near mine targets and 4,940 metres on greenfields properties.

For 2014, the Company plans an exploration program to target the lower portion of the Offset zone in support of an anticipated preliminary economic assessment to be completed later in 2014 or early 2015.

General and administration

The Company's general and administration expenses for the year ended December 31, 2013 was \$10.7 million compared to \$12.2 million in the prior year. The decrease is primarily due to decreased salaries related to retirement costs incurred in 2012 which did not recur in 2013.

Loss on extinguishment of debt

In June 2013, in connection with a financing, the Company repaid existing senior secured notes and incurred an \$11.0 million loss including a \$7.2 million debt repayment premium.

Interest and other income

Interest and other income for the year ended December 31, 2013 was \$2.0 million compared to \$3.6 million in 2012. The decrease of \$1.6 million was primarily due to the \$0.8 million gain on revaluation of debt and \$0.8 million gain on renouncement of flow through expenditures that occurred in 2012 but not in 2013.

Interest expense and other costs

Interest expense and other costs for the year ended December 31, 2013 were \$10.6 million, compared to \$4.7 million in the prior year. The increase of \$5.9 million for the year ended December 31, 2013 was mostly due to \$3.7 million of financing costs and \$2.3 million loss on an investment acquired as part of the gold operation sale respectively, which did not occur in 2012.

Foreign exchange loss (gain)

Foreign exchange loss for the year ended December 31, 2013 was \$7.4 million, compared to a gain of \$0.5 million for the prior year. The increase of \$7.9 million was primarily due to the impact of exchange rate movements on the US\$ denominated senior secured term loan and the US\$ denominated credit facility.



Income and mining tax recovery

The income and mining tax recovery for the year ended December 31, 2013 is \$2.2 million compared to \$nil in the prior year. The recovery relates to the recognition of Ontario resource tax credits.

Net loss from continuing operations

For the year ended December 31, 2013, the Company reported a net loss from continuing operations of \$48.7 million or \$0.26 per share compared to \$11.4 million or \$0.07 per share. The increase in the net loss is primarily due to lower sales volume of palladium partially offset by a higher realized price, increased depreciation and amortization, interest and other costs, loss on extinguishment of long-term debt, and foreign exchange loss.

GOLD OPERATIONS

On March 22, 2013, the Company sold NAP Quebec for gross proceeds of \$18.0 million in cash, 1.5 million common shares of Maudore Minerals Ltd. and \$1.8 million of receivable inventory amounts. For Financial Statement purposes, NAP Quebec has been treated as a discontinued operation (held for sale) in 2013 and 2012. For the year ended December 31, 2013 the Company has recorded \$2.5 million income from discontinued operations, including a gain on disposal of discontinued operations of \$1.5 million compared to a loss from discontinued operations of \$54.6 million in the prior year.

NAP's gold division consisted of the Vezza gold mine, the Sleeping Giant mill, the closed Sleeping Giant mine and a number of nearby exploration projects, all located in the Abitibi region of Quebec. Please refer to note 4 (discontinued operations and assets held for sale) in the Financial Statements for additional information regarding the gold division.



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Summary of Quarterly Results

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

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 39,582	\$ 33,348	\$ 33,213	\$ 47,090	\$ 42,368	\$ 36,193	\$ 40,563	\$ 41,580
Production costs, net of mine restoration costs	29,890	21,663	25,701	28,941	25,421	25,852	27,948	25,394
Exploration expense	1,360	3,874	2,192	4,840	5,962	2,603	2,764	3,184
Capital expenditures	16,728	26,885	27,805	38,068	41,810	34,088	32,072	37,210
Net income (loss) from continuing operations	(11,746)	(5,324)	(26,268)	(5,357)	(3,739)	(5,908)	(1,903)	147
Net income (loss)	(11,746)	(5,324)	(26,268)	(2,848)	(54,010)	(8,046)	(3,033)	(928)
Cash provided by (used in) operations	4,193	2,022	(2,849)	3,165	37,970	5,174	4,833	7,645
Cash provided by (used in) financing activities	4,289	(2,087)	51,970	17,096	1,926	35,280	46,712	6,201
Cash provided by (used in) investing activities	(16,723)	(26,710)	(27,805)	(37,078)	(41,831)	(33,864)	(31,829)	(37,131)
Net income (loss) per share from continuing operations								
– basic	\$ (0.05)	\$ (0.03)	\$ (0.15)	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.01)	\$ 0.00
– diluted	\$ (0.05)	\$ (0.03)	\$ (0.16)	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.02)	\$ 0.00
Net income per share								
– basic	\$ (0.05)	\$ (0.03)	\$ (0.15)	\$ (0.02)	\$ (0.31)	\$ (0.05)	\$ (0.02)	\$ (0.01)
– diluted	\$ (0.05)	\$ (0.03)	\$ (0.16)	\$ (0.02)	\$ (0.31)	\$ (0.05)	\$ (0.03)	\$ (0.01)
Tonnes milled	544,074	517,157	483,266	503,585	511,226	504,022	528,068	519,944
Palladium sold (ounces)	35,205	27,370	32,620	39,760	44,394	36,218	42,285	38,948

Fourth Quarter 2013:

- Revenue for the fourth quarter of 2013 decreased by \$2.8 million or 7% compared with the same period in 2012 primarily due to the impact of lower precious metal quantities sold as a result of lower grades of mineralized material milled partially offset by a favourable concentrate inventory movement and higher palladium prices realized.
- Payable palladium, platinum and gold sold increased by 9,190, 209 and 239 ounces respectively in the fourth quarter of 2013 compared with the same period in 2012 while sales of nickel and copper decreased. Realized price per ounce increased for palladium, while the prices decreased for platinum, gold, nickel and copper in the fourth quarter of 2013 compared to 2012.
- For the quarter ended December 31, 2013, operating expenses were \$29.9 million compared to \$25.4 million in the prior year period. The \$4.5 million increase in operating expenses was primarily due to \$3.9 million unfavourable movements in inventory levels and increased power consumption of \$0.5 million, partially offset by \$1.5 million of mine restoration costs in the prior year period that did not recur in the current period.
- For the quarter ended December 31, 2013 cash provided by operations prior to changes in non-cash working capital was a source of cash of \$4.5 million, compared to \$1.6 million in the prior year period. The increase of \$2.9 million is mostly due to a non-cash unrealized foreign exchange loss of \$5.0 million and an increase to interest expense and other of \$6.7 million, partially offset by an increase in net loss of \$8.0 million.



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- For the quarter ended December 31, 2013, cash provided by operations was a source of cash of \$4.2 million, compared to \$38.0 million. The decrease of \$33.8 million is mostly due to an increase in net loss of \$8.0 million, movements in accounts receivable of \$26.4 million and accounts payable and accrued liabilities of \$20.5 million, partially offset by an increase in non-cash unrealized foreign exchange loss of \$5.0 million and an increase to interest expense and other of \$6.7 million.
- During the fourth quarter of 2013, financing activities resulted in a source of cash of \$4.3 million consisting of \$21.4 million of senior secured term loan issued, partially offset repayments of the credit facility and the senior secured term loan of \$6.7 million and \$4.5 million respectively.
- For the quarter ended December 31, 2013, investing activities used cash of \$16.7 million (2012—\$41.8 million) primarily due to additions to mining interests of \$16.7 million (2012—\$41.8 million).

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.
- The Roby and open pit mineralized material was largely mined out in the first half of 2013 while the Offset zone production has been ramping up since 2012. The transition away from the mined out areas to the Offset zone entailed processing some lower grade surface stockpile material, which negatively impacted payable metal production in the second and third quarters of 2013.
- Realized quarterly average prices for palladium have ranged from US\$578 to US\$770 per ounce in the last eight quarters while prices for platinum, gold, copper and nickel have generally been declining over the same period. The weakening of the Canadian dollar versus the United States dollar in the last eight quarters has resulted in generally higher revenues.
- Underground mining operations have been transitioning to a shaft based ore handling system from a ramp based one in the most recent quarter. Virtually all of the capital expenditures related to phase one of the Offset zone expansion have been incurred. 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 the ore handling system modification noted above have been completed.
- Capital expenditures have been declining for the last five quarters as the construction activities associated with the construction of the shaft and related infrastructure to process the Offset Zone ore has neared completion.
- Loss from continuing operations in Q2 2013 increased primarily due to: \$15.4 million of financing related costs including an \$11.0 million loss on extinguishment of debt and \$2.3 million of financing costs; \$4.5 million foreign exchange loss on US\$ denominated debt; and higher losses from mining operations.
- Cash provided by operations in Q4 2012 increased primarily due to changes in non-cash working capital.
- Cash from financing activities in Q3 2013 was a use of funds primarily due to a \$7.2 million repayment of the credit facility offset by proceeds of shares issued.
- Cash provided by financing activities in Q2 2013 was high primarily due to \$131.9 million of senior secured term loan issued and \$9.6 million share issuance less \$79.2 million repayment of senior secured notes and \$8.8 million repayment of the credit facility.
- Cash provided by financing activities in Q4 2012 was low primarily due to only \$0.2 million drawdown of the credit facility as a result of borrowing base limits, and \$3.6 million net proceeds on share issuance.

**FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES****Sources and Uses of Cash**

(expressed in thousands of dollars)	2013	2012
Cash provided by operations prior to changes in non-cash working capital	\$ 6,756	\$ 13,419
Changes in non-cash working capital	(225)	42,203
Cash provided by operations	6,531	55,622
Cash provided by financing	71,268	90,119
Cash used in investing	(108,316)	(144,654)
Increase (decrease) in cash from continuing operations	(30,517)	1,087
Net cash provided by (used in) discontinued operations	20,142	(31,854)
Decrease in cash and cash equivalents	\$ (10,375)	\$ (30,767)

Operating Activities

For the year ended December 31, 2013, cash provided by operations prior to changes in non-cash working capital was \$6.8 million, compared to \$13.4 million in the prior year. The decrease of \$6.7 million was primarily due to the \$37.3 million increase in net loss, partially offset by \$11.0 million loss on refinancing, \$1.1 million increase in loss on disposal of equipment, a \$5.8 million non-cash increase in depreciation and amortization, a \$7.0 million non-cash unrealized foreign exchange loss, and \$5.6 million relating to interest expense and other costs.

For the year ended December 31, 2013, changes in non-cash working capital resulted in a use of cash of \$0.2 million, compared to a source of cash of \$42.2 million in the prior year. The decreased source of \$42.4 million was primarily due to movements in accounts receivable of \$7.0 million, and accounts payable and accrued liabilities of \$37.8 million.

Financing Activities and Liquidity

For the year ended December 31, 2013, financing activities resulted in a source of cash of \$71.3 million consisting primarily of \$147.8 million relating to the issuance of senior secured term loan and \$18.9 million related to the issuance of flow-through common shares, partially offset by repayments of senior secured notes of \$79.2 million and finance leases of \$2.9 million, interest payments of \$8.4 million, and \$1.7 million relating to the settlement of palladium warrants.

Investing Activities

For the year ended December 31, 2013, investing activities used cash of \$108.3 million (2012—\$144.7 million) primarily due to additions to mining interests of \$109.5 million (2012—\$145.2 million). In January 2014, the Company announced that 2014 expected capital expenditures would be approximately \$30.0 million. Refer to the capital expenditure section of this MD&A for additional details.



Liquidity and Capital Resources

As at December 31, 2013, the Company had cash and cash equivalents of \$9.8 million compared to \$20.2 million as at December 31, 2012. The decrease 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 and is due July 4, 2014. As at December 31, 2013, the borrowing base calculation limited the credit facility to a maximum of US\$31.2 million and was fully utilized.

The Company has \$11.7 million of finance leases funding equipment for the LDI mine expansion. Please also see the contractual obligations below for additional commitments.

The transition phase of the shaft commissioning and conversion to Offset zone mining resulted in lower production volumes than previously anticipated, which is negatively impacting revenue, resulting in a need for additional cash for working capital purposes.

While the Company has operations that generate revenue, it has not yet achieved consistently profitable operations and incurred a net loss of \$46.2 million for the year ended December 31, 2013. The Company's ability to continue operations and exploration and development activities is dependent upon the Company securing additional financing, and also upon the Company achieving profitable operations. The achievement of this 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. Please also see the going concern section below.

On January 31 and February 10, 2014, the Company closed an aggregate \$32.0 million gross principal amount of convertible debentures of the Company at a price of \$1,000 per debenture, including approximately 16.8 million warrants. The conversion price of the debentures is \$0.635 per share and the exercise price of the warrants is \$0.762, subject to adjustment. The debentures mature on January 31, 2019 and bear interest at an annual rate of 7.5%. Holders may convert their Debentures into common shares of NAP at any time at a conversion rate of approximately 1,575 Common Shares per \$1,000 principal amount of Debentures. Holders converting their debentures will receive all accrued and unpaid interest, as well as interest through to maturity (the "Make Whole Amount"). At the Company's option, interest and Make-Whole Amounts can be paid in common shares.

Subject to disinterested shareholder approval, the warrants will entitle the holders to purchase up to 33.33% of the number of common shares of the Company into which the principal amount of the debentures purchased by the holders are convertible at the initial conversion price at any time before the third anniversary of the date that shareholder approval is received. If shareholder approval is not obtained by March 30, 2014, the warrants will terminate.

In January 2014, the Company announced a proposed second tranche of convertible debentures for up to \$43.0 million of gross principal amount.

As at February 19, 2014, \$20.2 million of convertible debentures had been converted resulting in the issuance of a total of 47.1 million common shares pursuant to the conversion and make whole provisions of the convertible debentures.

On November 29, 2013, the Company amended its US\$130 million senior secured term loan with Brookfield Capital Partners Ltd. ("Brookfield") resulting in an additional advance of US\$21.4 million of cash to support working capital needs and continue funding operating and capital expenditures at its LDI mine. The cash received consists of an additional US\$15 million added to the existing facility and a refund of US\$6.4 million of cash interest previously paid to Brookfield.



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Pursuant to the 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 reverts to cash interest payments. After the Company reverts to cash interest payments, and interest and fees which have been deferred are paid, the interest rate returns to 15% per annum on the principal amount outstanding.

In July 2013, the Company issued approximately 8.6 million of flow-through common shares at a price of \$1.164 per share for net proceeds of approximately \$9.5 million. In June 2013, the Company issued approximately 8.7 million of flow-through common shares at a price of \$1.155 per share for net proceeds of approximately \$9.6 million. The Company was required to spend the aggregate gross proceeds of \$20.0 million on eligible exploration and mine development expenditures, which expenditures must be renounced to investors in 2013. As at December 31, 2013, the full gross proceeds had been spent.

In June 2013, holders of 60,000 of the Company's 72,000 palladium warrants exercised their warrants. In settlement of the warrants, the Company issued approximately 0.6 million common shares at an average price of approximately \$1.11 per share in June and paid approximately \$1.7 million in cash in July. As at February 19, 2014, 12,000 palladium warrants remained outstanding.

In June 2013, the Company completed a US\$130 million secured term loan financing that bears interest at 15% per annum and is due June 7, 2017. A portion of the proceeds from the term loan were used to repay existing senior indebtedness. The loan is secured by first priority security on the fixed assets and second priority security on accounts receivable and inventory. The Company 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 typical of this type of facility including senior debt to EBITDA ratios, minimum tangible net worth requirements and capital expenditure limits.

In June 2013, the Company extended its US\$60 million revolving operating line of credit by an additional year to July 4, 2014. The credit facility is secured by a first priority security on the Company's accounts receivables and inventories and a second priority security on all other assets.

In November 2012, the Company issued 2.4 million flow-through common shares at a price of \$1.65 per share for net proceeds of \$3.6 million. The Company was required to spend the gross proceeds of \$4.0 million on eligible exploration and mine development expenditures, which expenditures were renounced to investors for the 2012 tax year. As at December 31, 2013, the full gross proceeds had been spent.

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. Of the net proceeds of \$40.8 million, \$33.9 million has been allocated to long-term debt with the remaining portion of \$6.9 million allocated to the conversion feature and recorded in equity.

On April 30, 2012, the Company issued 11.3 million flow-through common shares at a price of \$3.10 per share for net proceeds of \$32.8 million. The Company was required to spend the gross proceeds of \$35.0 million on eligible exploration and mine development expenditures, which expenditures were renounced to investors for the 2012 tax year. As at December 31, 2013, the full gross proceeds had been spent.

During the second quarter of 2012, LDI signed a three-year smelting and refining contract for the majority of the mine's concentrate. This new contract has higher smelting and refining charges from the previous contract, but has a shorter payment period, which has enabled the Company to reduce its investment in working capital.



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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. At December 31, 2013, the Company was in violation of certain covenants of its senior secured term loan and credit facility for which waivers were not obtained from the lenders until subsequent to the year-end reporting date.

On January 28, 2014, the Company obtained waivers from both lenders regarding the secured term loan and credit facility event of default and current ratio covenant violations, and the event of default has been cured.

Contractual Obligations

Contractual obligations are comprised as follows:

As at December 31, 2013 (\$000s)	Payments Due by Period			
	Total	1-3 Years	3-5 Years	5+ Years
Finance lease obligations	\$11,732	\$ 8,509	\$ 3,223	\$ —
Operating leases	4,448	3,931	517	—
Purchase obligations	951	951	—	—
	<u>\$17,131</u>	<u>\$13,391</u>	<u>\$ 3,740</u>	<u>\$ —</u>

In addition to the above, the Company also has asset retirement obligations at December 31, 2013 in the amount of \$13.6 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 \$14.1 million as financial surety for these future outlays. As a result, no funding is required prior to or upon closure of these properties.

Contingencies and Commitments

Please refer to notes 18 and 21 of the Company's Financial Statements.

Related Party Transactions

There were no related party transactions for the period ended December 31, 2013.

OUTSTANDING SHARE DATA

As of February 19, 2014, there were 244,645,558 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 3,359,221 common shares of the Company at a weighted average exercise price of \$1.91 per share. In conjunction with \$72.0 million of convertible debentures issued in 2011 and repaid in June 2013, a palladium warrant consisting of 0.35 of an ounce of palladium at a strike price of US\$620 per ounce was issued with each \$1,000 convertible debenture representing an aggregate of 25,200 ounces of palladium. As at February 19, 2014, 12,000 palladium warrants were outstanding representing 4,200 ounces. On the exercise of the palladium warrants, in certain circumstances the Company has the option of settling the warrants with either cash or common shares. Assuming a December 31, 2013 exercise date, the Company estimates that the number of common shares which would have been required to settle the remaining 12,000 outstanding palladium warrants representing 4,200 ounces was approximately 0.3 million common shares.



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On January 31 and February 10, 2014, the Company closed an aggregate at \$32.0 million gross principal amount of convertible debentures of the Company at a price of \$1,000 per debenture, including approximately 16.8 million warrants. The conversion price of the debentures is \$0.635 per share and the exercise price of the warrants is \$0.762, subject to adjustment. The debentures mature on January 31, 2019 and bear interest at an annual rate of 7.5%. Subject to disinterested shareholder approval, the warrants will entitle the holders to purchase up to 33.33% of the number of common shares of the Company into which the principal amount of the debentures purchased by the holders are convertible at the initial fixed conversion price at any time before the third anniversary of the date that shareholder approval is received. If shareholder approval is not obtained by March 30, 2014, the warrants will terminate.

As of February 19, 2014, \$20.2 million of the 2014 convertible debentures had been converted into 47,061,224 common shares.

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. Going Concern

The consolidated financial statements have been prepared on a going concern basis which contemplates 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. While the Company has operations that generate revenue, it has suffered losses from continuing operations for the years ended December 31, 2013 and 2012. The Company's ability to continue operations, exploration and development activities in the near term is dependent upon the Company securing additional financing. In January 2014, the Company completed an offering of 7.5% convertible unsecured subordinated debentures for gross aggregate proceeds of \$32 million. However, this financing together with the borrowing availability under the Company's credit facility is insufficient to fund in the near term all of the Company's operating and capital expenditures and other obligations as they become due, and, without additional financing, the Company would be unable to meet its obligations as they come due. The Company does not currently have any committed available financing in place and, while it has been successful at doing so in the past, there is no certainty that the required financing will be available or, if available, on acceptable terms.

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. These loans also include certain other covenants, including limits on liens, material adverse change provisions and cross-default provisions. Other events of default entitle the lenders to demand repayment and, the senior secured term loan provides for the payment of a prepayment fee and penalty interest upon an event of default.

Should the Company be unable to obtain sufficient financing, or if the Company's lenders were to demand repayment of outstanding amounts, the Company would not have sufficient funds to repay its obligations when due, and could cause the Company to seek protection from its creditors, or seek to restructure its obligations.

The Company's ability to continue operations and exploration and development activities is also dependent upon a number of variables including, but not limited to, meeting production targets, metal prices, operational costs, capital expenditures, achieving profitable operations of the LDI mine expansion and meeting future covenant requirements under the Company's credit facility and senior secured term loan.

These conditions have resulted in a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern.



b. Use of estimates

The preparation of the 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.

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.

c. 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.

d. 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 (LDI) and gold (NAP Quebec) 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.

e. 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.



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Until its closure, revenue from the sale of gold-silver doré bars from Sleeping Giant was recognized when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reasonably estimated.

f. *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.

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 1 Presentation of Financial Statements

This standard is amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The amendment is effective for reporting years beginning on or after July 1, 2012. This amendment did not impact the consolidated financial statements of the Company.

IAS 19 Employee Benefits

The standard is amended to reflect significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and provides expanded disclosure requirements. The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment did not impact the consolidated financial statements of the Company.

Scope of a Reporting Entity

The following IFRS standards are introduced and IAS standards amended accordingly, effective for reporting years beginning on or after January 1, 2013. These standards and amendments did not impact the Company's consolidated financial statements:

IFRS 10 Consolidated Financial Statements

This standard replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control.



IFRS 11 Joint Arrangements

This standard replaces IAS 31, Interests in Joint Ventures. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31.

IFRS 12 Disclosures of Interests in Other Entities

This standard sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, Investments in Associates.

IAS 27 Consolidated and Separate Financial Statements

This standard is renamed “Separate Financial Statements” and deals solely with separate financial statements, the guidance for which remains unchanged.

IFRS 13 Fair Value Measurement

The new standard provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The standard is effective for reporting years beginning on or after January 1, 2013. Disclosures required under IFRS 13 for consolidated financial statements have been included in note 16.

IFRIC 20—Stripping Costs in the Production Phase of a Surface Mine

On October 20, 2011, the IASB issued a new interpretation, IFRIC 20, to address accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current ‘stripping activity asset’. The standard also provides guidance for the depreciation or amortization and impairment of such assets.

IFRIC 20 is effective for reporting years beginning on or after January 1, 2013. The adoption of this standard did not have any impact on the consolidated financial statements of the Company.

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2013 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 consolidated financial statements:

IFRS 9 Financial Instruments: Classification and Measurement

In October 2010, the IASB issued IFRS 9 “Financial Instruments” which will replace IAS 39, Financial Instruments: Recognition and Measurement. The replacement standard has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is at fair value through profit or loss. An update to IFRS 9 includes guidance on financial liabilities and derecognition of financial instruments.

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 *Financial Instruments* (2013). The new standard includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This 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. The new mandatory effective date is not yet determined, however early adoption is permitted. The Company is presently evaluating the impact of adopting this additional disclosure.

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. The Company intends to adopt the IAS 32 amendments in its consolidated financial statements for the year commencing January 1, 2014. The Company does not expect the amendments to have a material impact on the 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. The Company is presently evaluating the impact of adopting this additional disclosure.

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. The Company is presently evaluating the impact of adopting this interpretation.

RISKS AND UNCERTAINTIES

In addition to the risks and uncertainties 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 Amended and Restated Prospectus Supplement filed on January 30, 2014, the reader should also consider the following risk factors:

Going Concern Risk – The Company's ability to continue operations and exploration and development activities as a going concern is dependent upon the Company funding working capital and capital expenditure requirements. There can be no assurance that, if the Company requires additional funding, the Company will be able to raise additional capital or obtain sufficient financing or that any such financing would be available in a timely manner or on terms favourable to the Company.

Liquidity Risk – The Company may be exposed to liquidity risk, which is the risk that the Company will not be able to meet its financial obligations as they become due. The Company incurred an adjusted loss of \$13.2 million for the year ended December 31, 2013 and has incurred net losses for each of the eight most recent quarters. While the Company had a working capital deficit of \$174.2 million (\$0.5 million adjusted working capital deficit ⁽¹⁾ excluding the current portion of long-term debt of \$173.7 million) as at December 31, 2013, achievement of its goals is dependent on a number of variables including, but not limited to, metal prices, operational costs, capital expenditures, timely transition to mining by shaft, meeting production targets and profitable operations of the LDI mine. Adverse changes in any of these variables may require the Company to seek additional financing.



Financing Risk – The Company’s ability to secure future financing is dependent on numerous factors, many of which are outside of the Company’s control. Inability or failure to obtain additional capital or generate sufficient cash flows to satisfy its funding requirements could have a material adverse impact on the Company’s financial conditions, operations and ability to grow, including the Company’s ability to repay its credit facility when it becomes due. If the Company is unable to repay its debts as they come due or is in breach of its covenants under its other debt instruments, the lenders would be entitled to enforce the related security agreement by taking possession of the pledged collateral. Alternatively, the Company would have to refinance the debt, which refinancing could be at higher interest rates and may require the Company to comply with more onerous covenants which could restrict its business operations.

¹ *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 26-28.*

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 year ended December 31, 2013, 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. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls were effective as of December 31, 2013.

Internal Control over Financial Reporting

For the year ended December 31, 2013, 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 most recent period ended December 31, 2013 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). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these internal controls over financial reporting were effective as of December 31, 2013.

**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 income, 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

(expressed in thousands of dollars except ounce and per ounce amounts)		
	2013	2012
Production costs including overhead	\$107,458	\$100,802
Smelting, refining and freight costs	13,994	13,679
Royalty expense	6,534	6,720
Operational expenses	127,986	121,201
Less by-product metal revenue	50,146	56,203
	\$ 77,840	\$ 64,998
Divided by ounces of palladium sold	134,955	161,845
Cash cost per ounce (CDN\$)	\$ 577	\$ 401
Average exchange rate (CDN\$1 – US\$)	0.97	1.00
Cash cost per ounce (US\$), net of by-product credits	\$ 560	\$ 401



North American Palladium Ltd.

Adjusted net income

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

Adjusted net income is a Non-IFRS financial measure, which excludes the following from loss: exploration; loss (gain) 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 (gain); loss on extinguishment of debt; loss in investments held for trading; and, financing costs.

(\$000s)	2013	2012
Loss and comprehensive loss for the year	<u>\$(46,186)</u>	<u>\$(66,037)</u>
Exploration	12,266	14,513
(Income) loss from discontinued operations	(2,509)	54,634
Mine restoration costs, net of (insurance recoveries) and retirement payments	(1,263)	4,599
Foreign exchange loss (gain) ¹	7,378	(504)
Loss on extinguishment of debt	11,035	—
Financing costs	3,728	—
Loss on investments held	2,337	—
Adjusted net income (loss)	<u>\$(13,214)</u>	<u>\$ 7,205</u>

¹ Foreign exchange loss (gain) was included in adjustments in 2013 due to the USD-denominated senior secured term loan financing in 2013.

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; depreciation and amortization; exploration; loss (income) from discontinued operations; 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)	2013	2012
Loss and comprehensive loss from continuing operations for the year	<u>\$(48,695)</u>	<u>\$(11,403)</u>
Income and mining tax recovery	(2,157)	—
Interest expense and other costs, net	8,662	1,083
Loss on extinguishment of debt	11,035	—
Depreciation and amortization	25,507	19,706
EBITDA	<u>\$ (5,648)</u>	<u>\$ 9,386</u>
Exploration	12,266	14,513
Mine restoration costs, net of (insurance recoveries) and retirement payments	(1,263)	4,599
Inventory pricing adjustment	675	—
Foreign exchange loss (gain) ¹	7,378	(504)
Adjusted EBITDA	<u>\$ 13,408</u>	<u>\$ 27,994</u>

¹ Foreign exchange loss (gain) was included in adjustments in 2013 due to the USD-denominated senior secured term loan financing in 2013.

**Adjusted Net Working Capital and Proforma Condensed Balance Sheet**

This MD&A refers to adjusted net working capital which is not a recognized measure under IFRS. The table below also refers to adjusted current liabilities and adjusted non-current liabilities which are also 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. Adjusted net working capital, adjusted current liabilities and adjusted non-current liabilities are 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.

As at December 31, 2013, the Company had not obtained a waiver from Brookfield regarding a cured covenant breach that occurred prior to year end. Such waivers were received by the Company subsequent to December 31, 2013. Management believes the balance sheet presentation does not reflect the liquidity position of the Company at December 31, 2013. Had the waiver been obtained prior to year end, the Company's proforma condensed consolidated balance sheet and adjusted net working capital (deficit) surplus would have been:

	Proforma As at December 31	As at December 31
(expressed in thousands of dollars)	2013 ⁽¹⁾	2012 ⁽¹⁾
Current assets	\$ 69,556	\$ 127,740
Non-current assets	456,239	343,492
	<u>525,795</u>	<u>471,232</u>
Adjusted current liabilities ⁽²⁾	\$ 70,111	\$ 95,177
Adjusted non-current liabilities ⁽³⁾	233,188	129,155
Shareholders' equity	222,496	246,900
	<u>\$ 525,795</u>	<u>\$ 471,232</u>
Adjusted net working capital (deficit) surplus ⁽⁴⁾	<u>\$ (555)</u>	<u>\$ 32,563</u>

- (1) No non-IFRS adjustments have been made to the December 31, 2012 amounts. They have been provided for comparison purposes only. Other than as noted by the term "adjusted" and footnotes, amounts shown as at December 31, 2013 are IFRS amounts.
- (2) IFRS current liabilities as at December 31, 2013 totaled \$243,767,000. After reducing for the current portion of long-term debt of \$173,656,000, adjusted current liabilities amount to \$70,111,000.
- (3) IFRS non-current liabilities as at December 31, 2013 totaled \$59,532,000. After increasing for the current portion of long-term debt of \$173,656,000, adjusted non-current liabilities amount to \$233,188,000.
- (4) Adjusted net working capital (deficit) surplus is determined by subtracting adjusted current liabilities from current assets.



North American Palladium Ltd.

Management's Responsibility

for Financial Statements

The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Financial statements include certain amounts based on estimates and judgments. When an alternative method exists under IFRS, management has chosen that which it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with IFRS. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

The Company maintains adequate systems of internal accounting and administrative controls. Such systems are designed to provide reasonable assurance that transactions are properly authorized and recorded, the Company's assets are appropriately accounted for and adequately safeguarded and that the financial information is relevant and reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management's discussion and analysis. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, management's discussion and analysis, the external auditors' report, examines the fees and expenses for audit services, and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. KPMG LLP, the external auditors, have full and free access to the Audit Committee.

Toronto, Canada

February 19, 2014

Phil du Toit

CEO

Dave Langille

CFO



North American Palladium Ltd.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of North American Palladium Ltd.

We have audited the accompanying consolidated financial statements of North American Palladium Ltd., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of North American Palladium Ltd. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.



North American Palladium Ltd.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that North American Palladium Ltd.'s ability to continue operations, exploration and development activities in the near term is dependent upon the Company securing additional financing. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that casts substantial doubt about North American Palladium Ltd.'s ability to continue as a going concern.



Chartered Professional Accountants, Licensed Public Accountants
February 19, 2014
Toronto, Canada



North American Palladium Ltd.

Consolidated Balance Sheets
(expressed in thousands of Canadian dollars)

	Notes	December 31 2013	December 31 2012
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 9,793	\$ 20,168
Accounts receivable	5	38,556	53,922
Inventories	6	14,239	15,388
Other assets	7	6,968	8,448
Assets of disposal group classified as held for sale	4	—	29,814
Total Current Assets		69,556	127,740
Non-current Assets			
Mining interests	8	456,239	343,492
Total Non-current Assets		456,239	343,492
Total Assets		\$ 525,795	\$ 471,232
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 48,797	\$ 58,474
Credit facility	5	17,834	15,089
Current portion of obligations under finance leases	11	2,988	3,717
Current portion of long-term debt	13	173,656	—
Provisions	12	—	1,000
Taxes payable		—	874
Current derivative liability	13	492	3,952
Liabilities of disposal group classified as held for sale	4	—	12,071
Total Current Liabilities		243,767	95,177
Non-current Liabilities			
Income taxes payable		1,286	2,352
Asset retirement obligations	9	13,638	15,214
Obligations under finance leases	11	8,744	9,956
Long-term debt	13	35,864	101,633
Total Non-current Liabilities		59,532	129,155
Shareholders' Equity			
Common share capital and purchase warrants	15	798,411	776,632
Stock options and related surplus		9,128	9,125
Equity component of convertible debentures, net of issue costs	13	6,931	6,931
Contributed surplus		8,873	8,873
Deficit		(600,847)	(554,661)
Total Shareholders' Equity		222,496	246,900
Total Liabilities and Shareholders' Equity		\$ 525,795	\$ 471,232

Nature of operations and going concern – Note 1
Commitments and contingencies – Notes 18 and 21
Subsequent events – Note 25

See accompanying notes to the consolidated financial statements

On Behalf of the Board of Directors

Robert J. Quinn, Director

Steven R. Berlin, Director



North American Palladium Ltd.

**Consolidated Statements of Operations and
Comprehensive Loss**

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

	Notes	2013	2012
	19	\$ 153,233	\$ 160,704
Revenue			
Mining operating expenses			
Production costs		107,458	100,802
Smelting, refining and freight costs		13,994	13,679
Royalty expense		6,534	6,720
Depreciation and amortization		25,507	19,706
Inventory pricing adjustment	6	675	—
Loss on disposal of equipment		1,118	293
Other		(1,263)	3,813
Total mining operating expenses		154,023	145,013
Income (loss) from mining operations		(790)	15,691
Other expenses			
Exploration		12,266	14,513
General and administration		10,721	12,002
Interest and other income	20	(1,969)	(3,598)
Interest expense and other costs	20	10,631	4,681
Loss on extinguishment of long-term debt	13	11,035	—
Foreign exchange loss (gain)		7,378	(504)
Total other expenses		50,062	27,094
Loss from continuing operations before taxes		(50,852)	(11,403)
Income and mining tax recovery	22	2,157	—
Loss and comprehensive loss from continuing operations for the year		\$ (48,695)	\$ (11,403)
Income (loss) and comprehensive income (loss) from discontinued operations for the year	4	2,509	(54,634)
Loss and comprehensive loss for the year		\$ (46,186)	\$ (66,037)
Loss per share			
Basic		\$ (0.25)	\$ (0.39)
Diluted	15(e)	\$ (0.25)	\$ (0.39)
Loss from continuing operations per share			
Basic		\$ (0.26)	\$ (0.07)
Diluted		\$ (0.26)	\$ (0.07)
Income (loss) from discontinued operations per share			
Basic		\$ 0.01	\$ (0.32)
Diluted		\$ 0.01	\$ (0.32)
Weighted average number of shares outstanding			
Basic	15(e)	187,150,369	170,960,774
Diluted	15(e)	187,176,329	170,983,774

See accompanying notes to the consolidated financial statements



North American Palladium Ltd.

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

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Cash provided by (used in)			
Operations			
Loss from continuing operations for the year		\$ (48,695)	\$ (11,403)
Operating items not involving cash			
Depreciation and amortization		25,507	19,706
Inventory pricing adjustment	6	675	—
Accretion expense	20	3,550	3,258
Loss on extinguishment of long-term debt		11,035	—
Share-based compensation and employee benefits	15(g)	1,425	2,277
Unrealized foreign exchange loss		7,006	—
Loss on disposal of equipment		1,118	—
Interest expense and other		5,135	(419)
		<u>6,756</u>	<u>13,419</u>
Changes in non-cash working capital	23	(225)	42,203
		<u>6,531</u>	<u>55,622</u>
Financing Activities			
Issuance of common shares, net of issue costs	15(c)	18,936	36,404
Issuance of convertible debentures, net of issue costs	13	—	40,804
Credit facility	5	197	15,287
Repayment of senior secured notes	13	(79,200)	—
Settlement of palladium warrants	13	(1,747)	—
Net proceeds of senior secured term loan	13	147,840	—
Finance lease facility	11	—	11,239
Repayment of obligations under finance leases	11	(2,905)	(4,749)
Interest paid		(8,368)	(9,686)
Other financing recoveries (costs)		(3,485)	820
		<u>71,268</u>	<u>90,119</u>
Investing Activities			
Additions to mining interests, net	8	(109,486)	(145,180)
Proceeds on disposal of mining interests, net		1,170	526
		<u>(108,316)</u>	<u>(144,654)</u>
Increase (decrease) in cash from continuing operations		(30,517)	1,087
Net cash provided by (used in) discontinued operations	4	20,142	(31,854)
Decrease in cash		(10,375)	(30,767)
Cash and cash equivalents, beginning of year		20,168	50,935
Cash and cash equivalents, end of year		<u>\$ 9,793</u>	<u>\$ 20,168</u>
Cash and cash equivalents consisting of:			
Cash		\$ 9,793	\$ 20,168
Short-term investments	3	—	—
		<u>\$ 9,793</u>	<u>\$ 20,168</u>
Foreign exchange included in cash balance		<u>\$ 258</u>	<u>\$ (2)</u>

See accompanying notes to the consolidated financial statements



North American Palladium Ltd.

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

					Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
	Notes	Number of shares	Capital stock	Stock options				
Balance, January 1, 2012	15	162,851,432	\$740,888	\$7,859	\$ —	\$ 8,873	\$(488,624)	\$ 268,996
Common shares issued:								
Private placement of flow-through shares, net of issue costs	15(c)	13,725,000	36,405	—	—	—	—	36,405
Premium on issuance of flow-through shares		—	(1,901)	—	—	—	—	(1,901)
Convertible debentures:								
Equity component of convertible debentures, net of issue costs	13	—	—	—	6,931	—	—	6,931
Stock based compensation:								
Stock-based compensation	15(b)	551,401	1,240	1,266	—	—	—	2,506
Net loss and comprehensive loss for the year ended December 31, 2012		—	—	—	—	—	(66,037)	(66,037)
Balance, December 31, 2012		<u>177,127,833</u>	<u>\$776,632</u>	<u>\$9,125</u>	<u>\$ 6,931</u>	<u>\$ 8,873</u>	<u>\$(554,661)</u>	<u>\$ 246,900</u>
Common shares issued:								
Settlement of obligation relating to production targets	12	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	15(c)	17,258,337	18,936	—	—	—	—	18,936
Premium on issuance of flow-through shares		—	(517)	—	—	—	—	(517)
Warrants:								
Palladium warrants exercised	13	574,738	638	—	—	—	—	638
Stock based compensation:								
Stock-based compensation	15(b)	1,235,996	1,422	3	—	—	—	1,425
Net loss and comprehensive loss for the year ended December 31, 2013		—	—	—	—	—	(46,186)	(46,186)
Balance, December 31, 2013		<u>197,109,924</u>	<u>\$798,411</u>	<u>\$9,128</u>	<u>\$ 6,931</u>	<u>\$ 8,873</u>	<u>\$(600,847)</u>	<u>\$ 222,496</u>

See accompanying notes to the consolidated financial statements



North American Palladium Ltd.

Notes to the Consolidated Financial Statements

(expressed in thousands of Canadian dollars, except per share amounts and metal prices)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 Îles 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”), consisting of the Vezza gold mine and Sleeping Giant mill located north of Val D’or, Quebec. At December 31, 2012, the Company was committed to a plan to market and sell its gold division assets (“Disposal Group”) through the sale of the shares of its wholly-owned subsidiary 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 consolidated financial statements for the Company as at December 31, 2013 and for the year ended December 31, 2012, include the Company and its significant subsidiaries (collectively referred to as the “Company”).

The consolidated financial statements have been prepared on a going concern basis which contemplates 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. While the Company has operations that generate revenue, it has suffered losses from continuing operations for the years ended December 31, 2013 and 2012. The Company’s ability to continue operations, exploration and development activities in the near term is dependent upon the Company securing additional financing. In January 2014, the Company completed an offering of 7.5% convertible unsecured subordinated debentures for gross aggregate proceeds of \$32 million (note 25). However, this financing together with the borrowing availability under the Company’s credit facility (note 5), is insufficient to fund in the near term all of the Company’s operating and capital expenditures and other obligations as they become due, and, without additional financing the Company would be unable to meet its obligations as they become due. The Company does not currently have any committed available financing in place and, while it has been successful at doing so in the past, there is no certainty that the required financing will be available or, if available, on acceptable terms.

The Company’s senior secured term loan (note 13) and credit facility (note 5) contain several financial covenants, which, if not met would result in an event of default. These loans also include certain other covenants, including limits on liens, material adverse change provisions and cross-default provisions. Certain events of default result in these loans becoming immediately due. Other events of default entitle the lender to demand repayment and the senior secured term loan provides for the payment of a prepayment fee and penalty interest upon an event of default.

Should the Company be unable to obtain sufficient financing, or if the Company’s lenders were to demand repayment of outstanding amounts, the Company would not have sufficient funds to repay its obligations when due, and could cause the Company to seek protection from its creditors, or seek to restructure its obligations.

The Company’s ability to continue operations and exploration and development activities is also dependent upon a number of variables including, but not limited to, meeting production targets, metal prices, operational costs, capital expenditures, achieving profitable operations of the LDI mine expansion and meeting future covenant requirements under the Company’s credit facility and senior secured term loan.



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These conditions have resulted in a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of Compliance

These 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 1, Presentation of Financial Statements.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 19, 2014.

Basis of Measurement

These 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.

Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's and each of its subsidiaries' functional currency. All financial information is expressed in thousands of Canadian dollars, except share and per share amounts.

Use of Judgments and Estimates

The preparation of the 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 consolidated 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.

(a) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 1 – Ability to continue as a going concern

Note 9 – Asset retirement obligations and reclamation deposits



(b) Key estimates and assumptions

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 they are determined and in any future periods affected.

Because the economic assumptions used to estimate reserves change from period to period and 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:

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 5 – Revenue from metal sales

Note 21 – Contingencies

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by all Company's entities for all periods presented in these consolidated financial statements, unless otherwise indicated.

Basis of Consolidation

These consolidated financial statements include the accounts of NAP and its wholly-owned subsidiaries.

(a) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those directly associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.



(b) Subsidiaries

Subsidiaries are entities controlled by NAP. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(c) Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealized income and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

Foreign Currency Translations

The reporting and functional currency of the Company and its subsidiaries is the Canadian dollar. Accordingly, the Company translates monetary assets and liabilities denominated in foreign currency at the rate of exchange prevailing at the consolidated balance sheet dates, non-monetary assets and liabilities denominated in foreign currency at the rate in effect at the date the transaction occurred and revenues and expenses denominated in foreign currency at the exchange rate in effect during the applicable accounting period. All resulting foreign exchange gains and losses are recorded in the Consolidated Statements of Operations and Comprehensive Loss.

Financial Instruments

(a) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are measured on initial recognition at fair value plus, in the case of instruments other than those classified as “fair value through profit and loss”, directly attributable transaction costs.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. These financial instruments are measured at fair value, and changes therein are recognized in the Consolidated Statements of Operations and Comprehensive Loss. The Company’s accounts receivable from the sale of palladium and by-product metals from the LDI mine primarily represent the material financial instruments which have been recorded at fair value through profit or loss (see note 5).

Financial assets classified as loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method, less any impairment losses. The Company’s loan and receivables are included in other assets (refer to note 7). Cash and cash equivalents are stated at fair value and include cash on account less outstanding cheques, demand deposits and short-term guaranteed investments with original maturities of three months or less.

(b) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: long-term debt, finance leases, loans and borrowings, bank overdrafts, credit facilities, and trade and other payables.



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Such financial liabilities are designated initially at fair value through profit or loss, and recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are designated at amortized cost and are measured at amortized cost using the effective interest method.

(c) **Derivative financial instruments**

The Company holds derivative financial instruments to minimize its foreign currency and market price exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value and any associated transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

Inventories

Concentrate, crushed and broken ore stockpiles, and gold inventory are valued at the lower of average production cost (including an allocation of the depreciation of production related assets) and net realizable value. Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing. The amount of stockpiled ore that is not expected to be processed within one year, if any, is shown as a long-term asset. Supplies inventory is valued at the lower of average cost and net realizable value.

Gold inventory relating to discontinued operations was comprised of unprocessed ore either in stockpiles or bins, unrecovered gold in either carbon or solution within the milling circuit, and gold-silver doré bars produced but not sold as at the reporting date.

Mining Interests

(a) **Recognition and measurement**

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Where funds used to finance a major project form part of general borrowings, the Company capitalizes interest on those borrowings proportionate to the project funds used.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items or major components of property, plant and equipment.

Spare parts and servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the Company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.



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Exploration costs relating to properties are charged to earnings in the year in which they are incurred. When it is determined that a mining property can be economically developed as a result of reserve potential and subsequent exploration, expenditures are capitalized. Determination as to reserve potential is based on the results of studies, which indicate whether production from a property is economically feasible. Upon commencement of commercial production of a development project these costs are amortized using the unit-of-production method over the proven and probable reserves. Capitalized exploration costs, net of salvage values, relating to a property that is later abandoned or considered uneconomic for the foreseeable future, are written off in the period the decision is made. No amortization is provided in respect of mine development expenditures until commencement of commercial production. Any production revenue earned prior to commercial production, net of related costs, is offset against the development costs.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within mining operating expenses.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized at the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(c) Depreciation and amortization

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.

Discontinued operations and assets held for sale

A non-current asset (or disposal group) is reclassified as held for sale and reclassified to current assets if the Company expects that its carrying value will be recovered principally through a sale transaction and not through its continued use provided that the asset (or disposal group) is available for immediate sale in its present condition and realization of its sale is highly probable. A high probability of sale is considered to exist when the Company is committed to a plan to sell the asset (or disposal group), has undertaken an active program to actively market the asset (or disposal group) and



locate a buyer at a price reasonable in relation to fair value of the asset (or disposal group), and expects the sale process to be concluded within one year following the date of reclassification. The assets and liabilities of any subsidiary for which the Company is committed to sell and for which loss of control of the subsidiary is expected to occur are also reclassified as held for sale.

Any component of the Company which, while in use, represented one or more cash-generating units (“CGUs”) of the Company, has been disposed of or classified as held for sale, and represents a major line of business or geographical area of operations or is part of a single plan to dispose of such a business or operation or is otherwise a subsidiary acquired exclusively for resale is classified as a discontinued operation. The assets, liabilities, comprehensive income, and cash flows relating to a discontinued operation of the Company are segregated and reported separately from the continuing operations of the Company in the period of reclassification without restatement or re-presentation of comparative periods prior to the reporting period in which the reclassification occurs.

Impairment

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 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 CGU 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.

Mining Interests—Open Pit Mining Costs

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping. Stripping costs generate a future economic benefit by providing (i) access to ore to be mined in the future; (ii) increases the fair value of the mine (or pit) as access to future mineral reserves becomes less costly; and (iii) increases the productive capacity or extends the productive life of the mine (or pit). For production phase stripping costs that are expected to generate a future economic benefit, the current period stripping costs are capitalized as open pit mine development costs.

Stripping costs incurred during the production stage of a pit are accounted for as costs of the inventory produced during the period that the stripping costs were incurred, unless these costs are expected to provide a future economic benefit.



Capitalized open pit mine development costs are depreciated once the open pit has entered production and the future economic benefit is being derived. Capitalized open pit mine development costs are depreciated using the unit of production method over the life of the ore body to which accessibility has been improved by the stripping activity.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Compensation Agreements

Share-based payment transactions

The grant date fair value of equity-classified share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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 restricted share units. Each restricted share unit 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 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.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(a) 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.

(b) Production Obligations

A provision for an obligation based on achieving specific production targets is recognized when the Company, based on estimates of recoverable minerals and planned production in the current mine plan for each property, determines the production target expected to be achieved.

Revenue and Accounts Receivable

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 contracts provide 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 is 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 included in revenues on the Consolidated Statements of Operations and Comprehensive Loss and disclosed in the notes to the consolidated financial statements.

Interest expense and other costs and other income

Other income is comprised of interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, gains on the renouncement of flow-through expenditures, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Interest expense and other costs are comprised of interest expense on borrowings, accretion expense, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, losses on hedging instruments that are recognized in profit or loss, and changes in the fair value of the palladium warrants. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.



Income and mining taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- (i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (ii) temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- (iii) temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income or mining taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share ("EPS") is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the reporting period.

Diluted EPS is computed using the treasury stock method whereby the weighted average number of shares outstanding is increased to include additional common shares from the assumed exercise of stock options, convertible debentures, palladium warrants and common share purchase warrants, if dilutive. The number of additional common shares is calculated by assuming that outstanding equity instruments were exercised and that proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. These common equivalent shares are not included in the calculation of the weighted average number of shares outstanding for diluted loss per common share when the effect would be anti-dilutive.

For convertible financial instruments classified as debt, the consolidated comprehensive net income (loss) is adjusted to reflect the profit or loss which would have been reported in the period if the debt instrument had been converted immediately at the beginning of the period. These adjustments to profit or loss and the equivalent shares realizable on conversion are not included in the diluted earnings per share calculation when the effect would be anti-dilutive.

Flow-Through Shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the closing market price of the Company's common shares is allocated to liabilities.



Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and deferred tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. The premium liability is reduced pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction to the premium is recognized through profit or loss as other income.

Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's executive team to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the executive team include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and deferred tax assets and liabilities.

Segment capital expenditures are the total costs incurred during the period to acquire property, plant and equipment, and goodwill.

Adoption of New Accounting Standards

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

IAS 1 Presentation of Financial Statements

This standard is amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The amendment is effective for reporting years beginning on or after July 1, 2012. This amendment did not impact the consolidated financial statements of the Company.

IAS 19 Employee Benefits

The standard is amended to reflect significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and provides expanded disclosure requirements. The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment did not impact the consolidated financial statements of the Company.

Scope of a Reporting Entity

The following IFRS standards are introduced and IAS standards amended accordingly, effective for reporting years beginning on or after January 1, 2013. These standards and amendments did not impact the Company's consolidated financial statements:

IFRS 10 Consolidated Financial Statements

This standard replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control.

IFRS 11 Joint Arrangements

This standard replaces IAS 31, Interests in Joint Ventures. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31.



IFRS 12 Disclosures of Interests in Other Entities

This standard sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, Investments in Associates.

IAS 27 Consolidated and Separate Financial Statements

This standard is renamed “Separate Financial Statements” and deals solely with separate financial statements, the guidance for which remains unchanged.

IFRS 13 Fair Value Measurement

The new standard provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The standard is effective for reporting years beginning on or after January 1, 2013. Disclosures required under IFRS 13 for consolidated financial statements have been included in note 16.

IFRIC 20—Stripping Costs in the Production Phase of a Surface Mine

On October 20, 2011, the IASB issued a new interpretation, IFRIC 20, to address accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current ‘stripping activity asset’. The standard also provides guidance for the depreciation or amortization and impairment of such assets.

IFRIC 20 is effective for reporting years beginning on or after January 1, 2013. The adoption of this standard did not have any impact on the consolidated financial statements of the Company.

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2013 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 consolidated financial statements:

IFRS 9 Financial Instruments: Classification and Measurement

In October 2010, the IASB issued IFRS 9 “Financial Instruments” which will replace IAS 39, Financial Instruments: Recognition and Measurement. The replacement standard has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is at fair value through profit or loss. An update to IFRS 9 includes guidance on financial liabilities and derecognition of financial instruments.

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 *Financial Instruments* (2013). The new standard includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This 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. The new mandatory effective date is not yet determined, however early adoption is permitted. The Company is presently evaluating the impact of adopting this additional disclosure.

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. The Company intends to adopt the IAS 32 amendments in its consolidated financial statements for the year commencing January 1, 2014. The Company does not expect the amendments to have a material impact on the 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. The Company is presently evaluating the impact of adopting this additional disclosure.

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. The Company is presently evaluating the impact of adopting this interpretation.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

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 consolidated financial statements to segregate the gold division as discontinued operations and related financial assets and liabilities held for sale from those balances relating to the Company's continuing operations as at December 31, 2012 and for the period to March 22, 2013.

Assets and liabilities held for sale

The carrying values of the major classes of assets and liabilities included as part of NAP Quebec on the consolidated balance sheet were reclassified as assets and liabilities of a disposal group classified as held for sale. As at the disposal date of March 22, 2013 and December 31, 2012 the balances reported consisted of the following:



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	At March 22 2013	At December 31 2012
Assets of a disposal group classified as held for sale		
Cash and cash equivalents	\$ 1,084	\$ 553
Taxes receivable	5,028	4,522
Inventories	4,007	7,257
Other current assets	1,685	770
Mining Interests	20,563	16,712
	<u>\$ 32,367</u>	<u>\$ 29,814</u>
Liabilities of a disposal group classified as held for sale		
Accounts payable and accrued liabilities	\$ 7,005	\$ 5,908
Obligations under finance leases	341	58
Asset retirement obligation	6,154	6,105
	<u>\$ 13,500</u>	<u>\$ 12,071</u>
Proceeds on disposal, net		
Cash	\$ 18,000	\$ —
Equity-settled – note 7 ¹	1,410	—
Receivable inventory amounts	1,801	—
Transaction costs related to sale	(815)	—
	<u>\$ 20,396</u>	<u>\$ —</u>
Gain on disposal of gold division	<u>\$ 1,529</u>	<u>\$ —</u>

¹ Maudore Minerals Ltd. issued 1.5 million of its common shares (“MAO” on the TSXV) as consideration towards the purchase price. See note 7.

In addition to the recognized proceeds, the sale agreement also includes a provision for future settlement of amounts relating to a portion of the gold contained in the liners at the Sleeping Giant mill. The valuation of the settlement amount is contingent upon future determination of gold content, pricing, and foreign exchange at the time the liners are changed. As a result, neither the contingent asset nor any estimate of income related to this contract provision has been reflected in the consolidated financial statements. However, in the event that the liners have not been changed on or before May 22, 2014, the parties have agreed upon a settlement of \$1.0 million.

On May 22, 2013, in accordance with contractual terms, the Company elected to issue 203,800 common shares for the settlement of \$0.3 million of transaction costs related to the sale of the gold division.

Gold assets impairment charge

At December 31, 2012, the Company tested the gold division for impairment using the fair value of the expected purchase consideration less cost to sell as the recoverable amount. In performing the impairment test, the Company concluded that the recoverable amount of the gold division was lower than the carrying value. As a result, the Company has recognized an impairment loss of \$56.0 million for the year ended December 31, 2012. Refer to note 8 for details.



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Net loss from discontinued operations

Loss and comprehensive loss related to NAP Quebec have been segregated from continuing operations. Loss from discontinued operations consists of the following:

	Note	2013	2012
Revenue		\$ 225	\$ 3,004
Mining operating expenses			
Production costs (recovery)		(292)	2,153
Smelting, refining and freight costs		—	16
Depreciation and amortization		10	199
Gold assets impairment charge		—	56,023
Gain on disposal of equipment		—	(435)
Gold mine closure, care and maintenance costs		—	1,463
Total mining operating expenses		(282)	59,419
Income (loss) from mining operations		507	(56,415)
Other expenses			
Exploration		151	2,768
General and administration		(34)	62
Other income		(18)	(37)
Interest expense and other costs		24	130
Total other expenses		123	2,923
Income (loss) before taxes		384	(59,338)
Income and mining tax recovery	22	596	4,704
Income (loss) and comprehensive income (loss) for the period before disposal		\$ 980	\$(54,634)
Gain on disposal of gold division		1,529	—
Income (loss) and comprehensive income (loss) for the year		\$2,509	\$(54,634)

Cash flows from discontinued operations

Cash flows related to NAP Quebec have been segregated from continuing operations. Net cash flows provided by (used in) discontinued operations consist of the following:

	2013	2012
Cash flow provided by (used in):		
Operations	\$ 6,133	\$ (7,813)
Financing	301	(160)
Investing	14,239	(23,399)
Net cash provided by (used in) discontinued operations	\$20,673	\$(31,372)
Opening cash held by discontinued operations	553	71
Closing cash held by discontinued operations	(1,084)	(553)
Net change in cash attributable to discontinued operations	\$20,142	\$(31,854)



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5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	At December 31 2013	At December 31 2012
Accounts receivable	\$ 38,364	\$ 53,922
Unrealized gain on financial contracts ¹	192	—
Accounts receivable	<u>\$ 38,556</u>	<u>\$ 53,922</u>

¹ As at December 31, 2013, a total of 31,000 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 \$768 per ounce of palladium (December 31, 2012 – 55,000 ounces of past palladium production at an average price of \$640 per ounce). Refer to note 10.

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 December 31, 2013 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 two customers at December 31, 2013 (December 31, 2012 – three 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 16.

First priority security of 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 4, 2014, 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 \$60 million and an amount determined by a borrowing base calculation. At December 31, 2013, \$31.2 million was borrowed under the facility. 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 (note 25). 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 December 31, 2013, an event of default had occurred which was subsequently waived (see note 25).

On January 28, 2014, the Company obtained a waiver from the lender regarding the credit facility event of default and current ratio covenant violations, and the event of default has been cured.

Under the credit facility, as of December 31, 2013, the Company utilized US\$14.4 million for letters of credit, primarily for reclamation deposits and has drawn down US\$16.8 million (\$17.8 million). During the year ended December 31, 2013, net US\$1.1 million (\$0.2 million) was drawn down.

6. INVENTORIES

Inventories consist of the following:

	At December 31 2013	At December 31 2012
Supplies ¹	\$ 10,320	\$ 10,633
Concentrate inventory ¹	2,157	1,587
Crushed and broken ore stockpiles ^{1,2}	1,762	3,168
Total	<u>\$ 14,239</u>	<u>\$ 15,388</u>



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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.

At December 31, 2013, supplies inventory is carried at cost while the concentrate inventory and crushed and broken ore stockpile inventories have been written down in the amount of \$631 and \$44 respectively to reflect net realizable value. The aggregate write-down of \$675 has been recorded as an inventory pricing adjustment at December 31, 2013. All inventory amounts are carried at cost for the year ended December 31, 2012.

Supplies inventory of \$27,150 were recognized as an expense during the year ended December 31, 2013 (2012—\$27,604).

7. OTHER ASSETS

Other assets consist of the following:

	At December 31 2013	At December 31 2012
Prepays	\$ 1,305	\$ 1,375
HST receivable	5,505	7,065
Investments ¹	150	—
Other	8	8
	<u>\$ 6,968</u>	<u>\$ 8,448</u>

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. Refer to note 4. For investments in shares of unrelated publicly listed companies, for which such holdings do not constitute a significant influence, the Company has elected to classify the investments as held-for-trading for accounting purposes. Such investments are stated at fair value through profit or loss based on the closing market price of the investee's common stock on the last trading day on or before the Company's reporting date. 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 \$0.2million at December 31, 2013.

**8. MINING INTERESTS**

Mining interests are comprised of the following:

	Plant and equipment	Underground mine development ¹	Equipment under finance lease ²	Mining leases and claims, royalty interest, and development	Exploration properties	Total
Cost or deemed cost						
Balance at January 1, 2012	\$ 51,063	\$ 218,487	\$ 7,384	\$ 14,108	\$ 50,380	\$ 341,422
Additions of physical assets – continuing operations	12,613	131,580	12,504	1,645	—	158,342
Additions of physical assets – discontinued operations	381	68	669	—	26,955	28,073
Revaluation of ARO assets – continuing operations	1,047	—	—	—	—	1,047
Revaluation of ARO assets – discontinued operations	483	—	—	—	—	483
Capitalization of borrowing costs	—	7,999	—	—	—	7,999
Reclassification of costs for finance leases maturing in the year	—	(361)	408	—	—	47
Other reclassifications – discontinued operations	363	—	(60)	—	(293)	10
Disposals – continuing operations	(4,292)	(12,654)	(500)	—	—	(17,446)
Transfer of disposal group classified as held for sale	(13,047)	(45,926)	(909)	(1,000)	(77,042)	(137,924)
Balance at December 31, 2012	\$ 48,611	\$ 299,193	\$ 19,496	\$ 14,753	\$ —	\$ 382,053
Balance at January 1, 2013	\$ 48,611	\$ 299,193	\$ 19,496	\$ 14,753	\$ —	\$ 382,053
Additions of physical assets – continuing operations	21,745	91,402	2,842	—	—	115,989
Revaluation of ARO assets – continuing operations	(1,878)	—	—	—	—	(1,878)
Capitalization of borrowing costs	—	28,595	—	—	—	28,595
Reclassification of costs for finance leases maturing in the year	6,238	(3,311)	(2,927)	—	—	—
Disposals – continuing operations	(895)	—	(3,741)	—	—	(4,636)
Balance at December 31, 2013	\$ 73,821	\$ 415,879	\$ 15,670	\$ 14,753	\$ —	\$ 520,123



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	Plant and equipment	Underground mine development ¹	Equipment under finance lease ²	Mining leases and claims, royalty interest, and development	Exploration properties	Total
Depreciation and impairment losses						
Balance at January 1, 2012	\$ 14,848	\$ 54,584	\$ 1,248	\$ 2,910	\$ 11,673	\$ 85,263
Depreciation for the year – continuing operations	3,404	13,160	2,854	1,064	—	20,482
Depreciation for the year – discontinued operations	160	22	17	—	—	199
Impairment loss – discontinued operations	—	—	—	—	56,023	56,023
Reclassification of costs for finance leases maturing in the year	—	18	(18)	—	—	—
Other reclassifications – discontinued operations	11	—	(60)	60	54	65
Disposals – continuing operations	(251)	(1,936)	(71)	—	—	(2,258)
Transfer of disposal group classified as held for sale	(6,883)	(45,538)	(42)	(1,000)	(67,750)	(121,213)
Balance at December 31, 2012	\$ 11,289	\$ 20,310	\$ 3,928	\$ 3,034	\$ —	\$ 38,561
Balance at January 1, 2013	\$ 11,289	\$ 20,310	\$ 3,928	\$ 3,034	\$ —	\$ 38,561
Depreciation for the year – continuing operations	5,100	17,726	1,924	969	—	25,719
Reclassification of costs for finance leases maturing in the year	1,359	94	(1,453)	—	—	—
Disposals – continuing operations	(108)	—	(288)	—	—	(396)
Balance at December 31, 2013	\$ 17,640	\$ 38,130	\$ 4,111	\$ 4,003	\$ —	\$ 63,884
Carrying amounts						
As at December 31, 2012	\$ 37,322	\$ 278,883	\$ 15,568	\$ 11,719	\$ —	\$ 343,492
As at December 31, 2013	\$ 56,181	\$ 377,749	\$ 11,559	\$ 10,750	\$ —	\$ 456,239

¹ For year ended December 31, 2013, \$19.6 million (2012—\$8.0 million) of interest costs on long-term debt was capitalized to mining interests. During the year, the Company revised its estimated timing of cash flows related to the senior secured term loan, resulting in an additional \$9.0 million of borrowing costs which were capitalized to underground mine development.

² In 2012, the Company established a \$15.0 million lease facility to fund equipment for the LDI mine expansion, of which \$14.1 million (\$9.8 million, net of repayments) had been utilized as at December 31, 2012 for finance leases. The Company entered into this leasing arrangement by way of a sale-leaseback as the equipment had been previously purchased. As the equipment had a net book value of \$10.5 million, the net amount of \$0.8 million has been included in Obligations under finance leases, to be amortized over the 5 year lease term as a credit to Depreciation and amortization. Refer to note 11.

**Gold assets impairment charge**

At December 31, 2012, the Company tested the gold division for impairment using the fair value of the expected purchase consideration less cost to sell as the recoverable amount. In performing the impairment test, the Company concluded that the recoverable amount of the gold division was lower than the carrying value. As a result, the Company has recognized an impairment loss of \$56.0 million for the year ended December 31, 2012. Refer to note 4 for details.

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, 13 and 21.

9. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION DEPOSITS

At December 31, 2013, the changes in asset retirement and the related mine restoration deposit are as follows:

Asset retirement obligation ("ARO"), beginning of year – Continuing Operations	\$15,214
Change in discount rate and estimated closure costs (note 8)	(1,878)
Accretion expense	302
Asset retirement obligation, end of year – continuing operations	<u>\$13,638</u>

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	\$ 13,638	\$ 14,055	\$ 14,055	\$ 18,933

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

Asset retirement obligations were comprised of the following as at December 31, 2012:

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	2020	\$ 15,214	\$ 14,055	\$ 14,055	\$ 17,335
Discontinued Operations:					
Sleeping Giant mill ^{1,2}	2021	\$ 4,982	\$ 1,920	\$ 1,880	\$ 5,803
Sleeping Giant mine ^{1,2}	2013	668	—	—	668
Vezza gold mine ^{1,2}	2021	455	—	—	533
		<u>\$ 6,105</u>	<u>\$ 1,920</u>	<u>\$ 1,880</u>	<u>\$ 7,004</u>

¹ The asset retirement obligations relating to discontinued operations have been reclassified as held for sale at December 31, 2012. Refer to Note 4.

² The mine closure plan requirement and the letter of credit outstanding for the Sleeping Giant mill were inclusive of the requirements for the Sleeping Giant mine and the Vezza gold mine. Including a letter of credit for Shebandowan West project, the total letters of credit outstanding were \$16.3 million.



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

	At December 31 2013	At December 31 2012
Continuing Operations:		
Inflation	2.00%	2.00%
Market risk	5.00%	5.00%
Discount rate	2.75%	1.63%
Discontinued Operations ¹:		
Inflation		2.00%
Market risk		5.00%
Discount rate		1.71%

¹ Comparative data for the key assumptions applied, at December 31, 2012, relating to discontinued operations is provided for information purposes.

The asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements. During the year, the mine closure obligations were revised to reflect the Company's most current closure cost estimates, expected mine lives and market rate assumptions.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	At December 31 2013	At December 31 2012
Accounts payable and accrued liabilities	\$ 48,797	\$ 55,238
Unrealized loss on financial contracts ¹	—	3,236
Accounts payable and accrued liabilities	\$ 48,797	\$ 58,474

¹ As at December 31, 2013, a total of 31,000 ounces of past palladium production that had been delivered and sold to a smelter, was priced using forward prices for the month of final settlement at an average price of \$768 per ounce (December 31, 2012 – 55,000 ounces at an average price of \$640 per ounce). An unrealized gain of \$0.2 million has been recorded in accounts receivable at December 31, 2013. Refer to notes 5 and 16.

11. 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.



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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:

	December 31, 2013			December 31, 2012		
	Future minimum	Present value of minimum		Future minimum	Present value of minimum	
		lease payments	Interest		lease payments	Interest
Less than one year	\$ 3,542	\$ 554	\$ 2,988	\$ 4,374	\$ 657	\$ 3,717
Between one and five years	9,418	674	8,744	10,963	1,007	9,956
	<u>\$12,960</u>	<u>\$1,228</u>	<u>\$11,732</u>	<u>\$15,337</u>	<u>\$1,664</u>	<u>\$13,673</u>
Less current portion			2,988			3,717
			<u>\$ 8,744</u>			<u>\$ 9,956</u>

OPERATING LEASES

The Company, from time to time, enters into leasing arrangements for production and other equipment under a number of operating leases. These leases are generally short-term in nature and subject to cancellation clauses. The Company periodically reviews the nature of these leases to identify if there have been any significant changes to the terms and use of the items under operating lease which would require reclassification as a finance lease. Such changes are considered to indicate a renewal of the lease terms and the reclassification is applied prospectively from the date the revised lease terms become effective.

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

	At December 31 2013	At December 31 2012
Less than one year	\$ 1,892	\$ 2,761
Between one and five years	2,545	3,960
More than five years	11	—
	<u>\$ 4,448</u>	<u>\$ 6,721</u>

The total minimum lease payments recognized in expense during each of the stated year end periods are as follows:

	December 31 2013	December 31 2012
Minimum lease payments expensed	<u>\$ 2,502</u>	<u>\$ 1,483</u>

12. PROVISIONS

In conjunction with the acquisition of Cadiscor Resources Inc. in 2009, the Company assumed an obligation in the amount of \$1.0 million, payable in cash or by the issuance of common shares of the Company, upon achieving a specified production target of 300,000 milled tonnes of ore at its Sleeping Giant mill. Based on production results, the Company achieved the production target in the last quarter of 2012 with settlement occurring on March 8, 2013 through the issuance of 709,220 common shares of the Company.

**13. LONG-TERM DEBT**

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

	At December 31 2013	At December 31 2012
Senior secured term loan	\$ 173,656	\$ —
Senior secured notes	—	67,211
Convertible debentures	35,864	34,422
	\$ 209,520	\$ 101,633
Less current portion	173,656	—
	<u>\$ 35,864</u>	<u>\$ 101,633</u>

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 bears 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 US\$130 million senior secured term loan with Brookfield resulting in an additional advance of US\$21.4 million of cash. The cash received consists of an additional US\$15 million added to the existing facility and a refund of US\$6.4 million of cash interest previously paid to Brookfield.

Pursuant to the 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 reverts to cash interest payments. After the Company reverts 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 December 31, 2013 was 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 and voluntary prepayment conditions. In addition to the breaches of the financial covenants, the loan also includes certain other events of default, including 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. Capitalized borrowing costs, due to the change in estimated timing of cash flows, were increased by \$9.0 million. Refer to note 8.



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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 amendment to the term loan agreement, the amended effective interest rate was adjusted to 18.0%.

The loan amendment also included modifications to existing covenants. At December 31, 2013, the Company was in violation of certain covenants for which a waiver was not obtained from the lender until subsequent to the year-end reporting date. As a result, in accordance with IFRS, the full balance of the loan has been reclassified as a current liability as at December 31, 2013. Refer to the subsequent events disclosures in note 25.

On January 28, 2014, the Company obtained a waiver from the lender regarding the secured term loan event of default covenant violation, and the event of default has been cured.

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. The debt was carried at amortized cost using an effective interest rate of 13% for accounting purposes.

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 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 December 31, 2013 and December 31, 2012, the outstanding palladium warrants and related options were valued using a binomial model which included the following key assumptions:

	December 31 2013	December 31 2012
Market price of palladium	\$ 711	\$ 699
Strike price	\$ 620	\$ 620
Volatility ¹	21%	30%
Risk free rate	1.13%	1.14%
Expected life (in years)	0.76	1.76

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

The value of the derivative liability is \$0.5 million at December 31, 2013 (\$4.0 million – December 31, 2012).



Convertible Debentures

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.

14. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Key management personnel compensation

The Company provides non-cash benefits to directors and executive officers, and contributes to a defined contribution plan on their behalf in addition to regular salaried amounts. In accordance with the terms of the Corporate Stock Option plan, directors and executive officers are entitled to receive stock-based compensation on an annual basis through participation in the Company's group registered retirement savings plan and through incentives issued under the Company's corporate stock option and restricted share unit plans. Refer to note 15.

Summary of key management personnel compensation

	December 31 2013	December 31 2012
Short-term employee benefits	\$ 2,207	\$ 2,412
Post employment benefits	85	93
Share-based payments	1,538	377
	<u>\$ 3,830</u>	<u>\$ 2,882</u>



15. 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. The maximum number of common shares available for grant shall not exceed 3,000,000 common shares of the Company. 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 year ended December 31, 2013, the Company contributed 1,235,996 shares with a fair value of \$1.4 million, which was equal to the market value of the shares on the contribution date (2012 – 551,401 shares with a fair value of \$1.2 million).

(c) Flow-through share offerings

On June 7, 2013, the Company entered into a subscription agreement in respect of a fully subscribed private placement of flow-through shares, for aggregate gross proceeds to the Company of approximately \$20 million, with the intention to issue these shares in two tranches, in each case at a 2% premium to the relevant market price (defined as the simple average of the five daily VWAPs on the TSX for the five trading day period ending on the fourth trading day prior to each tranche's closing date).

On June 19, 2013, the Company completed the first tranche with the issuance of 8,668,009 flow-through common shares at a price of \$1.155 per share for net proceeds of \$9.6 million. The Company was required to spend the gross proceeds of \$10.0 million on eligible exploration and mine development expenditures, which are expected to be renounced to investors for the 2013 tax year. As at December 31, 2013, \$10.0 million was spent.

On July 23, 2013, the Company completed the second tranche with the issuance of 8,590,328 flow-through common shares at a price of \$1.164 per share for net proceeds of \$9.3 million. The Company was required to spend the gross proceeds of \$10.0 million on eligible exploration and mine development expenditures, which are expected to be renounced to investors for the 2013 tax year. As at December 31, 2013, \$10.0 million was spent.

In November 2012, the Company issued 2,425,000 flow-through common shares at a price of \$1.65 per share for net proceeds of \$3.6 million. The Company was required to spend the gross proceeds of \$4.0 million on eligible exploration and mine development expenditures, which expenditures were renounced to investors for the 2012 tax year. As at December 31, 2012, \$1.9 million was spent, and the remaining \$2.1 million was spent by March 31, 2013.

On April 30, 2012, the Company issued 11,300,000 flow-through common shares at a price of \$3.10 per share for net proceeds of \$32.8 million. The Company was required to spend the gross proceeds of \$35.0 million on eligible exploration and mine development expenditures, which expenditures were renounced to investors for the 2012 tax year. As at December 31, 2012, \$35.0 million was spent.

**(d) 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 should the optionee cease 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 available for grant shall not exceed 8,000,000 common shares of the Company. As at December 31, 2013, 6,240,779 options (December 31, 2012 – 5,291,051 options) were available to be granted under the Plan.

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

	December 31, 2013		December 31, 2012	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,207,249	\$ 3.68	3,644,583	\$ 4.43
Granted	2,473,387	\$ 1.07	1,772,000	\$ 2.82
Cancelled/forfeited	(3,286,665)	\$ 3.53	(720,000)	\$ 4.34
Expired	(34,750)	\$ 3.86	(489,334)	\$ 5.14
Outstanding, end of year	3,359,221	\$ 1.91	4,207,249	\$ 3.68
Options exercisable at end of year	822,508	\$ 4.05	2,335,591	\$ 3.88

No options were exercised during the year ended December 31, 2013 or during the year ended December 31, 2012.

The following table summarizes information about the Company’s stock options outstanding at December 31, 2013:

Exercise price range	Average remaining contractual life (years)	Average Options Outstanding at	Options Exercisable at
		December 31, 2013	December 31, 2013
\$1.00-2.50	6.26	2,388,387	5,000
\$2.51-3.00	3.06	220,001	80,005
\$3.01-6.00	3.85	548,333	548,333
\$6.01-8.87	1.93	202,500	189,170
	5.40	3,359,221	822,508



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The fair value of options granted during the year ended December 31, 2013 and the year ended December 31, 2012 have been estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	December 31 2013	December 31 2012
Awards granted	2,473,387	1,772,000
Weighted average fair value of awards	\$ 0.55	\$ 1.24
Pre-vest forfeiture rate	25%	13%
Grant price	\$ 1.07	\$ 2.82
Market price	\$ 1.07	\$ 2.53
Volatility ¹	64%	65%
Risk free rate	1.51%	1.25%
Dividend yield	0%	0%
Expected life (in years)	4.3	4.4

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

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

	December 31 2013	December 31 2012
Net loss available to common shareholders	\$ 46,186	\$ 66,037
Effect of dilutive securities	1,075	1,017
Adjusted net loss available to common shareholders	\$ 47,261	\$ 67,054
Weighted average number of shares outstanding	187,150,369	170,960,774
Effect of dilutive securities	25,960	23,000
Weighted average diluted number of shares outstanding	187,176,329	170,983,774
Diluted net loss per share	\$ 0.25	\$ 0.39

On July 31, 2012, the Company completed an offering of convertible debentures. The calculation of the weighted average number of shares outstanding and the net profit or net loss to common shareholders will be impacted in future periods upon the assumed conversion of the convertible debentures. Refer to note 13.

For the years ended December 31, 2013 and December 31, 2012, the effect of dilutive securities relates to the potential conversion of outstanding palladium warrants. The dilutive effects of the convertible debentures and stock options have not been included in the determination of diluted loss per share because to do so would be anti-dilutive.

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

The Company has a Restricted Share Unit Plan (“RSU”) under which eligible directors, officers and key employees of the Company are entitled to receive awards of restricted share units. Each restricted share unit 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 is administered by the Board of Directors, which will determine after considering recommendations made by the Compensation Committee, the number and timing of restricted share units 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 December 31, 2013, 708,609 (December 31, 2012 – 237,871) restricted share units had been granted and were outstanding at an aggregate value of \$0.5 million (December 31, 2012 – \$0.3 million).

**(g) Summary of Share-based compensation and employee benefits**

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

	Year ended December 31, 2013	Year ended December 31, 2012
Registered retirement savings plan	\$ 1,384	\$ 1,073
Common share stock options	37	1,204
Restricted share units	196	82
	<u>\$ 1,617</u>	<u>\$ 2,359</u>

16. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, currency risk, interest rate risk, commodity price risk and liquidity risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company limits credit risk by entering into business arrangements with high-quality counterparties.

The Company's exposure arises from its cash and cash equivalents, accounts receivable and HST receivable. The Company invests its cash and cash equivalents primarily with major Canadian banks and sells its product to large international companies with strong credit ratings. Historically, the Company has not experienced any losses related to individual customers or HST receivable.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	At December 31 2013	At December 31 2012
Cash and cash equivalents	\$ 9,793	\$ 20,168
Accounts receivable	38,556	53,922
HST receivable	5,505	7,073
	<u>\$ 53,854</u>	<u>\$ 81,163</u>

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency, interest rate, and commodity price risks.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company is exposed to fluctuations in exchange rates due to revenues, certain of its long-term debt and foreign based suppliers being in foreign currencies. The Company's primary exposure is based upon the movements of the US dollar against the Canadian dollar. The Company's foreign exchange risk management includes, from time to time, the use of foreign currency forward contracts to fix exchange rates on certain foreign currency exposures.



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For the Company's foreign exchange transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue, operating costs, and exploration costs on a year-to-year basis. Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than Canadian dollars at the rates of exchange at each balance sheet date, the impact of which is reported as a separate component of revenue or foreign exchange gain or loss in the consolidated statements of operations and comprehensive loss.

The Company is exposed to the following currency risk on cash, accounts receivable, accounts payable and borrowings at December 31, 2013.

	US\$
Cash	\$ 4,055
Accounts receivable	13,564
Accounts payable and accrued liabilities	(3,693)
Current portion of long-term debt	(163,212)
	<u><u>\$ (149,286)</u></u>

A 1% strengthening or weakening of the Canadian dollar against the US dollar, assuming that all other variables remained the same, would have resulted in a \$1.5 million decrease or increase, respectively, in the Company's statement of loss and comprehensive loss for the year ended December 31, 2013.

The Company's revenue is affected by currency exchange rates, such that a weakening in the Canadian dollar relative to the US dollar will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not enter into derivative financial instruments for speculative purposes. The Company does not hold any specific hedging instruments, nor does it hold any short term investments that would be significantly impacted from fluctuations in interest rates. Any interest rate fluctuations realized are expected to be offset by favourable changes in the interest on debt instruments.

A 1% increase or decrease in the interest rate on the Company's credit facility would have not have a significant impact on the Company's statement of loss and comprehensive loss for the year ended December 31, 2013.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices. The Company is particularly exposed to fluctuations in commodity prices from its sale of metals. From time to time the Company may enter into forward commodity sales contracts to hedge the effect on revenues of changes in the price of metals it produces. Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales over the term of the hedging contract.

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. The total of these financial contracts represent 31,000 ounces as at December 31, 2013 (55,000 ounces as at December 31, 2012). These contracts mature from January 2014 to April 2014 (2012—January 2013 through May 2013) at an average forward price of \$768 per ounce (or \$US735 per ounce) (2012—\$640 per ounce (or \$US644 per ounce)). 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 matches 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 December 31, 2013 was a receivable of \$0.2 million included in accounts receivable (December 31, 2012—\$3.2 million liability included in accounts payable and accrued liabilities).



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The Company also has commodity price exposure related to palladium warrants (see note 13).

As at December 31, 2013, the Company's exposure to commodity price is limited to accounts receivable associated with provisional pricing of metal concentrate sales particularly palladium, and to palladium warrants. A 1% strengthening or weakening of the palladium price would have resulted in an approximate \$0.1 million decrease or increase, respectively, in the Company's loss and comprehensive loss for the year ended December 31, 2013.

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 is in the process of attempting to source additional financing in order to meet its cash flow and working capital requirements for 2014, however, the Company does not currently have any committed available financing in place and, while it has been successful at doing so in the past, there is no certainty that the required financing will be available or, if available, on acceptable terms. See note 1.

The table below analyzes the Company's financial liabilities which will be settled into relevant maturity groupings based on the remaining balances at December 31, 2013 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	\$ 48,797	\$ 48,797	\$ —	\$ —
Credit facility	17,834	17,834	—	—
Obligations under finance leases	11,732	2,988	8,744	—
Current derivative liability	492	—	492	—
Long-term debt*	209,520	173,656	35,864	—

* At December 31, 2013, the Company was in violation of certain debt covenants within the secured term loan agreement for which relief was not granted until subsequent to the reporting date. As a result, the full value of the loan has been classified to current liabilities at December 31, 2013. Refer to note 25 for discussion of subsequent events relating to debt covenants.

The Company also has asset retirement obligations in the amount of \$13.6 million that would become payable at the time of the closures of its LDI mine. As the Company issued letters of credit of \$14.1 million related to these obligations, no 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 and an application must be made to receive funds on deposit.

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 are stated at fair value. The carrying value of accounts receivable, other assets, and trade accounts payable and accrued liabilities 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.



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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 warrants issued in connection with the 2011 senior secured note issuance are measured at fair value using a binomial model.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is 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 December 31, 2013 are the senior secured term loan (\$183.5 million), convertible debentures (\$43.0 million) and finance leases (\$8.7 million).

Fair Value Hierarchy

The table below details the assets and liabilities measured at fair value at December 31, 2013:

	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	\$ 9,793	\$ —	\$ —	\$ 9,793
Investments (note 7)	150	—	—	150
Accounts receivable (note 5)	—	38,364	—	38,364
Fair value of financial contracts* (note 5)	—	192	—	192
Financial liabilities				
Fair value of current derivative liability (note 13)	—	(492)	—	(492)
Net carrying value	<u>\$ 9,943</u>	<u>\$ 38,064</u>	<u>\$ —</u>	<u>\$ 48,007</u>

* 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.

17. CAPITAL DISCLOSURE

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as the Company's total shareholders' equity and any outstanding debt. The board of directors does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth.

In order to maintain or adjust the capital structure, the Company may issue new shares, issue new debt or replace existing debt with different characteristics.

18. 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.



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(b) Operating Leases and Other Purchase Obligations

As at December 31, 2013, the Company had outstanding operating lease commitments and other purchase obligations of \$4.4 million and \$1.0 million, respectively (December 31, 2012 – \$6.7 million and \$84.9 million, respectively) the majority of which had maturities of less than five years (see note 11).

(c) Letters of Credit

As at 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 (December 31, 2012—\$17.3 million outstanding letter of credit, consisting of \$16.3 million for various mine closure deposits and \$1.0 million for a regulated energy supplier).

(d) Flow-Through Shares

As at December 31, 2013, the Company had outstanding commitments to spend \$nil on eligible exploration expenditures (December 31, 2012—\$2.1 million).

19. REVENUE FROM METAL SALES

	<u>Total</u>	<u>Palladium</u>	<u>Platinum</u>	<u>Gold</u>	<u>Nickel</u>	<u>Copper</u>	<u>Other Metals</u>
2013							
Year ended December 31							
Revenue – before pricing adjustments ¹	\$152,286	\$101,540	\$15,626	\$15,155	\$10,114	\$9,623	\$ 228
Pricing adjustments:							
Commodities	(28)	1,503	(419)	(727)	(344)	(41)	—
Foreign exchange	975	44	365	301	118	145	2
Revenue – after pricing adjustments	\$153,233	\$103,087	\$15,572	\$14,729	\$ 9,888	\$9,727	\$ 230
2012							
Year ended December 31							
Revenue – before pricing adjustments ¹	\$161,286	\$105,161	\$17,277	\$18,392	\$10,744	\$9,310	\$ 402
Pricing adjustments:							
Commodities	(305)	(693)	739	(3)	(374)	25	1
Foreign exchange	(277)	33	(218)	178	(145)	(119)	(6)
Revenue – after pricing adjustments	\$160,704	\$104,501	\$17,798	\$18,567	\$10,225	\$9,216	\$ 397

¹ Totals for the year ended December 31, 2013 exclude gold and silver revenues amounting to \$225 (2012—\$3,004) relating to the Company's NAP Quebec subsidiary. Revenues for NAP Quebec have been reported separately as part of discontinued operations. Refer to note 4.

During 2013, the Company delivered all of its concentrate to two customers under the terms of the respective agreements (2012 – three 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.

**20. INTEREST EXPENSE & OTHER COSTS AND OTHER INCOME**

	<u>2013</u>	<u>2012</u>
Interest expense & other costs		
Interest on finance leases	\$ 759	\$ 843
Asset retirement obligation accretion	302	262
Accretion expense on long-term debt	3,248	2,996
Loss on investments	2,337	—
Financing costs	3,728	—
Interest expense	257	580
	<u>\$10,631</u>	<u>\$ 4,681</u>
Other income		
Unrealized gain on palladium warrants	\$ (1,075)	\$ (924)
Gain on revaluation of debt	—	(820)
Gain on renouncement of flow-through expenditures	(792)	(1,625)
Interest income	(102)	(229)
	<u>\$ (1,969)</u>	<u>\$ (3,598)</u>
	<u>\$ 8,662</u>	<u>\$ 1,083</u>

21. CONTINGENCIES

From time to time, the Company is involved in litigation, investigations, or proceedings related to claims arising in the ordinary course of business. The Company considers its provisions for outstanding and pending legal claims to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2013 cannot be predicted with certainty. Significant contingencies not disclosed elsewhere in the consolidated financial statements, for which there has been no material change in the year ended December 31, 2013, are as follows:

(a) B.R. Davidson Claim

In 2000, LDI and B.R. Davidson Mining & Development Ltd. (“Davidson”) entered into a construction contract whereby Davidson agreed to construct an expanded tailings management facility at the LDI Mine. LDI declared Davidson to be in default of the contract on February 2, 2001 and made a demand under a performance bond issued by AXA Pacific Insurance Company (“AXA”). Davidson was the principal named in the bond and the indemnitors were Davidson, Atikokan Ready Mix Ltd., Blaine R. Davidson, Bruce R. Davidson and Marlene Davidson. AXA commenced an action against the indemnitors. All of the indemnitors other than Marlene Davidson commenced a third party action against LDI, LDI’s engineers, and LDI’s bond broker. The third party action is for \$10.9 million in the event that the construction contract is enforced or approximately \$3 million in the event the construction contract is not enforced plus other damage claims for between \$10 and \$15 million plus costs and interest. LDI has a counterclaim against Davidson for \$10.7 million in liquidated damages for breach of contract. LDI has approximately \$2.6 million in principal and interest judgments against Davidson related to subtrade liens. A pre-trial was held in January 2013 and the matter has now been set down for trial starting in October 2014. At this stage, a reliable estimate of the outcome of the third party action and counterclaim is not determinable and accordingly the Company has not recorded any provisions related to this action within the consolidated financial statements at December 31, 2013.

**(b) Class Action**

In 2011, the Company became aware that a statement of claim had been filed with the Ontario Superior Court of Justice against the Company and two of its former officers regarding a potential class action lawsuit. The statement of claim sought permission of the court to commence a class action proceeding for alleged misrepresentations in the Company's public disclosure. In 2012, a fresh Statement of Claim was filed increasing the amount of the claim to \$100 million. In December 2012, the plaintiffs filed a motion of record for certification and for leave. The Company has retained legal counsel and intends to vigorously defend the potential claim. At this stage, a reliable estimate of the outcome of the potential action is not determinable and accordingly, the Company has not recorded any associated provisions within the consolidated financial statements at December 31, 2013.

22. INCOME TAXES**Rate Reconciliation**

The provision for income and mining taxes – continuing operations differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of approximately 26.5% (2012 – 26.5%):

	December 31 2013	December 31 2012
Income tax expense (recovery) using statutory income tax rates	\$ (13,476)	\$ (3,022)
Increase (decrease) in taxes resulting from:		
Change in unrecognized temporary differences	19,332	5,223
Statutory permanent differences	(6,077)	(2,202)
Recognition of Ontario Resource Tax Credits	(2,157)	—
Difference in statutory tax rates	221	1
Income and mining tax expense – continuing operations	<u>\$ (2,157)</u>	<u>\$ —</u>

Components of Income tax expense

The details of the Company's income and mining tax expense (recovery) are as follows:

	December 31 2013	December 31 2012
Current income tax expense (recovery):		
Income taxes		
Current period	\$ (730)	\$ —
Adjustments for prior period	(1,427)	—
Deferred income tax expense (recovery):		
Income taxes	—	—
Total	<u>\$ (2,157)</u>	<u>\$ —</u>



North American Palladium Ltd.

Deferred tax liabilities

The following table summarizes the components of deferred income and mining tax:

	December 31 2013	December 31 2012
Deferred tax liabilities, net	\$ —	\$ —

The following table summarizes the movement in deferred tax liabilities:

Balance at the beginning of the year	\$ —	\$(4,264)
Discontinued operations	—	4,264
Balance at the end of the year	\$ —	\$ —

Unrecognized deferred tax assets

Deferred income and mining tax assets from continuing operations have not been recognized in respect of the following items:

	December 31 2013	December 31 2012
Loss carryforwards	\$ 95,417	\$ 75,713
Deductible temporary differences, income taxes	\$ 29,290	\$ 20,382
Deductible temporary differences, mining taxes	\$ 3,745	\$ 2,559

The tax losses not recognized expire as per the amount and years noted below. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits there from.

Income tax attributes

As at December 31, 2013, the Company had the following approximate income tax attributes from continuing operations to carry forward:

	Amount	Expiry Date
Non-capital losses	\$316,490	2015 – 2033
Capital losses	\$107,269	Indefinite
Undepreciated capital cost allowance	\$185,974	Indefinite
Tax basis of mining interests	\$297,774	Indefinite

23. OTHER DISCLOSURES

Statement of Cash flows

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

	2013	2012
Cash provided by (used in):		
Accounts receivable	\$ 15,366	\$22,362
Inventories	936	(2,427)
Other assets	(856)	(1,802)
Accounts payable and accrued liabilities	(13,731)	24,028
Taxes payable	(1,940)	42
	\$ (225)	\$42,203



24. 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 19.

25. SUBSEQUENT EVENTS

Securities offering

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 "Debentures") of NAP at a price of \$1,000 per Debenture, including approximately 16.8 million common share purchase warrants (the "Warrants"). Net proceeds received were \$29.1 million. The conversion price of the Debentures is \$0.635, and the exercise price of the Warrants (the exercise of which remains subject to disinterested shareholder approval) is \$0.762.

The 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, commencing July 31, 2014. The first interest payment on the Debentures will include accrued and unpaid interest for the period from and including January 31, 2014 to, but excluding, July 31, 2014. Holders may convert their Debentures into common shares of NAP at any time at a conversion rate of approximately 1,575 Common Shares per \$1,000 principal amount of Debentures. Holders converting their debentures will receive all accrued and unpaid interest, as well as interest through to maturity (the "Make Whole Amount"). At the Company's option, interest and Make-Whole Amounts can be paid in common shares.

Subject to disinterested shareholder approval, the Warrants will entitle the holders thereof to purchase up to 33.33% of the number of common shares of NAP into which the principal amount of Debentures purchased by the holders are convertible at the initial fixed conversion price (excluding common shares issuable as interest, make-whole amounts or otherwise), at any time before the third anniversary of the date that shareholder approval is received. If shareholder approval is not obtained by March 30, 2014, the warrants will terminate.

If the outstanding debentures and warrants were fully converted, approximately 86.1 million additional common shares of the Company would be issued. As of February 19, 2014, \$20.2 million of the Debentures had been converted into 47,061,224 common shares, representing the conversion and Make-Whole Amount common shares.

Debt covenants

In the fourth quarter of 2013, a construction lien was placed on the LDI mine by a supplier. The Company paid the supplier the amount owed at the time and the lien was removed. However, this resulted in an event of default as at December 31, 2013 under the secured term loan and, as a result of a cross-default, an event of default under the credit facility, and accordingly each lender had the ability to accelerate its loans. The event of default resulted in classification of the secured term loan to current liabilities for year-end reporting purposes which further triggered a violation of a current ratio covenant of its credit facility. No waivers were obtained related to these events of default as at December 31, 2013.

On January 28, 2014, the Company obtained waivers from both lenders regarding the secured term loan and credit facility event of default and current ratio covenant violations, and the event of default has been cured.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of North American Palladium Ltd.

We have audited the accompanying consolidated balance sheets of North American Palladium Ltd. as of December 31, 2013 and December 31, 2012, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of North American Palladium Ltd.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted accounting standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Palladium Ltd. as of December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that North American Palladium Ltd.'s ability to continue operations, exploration and development activities in the near term is dependent upon the Company securing additional financing. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that casts substantial doubt about North American Palladium Ltd.'s ability to continue as a going concern.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), North American Palladium Ltd.'s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 19, 2014 expressed an unqualified opinion on the effectiveness of North American Palladium Ltd.'s internal control over financial reporting.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

Chartered Professional Accountants, Licensed Public Accountants
February 19, 2014
Toronto, Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors of North American Palladium Ltd.

We have audited North American Palladium Ltd.'s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992). North American Palladium Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting in the annual report on Form 40-F of North American Palladium Ltd. for the year ended December 31, 2013. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, North American Palladium Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of North American Palladium Ltd. as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years ended December 31,

2013, and December 31, 2012, and our report dated February 19, 2014 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 19, 2014
Toronto, Canada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of North American Palladium Ltd.

We consent to the inclusion in this annual report on Form 40-F of:

- our Independent Auditors' Report dated February 19, 2014 on the consolidated financial statements of North American Palladium Ltd. comprising the consolidated balance sheets as at December 31, 2013 and December 31, 2012, consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012, and notes comprising a summary of significant accounting policies and other explanatory information;
- our Report of Independent Registered Public Accounting Firm dated February 19, 2014 on the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2013 and December 31, 2012 and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012
- our Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting dated February 19, 2014 on North American Palladium Ltd.'s internal control over financial reporting as of December 31, 2013

each of which is contained in this annual report on Form 40-F of North American Palladium Ltd. for the fiscal year ended December 31, 2013.

We also consent to the incorporation by reference of such reports in the Registration Statements on Form F-10 (File No. 333-185656) and Form S-8 (File No. 333-13766).

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 31, 2014

Consent of Chris Roney

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Chris Roney, P.Geo
Chris Roney, P.Geo.
Consultant

Consent of Dave Peck

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Dave Peck, Ph.D., P.Geo.

Dave Peck, Ph.D., P.Geo.

Peck Geoscience & Exploration Corporation

Consent of Richard Brummer

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Richard Brummer, Ph.D., P.Eng.
Richard Brummer, Ph.D., P.Eng.
President and Principal Geomechanics Engineer
Itasca Consulting Canada Inc.

Consent of David Penna

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ David N. Penna, P.Geo.

David N. Penna, P.Geo.

Principal Geologist

Lac des Iles Mines Ltd.

Consent of Denis Decharte

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Denis Decharte P.Eng.
Denis Decharte, P.Eng.
Resource Modeller
North American Palladium Ltd.

Consent of John Cooney

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ John Cooney, P.Eng.

John Cooney, P.Eng.
Technical Services Manager
Lac des Iles Mines Ltd.

Consent of Cameron McKinnon

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Cameron McKinnon, P.Eng.

Cameron McKinnon, P.Eng.

Metallurgical Engineer

Tetra Tech WEI Inc.

Consent of Philip Bridson

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Philip Bridson, P.Eng.

Philip Bridson, P.Eng.
Senior Mining Engineer
Tetra Tech WEI Inc.

Consent of Wenchang Ni

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ Wenchang Ni, P.Eng.

Wenchang Ni, P.Eng.
Senior Mining Engineer
Tetra Tech WEI Inc.

Consent of William Richard McBride

I consent to the inclusion in this annual report on Form 40-F of North American Palladium Ltd., which is being filed with the United States Securities and Exchange Commission, of references to my name and references to my involvement in the preparation of “Technical Report for Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study for Life of Mine Plan” (effective date of March 21, 2014) included in the 2013 Annual Information Form of North American Palladium Ltd., dated March 31, 2014 (the “**AIF**”).

I also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-13766) and in the Registration Statement on Form F-10 (File No. 333-185656) of the references to my name and the above-mentioned information in the AIF.

Dated this 31st day of March, 2014.

Per: /s/ William Richard McBride, P.Eng.

William Richard McBride, P.Eng.

Senior Mining Engineer

Tetra Tech WEI Inc.

Certifications
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Phil du Toit, certify that:

1. I have reviewed this annual report on Form 40-F of North American Palladium Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2014

/s/ Phil du Toit

By: Phil du Toit

Title: President & Chief Executive Officer

I, David Langille, certify that:

1. I have reviewed this annual report on Form 40-F of North American Palladium Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2014

/s/ David Langille

By: David Langille

Title: Chief Financial Officer

Certification of CEO and CFO
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of North American Palladium Ltd. (the **“Issuer”**) on Form 40-F for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the **“Report”**), Phil du Toit, as Chief Executive Officer of the Issuer, and David Langille, as Chief Financial Officer of the Issuer, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

/s/ Phil du Toit

By: Phil du Toit
Title: President & Chief Executive Officer
Dated: March 31, 2014

/s/ David Langille

By: David Langille
Title: Chief Financial Officer
Dated: March 31, 2014

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Issuer for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.