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# NORTH AMERICAN PALLADIUM LTD

## FORM 40-F

(Annual Report (foreign private issuer))

Filed 03/20/13 for the Period Ending 12/31/12

| | |
|---|---|
| Telephone | 416-360-7590 |
| CIK | 0000887701 |
| Symbol | PAL |
| SIC Code | 1000 - Metal Mining |
| Industry | Gold & Silver |
| Sector | Basic Materials |
| Fiscal Year | 12/31 |

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# 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, 2012** **Commission File Number: 1-15142**

# North American Palladium Ltd.

**(Exact name of Registrant as specified in its charter)**

| **Canada** | **1000** | **Not Applicable** |
|---|---|---|
| **(Province or other Jurisdiction of Incorporation or Organization)** | **(Primary Standard Industrial Classification Code Number)** | **(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 | Name of Each Exchange on Which Registered |
|---|---|
| **Common Shares, No Par Value** | **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 177,127,833 Common Shares outstanding as at December 31, 2012**

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 Interim 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, 2012 and have determined that such disclosure controls and procedures were effective as of December 31, 2012. See "Management's Discussion and Analysis of Operations and Financial Position—Internal Controls—Disclosure Controls and Procedures" included in Exhibit 1.2 to this Annual Report.

## 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. 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, 2012. In making this assessment, the Registrant's management used the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this assessment. 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, 2012 and no material weaknesses were discovered. See "Management's Discussion and Analysis of Operations and Financial Position—Internal Controls—Internal Control over Financial Reporting" included in Exhibit 1.2 to this Annual Report.

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, 2012. 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, 2012 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 in 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, 2012.

### 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 Accountants, the Registrant's external auditors, for the fiscal years ended December 31, 2012 and 2011 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$543,282 and Cdn$556,000, respectively.

*Audit-Related Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2012 and 2011 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$67,000 and Cdn$30,000, respectively. In 2012, these fees were paid for services rendered in connection with French translation services for various documents including quarterly financial statements and Management's Discussion and Analysis. In 2011, these fees were paid for services rendered in connection with the 2011 prospectus filing.

*Tax Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2012 and 2011 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were Cdn$63,812 and Cdn$104,765, respectively. Tax services included preparation of corporate tax returns and review of tax provisions. In 2012, such fees were paid for the preparation of federal/provincial tax returns and other tax compliance and tax advisory services. In 2011, such fees were paid for the preparation of federal/provincial tax returns.

*All Other Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2012 and 2011 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, 2012, all audit and non-audit services performed by KPMG LLP were pre-approved by the audit committee of the Registrant.

**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, C. David A. Comba and Robert J. Quinn. Messrs. Berlin, Van Staveren, Comba and Quinn 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:

| Number | Document |
|---|---|
| 1.1 | Annual Information Form for the year ended December 31, 2012 |
| 1.2 | Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2012 |
| 1.3 | Audited Consolidated Financial Statements for the year ended December 31, 2012, 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, 2012 |
| 23.1 | Consent of KPMG LLP |
| 23.2 | Consent of Tetra Tech WEI Inc. – Todd McCracken, P. Geo. |
| 23.3 | Consent of Tetra Tech WEI Inc. – William Richard McBride, P. Eng. |
| 23.4 | Consent of Tetra Tech WEI Inc. – Phillip Bridson, P. Eng. |
| 23.5 | Consent of Tetra Tech WEI Inc. – Todd Kanhai, P. Eng. |
| 23.6 | Consent of David N. Penna |
| 23.7 | Consent of Kevin Small |
| 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 20, 2013

By: /s/ André J. Douchane
Name: André J. Douchane
Title: Interim Chief Executive Officer

## EXHIBIT INDEX

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**Exhibit 1.1**

North American Palladium Ltd.

**NORTH AMERICAN PALLADIUM LTD.**

**ANNUAL INFORMATION FORM**

For the year ended December 31, 2012

Dated as of March 20, 2013

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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 strategy, plans or future financial or operating performance, such as the Company's (as defined below) expansion plans, project timelines, production plans, projected cash flows or capital expenditures, cost estimates, mining or milling methods, projected exploration results, resource and reserve 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 the Lac des Iles property will be and remain viable operationally and economically;
- that expectations for mill feed head grade, recovery rates and mill performance will be as expected at the Lac des Iles property;
- the plans for mine production, mine development projects including the Lac des Iles mine (the " **LDI Mine** ") expansion, mill production and exploration will proceed as expected and on budget;
- market fundamentals will result in reasonable demand and prices for palladium and by-product metals in the future;
- the Company will not be subject to any environmental disasters, significant regulatory changes or material labour disruptions;
- 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 resources and mineral reserves are appropriate and accurate;
- the Company and its contractors will be able to attract and retain qualified employees; and
- financing for the Company's expansion and production plans will be available on reasonable terms.

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 resources and mineral reserves 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 pursuit of any particular transaction or strategic alternative in connection with the strategic review process being undertaken in respect of the sale of the Company's Quebec-based gold division; 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 expansion 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 credit facility, senior secured notes, 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 ove **r** 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 Annual Information Form are made as at December 31, 2012, 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, 2012 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 NAP Quebec Mines Ltd. (" **NAP Quebec** ") (formerly Cadiscor Resources Inc. (" **Cadiscor** ")).

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 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.

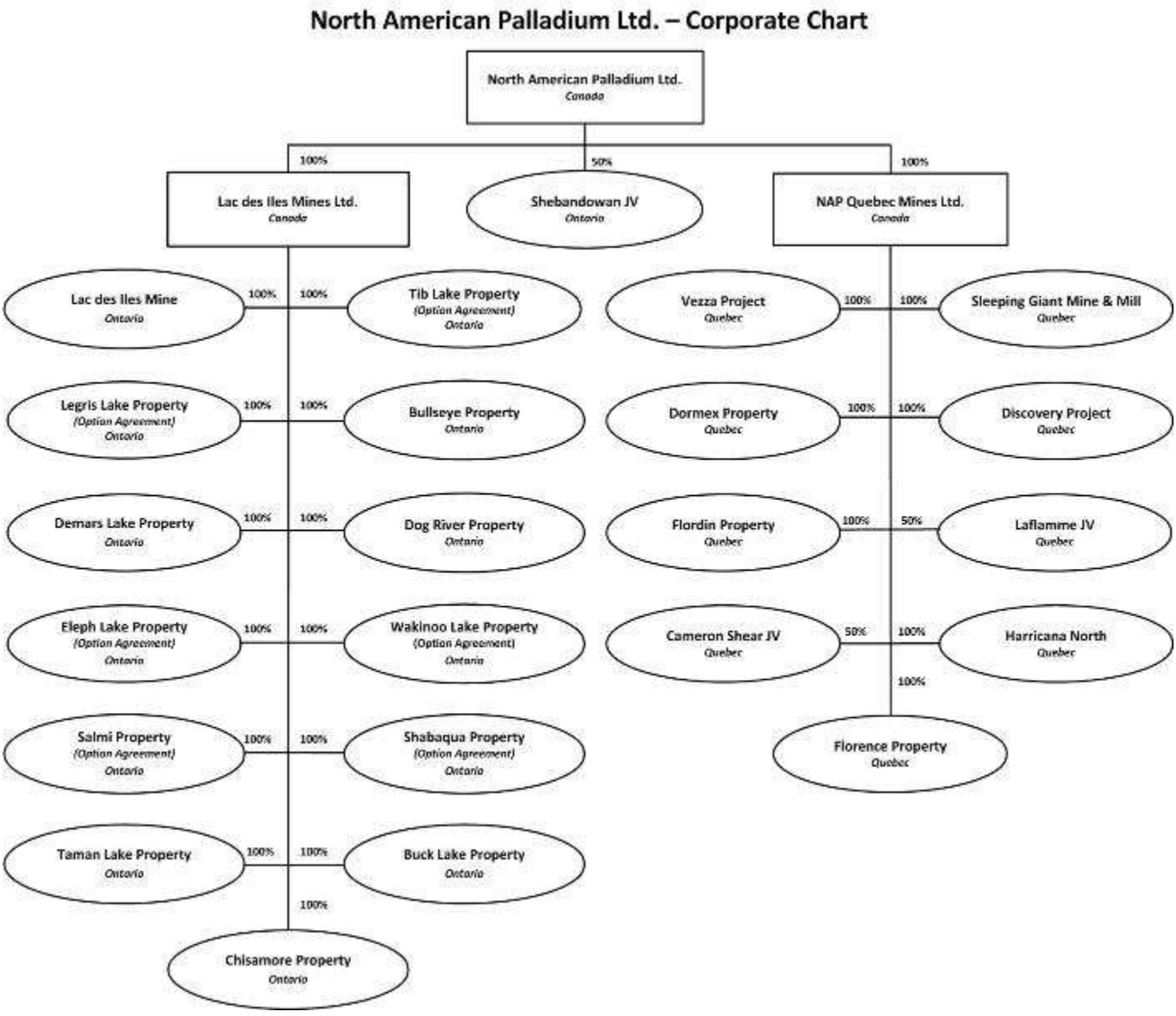
Cadiscor was incorporated under the CBCA in 2006. On May 26, 2009, the Company acquired all of the issued and outstanding shares of Cadiscor pursuant to a plan of arrangement under the CBCA and Cadiscor became a wholly-owned subsidiary of NAP. In March of 2011, Cadiscor

changed its name to NAP Quebec Mines Ltd. On May 10, 2010, the Company acquired the Vezza project in the Abitibi region of Quebec from Agnico-Eagle Mines Ltd. (" **Agnico-Eagle** ") and the project was subsequently transferred to NAP Quebec. NAP Quebec owns various other gold properties located in Quebec, including the Sleeping Giant mine and mill, the Flordin property, the Discovery project, and the Dormex property.

On May 20, 2010, the shareholders of the Company passed a special resolution authorizing an amendment to the articles of incorporation to cancel the class of shares of the Company known as the "special shares". The Company had inherited these special shares by virtue of the amalgamation with 2750538 described above.

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 20, 2013. 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

***2010***

Due to the recovery in the price of palladium, in December of 2009, NAP announced the restart of mining operations at the Company's LDI Mine, which was expected to be fully operational early in the second quarter of 2010. The LDI Mine had been put on care and maintenance in October 2008 due to the impact of the global financial crisis on metal prices.

In the first quarter of 2010, the Company achieved commercial production at the Sleeping Giant mine. Due to encouraging drill results, the Company commenced deepening the mine shaft by 200 metres to allow for the development of three new mining levels.

Following the decision to commence initial development of the Offset Zone at the LDI Mine, the Company began development in February 2010 of a 1,500 metre ramp from the bottom of the Roby Zone to the top of the Offset Zone at the LDI Mine to provide initial access for shaft construction required to mine the Offset Zone.

On March 31, 2010, the Company filed a NI 43-101 report for the Sleeping Giant gold mine entitled, "Updated Reserves and Resources on December 31, 2009 The Sleeping Giant Mine, Northwestern Quebec" prepared by Vincent Jourdain, P.Eng., a qualified person under NI 43-101.

On April 6, 2010, the Company released a mineral reserve and resource update for the Sleeping Giant mine, as well as a first-time mineral resource estimate for its Flordin property.

In the second quarter of 2010, the Company restarted underground production from the Roby Zone at the LDI Mine. The Company also signed a new collective agreement with the United Steelworkers and renewed its smelting and refining contract with Xstrata Nickel (" **Xstrata** ").

On April 28, 2010, the Company announced the completion of a bought deal prospectus offering of 20 million units for total gross proceeds of $100 million. Each unit consisted of one common share in the Company (a " **Common Share** ") and one half of a Common Share purchase warrant of the Company. The warrants expired on October 28, 2011.

On May 10, 2010, the Company acquired the Vezza gold project in the Abitibi region of Quebec from Agnico-Eagle. The Vezza property is situated 85 kilometres by paved road from NAP's Sleeping Giant mine and mill.

On May 27, 2010, the Company announced the results of an updated resource estimate for the Offset Zone at the LDI Mine. The updated estimate was prepared by Roscoe Postle Associates Inc. (" **RPA** ").

In June 2010, the Company signed an option and purchase agreement to acquire a 100% interest in the Legris Lake property, which is located southeast of the LDI Mine.

In July 2010, the Company entered into a $30 million operating line of credit with a major Canadian bank. The credit facility was intended to be used for working capital liquidity and general corporate purposes.

On August 16, 2010, the Company announced the results of a technical report and preliminary economic assessment on the Offset Zone at the Lac des Iles property completed by P&E Mining Consultants Inc., with input from other consulting firms. The report aimed to highlight a preliminary approach to mining the Offset Zone, including details related to the development of the mine expansion.

In October 2010, the Company signed three option and purchase agreements to acquire a 100% interest in the Moose Calf and Kukkee gold properties, which are located near the Company's Shebandowan property in Ontario. These properties have since been renamed the Shabaqua property.

In November 2010, NAP announced the discovery of a potential new PGM zone called the Sheriff Zone at the LDI Mine, located approximately 100 metres southeast of the Offset Zone, and announced additional PGE intersections from the Cowboy Zone and Outlaw Zone in the footwall to the Offset Zone.

On November 29, 2010, the Company filed a NI 43-101 report for the Lac des Iles property entitled, "Technical Report on the Lac des Iles Mine Property, Thunder Bay, Ontario, Canada" prepared by RPA.

On December 6, 2010, Greg Struble was appointed as Vice President and Chief Operating Officer of the Company.

On December 8, 2010, the Company announced that it elected to accelerate the expiry of the Series A warrants originally issued on September 30, 2009 and October 8, 2009. The Series A warrants expired on January 14, 2011.

***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 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 provide shareholders adequate time to properly evaluate an offer. The Rights Plan provides for the issuance of one right for each outstanding Common Share of the Company on the occurrence of certain events. 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 of Directors of the Company 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 of Directors 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 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 PGE intersections from the Cowboy Zone.

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 July 12, 2011, the Company released results from its 2011 exploration program at the Company's 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 is secured by the Company's accounts receivables 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 Flordin property.

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 bear 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 are subject to a Company option to extend for an additional year. 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 and newly available seismic information that impacted 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 and stope design, and capital expenditures.

***2012***

On January 17, 2012, the Company announced that the Vezza mine 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 due to an insufficient operating margin 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 (500 metres 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 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 Sheriff 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 Andre Douchane was appointed Interim Chief Executive Officer, replacing William Biggar who retired 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 full operation of the shaft was 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 flow-through financing of 2,425,000 flow-through shares of the Company on a bought deal 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 Year to Date***

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 its mine expansion. On surface, the major construction components are completed while the shaft sinking was progressing well, in line with the Company's scheduled rates of advancement.

On January 22, 2013, Dave Langille was appointed as 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 includes 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 include 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 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 tested the gold division for impairment and concluded that the recoverable amount of the gold division was lower than the carrying value. As a result, the Company has recognized an impairment charge of $56.0 million on the 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 will continue to perform Chief Executive Officer responsibilities.

On March 15, 2013, the Company announced that its Board of Directors has adopted an advance notice by-law (the " **By-Law** "). The purpose of the By-Law is to provide shareholders, directors and management of the Company with a clear framework for nominating directors for election to the Board of Directors 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 to the Board of Directors are made by shareholders other than pursuant to (i) a requisition of a meeting made pursuant to the provisions of the *Canada Business Corporations Act* ; or (ii) a shareholder proposal made pursuant to the provisions of such *Act* . 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 By-Law is currently in effect. The Company will ask shareholders to confirm and ratify the By-Law at its next annual and special meeting of shareholders on May 9, 2013. The full text of the By-Law can be found under NAP's SEDAR profile at www.sedar.com.

## 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 49. Additionally, the following description of the Company's business includes many geological terms that may not be familiar to the reader. For a description of the meaning of some of these terms, please see the "Glossary of Terms" beginning on page 66.*

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 producing over 250,000 ounces of palladium annually.

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. The LDI Mine is currently undergoing a major

expansion to transition operations from mining via ramp access to mining via shaft while utilizing a high volume bulk mining method. The mine expansion is currently underway, with production from the shaft targeted for the end of the third quarter of 2013. It is expected that this expansion will result in increased palladium production at a reduced cash cost per ounce. Through an investment of $127.5 million in 2012, the Company achieved a number of critical development milestones and was able to significantly advance the project. In 2012, the mine expansion development was primarily focussed on: (i) completing the surface construction activities; (ii) advancing underground development (including mine level development and setting up mining stopes) and (iii) sinking the shaft.

Beyond the LDI Mine expansion, there remains significant exploration upside near the mine, where a number of recent discoveries can potentially further increase production at the LDI Mine. 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 20,794 hectares (51,384 acres), including a majority 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 the Vezza gold project and the Sleeping Giant gold mine and mill located in the Abitibi region of Quebec, as well as other advanced projects including the Flordin project, the Discovery project, and the Shebandowan West project. The Company does not consider these properties to be material at this time. The Company is currently exploring opportunities for the divesture of its Quebec-based gold portfolio (held under its wholly-owned subsidiary NAP Quebec).

For the 2012 fiscal year, the Company's revenue totalled $160.7 million. The Company's revenue by commodity totalled $104.5 million for palladium, $17.8 million for platinum, $10.2 million for nickel, $18.6 million for gold, $9.2 million for copper and $0.4 million for other metals, representing approximately 65.0%, 11.1%, 6.3%, 11.6%, 5.7% and 0.2% respectively of its total consolidated revenue.

As of January 31, 2013, the Company had 422 employees. Of this number, 320 employees worked at the Lac des Iles property, 23 out of an exploration office in Thunder Bay, eight at the Company's finance and administration office in Thunder Bay, 21 at the Vezza project, 25 at the Sleeping Giant mill complex, seven at the Company's regional office in Val d'Or, four at the Company's exploration office in Lebel-sur-Quévillon, and 14 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 6.3 million ounces in 2012. Growth in palladium mine supply is constrained, largely owing to political, infrastructure and cost 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, and the strengthening of currencies. There do not appear to be any near-term solutions in place, and the South African PGM mining industry has begun contracting with over 250,000 ounces of palladium lost in 2012 directly resulting from shutting down operations due to labour unrest and higher operating costs.

***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 always 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), and 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, where possible, 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, and 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. Palladium is also used in the manufacture of polyester.

***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. In 2012, investment demand is estimated to have accounted for approximately 4% of total demand.

***Price Outlook***

The palladium market is forecasted by industry experts to be 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 2012, the average price of palladium was US$644 per ounce, ranging from a low of US$565 per ounce, to a high of US$722 per ounce. As of March 19, 2013, the price of palladium was US$733 per ounce.

## The Lac des Iles Property

The Company's only material property is the Lac des Iles property. The property is located approximately 85 kilometres northwest of the city of Thunder Bay, Ontario, Canada. The property consists of an open pit, a ramp-accessed underground mine, a shaft accessed underground mine (under construction), 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, including the Sheriff Zone, Cowboy Zone, the Outlaw Zone and the North VT Rim.

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.

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

In late 2010, the Company commenced the expansion of its LDI Mine. 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 plans, the Company is sinking a shaft to the depth of at least 825 metres below surface and setting up the underground infrastructure required to mine the Offset Zone using a high-volume bulk mining method. Production from the shaft is targeted for the end of the third quarter of 2013 and it is expected that this expansion will help transform the LDI Mine into a long life, low cost producer of palladium.

The following is a description of the Lac des Iles property that has largely been summarized from the 2013 LDI Report filed on February 19, 2013, 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 2013 LDI Report. The authors of the 2013 LDI Report are "qualified persons" under NI 43-101. The mineral reserve and mineral resource estimates for the Lac des Iles property were prepared with an effective date of March 31, 2012.

***Project Description and Location***

The Lac des Iles property is located at latitude 49°10’ north, longitude 89°37’ west, 85 kilometres northwest of the community of Thunder Bay in northwestern Ontario. The Lac des Iles property comprises approximately 8,649 hectares (21,371 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 5,136 hectares (12,691 acres).

**Figure 1** : Lac des Iles 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 Lac des Iles 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 Lac des Iles property leases. Four of the six mining leases expire on August 31, 2027, and the remaining two leases expire on September 30, 2027.

The following are the mineralized zones of the Lac des Iles property:

- Roby Open Pit Zone: A bulk-mineable, PGE-enriched disseminated sulphide deposit with a minimum north to south length of 950 metres, and a width of 815 metres, including the Twilight Zone in the southwestern portion of the deposit. Mining of this zone commenced in 1993 and continues to this day.
- Roby Underground Zone (High Grade Zone): The Roby Underground Zone is primarily confined to a 400 metres long segment of the pyroxenite, although it does extend northward into the gabbronorite. The High Grade Zone, striking north-northwest to north-northeast, dips almost vertically near surface and flattens to nearly 45° at depth. The zone appears to be terminated down dip to the Offset Fault. Mining of this zone commenced in 2006 and continues to this day.
- 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 can be split into three horizons and has been divided into three subzones: the High Grade Subzone, the Mid Subzone, and the Footwall Subzone.
- Sheriff Zone: Discovered in 2010, this zone is a combination of the former Southeast Roby and South Pit zones connected through further drilling, previously believed to have been the Twilight Zone. It is located approximately 100 metres south east of the Offset Zone.
- Baker Zone: Located approximately 1 kilometre northeast from the Roby and Twilight zones.
- 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 Mine Block Intrusive (“ **MBI** ”) breccias.
- Creek Zone: 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.
- Cowboy Zone: Discovered in 2009, this zone is located 30 to 50 metres down section to the west of the Offset Zone and extends for up to 250 metres along strike and 350 metres down dip.
- Outlaw Zone: Discovered in 2009, this zone lies approximately 30 to 60 metres west of the Cowboy Zone and further down section into the footwall of the Offset Zone.
- Southern Norite Zone: Sits relatively along strike from the Offset Zone and 150 metres south of the shaft.

The Company reports that its operations and facilities comply in all material respects with legislation in effect as of the date of the 2013 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.

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 $14.1 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 MNDM 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 Lac des Iles property is located approximately 85 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 85 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 Lac des Iles property and its Offset Zone Phase I project, as well as access to experienced staff and personnel with good mining and processing expertise.

The Lac des Iles 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 Lac des Iles property range from 418 to 550 metres above sea level, exclusive of the open pit.

The Lac des Iles property experiences hot summers and cold winters, which is 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 Lac des Iles 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 118 kilovolt line to a two-main substation on-site, pursuant to services agreement. 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.

The main facilities on the Lac des Iles property are: the operations camp; the old camp; main office and tire shop; the old mill; 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 LDI Mine has been operating a TMF since 1990. The TMF on the Lac des Iles property has two sections, the West TMF and the South 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 Lac des Iles 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 Lac des Iles 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 as an underground only mine. On April 14, 2010, NAP announced that the Roby underground mine was back in production, with a potential two- to three-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 was scoped out to consist of shaft sinking, extending the ramp from the Roby Zone to the Offset Zone, as well as surface and underground development to facilitate the mining of the Offset Zone using a high volume bulk mining method.

In 2011, while the Company balanced underground development with production, the LDI Mine produced 146,624 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 163,980 oz. of palladium from both underground and surface sources. Mining of the first Offset Zone stope commenced in the fourth quarter of 2012, and the shaft sinking was significantly advanced.

***Geological Setting***

The LDI Mine area is underlain by mafic to ultramafic rocks of the Archean Lac des Iles Intrusive Complex. These rocks have intruded granites and greenstones of the Wabigoon Subprovince of the Superior Province and lies immediately north of the Wabigoon-Quetico Subprovince boundary, which extends approximately 300 kilometres from Rainy Lake to Lake Nipigon. The Archean Lac des Iles 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 Lac des Iles Intrusive Complex, in a roughly elliptical 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 (including its three subzones: the North Roby Zone, the High Grade Zone, and the Breccia 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: East Gabbro (“ **EGAB** ”); Heterolithic Gabbro Breccia (“ **HGABBX** ”); Varitextured Gabbro; Gabbro; Magnetic Gabbro; Pyroxenite; Gabbronorite; Gabbronorite Breccia; and 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 can be split into three horizons and has been divided into three subzones: the High Grade Subzone, the Mid Subzone, and the Footwall Subzone. The apparent width of the mineralization in: (a) the High Grade Subzone varies from 4 to 30 metres, with an average of 15 metres; (b) the Mid Subzone varies from 4 to 90 metres, with an average of 15 metres; and (c) the Footwall Subzone varies from 4 to 20 metres, with an average of 7 metres.

***Exploration***

The Company has conducted surface exploration on the mining lease using the overburden stripping and trenching 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 January 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 (500 metres northeast of the Lac des Iles open pit).

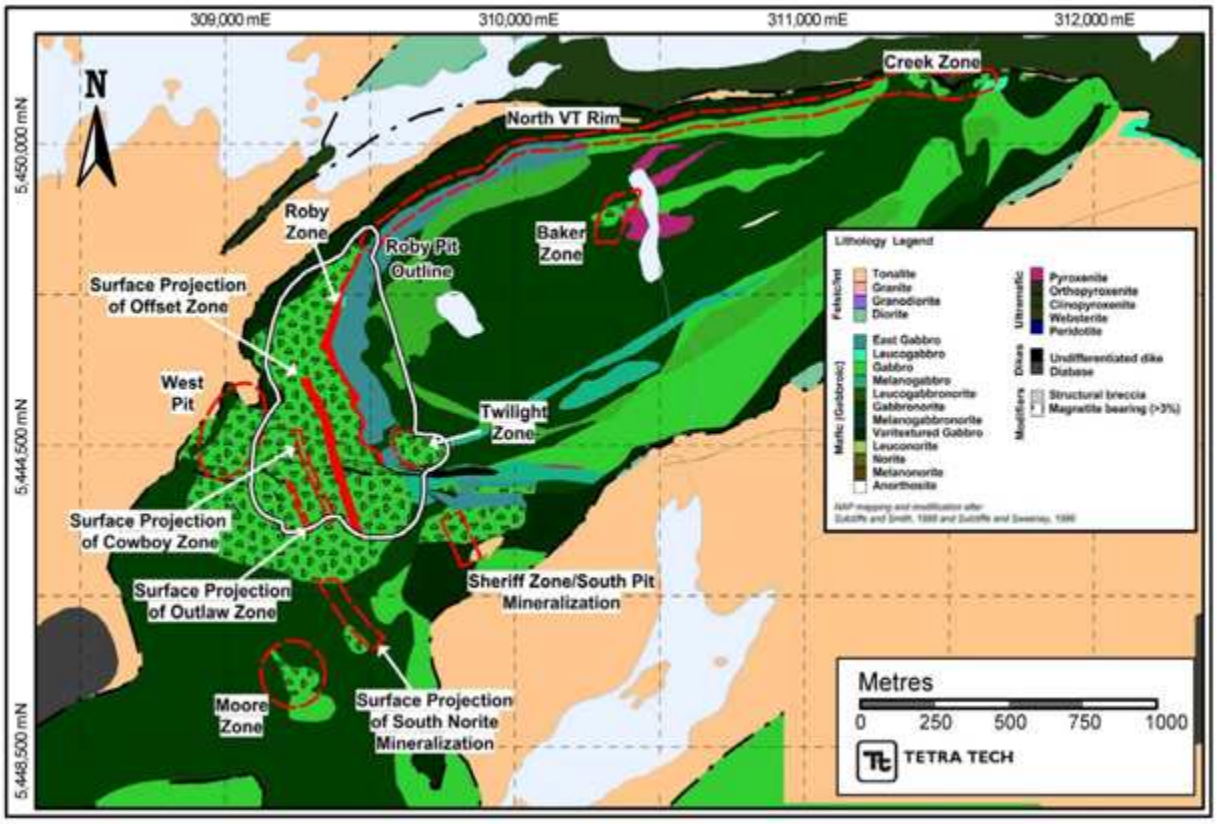
On July 16, 2012, the Company provided an update on its 2012 exploration program at the LDI Mine, including drill results from Offset Zone infill drilling, and confirmation that the Sheriff Zone extends to the surface.

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.

***Mineralization***

PGE and base metal mineralization at the Lac des Iles property appears to be dominantly stratabound along the contact between the EGAB and the mineralized HGABBX. Within the HGABBX, there is a high-grade core typically constrained to an easily recognized pyroxenite unit. Visible PGE mineralization is rare and its occurrence is difficult to predict. In general, economic PGE grades are anticipated within gabbroic to pyroxenitic rocks (in close proximity to the marker unit EGAB) that exhibit strong sausseritization of plagioclase feldspars, strong talcose alteration and association with either disseminated or blebby secondary sulphides. Higher PGE grades (mean – 7.89 grams per tonne (“ **g/t** ”) palladium, maximum – 55.95 g/t palladium) occur in those portions of the pyroxenite that are altered to an assemblage of amphibole (anthophyllite-actinolite-hornblende)-talc-chlorite. PGE grades show varying degrees of correlation with nickel and copper grades. The 2013 LDI Report notes that some parts of the deposit have very good PGE-copper-nickel (and sulphur) correlations, while others show no significant, positive correlation between PGE and copper or nickel. Sulphides typically occur as fine-grained disseminations of less than 1 to 3% and of varying proportions of pyrrhotite, pyrite, chalcopyrite, and pentlandite. The high-grade mineralization is located primarily within the western, highly altered portion of the pyroxenite, since much of the pyroxenite between the barren EGAB and the High Grade Zone is low-grade. The higher-grade “High Grade ore” is not restricted to the pyroxenite as it commonly straddles the pyroxenite/gabbro breccia contact to widths exceeding 250 metres.

**Figure 2** : Lac des Iles property mineralized zones




The majority of platinum-group minerals occur either interstitially to sulphides as cumulus grains or are associated with sulphides at sulphide-silicate boundaries, occurring as discrete mineral inclusions within secondary silicates of altered rocks. Palladium and platinum mineralization within the High Grade Zone consists primarily of fine-grained palladium-telluride minerals; kotulskite, michenerite, palladium-arsenide, PGE sulphide, and vysotskite.

***Drilling***

Prior owners of the LDI Mine drilled 135 holes totalling 21,425 metres on the LDI Mine, while the Company and its predecessor company drilled 1,747 holes totalling 594,858 metres on the LDI Mine.

Surface drilling on the LDI Mine in 2012 totalled approximately 19,405 metres in 81 diamond drill holes. Due to the influx of storm water into mine workings in late May 2012 underground drilling was suspended until October 2012. A total of 148 drillholes drilled from underground targeting both the Offset and Roby zones were completed for approximately 30,742 metres. All drilling on the LDI Mine in 2012 was contracted to Bradley Diamond Drilling of Thunder Bay, a division of Major Drilling of Moncton, New Brunswick, with NQ sized core (47.6 mm diameter). From 2000 to 2012, 543 surface and underground diamond drillholes totaling 210,242 metres have been drilled on the Offset Zone.

In 2012, the Company completed 36,771 metres of diamond drilling on the MBI at the Lac des Iles property. Of this total, (i) 17,695 metres were drilled from underground platforms targeting

extensions to the Offset Zone, (ii) 11,694 metres were completed on the Sheriff Zone targeting additional, near-surface mineralization south of the pit, and (iii) 3,000 metres were drilled on the North VT Rim target.

The authors of the 2013 LDI Report were 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***

The drill contractor delivered core boxes from the drill site to the core logging facility on the Lac des Iles property. 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. Drill core was also shipped to NAP's Thunder Bay exploration office via Courtesy Courier, secured indoors in the building and processed at that facility.

Once delivered, the drillhole numbers were checked and reported to the logging geologists and the core was cleaned to remove any drill grease or additive. Geotechnical data for the core, including recovery length and rock quality designation (" **RQD** ") measurements, was then recorded on the core boxes with permanent marker. Specific gravity measurements are also routinely taken for all exploration drill core.

The core was logged in detail and all the data about lithology, alteration, mineralization, veining and structure was recorded manually on paper forms. Sample lengths of the cover vary from a 20 cm minimum sample length to a 2 metres maximum sample length. 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, RQD, specific gravity and lists for sample analysis. Activation Laboratories Ltd. (" **ActLabs** ") reported analytical results digitally and imported those results into the software. Copies of the result certificates are maintained on the exploration file server.

The core boxes were photographed in numerical order, five boxes at a time, and these photos were backed-up daily on the main server by the logging geologist.

From the core station, core was transferred to pallets located outside the core cutting facility. Sample intervals were transferred to a sample booklet with pre-printed sample numbers. One box of core was loaded to the core-splitting bench at the time, and the interval of core to be sampled was split in half using a pneumatic wedge splitter. One-half of the core was placed in a clean transparent bag, which had been previously labelled, and a pre-printed sample tag was placed inside of the bag. The bag was then sealed with a plastic tie strap and placed on the floor in an orderly manner for easy tracking. The core-splitting bench and splitter were thoroughly cleaned after each sample to avoid contamination. The remaining half of the core was put back in the core box, and transferred to covered storage racks where it will be kept for future reference. In general, one in five Offset Zone boreholes were split to maintain the Lac des Iles property core reference library with the remaining boreholes whole-core sampled. Individual samples were placed in plastic sample bags.

The authors of the 2013 LDI Report were of the opinion that the core logging and core sampling procedures meet industry standards and are acceptable to use for resource estimation.

For the 2011 through 2012 series drilling, NAP used ActLabs of Thunder Bay, Ontario for core sample preparation and analysis. Sample preparation at ActLabs was as follows:

- drying at 60°C
- size reduction in a TM Engineering Ltd. Terminator jaw crusher to 80% passing -10 mesh (1.7 mm)
- riffle split to 250 g
- grind in a TM Engineering Ltd. Max 2 pulveriser with mild steel bowls to 95% passing - 150 mesh (105 µ m)
- cleaner sand is used between each sample
- pulps and rejects are retained at ActLabs for a variable period of time
- once quality assurance (" **QA** ")/quality control (" **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.

The method for palladium-platinum-gold analysis was standard fire assay fusion on a 30 g aliquot with silver inquart. Furnace fusion is for 60 minutes at 850 to 1,060°C. The resulting lead button is cupelled at 950°C and the resulting silver-doré bead is digested in hot nitric acid and hydrochloric acid, cooled and the solution analyzed by inductively coupled plasma (" **ICP** ") optical emission spectrometry using a Varian 735 ICP. A blank and digested standard are run every 15 samples. Synthetically prepped standards monitor QC and instrument drift.

The method for nickel-copper-cobalt-silver analysis was a 0.25 g sample is digested with four acids (hydrogen fluoride, nitric acid, perchloric acid, and hydrochloric acid) and heated in several ramping and holding cycles taking the samples to incipient dryness after which samples are brought back into solution using aqua regia. Samples are analyzed using a Varian ICP. Each digestion batch has 14% QC including 5 method reagent blanks, 10 in-house controls, 10 sample duplicates, and 8 certified reference materials. Instrumental analysis undergoes and additional 13% QC to ensure control of instrument drift.

Due to the atypical character of the mineralization in the Offset Zone, NAP exploration staff decided in 2009 to custom-make their QA/QC duplicate program. In addition to the laboratories internal duplicates (known as lab dup and prep dup), NAP randomly and specifically selected samples for re-assays either through ActLabs or SGS Minerals Services (" **SGS** "). The pulps of those samples re-assayed by ActLabs are considered as the duplicate samples, whereas the samples sent to SGS as the check samples.

Around 10% of pulp splits, from 2009 to 2011 Offset Zone drilling were randomly selected and re-run by ActLabs, in order to control the reproducibility of the fire assay method results. The analytical technique used by ActLabs to re-run those pulps was identical to the one used for measuring the original assays. Samples with significant discrepancy are reported in the database data entry control sheet.

Approximately 10% of the pulp splits, from the expected high-grade zone, were forwarded to SGS, in order to check the reproducibility and consistency of the highgrade zone. For base

metals (copper, cobalt and nickel), SGS uses four acid digestion and ICP-atomic emission spectroscopy analysis (code ICP40B). The palladium, platinum, and gold metals are determined by fluxing and fire assay fusion with lead oxide collection, two acid digestion of the doré bead and ICP-atomic emission spectroscopy analysis (FAI323). Samples with significant discrepancy are reported in the database data entry control sheet.

Blanks and standard reference material samples were inserted into the drill core continuous sampling series at regular intervals during the 2010 to 2012 drill programs. All of the blank material and standard reference material was sourced from CDN Resource Laboratories (“ **CDN Resource** ”) of Langley, British Columbia. If one or more of the palladium, platinum or gold results from the blanks exceed the maximum allowable 10 ppb, the lab is instructed to re-assay from pulps all samples from the preceding blank that passed to the following blank that passed. If palladium exceeds two standard deviations, and if platinum and gold exceed three standard deviations from the recommended values and standard deviations reported on the CDN Resource certificates for each of those minerals, a failure has occurred and the lab is instructed to re-assay from pulps all samples from the preceding standard that passed to the following standard that passed. The re-assays from both blanks and standard reference material samples are then used in the drillhole 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. Tetra Tech imported the drillhole data into the Datamine™ program, which has a routine that checks for duplicate intervals, overlapping intervals, and intervals beyond the end of hole. The errors identified in the routine were checked against the original logs and corrected.

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. ALS Minerals is accredited to international quality standards through International Organization for Standardization (“ **ISO** ”) / International Eletrotechnical Commission (“ **IEC** ”) 17025 (ISO/IEC 17025 includes ISO 9001 and ISO 9002 specifications) with CAN-P-1579 (Mineral Analysis).

The authors of the 2013 LDI Report were of the opinion that the data set from the Offset Zone is valid and acceptable for use in resource estimation.

***Mineral Reserve and Mineral Resource Estimates***

The table reproduced below summarizes the resources and reserves on the Lac des Iles property. The effective date of the mineral resources and reserves is March 31, 2012. The mineral resources set out below are exclusive of the mineral reserves.

| Category | Cut-off (g/t) | Tonnes | Pd (g/t) | Pt (g/t) | Au (g/t) | Ni (%) | Cu (%) | Pd (oz) |
|---|---|---|---|---|---|---|---|---|
| **Mineral Reserves** | | | | | | | | |
| **Proven** | | | | | | | | |
| Offset Zone | 2.5 | 5,632,000 | 4.34 | 0.30 | 0.30 | 0.11 | 0.08 | 786,563 |
| Roby Underground | 5.8 | 420,000 | 6.38 | 0.42 | 0.34 | 0.08 | 0.07 | 86,149 |
| Open Pit | 1.8 | 722,000 | 1.99 | 0.21 | 0.22 | 0.11 | 0.10 | 46,192 |
| Probable | | | | | | | | |
| Offset Zone | 2.5 | 2,109,000 | 4.17 | 0.30 | 0.29 | 0.10 | 0.08 | 282,609 |
| **Total Reserve** | **—** | **8,883,000** | **4.21** | **0.30** | **0.29** | **0.11** | **0.08** | **1,201,513** |
| **Mineral Resources** | | | | | | | | |
| **Measured** | | | | | | | | |
| Offset Zone | 2.5 | 4,942,550 | 4.56 | 0.33 | 0.31 | 0.12 | 0.10 | 724,094 |
| Open Pit | 1.8 | 1,971,000 | 2.00 | 0.24 | 0.15 | 0.05 | 0.07 | 126,735 |
| Stockpile | | 83,000 | 1.63 | 0.17 | 0.14 | 0.08 | 0.06 | 4,350 |
| **Total Measured** | **—** | **6,996,550** | **3.80** | **0.31** | **0.27** | **0.12** | **0.10** | **855,179** |
| **Indicated** | | | | | | | | |
| Offset Zone | 2.5 | 9,556,600 | 4.11 | 0.31 | 0.29 | 0.11 | 0.09 | 1,262,139 |
| Roby Underground | 5.8 | 1,269,000 | 7.16 | 0.41 | 0.33 | 0.08 | 0.06 | 292,116 |
| Open Pit | 1.8 | 2,565,000 | 2.20 | 0.24 | 0.18 | 0.07 | 0.08 | 181,422 |
| Low-grade Stockpile | 0.5 | 13,188,000 | 0.97 | 0.12 | 0.08 | 0.06 | 0.03 | 411,274 |
| **Total Indicated** | **—** | **26,578,600** | **2.51** | **0.21** | **0.18** | **0.08** | **0.06** | **2,146,952** |
| Measured + Indicated | — | 33,575,150 | 2.78 | 0.23 | 0.20 | 0.08 | 0.05 | 3,002,132 |
| **Inferred** | | | | | | | | |
| Offset Zone | 2.5 | 13,669,000 | 3.59 | 0.30 | 0.23 | 0.09 | 0.08 | 1,575,840 |
| **Total Inferred** | **—** | **13,669,000** | **3.59** | **0.30** | **0.23** | **0.09** | **0.08** | **1,575,840** |

Notes: Prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum classification system.

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, socio-political, marketing, or other relevant issues.

The mineral resource for the Offset Zone was estimated as of June 30, 2012 by Todd McCracken, P.Geo, of Tetra Tech, an independent QP under NI 43-101. The effective date of the resource is March 31, 2012. The mineral resource calculation uses a minimum 2.5 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 metres by 5 metres by 5 metres blocks). Assay grade capping was determined not to be necessary. The Offset Zone resource models used the ordinary kriging (OK) grade interpolation method within a 3Dl block model with mineralized zones defined by wireframed solids. The quality assurance (QA)/quality control (QC) protocols and corresponding sample preparation and shipment procedures for the Offset Zone have been reviewed by Tetra Tech. The following metal price assumptions were used: US$675/oz palladium, US$1,675/oz platinum, US$1,750/oz gold, US$8.00/lb nickel, and US$3.50/lb copper. A US$/CDN$ exchange rate of US$1.00 = CDN$1.00 was also applied.

Mineral reserves for the Offset Zone were estimated by Todd McCracken, P. Geo.; William Richard McBride, P.Eng.; Todd Kanhai, P.Eng.; and Philip Bridson, P.Eng. of Tetra Tech, independent QPs within the meaning of NI 43-101. The mineral reserves were estimated from drilling completed to March 31, 2012. Reserves were estimated to the 990 Mine Level (4,490 metres elevation), a maximum depth of 1,017.5 metres. The following metal price assumptions were used for reserves estimation: US$675/oz palladium, US$1,675/oz platinum, US$1,750/oz gold, US$8.00/lb nickel, and US$3.50/lb copper. A US$/CDN$ exchange rate of US$1.00 = CDN$1.00 was also applied. An average production rate of 3,500 t/d was used to determine the reserves. The following recoveries were used in the assumptions to determine the reserves: 80.45% palladium, 71.30% platinum, 83.97% gold, 43.13% nickel, and 88.55% copper.

The mineral resource estimate for the Roby Zone open pit and stockpiles were estimated as of June 30, 2010 by Scott Wilson RPA and updated by David N. Penna, P.Geo., an employee of LDI and a QP under NI 43-101 to reflect: (i) additions to mineral reserves in the Roby Zone as a result of a lower cut-off palladium grade; (ii) depletion from production up to March 31, 2012, and (iii) mineral reserves from the crown pillar (supported by

an internal engineering report). The following cut-off grades were used: (i) 1.8 g/t palladium equivalent (“ **PdEq** ”) for the Roby open pit, within an optimized pit shell run below the current pit survey; (ii) 1.9 g/t PdEq for the mine stockpiles; and (iii) 5.8 g/t PdEq for the underground Roby Zone. These cut-off grades were determined under the assumption that production would take place at a rate of 14,000 t/d. Metal price assumptions of US$350/oz palladium, US$1,400/oz platinum, US$850/oz gold, US$6.50/lb nickel, and US$2.00/lb copper were used in the estimation of cut-off grade. A US$/CDN$ exchange rate of 1.11 was also applied.

Numbers may not add due to rounding.

***Mining Operations***

The LDI Mine is currently operating with over 1.2 Mt of ore budgeted to come from the Offset Zone in 2013. Most of the tonnage will come via truck haulage up the main ramp with production from the new shaft scheduled to commence by the end of the third quarter of 2013. The shaft is being sunk to the 825 metre mine level and as at March 18, 2013, shaft sinking had reached the 671 metre mark. In place are the headframe and the hoist house with associated hoists. Two of the shaft stations were developed from the internal ramp system and the ramp itself has already progressed to the 825 metre mine level by contractor development crews.

The chosen mining method is longhole stoping with cemented rock fill capabilities as needed. 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 are incorporated into the mining plan to provide an earlier production stream and to allow for flexible mining using various mine sequences with enough tonnage to allow for high productivities. The Phase I area of the Offset Zone was divided into three independent mining areas by means of the 750 metre mine level and 840 metre mine level crown pillars to help facilitate a nominal 3,500 t/d 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 will be to leverage 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.

Since re-starting operations in 2010, the Lac des Iles process facility is running at nominally half capacity. Underground and surface mining rates are nominally half of the full processing rates design capacity of 15,000 t/d. Therefore, the process facility runs 14-day campaigns at 13,000 t/d followed by 14 days off which is designed to optimize process operating facilities at these lower tonnage rates.

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.

Over the life of Phase I, 95% of production is expected to come from the mining of stoping block draw points and production drilling sill cuts on the intermediate levels for the blasthole stopes.

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 for the smelting of LDI Mine concentrate. The agreement includes an advanced payment option to NAP (less treatment and refining charges). The agreement expires December 31, 2013.

Annual monitoring for physical and chemical stability of water surrounding the Lac des Iles 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 $km^2$ 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 Lac des Iles 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 Lac des Iles property expansion plans currently consist of the following:

- Sinking a shaft 825 metres from surface to transition underground operations from mining via ramp to mining via shaft as part of Phase I of the Offset Project. NAP expects to start hoisting Offset Zone ore from this new shaft by the end of the third quarter of 2013, with full operational benefits of the shaft realized in 2014.
- Setting up underground infrastructure to mine the Offset Zone Phase I using a high-volume bulk mining method (longhole stoping with cemented rock fill as needed). This includes expanding the ramp at depth from the Roby Zone to the Offset Zone, building new mine levels in the Offset Zone, and setting up mining stopes for production in the Offset Zone.

***Labour Matters***

Employees at the Lac des Iles property are either salaried or paid hourly. The hourly employees at the Lac des Iles property are members of United Steelworkers of America, Local 9422 (“ **USW** ”). The Company entered into a collective bargaining agreement with the USW in January 2010. The agreement expired on May 31, 2012 and was subsequently amended by a memorandum of understanding entered into between the Company and the USW on September 6, 2012. The amended collective bargaining agreement was retroactive to June 1, 2012 and expires on May 31, 2015.

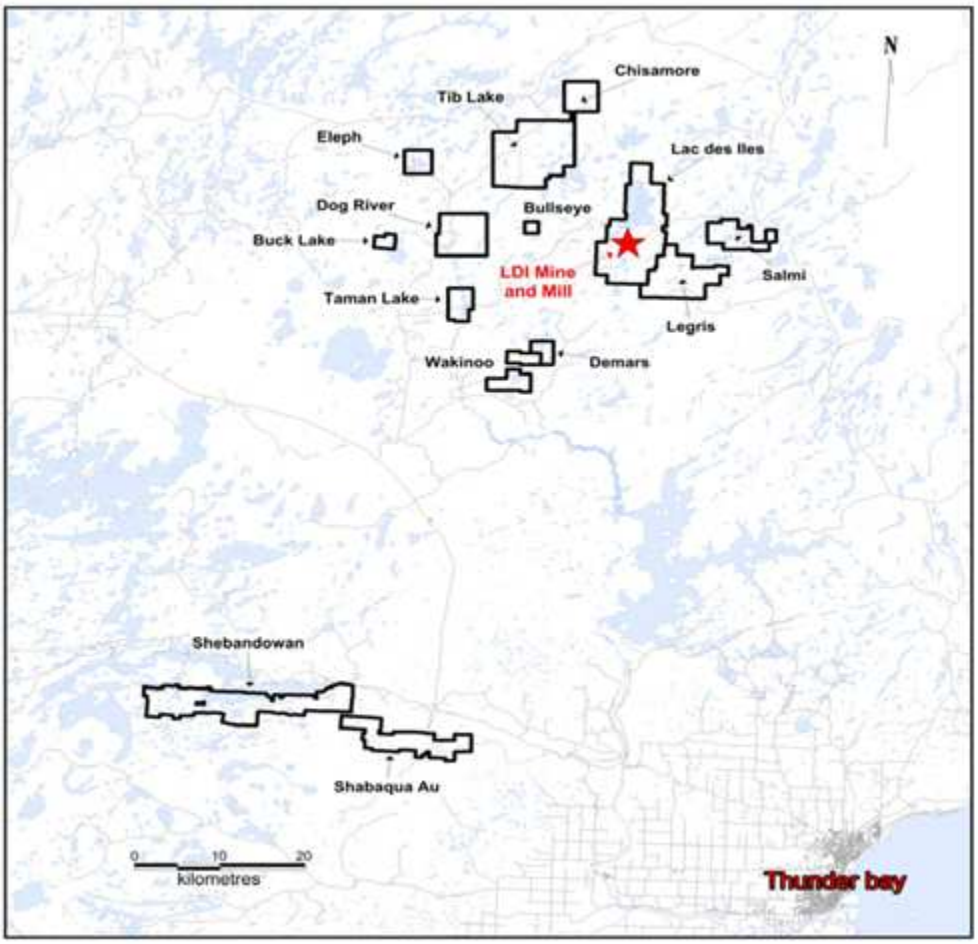
The Company is dependent on a skilled labour force with experience and a knowledge base in the mining sector. Whether as employees of the Company or independent contractors, this labour force is generally available to the Company from residents in the Thunder Bay area and eastern Canada, although exploration and corporate office personnel have been recruited both locally and internationally.

Employees live at the mine site during their work rotation and most have homes in or near Thunder Bay, Ontario, a city of approximately 149,000 people with an international airport, rail service and port facilities on Lake Superior. The Company has a workforce of approximately 352 employees and 215 contractors at the Lac des Iles property. Management estimates that the required workforce for the Offset Zone product during the construction phase will total approximately 360 employees and 213 contractors at its peak, including supervision, engineering and geology staff, as well as contractor employees in mine development and other services.

**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 43,577 hectares (107,681 acres).

**Figure 3** : 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 Lac des Iles property, comprises 28,472 hectares of land (70,354 acres) within 163 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.

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 2012, the Company added several new properties to its PGE greenfields portfolio and completed significant early stage exploration work on most of these properties including airborne magnetic and electromagnetic surveys, surface till and soil surveys, trenching, mapping, prospecting, rock sampling and IP surveys. 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 23 diamond drill holes for a total of approximately 11,597 metres of surface exploration drilling on its PGE greenfields properties. 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 LDI 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 LDI property consists of 1 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 2012 the Company completed an airborne magnetic and electromagnetic survey over the North LDI complex and completed 2 of 4 planned holes (2,631 metres of 4,500 metres planned) located along a fence covering priority geophysical and geological targets.

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

The South LDI 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 LDI 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 2 mining leases covering an area of 4,441 hectares (10,974 acres).

In 2012, the company completed 3,972 metres of diamond drilling on the South LDI property.

*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. In 2011, the Company conducted 3,000 metres of drilling at this property. No work was done on the property in 2012.

*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 2 claims covering 439 hectares (1084 acres). The property was staked by the Company last year.

In 2012, the Company completed airborne geophysical surveys, trenching, mapping, prospecting 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 1 claim covering 255 hectares (630 acres). No significant exploration work was done on the property in 2012.

*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 8 claims covering 1,642 hectares (4,058 acres). No significant exploration work was done on the property in 2012.

*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 3 claims covering 660 hectares (1,630 acres) and was staked by the Company in 2012. Last year, the Company completed a program of surface trenching, mapping and prospecting and 1,600 metres of diamond drilling on the Demars Lake property.

*Dog River Property*

The Dog River property covers a poorly documented, approximately 5 kilometres long 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). In 2012, the property was surveyed using an airborne magnetic-EM system and was subsequently trenched, sampled and drilled (2,192 metres of diamond drilling).

*Eleph Lake Property*

The Company completed a single drill hole (360 metres) to test for the presence of an unrecognized LDI suite mafic intrusion on the Eleph Lake property. Drilling results were not encouraging and the property was returned to the optionor in January, 2013.

*Taman Lake Property*

The Taman Lake property was staked in July, 2012. The property comprises 6 claims covering 1,176 hectares (2,905 acres). The property covers a series of irregularly-shaped mafic-ultramafic intrusions. No significant surface exploration work was done on the property last year.

*Tib Lake Property*

The Tib Lake property covers most of the known extent of the 8 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 4 claims purchased from Platinex Inc. in September 2012. The complete Tib Lake property totals 7,389 hectares (18,259 acres).

In 2012, the Company completed extensive surface trenching, mapping and sampling on the Property. This work was followed by 2,382 metres of diamond drilling that was completed in Q4 2012.

*Wakinoo Lake Property*

The Wakinoo 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 km $^2$ Wakinoo Lake mafic intrusion has been the target of exploration programs since 1972. Historic PGE exploration efforts have focused on gabbroic rocks southwest of Wakinoo Lake, near the original 1976 PGE (Texas Gulf) showing. In 2012, the Company completed surface mapping, trenching and 677 metres of diamond drilling on the Wakinoo Lake property.

***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 with certain optionors 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 Lac des Iles 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).

In 2012, a small program of surface mapping, trenching and shallow diamond drilling (1,260 metres) was conducted on the property.

*Shabaqua Property*

The Shabaqua Gold property is an amalgamation of four 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 (6 claims), P. Kukkee (1 claim) and Sand Lake (3 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. An additional 11 claims were staked by the company in 2011 bringing the property total to 34 claims covering 4,003 hectares (9,891 acres).

In 2012, a limited amount of surface mapping and trenching was conducted on the property.

***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 Lac des Iles 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.

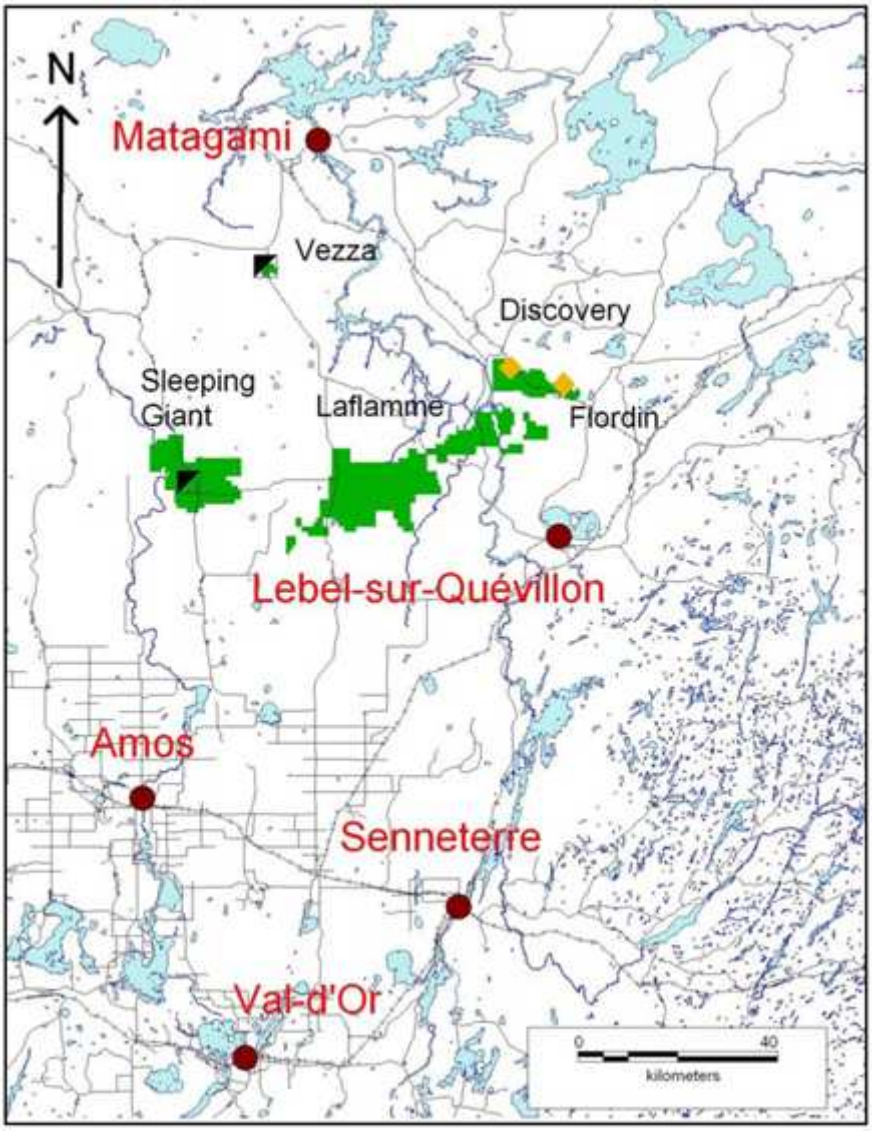
The Shebandowan West project lies within the north-western portion of the Shebandowan property, and encompasses three mineralized zones, all of which are located at shallow depths. The Shebandowan West project is located along the western strike extension of the former Shebandowan mine, and exhibits 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.

In 2012, the Company focused on compiling all historical exploration data for the property. In 2013, the Company expects to complete a comprehensive technical review of this data, supporting a re-appraisal of the value of known mineralization and an assessment of the residual mineral potential on the property.

**Other Mineral Properties in Quebec**

The Company is evaluating opportunities for the divesture of its gold assets and undertakings located in Quebec, including the Sleeping Giant gold mine and mill complex, the Vezza gold mine and the other exploration projects including the Flordin property and the Discovery project, and all associated rights, privileges, agreements, permits and associated infrastructure and equipment. The Company's current process of exploring divestiture opportunities for its gold assets has provided an indication of the value of these assets in late 2012. Accordingly, the Company has incurred a non-cash impairment charge of $56.0 million, as reflected in the year end 2012 financial results. The Company does not consider any of its mineral properties in Quebec to be material properties.

**Figure 4** : Quebec mineral properties location map




***Vezza Project***

The Company's Vezza property is a development project located approximately 25 kilometres south of the town of Matagami, Quebec and 85 kilometres from the Sleeping Giant mine and mill complex. The Vezza property consists of 49 contiguous mining claims covering a surface area of 849.12 hectares. Infrastructure includes a three-compartment shaft with six underground levels down to a depth of 741 metres, a hoist, pollution control structures and a number of surface structures. The Vezza property was previously owned by Agnico-Eagle, which conducted extensive exploration of 85,000 metres of drilling and substantial underground development.

In 2011, the Company invested $28 million to advance Vezza toward production, and an additional $17 million in 2012 to continue underground development of the mine. In January 2012, the Company announced that the Vezza mine commenced processing a bulk sample at the Sleeping Giant mill initially achieving results in line with expectations. However, extended test stope mining indicated that mining dilutions were higher than contemplated with the original Alimak stoping concept. This delayed the advance toward commercial production indefinitely until an alternate method with acceptable mining dilution could be deployed. The Company received all necessary production permits by July, 2012, and by year end had completed the transition to a conventional mining method with significantly less dilution. Additionally, the Company announced that it would continue to delay commercial production at Vezza and begin exploring divestiture opportunities.

The Vezza project is expected to have a mine life of approximately 9 years.

During 2012, the Company drilled 2,179 metres at the Vezza property.

***Sleeping Giant Mine and Mill Complex***

The Sleeping Giant mine and mill complex is situated in the Abitibi region of Quebec, approximately 80 kilometres north of the town of Amos. The mine is a narrow vein underground mine that commenced production in 1988 and is accessible by a four-compartment production shaft with a total depth of 1,245 metres.

The mill has a rated capacity of 900 tonnes per day and can be expanded to process up to 1,750 tonnes per day. The mill at Sleeping Giant processes material from the Vezza project, and has the potential to serve as a regional mill for the Company's other gold projects in the Abitibi region if expanded.

The Company acquired the Sleeping Giant mine and mill complex on May 26, 2009, through the acquisition of Cadiscor. The Company produced gold at Sleeping Giant from October 6, 2009 to February 8, 2012. In 2011, the mine produced 14,519 ounces of gold and the average gold head grade at the mill was 6.31 g/t, with gold recovery of 96.4%. In 2011, the Company conducted exploration drilling on surface, completing 10 holes for a total of 4,905 metres.

On January 17, 2012 the Company announced that it would discontinue production at the Sleeping Giant mine. While encouraging high grade drill results at the three new levels at depth supported the shaft deepening investment, additional infill drilling established a lack of grade continuity in the narrow vein structures. After reviewing various mining scenarios, the Company concluded that continued mining would result in high costs. The Company therefore decided to cease mining operations at Sleeping Giant. The Sleeping Giant mill will continue to process ore from the Vezza project.

In 2012, the Company drilled 789 metres underground and completed the logging and sampling of core drilled in late 2011.

***Flordin Property***

The Flordin property is located approximately 31 kilometres north of the town of Lebel-sur-Quévillon, Quebec and ten kilometres along trend to the southeast of the Discovery project. The Flordin property represents forty contiguous ground-staked claims and covers an area of 590.9 hectares. All titles are in good standing and registered 100% to NAP Quebec.

In July 2007, NAP Quebec acquired a 100% interest in the Flordin property after signing a purchase agreement with IAMGOLD Corporation. IAMGOLD retained a 1% NSR royalty production royalty on future commercial production from the property. NAP Quebec has a pre-emptive right at any time to purchase back this 1% NSR royalty for US $1,000,000. Moreover, 37 of the 40 claims are subject to a 20% Net Profit Interest (“ **NPI** ”) in favour of Flordin Mines Ltd.

The potential for delineating additional mineral resources in the Flordin property area is considered to be good. The deposit is still open laterally and at depth.

During 2012, logging of core drilled in late 2011 was completed. Sampling was completed late in the third quarter of 2012, with preliminary results received in the fourth quarter of 2012, but were still being validated as at the date hereof.

***Discovery Project***

The Company’s Discovery project is located approximately 35 kilometres northwest of the town of Lebel-sur-Quévillon, Quebec, ten kilometres northwest of the Flordin property and approximately 70 kilometres from the Sleeping Giant mill complex. This advanced exploration property is comprised of 124 contiguous mining claims covering 3,371.08 hectares.

The property is 100% owned by NAP Quebec. Twenty-eight claims of the property are subject to a royalty of 1–3% NSR royalty in favour of Homestake Canada Inc. In addition, fourteen claims subject to a 1% NSR royalty are also subject to a royalty of 20% net profits in favour of Xstrata. Forty-one claims are subject to a royalty equal to the greater of 2% NSR royalty or $1.00 per tonne for any mineral substance processed and/or sold, payable to Mr. Jean-Jacques Martel and Mr. Bernard Borduas.

During 2012, drill core recovered in late 2011 was logged and sampled late in the third quarter. Assay results were received in the fourth quarter of 2012, but were still being validated at year end.

***Dormex Property and Sleeping Giant Surface Exploration***

The Dormex property is located adjacent to the Sleeping Giant mine and mill. The 2010 exploration program was comprised of 4,206 metres of drilling and included a major reverse circulation drill program to better delineate overburden gold anomalies, as well as ground and airborne geophysics.

In 2011, the Company conducted 8,965 metres of drilling to follow up on geophysical anomalies and gold anomalies discovered in the 2010 reverse circulation program, and to test new geophysical targets.

Minimal work was performed on the property in 2012. As at the date hereof, the Company continues to evaluate opportunities for the divestiture of its gold assets, including the Dormex property.

***Cameron Shear and Florence Properties***

Cameron Shear and Florence are early-stage gold exploration projects to the east of the Discovery gold deposit, and near the Flordin deposit. Drilling on a number of geophysical targets has improved the Company's understanding of the geology of these early-stage properties, although economic intersections have not yet been encountered.

***Laflamme Property***

Laflamme is an early-stage exploration joint venture in the Abitibi region of Quebec with Midland Exploration Inc. (" **Midland** "). The property is situated on favourable geology, following the trend from the Company's Discovery project to the Sleeping Giant mine. On July 31, 2011, the Company fulfilled the requirements to exercise the option to acquire a 50% interest in the project. The Company is the operator of the joint venture and may acquire an additional 15% interest by completing a feasibility study. In 2010 and 2011, 12 drill holes totalling 4,353 metres were completed on the property.

On June 15, 2011, Midland announced the discovery of a potential new mineralized zone with nickel, copper and platinum group elements, intersected while conducting drilling in the north east part of the property at shallow depth (approximately 60 metres vertical depth). Midland also announced that a helicopter-borne electromagnetic VTEM survey was recently completed, and that ground-based geophysical electromagnetic and induced polarization surveys are scheduled.

In 2012, the Company drilled 2,072 metres. On July 25, 2012, Midland announced identification of a new area with strong gold potential and announced the start of ground geophysical surveys on the property.

## 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 management 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. 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 2012, the mine closure obligations for the LDI Mine, Sleeping Giant mine and Vezza project were revised to reflect the Company's most current closure cost estimates, expected mine lives and market rate assumptions. The current mine closure obligations include: Lac des Iles property ($15.2 million), Sleeping Giant mill ($5.0 million), Sleeping Giant mine ($0.7 million) and Vezza project ($0.5 million).

The LDI Mine closure plan provides for approximately $14.1 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 mine closure plans for the Sleeping Giant mine and mill as well as Vezza Project provide for aggregate closure and restoration costs of approximately $1.9 million. The mine closure obligations for the Sleeping Giant mine and mill and the Vezza project are secured by a letter of credit in the amount of approximately $1.9 million.

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

On May 2, 2012, the Company announced the receipt of two prestigious awards for its accomplishments in the field of safety and exploration at the LDI Mine.

## 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 Company's board of directors 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 Company's board of directors 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 19, 2013, there were 178,082,405 Common Shares of the Company issued and outstanding. The Common Shares issued and outstanding as of March 19, 2013 exclude 3,517,499 Common Shares reserved for issuance pursuant to outstanding stock options, which are exercisable at a weighted average exercise price of $3.68 per Common Share.

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 of directors 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 of directors. Any amendment of the by-laws by action of the board of directors 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 of directors 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.

**Convertible Debentures**

On July 31, 2012, the Company issued convertible debentures in the aggregate principal amount of $43,000,000. The debentures were issued under a trust indenture dated July 31, 2012 between the Company and Computershare Trust Company of Canada, as trustee. The aggregate principal amount of the 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 debentures, issue additional debentures of the same series or of a different series under the trust indenture.

The debentures were issued in denominations of $1,000 and integral multiples thereof, and have a maturity date of September 30, 2017.

The debentures bear interest from the date of issue at 6.15% per annum, which will be payable semi-annually in arrears on March 31 and September 30 in each year, commencing on September 30, 2012. The first interest payment will include interest accrued from the date of issuance of the debentures to, but excluding, September 30, 2012.

Holders may convert their 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 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 Debentures, subject to adjustment in certain events as described in the trust indenture.

The 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 debentures may be redeemed in whole at any time or in part 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 Trust Company of Canada, as trustee.

**Senior Secured Notes**

On October 4, 2011 and November 1, 2011, the Company issued an aggregate of 72,000 Notes in the amount of $72,000,000. The Notes bear 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 are 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 October 4, 2014.

## MARKET FOR SECURITIES

The Common Shares are listed for trading on the NYSE MKT, LLC (" **NYSE MKT** ") under the trading symbol "PAL" and 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 |
| **2013** | | | | | | |
| March (1 - 19) | 1.58 | 1.33 | 22,485,293 | 1.59 | 1.36 | 2,409,101 |
| February | 1.94 | 1.36 | 54,274,464 | 1.95 | 1.40 | 9,310,406 |
| January | 1.77 | 1.50 | 58,996,093 | 1.77 | 1.48 | 8,453,299 |
| **2012** | | | | | | |
| December | 1.46 | 1.18 | 40,278,228 | 1.40 | 1.16 | 4,063,801 |
| November | 1.55 | 1.31 | 31,765,138 | 1.55 | 1.34 | 11,309,373 |
| October | 2.00 | 1.57 | 27,826,760 | 1.96 | 1.53 | 7,247,318 |
| September | 2.27 | 1.80 | 38,754,135 | 2.19 | 1.78 | 15,653,615 |
| August | 1.94 | 1.50 | 29,458,855 | 1.91 | 1.48 | 4,412,998 |
| July | 2.18 | 1.67 | 17,520,961 | 2.18 | 1.69 | 3,122,395 |
| June | 2.37 | 2.02 | 17,571,150 | 2.44 | 2.07 | 2,475,214 |
| May | 3.04 | 2.19 | 24,357,184 | 3.00 | 2.23 | 4,032,925 |
| April | 3.00 | 2.50 | 25,395,744 | 2.98 | 2.40 | 5,979,890 |
| March | 2.94 | 2.59 | 23,613,736 | 2.93 | 2.63 | 4,694,595 |
| February | 2.97 | 2.53 | 34,796,077 | 2.94 | 2.50 | 4,123,985 |
| January | 3.12 | 2.34 | 36,763,499 | 3.19 | 2.37 | 8,935,315 |

The Company's outstanding debentures are listed for trading on the TSX under the trading symbol "PDL.DB". The 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 |
| **2013** | | | |
| March (1 - 19) | 90.00 | 86.75 | 4,370 |
| January | 95.50 | 88.00 | 49,910 |
| January | 96.10 | 78.00 | 14,280 |
| **2012** | | | |
| December | 90.00 | 79.14 | 7,760 |
| November | 94.25 | 87.00 | 6,250 |
| October | 98.50 | 94.00 | 32,407 |
| September | 99.90 | 94.50 | 64,090 |
| August | 95.00 | 92.00 | 20,730 |
| July 31 | 95.28 | 95.28 | 6,670 |

## 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 May 9, 2013, or when he or she resigns or ceases to be a director by operation of law.

| Name and Municipality of Residence | Position(s) Held | Principal Occupation |
|---|---|---|
| **Steven R. Berlin** (1)(2)<br>Tulsa, Oklahoma, USA | Director | Retired Financial Executive |
| **C. David A. Comba** (1)(3)<br>Burlington, Ontario, Canada | Director | Retired Mining Executive |
| **André J. Douchane** (3)<br>Toronto, Ontario, Canada | Interim CEO and Director | Chief Operating Officer, Mahdia Gold Corporation |
| **Robert J. Quinn** (1)(3)<br>Houston, Texas, USA | Chairman and Director | Partner, Quinn & Brooks LLP |
| **Gregory J. Van Staveren** (1)(2)<br>Toronto, Ontario, Canada | Director | President, Strategic Financial Services |
| **William J. Weymark** (2)(3)<br>West Vancouver, B.C., Canada | Director | President, Weymark Engineering Ltd. |
| **Dave Langille** (4)<br>Richmond Hill, Ontario, Canada | Chief Financial Officer | Chief Financial Officer, North American Palladium Ltd. |
| **Tess Lofsky**<br>Toronto, Ontario, Canada | Vice President, General Counsel and Corporate Secretary | Vice President, General Counsel and Corporate Secretary, North American Palladium Ltd. |
| **David Peck** (5)<br>Brandon, Manitoba, Canada | Head of Exploration | Head of Exploration, North American Palladium Ltd. |
| **Greg Struble**<br>Toronto, Ontario, Canada | Vice President and Chief Operating Officer | Vice President and Chief Operating Officer, 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. Langille joined the Company as Chief Financial Officer, effective January 22, 2013.
(5) Mr. Peck joined the Company as Head of Exploration pursuant to the terms of a Consulting Services Agreement dated March 5, 2012.

*Steven R. Berlin:* Mr. Berlin was appointed to the Board of Directors of the Company in February 2001, and is also a director of Orchids Paper Products, 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 Company's Board of Directors in March 2006. As Chief Exploration Geologist of Falconbridge Limited 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., 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 Company's Board of Directors in April 2003, and served as the President and CEO until January 2006 and currently serves as the Interim Chief Executive Officer of the Company. Mr. Douchane is currently the COO of Mahdia Gold Corporation. He previously held senior positions with several precious and base metal international mining companies including President and CEO of THEMAC Resources Group Limited, President and CEO of Starfield Resources Inc., President and COO 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 of Directors of the Company 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 of Directors of the Company in February 2003. Mr. Van Staveren is a Chartered 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 of Directors of the Company 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 CEO 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.

*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 CFO 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 Accounts 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 Corporate Secretary and Counsel in July 2012, and 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.

*Greg Struble* : Mr. Struble is a mine engineer with over 30 years of experience in underground mining. Most recently, he served as Executive Vice President and Chief Operating Officer of Stillwater Mining Company, where he was responsible for two underground palladium mines as well as smelter and refinery operations. Prior to this, he worked as underground project manager for Barrick Gold's Cortez Hills Joint Venture. Mr. Struble has also worked internationally at a number of large gold mines, including as General Manager of the El Penon mine in Chile and the Jerritt Canyon Mines in Nevada.

**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 327,098, 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., 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 Airlines on December 14, 2004. Ozark Airlines 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. 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. On November 8, 2011, an order was issued by the United States Securities and Exchange Commission revoking the registration of Mercator's common shares in the United States for failing to file periodic reports. On November 8, 2011, the Company filed a Form 40-F registration statement with the Securities and Exchange Commission 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** "), a junior mineral exploration company, 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.

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. 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, it is not possible for the Company to estimate the outcome of the potential action and accordingly, the Company has not recorded any associated provisions within its consolidated financial statements at December 31, 2012.

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, 2010 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 Trust Company of Canada (" **Computershare** ") in respect of the Company's issuance of 43,000 convertible debentures for gross proceeds of $43 million; and

(c) The trust indenture dated as of October 4, 2011 between the Company, the guarantors party thereto and Computershare in respect of the issuance of $72 million of senior secured notes.

## INTERESTS OF EXPERTS

Information relating to the Company's Lac des Iles property in this AIF has been derived from the 2013 LDI Report prepared by Tetra Tech under the supervision of Todd McCracken, Todd Kanhai, Philip Bridson, William Richard McBride, Kevin Small and David N. Penna 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 Kevin Small and David N. Penna who are employees of the Company, is independent from the Company.

None of Tetra Tech, Todd McCracken, Todd Kanhai, Philip Bridson, William Richard McBride, Kevin Small or David N. Penna, 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 Common Shares 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.

***Commodity price fluctuations.***

The Company's earnings are directly related to commodity prices as its revenues are derived from sales of palladium, and to a lesser extent, by gold, platinum, nickel and copper produced from its 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, the availability and cost of substitutes and supply from Russia and South Africa, the two major PGM producing countries. An increased supply of palladium 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 with any accuracy.

If the price for palladium drops, this will affect the Company's financial performance and results of operations adversely. 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 flow. Exchange rate movements can have a significant impact 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. The Company does not currently hedge its foreign exchange exposure against the effects of currency fluctuations. There can be no assurance that 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.

***Future equity or debt Financing.***

The Company may require future financing through the issuance of equity and/or debt to fund its future exploration, development and operations. There can be no assurance that additional

financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise funding to support ongoing operations and to fund capital expenditures or acquisitions may limit the Company's growth or may have a material adverse effect upon the Company. The Company cannot predict the size of future issuances of equity and/or the issuance of debt or the effect, if any, that future issuances and sales of the Company's securities will have on the market price of the Common Shares.

***The exploration and development of the Company's properties could require additional financing.***

The exploration and development of the Offset Zone at the LDI Mine and other properties could require substantial additional financing. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration activities, development or production on any or all of the Company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

***Deterioration of general economic conditions.***

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 and operating costs are estimates, with the estimates in respect of the Lac des Iles property being based on the Company's experience in operating such 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 labour to meet projected production levels. In addition, there may be increased uncertainty as to the Company's ability to achieve or maintain projected production at the LDI Mine 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 operating costs will not be materially higher than anticipated. Failures to meet production levels and operating costs estimates could adversely affect the Company's results of operations.

***Expansion of the Lac des Iles mine.***

There is significant risk involved in the expansion of projects such as the LDI Mine. Project delays may adversely affect expected revenues and cost overruns may adversely affect project economics. The Company's ability to complete the expansion of the LDI Mine 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 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 and other risks that generally apply to the Company.

***Inaccuracy of mineral resource and reserve estimates.***

The calculation of mineral resources, mineral reserves 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 unpredictable. 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 resources or mineral reserves 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 resources, mineral reserves, grade or stripping ratio may affect the economic viability of the Company's properties.

The Company cannot be certain that its mineral resource and reserve estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals. Future production could differ dramatically from such estimates for the following reasons: (1) actual mineralization or ore grade could be different from those predicted by drilling, sampling, feasibility studies or technical reports; (2) increases in the capital or operating costs of the mine; (3) changes in the life-of-mine plan; or (4) 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 if and when operations resume, may adversely affect the Company.

***Decreases in the market price of palladium, gold 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, reduced recovery rates and other factors, may render the present proven and probable reserves unprofitable to develop at a particular site or sites for periods of time.

The 2013 LDI Report for the Lac des Iles property assumes the following long-term prices: For the Roby Zone, Open Pit and Stockpiles US$350 per ounce for palladium, US$1,400 per ounce for platinum, US$850 per ounce for gold, US$6.50 per pound for nickel and US$2.00 per pound for copper; and for the Offset Zone US$675 per ounce for palladium, US$1,675 per ounce for platinum, US$1,750 per ounce for gold, US$8.00 per pound for nickel and US$3.50 per pound for copper. Mineral reserve and resource estimates would be lower than estimated to the extent the actual metal prices are lower than assumed.

***Increased demand for, and cost of, exploration, development and construction services and equipment.***

The overall strength of the metal market has resulted 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 if services or equipment cannot be obtained in a timely manner.

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

As mines have a depleting asset base, the Company actively seeks to replace and expand its mineral resources and mineral reserves through exploration and development, strategic acquisitions and joint ventures. The Company has conducted exploration programs on the Lac des Iles property and elsewhere with the objective of increasing total mineral resources and mineral reserves. 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 resources and mineral reserves to replace current mineral resources and mineral reserves. 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 mining and processing pose operational and environmental risks.***

Mining and processing operations involve many risks and hazards, including, among others: metallurgical and other processing 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 premiums. The Company could also become subject to liability for hazards against which it cannot insure or against which the Company may elect not to insure because of high premium costs or commercial impracticality. 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.

***Failure to achieve or maintain projected production levels for its mining operations.***

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 geological problems; and unanticipated changes in the life-of-mine plan or the ultimate mine design.

***Exploration of Divestiture Opportunities in Respect of the Company's gold assets.***

No assurances can be made that the Company's intention to divest its gold assets will result in the Company pursuing any particular transaction or strategic alternative in respect thereof or that a profit will be obtained if the gold assets were to be divested.

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

As part of its development strategy, the Company intends to 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 acquisition candidates 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 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. Title insurance is generally not available for mineral properties and 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 aboriginal rights claims to the Company's mineral properties will not create delays in project approval, unexpected interruptions in project progress 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 a smelter agreement with Vale and a smelter agreement with Aurubis, which provide for the smelting and refining of the metals contained in the concentrates produced at the Lac des Iles property. The termination of the agreement or the failure to renew the agreement 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 agreement with Vale.

***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, it is expected that new environmental legislation may be implemented in the future with the objective of further protecting human health and the environment. 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 or 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 the exploration, development and production activities. The cost to the Company of obtaining operating 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 Lac des Iles 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 2012, 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 Lac des Iles property are approximately $15.2 million.

The Company's obligations with respect to the eventual clean-up and restoration of these sites is secured by letters of credit. There can be no assurance that the closure and reclamation costs for the LDI Mine, the Vezza mine or the Sleeping Giant mine will not substantially exceed the Company's estimates, or that any 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, toxic substances, explosives, management of natural resources, price controls, land use, water use and taxes. Compliance with this and other 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 Lac des Iles 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 and gold. The Company may not be successful in competing with these existing and emerging PGM and gold 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. While the Company is presently unable to quantify its potential liability under any of the above heads of damage, 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 Lac des Iles property, the Sleeping Giant mine 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 the potential losses, liabilities and damages that could result from the civil and/or regulatory actions referred to above.

***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 Company's credit facility and the Notes provide for events of default, some of which are beyond the Company's control.***

The Company has a credit facility to borrow money to finance its operations. The credit facility and the Notes 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 borrowed under such credit facility or the Notes, as applicable.

***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 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 delay or prevent the Company from developing its projects.***

Completion of the development 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 prevent or delay development of the Company's advanced exploration projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that: the development of the Company's projects will be completed on a timely basis, if at all; the resulting operations will achieve the anticipated production volume; or the ongoing operating costs associated with the development of the Company's advanced projects will not be higher than anticipated.

***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 most recent fiscal year 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 a significant portion of the Company's assets and the assets of a majority 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 *United States 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 charter, ratified by the Board, which describes roles and responsibilities to the members of the Committee.

The Audit Committee mandate is set out in full beginning on page 61.

### *Composition of the Audit Committee*

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

### *Relevant Education and Experience*

Messrs. Berlin, Van Staveren, Comba and Quinn 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. Each of Messrs. Comba and Quinn 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 Accountants, the Company's external auditors for the fiscal years ended December 31, 2012 and 2011, 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 $543,282 and $556,000, respectively.

*Audit-Related Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2012 and 2011 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 $67,000 and $30,000, respectively. 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. In 2011, these fees were paid for services rendered in connection with the 2011 prospectus filings.

*Tax Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2012 and 2011 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were $63,812 and $104,765, respectively. Tax services included preparation of corporate tax returns and review of tax provisions. In 2012, such fees were paid for the preparation of federal/provincial tax returns and other tax compliance and tax advisory services. In 2011, such fees were paid for the preparation of federal/provincial tax returns.

*All Other Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2012 and 2011, 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 l-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, 2012 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.

(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;

(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;

(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 and 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 of Directors 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

| Imperial | Metric |
|---|---|
| 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:

“ **2013 LDI Resort** ” means the new NI 43-101 report titled “Technical Report Lac des Isles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I” dated February 13, 2013 prepared by Tetra Tech WEI Inc.

“ **2750538** ” means 2750538 Canada Inc.

“ **ActLabs** ” means Activate Laboratories Ltd.

“ **Agnico-Eagle** ” means Agnico-Eagle Mines Ltd.

“ **AIF** ” means this Annual Information Form.

“ **Applicable laws** ” means rules of relevant stock exchanges.

“ **AXA** ” means AXA Pacific Insurance Company.

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

“ **By-Law** ” means the advance notice by-law adopted by the Company’s Board of Directors effective February 21, 2013.

“ **BRIC** ” collectively refers to Brazil, Russia, India and China.

“ **Cadiscor** ” means Cadiscor Resources Inc.

“ **catalyst** ” is a substance which, when present in small amounts, modifies the rate or efficiency of a chemical reaction of other substances without being consumed in the process.

“ **catalytic converter** ” means a pollution control device, fitted to the exhaust systems of vehicles powered by internal combustion engines. This device contains platinum, palladium and sometimes rhodium, which assist in the conversion (oxidation) of carbon monoxide and hydrocarbons into carbon dioxide and water.

“ **CBCA** ” means the *Canada Business Corporations Act* .

“ **CDN Resource** ” means CDN Resource Laboratories.

“ **Common Share** ” means the common shares of the Company.

“ **Company** ” means North American Palladium Ltd.

“ **Computershare** ” means Computershare Trust Company of Canada.

“ **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.

“ **CRM** ” means certified reference material.

“ **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.

“ **Davidson** ” means B. R. Davidson Mining & Development Ltd.

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

“ **EGAB** ” means East Gabbro.

“ **Electromagnetic VTEM** ” means Electromagnetic Versatile Time Domain Electro-Magnetics.

“ **ETFs** ” means exchange traded funds.

“ **Exchange Act** ” means the *United States Securities Exchange Act of 1934* , as amended.

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

“ **gabbro** ” means a dark, course-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.

“ **HMDC** ” means Homestake Mineral Development Company.

“ **ICFR** ” means the Company’s internal control over financial reporting.

“ **ICP** ” means inductively coupled plasma.

“ **IEC** ” means International Electrotechnical Commission

“ **IFRS** ” means International Financial Reporting Standards.

“ **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.

“ **IP** ” means induced polarization.

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

“ **ISO** ” means International Standards Organization.

“ **KFOC** ” means Kaiser-Francis Oil Company.

“ **km** $^{2}$ ” means square kilometre.

“ **KPMG** ” means KPMG, LLP Chartered Accountants of Toronto, Ontario.

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

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

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

“ **Midland** ” means Midland Exploration Inc.

“ **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.

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

“ **Mt** ” means million tonnes.

“ **NAP Quebec** ” means NAP Quebec Mines Ltd.

“ **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.

“ **NPI** ” means net profit interest.

“ **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* .

“ **Notes** ” means the $72 million of senior secured notes issued by the Company in October and November 2011 in $1,000 denominations, bearing interest at a rate of 9.25% per year, payable semi annually commencing on March 31, 2012.

“ **NYSE MKT** ” means the NYSE MKT LLC.

“ **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.

“ **OSC** ” means the Ontario Securities Commission.

“ **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.

“ **PdEq** ” means palladium equivalent.

“ **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.

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

“ **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.

“ **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.

“ **Rights Plan** ” means the shareholder rights plan of the Company.

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

“ **RPA** ” means Roscoe Postle Associates Inc.

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

“ **SGS** ” means SGS Minerals Services.

“ **SEC** ” means the United States Securities and Exchange Commission.

“ **Sheridan** ” means John Patrick Sheridan

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

“ **Sitka** ” means Sitka Corp.

“ **SOX** ” means the *Sarbanes Oxley Act* .

“ **SPG** ” means Sheridan Platinum Group Inc.

“ **Starfield** ” means Starfield Resources Inc.

“ **stripping ratio** ” means the ratio of units of waste material required to be removed to facilitate the mining of one unit of economic material.

“ **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.

“ **TSX** ” means the Toronto Stock Exchange.

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

“ **USW** ” means the United Steelworkers of America, Local 9422.

“ **Vale** ” means Vale Canada Limited (formerly Vale Inco Limited).

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

“ **XPS** ” means Xstrata Process Support.

“ **Xstrata** ” means Xstrata Nickel.

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 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, 2012, compared to those of the respective periods in the prior year. This MD&A has been prepared as of February 21, 2013 and is intended to supplement and complement the consolidated financial statements and notes thereto for the year ended December 31, 2012 (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 possibility that metal prices and foreign exchange rates may fluctuate, inherent risks associated with development, exploration, mining and processing including risks to the LDI Mine expansion timeline, environmental hazards, uncertainty of mineral reserves and resources, the risk that the Company may not be able to obtain financing, the possibility that the Lac des Iles 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 Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities. Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this 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 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 flagship LDI Mine located in Ontario, Canada since 1993. LDI is one of only two primary producers of palladium in the world, and is currently undergoing a major expansion to increase production and reduce cash cost per ounce [1] . The Company is also developing the Vezza gold mine located in the Abitibi region of Quebec, which is held for sale.

The Company is expanding the underground LDI Mine to transition 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 has significant exploration potential near the LDI Mine, where a number of growth targets have been identified, and is engaged in a substantial exploration program aimed at increasing its palladium reserves and resources. As NAP pursues its organic growth strategy through the LDI Mine expansion, exploration will continue to be a key focus for the Company for many years to come. 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.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

# KEY HIGHLIGHTS

| (expressed in thousands of dollars except cash cost per ounce, metal units, metal prices and per share amounts) | **2012** | 2011 | 2010 |
|---|---|---|---|
| **FINANCIAL HIGHLIGHTS** | | | |
| **Revenue** | **$ 160,704** | $ 143,659 | $ 84,813 |
| **Unit sales** | | | |
| Palladium (oz) | **161,845** | 146,457 | 95,057 |
| Gold (oz) | **10,950** | 7,256 | 4,023 |
| Platinum (oz) | **11,056** | 9,133 | 4,894 |
| Nickel (lb) | **1,349,664** | 814,551 | 395,622 |
| Copper (lb) | **2,564,740** | 1,593,479 | 658,013 |
| **Earnings** | | | |
| (Loss) income from continuing operations | **$ (11,403)** | $ 4,392 | $ 2,914 |
| (Loss) Income from continuing operations per share | **$ (0.07)** | $ 0.03 | $ 0.02 |
| Net loss | **$ (66,037)** | $ (65,154) | $ (29,409) |
| Net loss per share | **$ (0.39)** | $ (0.40) | $ (0.21) |
| Adjusted net income [1] | **$ 7,709** | $ 14,331 | $ 6,720 |
| EBITDA [1] | **$ (45,248)** | $ (53,497) | $ (17,073) |
| Adjusted EBITDA [1] | **$ 28,498** | $ 25,988 | $ 19,056 |
| **Cash flow provided by (used in) operations** | **$ 55,249** | $ 31,622 | $ (73,750) |
| Cash flow provided by (used in) continuing operations before changes in non-cash working capital [1] | **$ 15,594** | $ 15,598 | $ 10,007 |
| Cash flow provided by (used in) continuing operations before changes in non-cash working capital per share [1] | **$ 0.09** | $0.10 | $ 0.07 |
| **Capital spending, continuing operations** | **$ 145,180** | $ 148,309 | $ 35,732 |
| **OPERATING HIGHLIGHTS** | | | |
| **Production** | | | |
| Palladium (oz) | **163,980** | 146,624 | 95,057 |
| Gold (oz) | **11,106** | 7,267 | 4,023 |
| Platinum (oz) | **11,187** | 9,143 | 4,894 |
| Nickel (lb) | **1,348,179** | 816,037 | 395,622 |
| Copper (lb) | **2,592,748** | 1,596,185 | 658,013 |
| **Realized metal prices per ounce** | | | |
| Palladium (US$) | **$ 640** | $ 733 | $ 665 |
| Gold (US$) | **$ 1,677** | $ 1,534 | $ 1,208 |
| **Cash cost per ounce [1]** | | | |
| Palladium (US$) | **$ 401** | $ 448 | $ 283 |

*[1] Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

## FINANCIAL CONDITION

| (expressed in thousands of dollars) | **As at December 31 2012** | As at December 31 2011 | As at December 31 2010 |
|---|---|---|---|
| Net working capital | **$ 32,563** | $ 108,432 | $ 169,559 |
| Cash balance | **$ 20,168** | $ 50,935 | $ 75,159 |
| Shareholders' equity | **$ 246,900** | $ 268,996 | $ 290,450 |
| **Total debt** | **$ 130,395** | $ 70,230 | $ 2, 391 |

## EXECUTIVE SUMMARY

### Financial Highlights

Revenue for the year ended December 31, 2012 was $160.7 million, compared to $143.7 million in the prior year. In 2012, revenue increased from the palladium operations by $17.0 million. Net loss for the year was $66.0 million, including a $54.6 million loss from the discontinued gold operations, which included a non-cash gold asset impairment charge of $56.0 million, or $0.39 per share and Adjusted EBITDA [1] was $28.5 million, compared to a net loss, including a non-cash gold asset impairment charge of $49.2 million, of $65.2 million or $0.40 per share and Adjusted EBITDA [1] of $26.0 million in the prior year. For 2012, adjusted net income [1] was $7.7 million, compared to adjusted net income [1] of $14.3 million in the prior year. The Company's operating activities provided cash of $15.6 million, before changes in non-cash working capital [1] .

### Balance Sheet

As at December 31, 2012, the Company had approximately $32.6 million in working capital, including $20.2 million of cash on hand. As at December 31, 2012, the Company had US$27.5 million available on its US$60.0 million credit facility.

### Investment in Growth

For the year ended December 31, 2012, the Company invested $14.5 million in exploration activities and $145.2 million in development expenditures at its palladium operations.

### LDI Mine Palladium Production

The LDI Mine produced 163,980 ounces of payable palladium for the year ended December 31, 2012, exceeding management's annual production guidance of 150,000 to 160,000 ounces. During the year, 2,063,260 tonnes of ore were processed by the LDI mill at an average palladium head grade of 3.44 grams per tonne, with a palladium recovery of 78%. For 2012, LDI's palladium cash cost per ounce [1] (net of byproduct credits) was US$401.

Production at the LDI Mine in 2012 included the blending of higher grade underground ore (853,600 milled tonnes with an average palladium grade of 5.19 grams per tonne) with lower grade surface ore (1,209,660 milled tonnes with an average palladium grade of 2.21 grams per tonne).

### LDI Mine Expansion Update

In 2012, mine expansion expenditures totaled $127.5 million, excluding capitalized interest of $8.0 million. Development work in 2012 was focused on completing the surface construction activities, advancing underground development (including mine level development and setting up mining stopes) and sinking the shaft.

*[1] Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

By year end, the Company made significant progress advancing the critical aspects of its mine expansion. On surface, the major construction components are now completed. The headframe, the main substation, the hoist house building, the service hoist (which is used for shaft sinking) and the auxiliary hoist are all fully operational and 100% completed. The installation of the production hoist has commenced and commissioning is scheduled for the first quarter of 2013. The remaining work on surface includes the installation of the main skip dump and the surface ore bins.

Underground, shaft sinking is progressing well, in line with the Company's scheduled rates of advancement. The shaft sinking is currently at a depth of 550 metres below surface, representing almost 67% of the total 825 metres planned for the first phase of the shaft sinking. Installation of the 740-metre level loading pocket is scheduled for the first quarter of 2013, and the ramp and stope development is also progressing on schedule. The Company maintains its development timeline to begin hoisting mineralized material via shaft by the end of the third quarter of 2013.

**Gold Division Update**

The Company continues to evaluate opportunities for the divesture of its gold assets and undertakings located in Quebec, which are held by NAP Quebec Mines Ltd., including the Sleeping Giant gold mine and mill complex, the Vezza gold mine and the other exploration projects including the Flordin property and the Discovery project, and all associated rights, privileges, agreements, permits and associated infrastructure and equipment. As part of the Company's ongoing consideration of opportunities for divestiture, which provided an indication of the value of these assets in late 2012, the Company believes that the current value of such assets is likely less than their book value. In anticipation of a potential sale, the Company recorded a non-cash impairment charge on its gold assets of $56.0 million, as reflected in the year end 2012 financial results.

In 2012, the Company continued to advance its Vezza gold project and commenced mining the initial test stope panels in late Q1 and Q2. Early results were not favorable with regards to dilution so the mining method was changed from Alimak stoping to long hole benching. As at year end, the stoping conversion is virtually complete with dilution results significantly improved. Due to these changes, as well as the desire to divest of the gold division, mining rates were slowed to achieve a balance between production rates and development requirements as the assets were prepared for sale. In 2012, capitalized expenditures at the Company's Vezza gold project totaled $26.3 million.

**Exploration**

In 2012, the Company expensed $14.5 million in exploration costs and capitalized an additional $1.6 million associated with the LDI Mine expansion. In 2012, 229 holes were drilled totaling 50,148 metres. Exploration work in 2012 was predominately focused on underground exploration targeting the Offset Zone (infill drilling and testing Offset Zone extensions towards surface, at depth, and south) and surface exploration targeting the Sheriff Zone and the North VT Rim.

**Palladium Market Outlook**

Palladium spot prices averaged US$640 per ounce in 2012, ranging from a low of US$556 per ounce, to a high of US$719 per ounce. The price volatility seen in 2012 was largely driven by the uncertainty of the European debt crisis earlier in the year, however market sentiment recovered later in the year as the long term supply and demand fundamentals of palladium remained strong. The general consensus of the leading forecasters is that palladium prices will rise. Their outlook for palladium over the next ten years predicts a return to historically high prices, strong fabrication and investment demand, and constrained supply.

## Selected Annual Information

| (expressed in thousands of dollars, except per share amounts) | **2012** | 2011 | 2010 |
|---|---|---|---|
| Revenue | **$ 160,704** | $ 143,659 | $ 84,813 |
| Income from mining operations | **15,691** | 28,404 | 24,365 |
| Loss from discontinued operations | **(54,634)** | (69,546) | (32,323) |
| Net loss | **(66,037)** | (65,154) | (29,409) |
| Net loss per share – basic and diluted | **(0.39)** | (0.40) | (0.21) |
| (Loss) income from continuing operations per share – basic and diluted | **(0.07)** | 0.03 | 0.02 |
| Cash flow provided by (used in) operations prior to changes in non-cash working capital [1] | **15,594** | 15,598 | 10,007 |
| Total assets | **471,232** | 416,045 | 348,437 |
| Total non-current liabilities | **129,155** | 95,595 | 15,932 |

For the year ended December 31, 2011, revenue was $143.7 million compared to $84.8 million in the prior year. Income from mining operations for the year ended December 31, 2011 was $28.4 million compared to $24.4 million in the prior year. Production from LDI was successfully restarted in April 2010 after being temporarily placed on care and maintenance in October 2008 due to low metal prices.

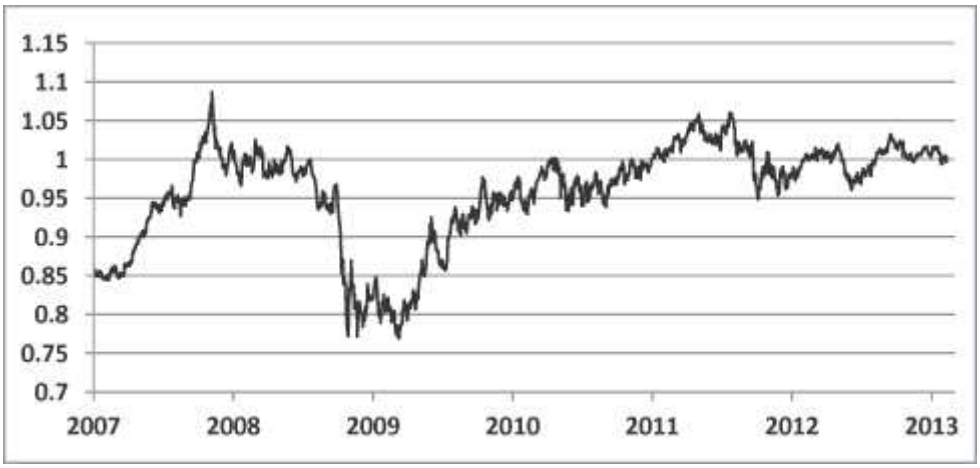
## Metal Prices and Foreign Exchange

Palladium Price (US$/Troy oz)

During 2012, the palladium price averaged US$640 per ounce, ranging from a low of US$556 to a high of US$719 per ounce. As of February 21, 2013, the palladium price was US$722 per ounce.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

Canadian dollar exchange rate (CDN$1=US$)




During 2012, the average Canadian dollar exchange rate was $1.00, ranging from a low of $0.98 to a high of $1.03 to the U.S. dollar. The Canadian dollar closed 2012 at $1.01 to the U.S. dollar, compared to $0.98 at the end of 2011. As of February 21, 2013, the Canadian dollar exchange rate was $0.98.

**NAP Realized Metal Prices and Exchange Rates**

| | **2012** | 2011 |
|---|---|---|
| Palladium – US$/oz | **$ 640** | $ 733 |
| Platinum – US$/oz | **$ 1,557** | $ 1,725 |
| Gold – US$/oz | **$ 1,677** | $ 1,534 |
| Nickel – US$/lb | **$ 7.81** | $ 10.52 |
| Copper – US$/lb | **$ 3.58** | $ 4.06 |
| Average exchange rate – CDN$1 = US$ | **$ 1.00** | $ 1.01 |

Realized metal prices in the chart above represent the weighted average metal prices on amounts settled from smelters for final outturn of metals during the year.

**Spot Metal Prices* and Exchange Rates**

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

| | **Dec-31 2012** | Sep-30 2012 | Jun-30 2012 | Mar-31 2012 | Dec-31 2011 | Sep-30 2011 | Jun-30 2011 | Mar-31 2011 |
|---|---|---|---|---|---|---|---|---|
| Palladium – US$/oz | **$ 699** | $ 642 | $ 578 | $ 651 | $ 636 | $ 614 | $ 761 | $ 766 |
| Gold – US$/oz | **$ 1,664** | $ 1,776 | $ 1,599 | $ 1,663 | $ 1,575 | $ 1,620 | $ 1,506 | $ 1,439 |
| Platinum – US$/oz | **$ 1,523** | $ 1,668 | $ 1,428 | $ 1,640 | $ 1,381 | $ 1,511 | $ 1,722 | $ 1,773 |
| Nickel – US$/lb | **$ 7.75** | $ 8.40 | $ 7.46 | $ 7.91 | $ 8.28 | $ 8.30 | $ 10.48 | $ 11.83 |
| Copper – US$/lb | **$ 3.59** | $ 3.75 | $ 3.44 | $ 3.83 | $ 3.43 | $ 3.24 | $ 4.22 | $ 4.26 |
| Exchange rate (Bank of Canada) – CDN$1 = US$ | **US$1.01** | US$1.02 | US$0.98 | US$1.00 | US$0.98 | US$0.96 | US$1.04 | US$1.03 |

** Based on the London Metal Exchange*

## PALLADIUM OPERATIONS – FINANCIAL, OPERATING & DEVELOPMENT RESULTS

The LDI Mine consists of an open pit, an underground mine, and a mill with a processing capacity of approximately 15,000 tonnes per day. The primary deposits on the property are the Roby Zone open pit, the underground Roby Zone and the underground Offset Zone, all disseminated magmatic palladium-platinum group metal deposits.

In 2012, underground ore production from the LDI Mine operated on average at approximately 2,200 tonnes per day, seven days a week, on two 12-hour shifts per day. At year end, the LDI Mine and mill had a workforce of approximately 320 employees, some of which are unionized and are subject to a three year agreement that expires in May, 2015.

### Financial Results

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

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| **Revenue** | **$ 160,704** | $ 143,659 |
| **Mining operating expenses** | | |
| Production costs | **$ 100,802** | $ 89,657 |
| Smelting, refining and freight costs | **13,679** | 9,206 |
| Royalty expense | **6,720** | 5,819 |
| Other | **3,813** | 1,352 |
| Depreciation and amortization | **19,706** | 10,144 |
| (Gain) loss on disposal of equipment | **293** | (923) |
| Total mining operating expenses | **$ 145,013** | $ 115,255 |
| **Income from mining operations** | **$ 15,691** | $ 28,404 |

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

#### *Revenue*

Revenue is affected by sales volumes, commodity prices and currency exchange rates. Metal sales for LDI are recognized in revenue at provisional prices when delivered to a smelter for treatment or 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 will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues. The Company enters into financial contracts for past production delivered to the smelter to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium and gold prices and an appreciating Canadian dollar. These financial contracts represent 55,000 ounces of palladium as at December 31, 2012 and mature from January 2013 through May 2013 at an average forward price of $640 per ounce of palladium. For substantially all of the palladium delivered to the customer under the smelter agreement, 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, 2012 was a liability of $3.2 million included in accounts payable and accrued liabilities (December 31, 2011 – $2.0 million asset included in accounts receivable).

Sales volumes of LDI's major commodities are set out in the table below.

| | **2012** | 2011 |
|---|---|---|
| **Sales volumes** | | |
| Palladium (oz) | **161,845** | 146,457 |
| Gold (oz) | **10,950** | 7,256 |
| Platinum (oz) | **11,056** | 9,133 |
| Nickel (lbs) | **1,349,664** | 814,551 |
| Copper (lbs) | **2,564,740** | 1,593,479 |
| Cobalt (lbs) | **12,368** | 20,839 |
| Silver (oz) | **7,347** | 3,752 |

Revenue from metal sales from the palladium operations is set out in the table below.

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| Revenue before pricing adjustments | **$ 161,286** | $ 148,480 |
| Pricing adjustments | **(582)** | (4,821) |
| Revenue after pricing adjustments | **$ 160,704** | $ 143,659 |
| **Revenue by metal** | | |
| Palladium | **$ 104,501** | $ 104,004 |
| Gold | **18,567** | 11,971 |
| Platinum | **17,798** | 13,867 |
| Nickel | **10,225** | 7,585 |
| Copper | **9,216** | 5,804 |
| Other metals | **397** | 428 |
| | **$ 160,704** | $ 143,659 |

For the year ended December 31, 2012, revenue before pricing adjustments was $161.3 million, compared to $148.5 million in 2011. The increased revenue in 2012 was primarily due to increased revenue from non-palladium payable metals and an increase in the quantity of palladium ounces sold, partially offset by lower realized prices.

***Operating Expenses from Continuing Operations***

For the year ended December 31, 2012, operating expenses were $145.0 million, compared to $115.3 million in 2011. The increase in operating expenses in 2012 resulted primarily from mining and processing more physical tonnage (restart of the Roby open pit) and also from higher costs of contractor labour, power, parts and supplies, and fuel charges.

Cash cost per ounce [1] of palladium sold, was US$401 for the year ended December 31, 2012 (2011 – US$448).

Due to the Company's commitment to a comprehensive energy management plan, the Company qualified for the Ontario government's Northern Industrial Electricity Rate ("NIER") program to receive electricity price rebates of two cents per kilowatt hour. In the second quarter of 2011, the Company was accepted into the program. For the year ended December 31, 2012, a rebate of $3.4 million was received ($4.2 million, including a retroactive rebate of $1.9 million for LDI's electricity costs for the period April 1, 2010 through March 31, 2011, was received for the year ended December 31, 2011). The rebate was treated as a reduction of operating expenses. The Company expects to continue to meet the eligibility criteria such that LDI will be entitled to receive additional quarterly rebates until March 2013 (and possibly longer, as the Ontario government intends to extend the NIER program).

Smelting, refining and freight costs for the year ended December 31, 2012 were $13.7 million compared to $9.2 million in 2011. The increase over the prior year is primarily due to more tonnes of concentrate sold and higher smelting and refining charges associated with the current smelter contracts compared to the previous contracts.

For the year ended December 31, 2012, royalty expense was $6.7 million compared to $5.8 million in the prior year. Royalty expense was higher in the current year due to higher revenue, net of higher smelting and refining, and freight charges in the current year.

Depreciation and amortization at the LDI Mine for the year ended December 31, 2012 was $19.7 million, compared to $10.1 million for the year ended December 31, 2011. The increase over the prior year is due to a significant increase in depreciable assets associated with the LDI Mine expansion.

Other charges at the LDI Mine in 2012 were $3.8 million, compared to $1.4 million in the prior year. These additional costs are related to dewatering and repairing the damage caused by flooding due to two unprecedented rainfalls in the Thunder Bay region in the second and third quarters of 2012, and are reflected in the financial statements as Other expenses. These costs were excluded from the cash cost per ounce [1] of US$401. Following these rainstorms, the Company made several improvements to LDI's water management systems which are expected to limit the impact of flooding to underground operations in the future.

In 2012, the Company also capitalized $7.7 million related to necessary upgrades to its tailings management facility ("TMF"). Due to the two severe rainstorms, the extra water pumped to the TMF accelerated the timeline for the upgrades to the TMF that were previously planned for 2013.

**Operating Results**

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

| | **2012** | 2011 |
|---|---|---|
| Tonnes of ore milled | **2,063,260** | 1,689,781 |
| **Production** | | |
| Palladium (oz) | **163,980** | 146,624 |
| Gold (oz) | **11,106** | 7,267 |
| Platinum (oz) | **11,187** | 9,143 |
| Nickel (lbs) | **1,348,179** | 816,037 |
| Copper (lbs) | **2,592,748** | 1,596,185 |
| Palladium head grade (g/t) | **3.44** | 3.70 |
| Palladium recoveries (%) | **78.4** | 78.3 |
| Tonnes of ore mined | **2,051,563** | 1,830,234 |
| Total cost per tonne milled | **$ 49** | $ 54 |
| Cash cost per ounce of palladium sold (US$) [1] | **$ 401** | $ 448 |

***LDI Mine***

Production during 2012 at the LDI Mine included the blending of higher grade underground ore with lower-grade surface ore. During the year ended December 31, 2012, 2,051,563 tonnes of ore was extracted (2011 – 1,830,234).

***LDI Mill***

For the year ended December 31, 2012, the mill processed 2,063,260 tonnes of ore, producing 163,980 ounces of payable palladium at an average palladium head grade of 3.44 grams per tonne, palladium recovery of 78.4% (2011 – 1,689,781 tonnes processed, at an average grade of 3.70 grams per tonne, with a palladium recovery of 78.3% producing 146,624 ounces). Production costs of $49 per tonne milled for the year ended December 31, 2012 were lower, compared to $54 per tonne in 2011, due primarily to more tonnage being produced and processed in the year. To improve efficiencies and minimize processing costs, the mill is operating on a batch basis, with a two-week operating and a two-week non-operating schedule.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

LDI's cash cost per ounce [1] was US$401 for the year ended December 31, 2012, compared to US$448 per ounce in the prior year.

***LDI Mine Expansion***

The Company is currently expanding the LDI Mine to transition from mining via ramp access to mining via shaft while utilizing bulk mining methods. The objective of the mine expansion is to access the deeper and new ore zones that are less economical to mine via a ramp system. With a shaft access infrastructure, future production can be increased at a lower cash cost per ounce [1].

Development work in 2012 was focused on completing the surface construction activities, advancing underground development, stoping panel setup and shaft sinking activities.

By 2012 year end, the Company had made significant progress advancing the critical aspects of its mine expansion, including:

- On surface, the major construction components are now completed. The headframe, the main substation, the hoist house building, the service hoist (which is used for shaft sinking) and the auxiliary hoist are all fully operational and 100% completed. The installation of the production hoist has commenced and commissioning is scheduled for the first quarter of 2013.
- The remaining work on surface includes the installation of the main skip dumps and the surface ore bins and the installation of the back fill plant scheduled for 2014.
- Underground, shaft sinking is progressing well, in line with the Company's scheduled rates of advancement. The shaft sinking is at a depth of 550 metres below surface, representing almost 67% of the total 825 metres planned for the first phase of the shaft sinking. Installation of the 740-metre level loading pocket is scheduled for the first quarter of 2013, and the ramp and stope development is also progressing on schedule.
- The Company maintains its development timeline to begin mining via shaft in the third quarter of 2013.

In the year ended December 31, 2012, $127.5 million was invested in the mine expansion, excluding capitalized interest of $8.0 million.

## GOLD OPERATIONS – FINANCIAL, OPERATING & DEVELOPMENT RESULTS

NAP's gold division consists of the developing 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. In 2012, the Company commenced a process to explore divestiture opportunities for its gold assets. In anticipation of a potential sale, the Company recorded a non-cash impairment charge on its gold assets, which are held for sale, of $56.0 million.

The mine production for the year ended December 31, 2012 is from the remaining ore from the Sleeping Giant mine during the first quarter, prior to the suspension of operations on January 17, 2012. Until the Vezza mine reaches commercial production, all costs (net of pre-production revenue from gold sales) will be capitalized.

*[1] Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

## Financial Results

The following table summarizes the mining operations for the Sleeping Giant mine and excludes the Vezza development project results, where all costs are being capitalized until commercial production has been achieved.

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| **Revenue** | **$ 3,004** | $ 26,813 |
| **Mining operating expenses** | | |
| Production costs | **$ 2,153** | $ 31,601 |
| Smelting, refining and freight costs | **16** | 54 |
| Depreciation and amortization | **199** | 7,460 |
| Gold assets impairment charge | **56,023** | 49,210 |
| Gold mine closure, care and maintenance costs | **1,463** | - |
| Gain on disposal of equipment | **(435)** | (27) |
| Total mining operating expenses | **$ 59,419** | $ 88,298 |
| **Loss from mining operations** | **$ (56,415)** | $ (61,485) |

The Company has included loss from mining operations as an additional IFRS measure to provide the user with information of the actual results of operations for each reporting segment.

### *Revenue*

Metal sales for the Sleeping Giant gold mine were recognized when metal was sold to a third party. Sales volumes are set out in the table below.

| | **2012** | 2011 |
|---|---|---|
| **Sales volumes** | | |
| Gold (oz) | **1,663** | 17,019 |
| Silver (oz) | **2,578** | 31,150 |

As operations for the Sleeping Giant gold mine were suspended at the beginning of 2012 and pre-production revenue from the Vezza gold mine was capitalized, revenue was $3.0 million for the year ended December 31, 2012, compared to $26.8 million in the prior year, reflecting gold sales of 1,663 ounces with an average realized price of US$1,762 per ounce (2011 – 17,019 ounces with an average realized price of US$1,531).

### *Operating Expenses*

For the year ended December 31, 2012, total production costs at the Sleeping Giant gold mine were $2.2 million as compared to $31.6 million in 2011 due to mine operations ceasing at the beginning of 2012.

Depreciation and amortization for the gold operations was $0.2 million for the year ended December 31, 2012 compared to $7.5 million in the prior year due to mine operations ceasing at the beginning of 2012.

As a result of the Company's decision to cease mining operations at Sleeping Giant and restructure the gold division, closure costs and care and maintenance costs of $1.5 million (primarily severance) were recorded during the year ended December 31, 2012. As part of the Company's active consideration of opportunities for divestiture of its gold assets, which has provided an indication of the value of these assets, the Company believes that the current value of these assets is likely significantly less than their book value. Accordingly, the Company has incurred a non-cash impairment charge of $56.0 million. As a result of the Company's decision to cease mining operations at Sleeping Giant and restructure the gold divisions, a gold asset impairment charge of $49.2 million was recorded during the year ended December 31, 2011.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

**Operating Results**

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

| | **2012** | 2011 |
|---|---|---|
| Tonnes of ore milled | **6,369** | 74,154 |
| **Production** | | |
| Gold (oz) | **1,199** | 14,623 |
| Gold head grade (g/t) | **6.14** | 6.36 |
| Gold recoveries (%) | **95.4** | 96.4 |
| Tonnes of ore hoisted | **6,369** | 73,701 |
| Total cost per tonne milled | **$ 339** | $ 426 |

***Sleeping Giant Mine***

As operations for the Sleeping Giant gold mine were suspended at the beginning of 2012, 6,369 tonnes of ore were hoisted with an average gold grade of 6.14 grams per tonne for the year ended December 31, 2012, compared to 73,701 tonnes of ore hoisted from the underground mine in the prior year with an average gold grade of 6.36 grams per tonne.

Production costs per tonne of ore milled were $339 for the year ended December 31, 2012 (2011 – $426 per tonne).

***Sleeping Giant Mill***

For the year ended December 31, 2012, the mill processed 6,369 tonnes of ore, producing 1,199 ounces of gold at an average gold head grade of 6.14 grams per tonne, with a gold recovery of 95.4% and mill availability of 98.9% (2011 – 74,154 tonnes of ore, at an average gold head grade of 6.36 grams per tonne, with a gold recovery of 96.4% and mill availability of 98.9% producing 14,623 ounces of gold).

At December 31, 2012, the mill contained approximately 2,137 ounces (2011 – 2,742 ounces from Sleeping Giant) of gold being processed from Vezza that was included in inventory and valued at net realizable value. Despite the closure of the Sleeping Giant mine, the mill continued to operate to process ore from the nearby Vezza project.

***Vezza Gold Project***

In 2012, the Company continued to advance its Vezza gold project and commenced mining the initial test stoping panels in late Q1 and Q2. Early results were not favorable with regards to dilution so the mining method was changed from Alimak stoping to a modified long hole benching technique. As at year end, the stoping conversion is virtually complete with dilution results significantly improved. Due to this delay toward commercial production, mining rates were slowed to achieve a balance between production rates and development requirements. In 2012, capitalized expenditures at the Company's Vezza gold project totaled $23.8 million.

The Company continues to evaluate opportunities for the divesture of its gold division assets and undertakings.

# CONSOLIDATED FINANCIAL RESULTS

### General and administration

The Company's general and administration expenses for the year ended December 31, 2012 were $12.0 million, compared to $12.2 million in the prior year. The decrease is primarily due to decreased staff at the Corporate head office.

### Exploration

Exploration expense for the year ended December 31, 2012 was $14.5 million compared to $9.9 million in the prior year. The increase primarily reflects $4.6 million of increased exploration in Ontario compared with the prior year. Exploration expenditures are comprised as follows:

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| **Palladium operations** | | |
| Ontario exploration projects* | **$ 14,408** | $ 9,834 |
| Corporate and other** | **105** | 105 |
| Total exploration expenditures | **$ 14,513** | $ 9,939 |

* *Ontario exploration projects include the LDI Mine Block intrusion, comprising the Roby, Offset, Cowboy, Sheriff, Baker, Creek and North VT Rim mineralized zones and the South LDI and South VT Rim target areas, the North Lac des Iles intrusive complex, several greenfields PGM properties in the LDI region, and two greenfields Au properties in the LDI-Thunder Bay region (Salmi Lake, Shabaqua).*

** *Corporate and other includes the Shebandowan Ni project (joint venture with Vale).*

### Interest expense & other costs and other income

Interest expense & other costs and other income for the year ended December 31, 2012 was a net expense of $1.1 million compared to income of $0.3 million in the prior year. The current year net balance includes an accretion expense of $3.0 million, an interest on finance leases of $0.8 million and other interest expense of $ 0.6 million, partially offset by a gain on the renouncement of flow-through expenditures of $1.6 million, an unrealized gain on palladium warrants of $0.9 million, a gain or revaluation of debt of $0.8 million, and interest income of $0.2 million. The prior year balance includes a gain on renouncement of flow-through expenditures of $1.8 million and interest income of $0.9 million, partially offset by financing costs of $0.8 million, accretion expense of $0.7 million, unrealized loss in palladium warrants of $0.5 million and other items of $0.5 million.

### Income and Mining Tax Expense (Recovery)

The income and mining tax expense (recovery) for the years ended December 31 are provided as follows:

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| **LDI palladium mine** | | |
| Ontario transitional tax debit | **$ -** | $ 2,388 |
| | **$ -** | $ 2,388 |
| **Corporate and other** | | |
| Expiration of warrants | **-** | $ (555) |
| | **-** | $ (555) |
| Income and mining tax expense | **$ -** | $ 1,833 |

For the year ended December 31, 2012, income and mining tax expense was $Nil compared to $1.8 million in the same period in 2011. The prior year balance includes Ontario transitional tax debits ($2.4 million) partially offset by the tax recovery on the expiration of Series B warrants ($0.6 million).

## Summary of Quarterly Results

| (expressed in thousands of Canadian dollars except per share amounts) | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue | **$ 42,368** | $ 36,193 | $ 40,563 | $ 41,580 | $ 37,205 | $ 32,689 | $ 44,329 | $ 29,436 |
| Production costs | **23,937** | 24,257 | 27,214 | 25,394 | 25,990 | 22,497 | 21,131 | 20,039 |
| Exploration expense | **5,961** | 2,604 | 2,764 | 3,184 | 2,390 | 1,742 | 3,883 | 1,924 |
| Capital expenditures | **41,810** | 34,088 | 32,072 | 37,210 | 44,446 | 39,673 | 31,450 | 32,740 |
| Net income (loss) from continuing operations | **(3,739)** | (5,908) | (1,903) | 147 | (4,343) | 356 | 10,746 | (2,367) |
| Cash provided by (used in) operations | **39,045** | 5,174 | 4,833 | 6,197 | (147) | 16,232 | 6,362 | 9,175 |
| Cash provided by (used in) financing activities | **2,299** | 35,280 | 46,712 | 6,201 | 69,433 | 71 | 7,897 | 61,256 |
| Cash provided by (used in) investing activities | **(41,831)** | (33,864) | (31,829) | (37,131) | (43,864) | (38,822) | (30,998) | (32,740) |
| Net income (loss) per share from continuing operations – basic | **$ (0.02)** | $ (0.03) | $ (0.01) | $ (0.00) | $(0.03) | $ (0.00) | $ 0.07 | $ (0.01) |
| Net income (loss) per share from continuing operations – diluted | **(0.02)** | (0.03) | (0.01) | (0.00) | (0.03) | (0.00) | 0.07 | (0.01) |
| Cash provided by (used in) operations prior to changes in non-cash working capital per share [1] | **0.03** | 0.00 | 0.03 | 0.03 | (0.01) | 0.03 | 0.08 | (0.01) |
| Tonnes milled | **511,226** | 504,022 | 528,068 | 519,944 | 531,825 | 442,253 | 377,857 | 337,846 |
| Palladium sold (ounces) | **44,394** | 36,218 | 42,285 | 38,948 | 35,116 | 34,524 | 46,362 | 30,455 |

Revenue for the three months ended December 31, 2012 was $42.4 million compared to $37.2 million for the three months ended December 31, 2011. Net loss for the quarter, was $3.7 million or $0.02 per share compared to a net loss of $4.3 million or $0.03 per share in the comparative period in 2011.

For the three months ended December 31, 2012, the Company expensed $6.0 million in exploration activities compared to $2.4 million in 2011 and $41.8 million in development expenditures at its palladium operations. For the three months ended December 31, 2012, the Company's operations provided cash, before changes in non-cash working capital, of $5.2 million compared to cash used in operations, before changes in non-cash working capital, of $1.7 million for the same period in 2011. For the three months ended December 31, 2012, financing activities provided cash of $2.3 million, compared to cash provided by financing activities in 2011 of $69.4 million, primarily consisting of $69.7 million related to the issuance of senior secured notes. Investing activities required cash of $41.8 million for the three months ended December 31, 2012 compared to $43.9 million required for investing activities in the comparative period in 2011.

The LDI Mine produced 44,294 ounces of payable palladium for the three months ended December 31, 2012 compared to 34,121 ounces of payable palladium for the comparative period in 2011. During the fourth quarter of 2012, 511,226 tonnes of ore processed by the LDI mill (2011 – 531,825 tonnes).

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 27-29.*

# FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

## Sources and Uses of Cash

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| Cash provided by operations prior to changes in non-cash working capital | **$ 15,594** | $ 15,598 |
| Changes in non-cash working capital | **39,655** | 16,024 |
| Cash provided by operations | **55,249** | 31,622 |
| Cash provided by financing | **90,492** | 138,660 |
| Cash used in investing | **(144,654)** | (146,425) |
| Increase in cash from continuing operations | **1,087** | 23,857 |
| Net cash used in discontinued operations | **(31,301)** | (48,081) |
| Reclassification of cash to assets held for sale | **(553)** | (71) |
| Decrease in cash and cash equivalents | **$ (30,767)** | $ (24,295) |

### *Operating Activities*

For the year ended December 31, 2012, cash provided by operations prior to changes in non-cash working capital was $15.6 million, unchanged from cash provided by operations of $15.6 million in the prior year.

For the year ended December 31, 2012, changes in non-cash working capital resulted in a source of cash of $39.7 million compared to a source of cash of $16.0 million in the prior year. The 2012 balance of $39.7 million is primarily due to a decrease in accounts receivable ($22.4 million), an increase in accounts payable and accrued liabilities ($22.4 million), partially offset by an increase in inventories ($2.4 million), an increase in other assets ($1.8 million) and a decrease in other financial liabilities ($0.9 million).

### *Financing Activities*

For the year ended December 31, 2012, financing activities provided cash of $90.5 million consisting of $40.8 million related to the issuance of convertible debentures, $36.4 million related to the issuance of flow-through common shares, $15.3 million from drawdown on credit facility and $11.2 million drawdown on capital lease facility, partially offset by repayments of finance leases of $4.8 million and interest payments of $8.5 million. This compared to cash provided by financing activities of $138.7 million in the prior year consisting of $61.9 million related to the exercise of warrants, issuance of flow-through common shares and $69.7 million related to the issuance of senior secured notes and refund of reclamation deposit of $8.8 million, partially offset by net scheduled repayments and additions of $1.7 million of finance leases.

Anticipated operating cash flows and net proceeds on disposal of the gold division are not expected to provide sufficient cash to fund capital expenditures anticipated for 2013, therefore the Company plans to access the capital markets. The Company believes the debt and equity markets are currently available to finance this funding requirement. In the event access to the capital markets is unavailable, the Company will review its options to preserve cash resources.

### *Investing Activities*

For the year ended December 31, 2012, investing activities required cash of $144.7 million primarily due to additions to mining interests of $145.2 million. For the year ended December 31, 2011, investing activities required cash of $146.4 million, primarily due to additions to mining interests of $148.3 million. The majority of the additions to mining interests were attributable to LDI's mine expansion project.

**Additions to mining interests**

Additions to mining interests are comprised as follows:

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| **Palladium operations** | | |
| Offset Zone development | **$ 130,408** | $ 131,322 |
| Offset Zone exploration costs | **2,687** | 9,216 |
| Tailings management facility | **7,750** | 821 |
| Other equipment and betterments | **4,335** | 6,950 |
| | **$ 145,180** | $ 148,309 |

In addition to the mining interests acquired by cash reflected in the table above, the Company also acquired equipment by means of finance leases. For the year ended December 31, 2012, $12.5 million of equipment was acquired by means of finance leases compared to $3.7 million in the prior year.

During the year, the Company issued 13,725,000 flow-through common shares at an average price of $2.84 per share for net proceeds of $36.4 million. The Company is required to spend the gross proceeds of $39.0 million on eligible exploration and mine development expenditures, which expenditures are expected to be renounced to investors for the 2012 tax year. As at December 31, 2012, $36.9 million was spent. The remaining $2.1 million commitment will be spent by March 31, 2013.

**Capital Resources**

As at December 31, 2012, the Company had cash and cash equivalents of $20.2 million compared to $50.9 million as at December 31, 2011. The decrease is due primarily to the investment in LDI's mine expansion and the Vezza gold project held for sale net of financing and cash from operations. The funds are invested in short term interest bearing deposits at a major Canadian chartered bank.

The Company has 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. Under the credit agreement, the Company utilized US$17.3 million for letters of credit primarily for reclamation deposits and has taken a drawdown of US$15.2 million, leaving US$27.5 million available at December 31, 2012.

During 2012, the Company established a $15.0 million capital 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.

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 is required to spend the gross proceeds of $4.0 million on eligible exploration and mine development expenditures, which expenditures are expected to be renounced to investors for the 2012 tax year. As at December 31, 2012, $1.9 million was spent. The remaining $2.1 million commitment was subsequently spent.

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 is required to spend the gross proceeds of $35.0 million on eligible exploration and mine development expenditures, which expenditures are expected to be renounced to investors for the 2012 tax year. As at December 31, 2012, $35.0 million was 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.

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.

**Contractual Obligations**

Contractual obligations are comprised as follows:

| As at December 31, 2012 | | Payments Due by Period | | |
|---|---|---|---|---|
| (expressed in thousands of dollars) | Total | 1-3 Years | 3-5 Years | 5+ Years |
| Finance lease obligations | $ 15,337 | $ 4,374 | $ 10,963 | $ - |
| Operating leases | 6,721 | 2,761 | 3,960 | - |
| Purchase obligations | 84,932 | 84,932 | - | - |
| | $ 106,990 | $ 92,067 | $ 14,923 | $ - |

In addition to the above, the Company also has asset retirement obligations at December 31, 2012 in the amount of $21.3 million for the LDI Mine, Sleeping Giant mill and Vezza gold mine. The Company obtained letters of credit of $15.9 million as financial surety for these future outlays. As a result, $5.4 million of funding is required prior to or upon closure of these properties.

**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 does not believe such matters are material. In 2011, a Statement of Claim was filed with the Ontario Superior Court of Justice against the Company and two of its officers regarding a potential class action lawsuit. In 2012, a fresh Statement of Claim was filed increasing the amount of the claim to $100.0 million. In December of 2012, the plaintiffs filed a motion of record for certification and for leave. The Company intends to vigorously defend the potential claim. It is not possible at this time to estimate the outcome of the potential action and accordingly, the Company has not recorded any associated provisions within its consolidated financial statements at December 31, 2012. The company believes the net impact of this claim will not be material.

**Related Party Transactions**

There were no related party transactions for the period ended December 31, 2012.

## OUTSTANDING SHARE DATA

As of February 21, 2013, there were 177,373,185 common shares of the Company outstanding. In addition, there were options outstanding pursuant to the Amended and Restated 2010 Corporate Stock Option Plan entitling holders thereof to acquire 3,542,249 common shares of the Company at a weighted average exercise price of **$3.67** per share.

## OVERVIEW OF NAP'S EXPLORATION PROPERTIES

NAP expects future growth will come from continued exploration and development of the Company's grassroots and near-mine projects. With permits, mine infrastructure and available mill capacity at the LDI Mine, NAP can move from exploration success to production on an accelerated timeline. In addition to the significant exploration program at LDI, the Company's 2013 exploration budget includes reconnaissance exploration on several, recently acquired greenfields platinum group equivalent ("PGE") properties – all of which are located within 30 km of the LDI mill.

The Company's continued to evaluate opportunities for divesture of its gold assets and undertakings. Consequently, there was minimal gold exploration expenditures in 2012.

**Ontario Properties**

**LDI Mine & Property**

The LDI Mine Block includes approximately 21,000 acres of land and offers significant exploration upside that is complimented by the 15,000-tonne per day mill, which currently has excess capacity. Beyond the immediate mine site, most of the land has had minimal exploration. The exploration success achieved during the past few years gives management encouragement that there is strong potential to continue to grow the Company's palladium reserve and resource base through exploration.

The LDI property includes the following surface and underground mineralized zones:

- Roby Zone: initially mined as an open pit since 1993, underground production from Roby commenced in 2006.
- Offset Zone: discovered in 2001, located below and approximately 250 metres south west of the Roby Zone. The Offset Zone remains open in all directions and continues to expand through exploration. Mining from the Offset Zone commenced in the fourth quarter of 2012. The LDI Mine expansion is currently underway to access the northern and upper portion of the Offset Zone deposit.
- Sheriff Zone*: discovered in 2010, located approximately 100 metres south east of the Offset Zone. This zone is currently being considered for its open pit potential. Planning has commenced to assess the zone's economics, permitting requirements and production potential.
- Cowboy Zone*: discovered in 2009 during infill drilling of the Offset Zone, located 30 to 60 metres to the west of the Offset Zone. This new discovery has the potential to extend LDI's mine life and could positively impact the economics of the mine.
- Outlaw Zone*: discovered in 2009, located to the west of the Offset Zone and the Cowboy Zone. Further drilling is required to define the extent of this mineralization.
- North VT Rim*: historical drilling and more recent trenching on the northwestern margin of the LDI Mine Block intrusion have defined a narrow zone of PGE mineralization that is currently being investigated for its open pit potential.

* *The disclosure regarding these mineralized areas is conceptual in nature and there has been insufficient exploration to define a mineral resource of these areas.*

The main focus of the 2012 near-mine exploration program was underground exploration at LDI targeting the Offset Zone, including infill drilling and extension drilling towards surface, at depth, and to the south. In addition, the Company initiated a program of resource delineation drilling on the Sheriff Zone to determine if this zone could provide a future source of near-surface, pit grade resources. The Company also began the first program of systematic, closely spaced surface drilling on the North VT rim trend.

A total of 50,148 metres of diamond drilling were completed on the LDI property in 2012. This amount includes 19,405 metres of surface drilling and 30,743 metres of underground drilling. On January 31, 2013, the Company provided an update on the results of its 2012 exploration program for the following:

- Offset Zone underground extension drilling program,
- the Sheriff Zone near-surface resource potential,
- the Roby Zone north extension drilling program ,
- the North VT Rim surface exploration drilling, and
- new mineralization intersected on the North LDI property.

**PGE Greenfields Properties**

The Company has interests in a number of greenfields properties including:

***North Lac des Iles Intrusive Complex:***

In 2012, the Company completed an airborne magnetic and electromagnetic survey over this property and conducted approximately 3,500 metres of diamond drilling on priority geology and geophysical targets.

***Legris Lake Property:***

The property is at a preliminary exploration stage, however its PGM potential and close proximity to the LDI mill presents an encouraging exploration target.

***Tib Lake Property:***

On May 3, 2012, LDI entered into an option and purchase agreement with Houston Lake Mining Inc. (“HLM”) whereby LDI obtained an exclusive right and option to purchase a 100% interest in 20 claims located northwest of the Lac des Iles mine, known as the Tib Lake property. The property is subject to a 2.5% net smelter royalty in favour of a third party on a portion of the claims and a 2.5% net smelter royalty in favour of HLM on the remaining claims. The property includes an additional 19 claims staked by LDI and 4 claims purchased from Platinex Inc. in September, 2012.

***New Properties:***

NAP has acquired a significant land position comprising intrusions in the immediate vicinity of the LDI Mine property. All of these intrusions are believed to be part of the same magmatic event that produced the Lac des Iles intrusive complex and its PGE-Cu-Ni resources. During the first three quarters of 2012, the Company acquired nine additional greenfields PGE properties through staking, option and purchase agreement. The location of these properties is shown in the Company’s July 16, 2012 news release.

In the third quarter of 2012, the Company commenced a reconnaissance exploration program on these recently acquired greenfields PGM properties. Initial drilling on the greenfields properties commenced in the fourth quarter of 2012.

***Shebandowan Property:***

The Company holds a 50% interest in the former producing Shebandowan mine and the surrounding Haines and Conacher properties pursuant to an Option and Joint Venture Agreement with Vale Canada Limited (“Vale”). The properties, known as the Shebandowan property, contain a series of nickel copper-PGE mineralized bodies.

In 2012, the Company focused on compiling all historical exploration data for the property. In 2013, the Company expects to complete a comprehensive technical review of this data, supporting a re-appraisal of the value of known mineralization and an assessment of the residual mineral potential on the property.

***Moose Calf and Kukkee Properties:***

In 2012, a limited amount of surface mapping and trenching was conducted on the property.

***Salmi Property:***

In 2012, a small program of surface mapping, trenching and shallow diamond drilling was conducted on the property.

***Quebec Properties:***

The primary focus in 2012 was the logging and sampling of core previously drilled from various properties. During 2012, minimal drilling was conducted in the gold division, primarily to meet work commitments.

***Vezza:***

During 2012, the Company drilled 2,179 metres at the Vezza property.

***Sleeping Giant Gold Mine & Property:***

In 2012, the Company drilled 789 metres underground and completed the logging and sampling of core drilled in late 2011.

***Flordin Property:***

During 2012, logging of core drilled in late 2011 was completed. Sampling was completed late in the third quarter of 2012, with preliminary results received in the fourth quarter of 2012, but were still being validated at year end.

***Discovery Property:***

During 2012, drill core recovered in late 2011 was logged and sampled late in the third quarter. Assay results were received in the fourth quarter of 2012, but were still being validated at year end.

***Dormex Property:***

There was minimal work done on the property in 2012.

***Laflamme Gold Property:***

Laflamme is an early-stage gold exploration project in the Abitibi region of Quebec. The Company entered into a 50:50 joint venture agreement with Midland Exploration Inc. (“Midland”). The Company is the Operator of the joint venture and may acquire an additional 15% interest by completing a feasibility study.

In 2012, the Company drilled 2,072 metres. On July 25, 2012, Midland announced identification of a new area with strong gold potential and announced the start of ground geophysical surveys on the property.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

***a. Use of estimates***

The preparation of the 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.

***b. Impairment assessments of long-lived assets***

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its "value in use", defined as the discounted present value of the future cash flows expected to arise from its continuing use and its ultimate disposal, and its "fair value less costs to sell", defined as the best estimate of the asset's selling price 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 its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

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

***c. Depreciation and amortization of mining interests***

Mining interests relating to plant and equipment, mining leases and claims, royalty interests, and other development costs are recorded at cost with depreciation and amortization provided on the unit-of-production method over the estimated remaining ounces of palladium (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.

***d. Revenue recognition***

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

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

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.

***e. Asset retirement obligations***

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

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

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.

***IFRS 7 Financial Instruments: Disclosures***

The amendments to IFRS 7 require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. This update is effective for years beginning on or after July 1, 2011. Where applicable, disclosures in these consolidated financial statements have been prepared in accordance with the Company's adoption of this standard.

***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, 2012 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***

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 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 de-recognition of financial instruments. This standard and the related update are effective for years beginning on or after January 1, 2015.

The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

***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 is presently not expected to 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 is presently not expected to impact the consolidated financial statements of the Company.

***IAS 32 Financial Instruments: Presentation***

This standard is amended to clarify requirements for offsetting of financial assets and financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014. Management is evaluating the impact, if any, the adoption of this amendment to IFRS 7 will have on the disclosures in its consolidated financial statements.

***New Standards Addressing the Scope of a Reporting Entity***

The following IFRS standards are introduced and IAS standards amended accordingly, for which 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 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.

All above standards and amendments are effective for reporting years beginning on or after January 1, 2013.

***IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Consolidated and Separate Financial Statements***

IFRS 10, IFRS 11, IFRS 12, and IAS 27 have been amended to clarify the date of initial application of IFRS 10 and require certain disclosures under IFRS 12 on transition. The standards, as amended, are effective for years beginning on or after January 1, 2013. This amendment is presently not expected to impact the consolidated financial statements of the Company.

***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.

***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, although earlier application is permitted. The Company is assessing the impact, if any, the adoption of this standard may have on the consolidated financial statements of the Company.

## RISKS AND UNCERTAINTIES

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

## 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, 2012, the Interim 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 Interim Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Interim Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls were effective as of December 31, 2012.

**Internal Control over Financial Reporting**
For the year ended December 31, 2012, the Interim 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, 2012 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 Interim 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. Based on that evaluation, the Interim 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, 2012.

## 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 provided by operations before changes in non-cash working capital, in total and per share, 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. The following tables reconcile these non-IFRS measures to the most directly comparable IFRS measures:

### Cash Provided by Operations

### (a) Cash Provided by Operations before changes in non-cash working capital

The Company uses this measure as a valuable indicator of the Company's ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations, and fund capital expenditures.

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| Net income (loss) from continuing operations for the year | **$ (11,403)** | $ 4,392 |
| Operating items not involving cash | | |
| Depreciation and amortization | **19,706** | 10,144 |
| Accretion expense | **3,258** | 749 |
| Deferred income and mining tax recovery | **-** | (555) |
| Share-based compensation and employee benefits | **2,277** | 3,086 |
| Other expense (income) | **1,756** | (2,218) |
| **Cash provided by operations before changes in non-cash working capital** | **$ 15,594** | $ 15,598 |

### (b) Cash Provided by Operations before changes in non-cash working capital per share

| (expressed in thousands of dollars except per share amounts) | **2012** | 2011 |
|---|---|---|
| Cash provided by operations prior to changes in non-cash working capital | **$ 15,594** | $ 15,598 |
| Weighted average number of shares outstanding – basic | **170,960,774** | 162,011,253 |
| Cash provided by operations prior to changes in non-cash working capital per share | **$ 0.09** | $ 0.10 |

### 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.

### Reconciliation of Palladium Cash Cost per Ounce

| (expressed in thousands of dollars except ounce and per ounce amounts) | **2012** | 2011 |
|---|---|---|
| Production costs including overhead | **$ 100,802** | $ 89,657 |
| Smelting, refining and freight costs | **13,679** | 9,206 |
| Royalty expense | **6,720** | 5,819 |
| Operational expenses | **121,201** | 104,682 |
| Less by-product metal revenue | **56,203** | 39,655 |
| | **$ 64,998** | $ 65,027 |
| Divided by ounces of palladium sold | **161,845** | 146,457 |
| Cash cost per ounce (CDN$) | **$ 401** | $ 444 |
| Exchange rate (CDN$1 – US$) | **1.00** | 1.01 |
| Cash cost per ounce (US$), net of by-product credits | **$ 401** | $ 448 |

### 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 from discontinued operations;
- Mine startup costs and closure costs;
- Asset impairment charges and insurance recoveries; and
- Mine restoration costs due to flood and retirement payments

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| Net loss and comprehensive loss for the year | **$ (66,037)** | $ (65,154) |
| Exploration | **14,513** | 9,939 |
| Loss from discontinued operations | **54,634** | 69,546 |
| Other (mine restoration costs due to flood and retirement payments) | **4,599** | - |
| **Adjusted net income** | **$ 7,709** | $ 14,331 |

### Adjusted EBITDA

The Company believes that EBITDA and Adjusted EBITDA is a valuable indicator of the Company's ability to generate liquidity by producing 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 and other financing costs (income);
- Depreciation and amortization;
- Exploration;
- Loss from discontinued operations;
- Mine startup and closure costs;
- Asset impairment charges and insurance recoveries; and
- One-time costs (mine restoration costs due to flood and retirement payments)

| (expressed in thousands of dollars) | **2012** | 2011 |
|---|---|---|
| (Loss) income and comprehensive (loss) income from continuing operations for the year | **$ (11,403)** | $ 4,392 |
| Income and mining tax expense | **-** | 1,833 |
| Interest and other financing costs (income) | **1,083** | (320) |
| Depreciation and amortization | **19,706** | 10,144 |
| **EBITDA** | **$ 9,386** | 16,049 |
| Exploration | **14,513** | 9,939 |
| Other (mine restoration costs due to flood and retirement payments) | **4,599** | - |
| **Adjusted EBITDA** | **$ 28,498** | $ 25,988 |

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 21, 2013

André Douchane

Interim CEO

Dave Langille

CFO

**KPMG LLP**

**Chartered Accountants**

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**Independent Auditors' Report of Registered Public Accounting Firm.**

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, 2012 and December 31, 2011, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

*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, 2012 and December 31, 2011, 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.

Chartered Accountants, Licensed Public Accountants
February 21, 2013
Toronto, Canada

North American Palladium Ltd.

# Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

| | Notes | December 31 2012 | December 31 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | **$ 20,168** | $ 50,935 |
| Accounts receivable | **5** | **53,922** | 73,048 |
| Taxes receivable | | **-** | 4,602 |
| Inventories | **6** | **15,388** | 20,046 |
| Other assets | **7** | **8,448** | 11,255 |
| Assets of disposal group classified as held for sale | **4** | **29,814** | - |
| Total Current Assets | | **127,740** | 159,886 |
| **Non-current Assets** | | | |
| Mining interests | **8** | **343,492** | 256,159 |
| Total Non-current Assets | | **343,492** | 256,159 |
| Total Assets | | **$ 471,232** | $ 416,045 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | **10** | **$ 58,474** | $ 42,436 |
| Credit facility | **5** | **15,089** | - |
| Current portion of obligations under finance leases | **11** | **3,717** | 2,428 |
| Provisions | **12** | **1,000** | 1,000 |
| Taxes payable | | **874** | 715 |
| Current derivative liability | **13** | **3,952** | 4,875 |
| Liabilities of disposal group classified as held for sale | **4** | **12,071** | - |
| Total Current Liabilities | | **95,177** | 51,454 |
| **Non-current Liabilities** | | | |
| Income taxes payable | | **2,352** | 2,648 |
| Asset retirement obligations | **9** | **15,214** | 20,881 |
| Obligations under finance leases | **11** | **9,956** | 2,104 |
| Long-term debt | **13** | **101,633** | 65,698 |
| Deferred mining tax liability | **22** | **-** | 4,264 |
| Total Non-current Liabilities | | **129,155** | 95,595 |
| **Shareholders' Equity** | | | |
| Common share capital and purchase warrants | **15** | **776,632** | 740,888 |
| Stock options and related surplus | | **9,125** | 7,859 |
| Equity component of convertible debentures, net of issue costs | **13** | **6,931** | - |
| Contributed surplus | | **8,873** | 8,873 |
| Deficit | | **(554,661)** | (488,624) |
| Total Shareholders' Equity | | **246,900** | 268,996 |
| Total Liabilities and Shareholders' Equity | | **$ 471,232** | $ 416,045 |

Commitments and contingencies – Notes 18 and 21

***See accompanying notes to the consolidated financial statements***

On Behalf of the Board of Directors

André J. Douchane, Director

Steven R. Berlin, Director

# Consolidated Statements of Operations and Comprehensive Loss

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

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Revenue** | **19** | **$ 160,704** | $ 143,659 |
| | | | |
| **Mining operating expenses** | | | |
| Production costs | | **100,802** | 89,657 |
| Smelting, refining and freight costs | | **13,679** | 9,206 |
| Royalty expense | | **6,720** | 5,819 |
| Depreciation and amortization | | **19,706** | 10,144 |
| Loss (gain) on disposal of equipment | | **293** | (923) |
| Other | | **3,813** | 1,352 |
| Total mining operating expenses | | **145,013** | 115,255 |
| **Income from mining operations** | | **15,691** | 28,404 |
| | | | |
| **Other expenses** | | | |
| Exploration | | **14,513** | 9,939 |
| General and administration | | **12,002** | 12,201 |
| Other income | **20** | **(3,598)** | (2,783) |
| Interest expense and other costs | **20** | **4,681** | 2,463 |
| Foreign exchange (gain) loss | | **(504)** | 359 |
| Total other expenses | | **27,094** | 22,179 |
| **(Loss) income from continuing operations before taxes** | | **(11,403)** | 6,225 |
| Income and mining tax expense | **22** | **-** | (1,833) |
| **(Loss) income and comprehensive (loss) income from continuing operations for the period** | | **$ (11,403)** | $ 4,392 |
| Loss and comprehensive loss from discontinued operations for the period | **4** | **(54,634)** | (69,546) |
| **Loss and comprehensive loss for the period** | | **$ (66,037)** | $ (65,154) |
| **Loss per share** | | | |
| Basic | | **$ (0.39)** | $ (0.40) |
| Diluted | **15(f)** | **$ (0.39)** | $ (0.40) |
| **(Loss) income from continuing operations per share** | | | |
| Basic | | **$ (0.07)** | $ 0.03 |
| Diluted | | **$ (0.07)** | $ 0.03 |
| **Loss from discontinued operations per share** | | | |
| Basic | | **$ (0.32)** | $ (0.43) |
| Diluted | | **$ (0.32)** | $ (0.43) |
| **Weighted average number of shares outstanding** | | | |
| Basic | **15(f)** | **170,960,774** | 162,011,253 |
| Diluted | **15(f)** | 170,983,774 | 162,011,253 |

***See accompanying notes to the consolidated financial statements***

# Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash provided by (used in)** | | | |
| **Operations** | | | |
| Net income (loss) from continuing operations for the year | | **$ (11,403)** | $ 4,392 |
| Operating items not involving cash | | | |
| Depreciation and amortization | | **19,706** | 10,144 |
| Accretion expense | **20** | **3,258** | 749 |
| Deferred income and mining tax recovery | **22** | **-** | (555) |
| Share-based compensation and employee benefits | **15(h)** | **2,277** | 3,086 |
| Other | | **1,756** | (2,218) |
| | | **15,594** | 15,598 |
| Changes in non-cash working capital | **23** | **39,655** | 16,024 |
| | | **55,249** | 31,622 |
| **Financing Activities** | | | |
| Issuance of common shares and warrants, net of issue costs | **15(d)** | **36,404** | 61,916 |
| Issuance of long-term debt, net of issue costs | **13** | **-** | 69,656 |
| Issuance of convertible debentures, net of issue costs | **13** | **40,804** | - |
| Credit facility | **5** | **15,287** | - |
| Finance lease facility | **11** | **11,239** | - |
| Repayment of obligations under finance leases | **11** | **(4,749)** | (1,523) |
| Interest paid | | **(8,493)** | (157) |
| Mine reclamation deposit | | **-** | 8,768 |
| | | **90,492** | 138,660 |
| **Investing Activities** | | | |
| Additions to mining interests (net) | **8** | **(145,180)** | (148,309) |
| Proceeds on disposal of mining interests (net) | | **526** | 1,884 |
| | | **(144,654)** | (146,425) |
| Increase in cash from continuing operations | | **1,087** | 23,857 |
| Net cash used in discontinued operations | **4** | **(31,301)** | (48,081) |
| Reclassification of cash to assets held for sale | | **(553)** | (71) |
| Decrease in cash | | **(30,767)** | (24,295) |
| Cash and cash equivalents, beginning of year | | **50,935** | 75,159 |
| Cash and cash equivalents, end of year | | **$ 20,168** | $ 50,864 |
| **Cash and cash equivalents consisting of:** | | | |
| Cash | | **$ 20,168** | $ 50,532 |
| Short-term investments | | **-** | 332 |
| | | **$ 20,168** | $ 50,864 |
| Foreign exchange included in cash balance | | **$ (2)** | $ 66 |

***See accompanying notes to the consolidated financial statements***

# Consolidated Statements of Shareholders' Equity

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

| | Notes | Number of shares | Capital stock | Stock options | Warrants | Equity component of convertible debentures | Contributed surplus | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | **15** | 154,653,275 | $ 697,674 | $ 5,596 | $ 5,113 | - | $ 5,537 | $ (423,470) | $ 290,450 |
| **Common shares issued:** | | | | | | | | | |
| Private placement of flow-through shares, net of issue costs | **15(d)** | 2,667,000 | 20,594 | - | - | - | - | - | 20,594 |
| Premium on issuance of flow-through shares | | - | (1,840) | - | - | - | - | - | (1,840) |
| **Warrants:** | | | | | | | | | |
| Warrants exercised | **15(b)** | 5,009,986 | 22,514 | - | (1,239) | - | 14 | - | 21,289 |
| Expiration of warrants, net of tax | **15(b)** | - | - | - | (3,874) | - | 3,322 | - | (552) |
| **Stock based compensation:** | | | | | | | | | |
| Stock options exercised | **15(e)** | 317,919 | 1,105 | (300) | - | - | - | - | 805 |
| Stock-based compensation expense | **15(c)** | 203,252 | 841 | 2,563 | - | - | - | - | 3,404 |
| Net loss and comprehensive loss for the year ended December 31, 2011 | | - | - | - | - | - | - | (65,154) | (65,154) |
| Balance, December 31, 2011 | | 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(d)** | 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 expense | **15(c)** | 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 | | 177,127,833 | $ 776,632 | $ 9,125 | $ - | $ 6,931 | $ 8,873 | $ (554,661) | $ 246,900 |

***See accompanying notes to the consolidated financial statements***

# Notes to the Consolidated Financial Statements

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

## 1. NATURE OF OPERATIONS

North American Palladium Ltd. ("NAP") is domiciled in Canada and was incorporated on September 12, 1991 under the Canadian Business Corporations Act. The Company's 100%-owned subsidiaries are Lac des Iles Mines Ltd. ("LDI") and NAP Quebec Mines Ltd. ("NAP Quebec").

NAP's flagship operation is the LDI palladium mine, located northwest of Thunder Bay, Ontario, which started producing palladium in 1993. The Company is currently expanding the LDI mine to transition from mining via ramp access to mining via shaft while utilizing bulk mining methods.

The Company is incurring additional exploration expenditures on other palladium opportunities at LDI, including the Sheriff deposit.

The Company also owns the Vezza gold mine and Sleeping Giant mill located north of Val D'or, Quebec. The Company's other Québec-based properties consist of Discovery, Flordin, Cameron Shear, Florence, Laflamme, Dormex and Harricana.

The consolidated financial statements for the Company as at December 31, 2012 and for the year ended December 31, 2012, include the Company and its subsidiaries (collectively referred to as the "Company").

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.

## 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 21, 2013.

**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 note:

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 19 – Revenue from metal sales
Note 21 – Contingencies
Note 22 – Income taxes

## 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.

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. Gold inventory is 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. Supplies inventory is valued at the lower of average cost and net realizable value.

**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 for which the commencement date for capitalization is on or after January 1, 2010. 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.

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 (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.

**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 asset's selling price 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 its 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) 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.

***(b) 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.

**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.

Prior to 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.

**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.

***IFRS 7 Financial Instruments: Disclosures***

The amendments to IFRS 7 require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. This update is effective for years beginning on or after July 1, 2011. Where applicable, disclosures in these consolidated financial statements have been prepared in accordance with the Company's adoption of this standard.

***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, 2012 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***

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 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. This standard and the related update are effective for years beginning on or after January 1, 2015. This amendment is presently not expected to impact the consolidated financial statements of 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 is presently not expected to 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 is presently not expected to impact the consolidated financial statements of the Company.

***IAS 32 Financial Instruments: Presentation***

This standard is amended to clarify requirements for offsetting of financial assets and financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014. Management is evaluating the impact, if any, the adoption of this amendment to IAS 32 will have on the disclosures in its consolidated financial statements.

***New Standards Addressing the Scope of a Reporting Entity***

The following IFRS standards are introduced and IAS standards amended accordingly, for which 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 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.

All above standards and amendments are effective for reporting years beginning on or after January 1, 2013.

***IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Consolidated and Separate Financial Statements***

IFRS 10, IFRS 11, IFRS 12, and IAS 27 have been amended to clarify the date of initial application of IFRS 10 and require certain disclosures under IFRS 12 on transition. The standards, as amended, are effective for years beginning on or after January 1, 2013. This amendment is presently not expected to impact the consolidated financial statements of the Company.

***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.

***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, although earlier application is permitted. This amendment is presently not expected to impact the consolidated financial statements of the Company.

## 4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Company is in the process of disposing of its interest in its gold division through the disposal of all of the shares of its wholly-owned subsidiary NAP Quebec or sale of the related net assets. At December 31, 2012, management was committed to a plan to sell the gold division and an active program to locate a buyer and complete the plan had been initiated. The Company expects to complete the sale of NAP Quebec during 2013. As a result, the Company has presented the consolidated financial statements to segregate 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.

**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 December 31, 2012. The balances reported consist of the following:

| | At December 31 2012 |
|---|---|
| **Assets of a disposal group classified as held for sale** | |
| Cash and cash equivalents | **$ 553** |
| Taxes receivable | **4,522** |
| Inventories | **7,257** |
| Other current assets | **770** |
| Mining Interests | **16,712** |
| | **$ 29,814** |
| **Liabilities of a disposal group classified as held for sale** | |
| Accounts payable and accrued liabilities | **$ 5,908** |
| Obligations under finance leases | **58** |
| Asset retirement obligation | **6,105** |
| | **$ 12,071** |

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.

## 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 | 2012 | 2011 |
|---|---|---|---|
| **Revenue** | | **$ 3,004** | $ 26,813 |
| **Mining operating expenses** | | | |
| Production costs | | **2,153** | 31,601 |
| Smelting, refining and freight costs | | **16** | 54 |
| Depreciation and amortization | | **199** | 7,460 |
| Gold assets impairment charge | | **56,023** | 49,210 |
| Gain on disposal of equipment | | **(435)** | (27) |
| Gold mine closure, care and maintenance costs | | **1,463** | - |
| Total mining operating expenses | | **59,419** | 88,298 |
| **Loss from mining operations** | | **(56,415)** | (61,485) |
| **Other expenses** | | | |
| Exploration | | **2,768** | 6,728 |
| General and administration | | **62** | 82 |
| Other income | | **(37)** | (34) |
| Interest expense and other costs | | **130** | 111 |
| Total other expenses | | **2,923** | 6,887 |
| **Loss before taxes** | | **(59,338)** | (68,372) |
| Income and mining tax recovery (expense) | **22** | **4,704** | (1,174) |
| **Loss and comprehensive loss for the year** | | **$ (54,634)** | $ (69,546) |

## 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:

| | 2012 | 2011 |
|---|---|---|
| **Cash flow provided by (used in):** | | |
| Operations | **$ (7,742)** | $ (12,529) |
| Financing | **(160)** | 1,724 |
| Investing | **(23,399)** | (37,276) |
| Net cash used in discontinued operations | **$ (31,301)** | $ (48,081) |

## 5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | At December 31 2012 | At December 31 2011 |
|---|---|---|
| Accounts receivable | **$ 53,922** | $ 71,097 |
| Unrealized gain on financial contracts [1] | **-** | 1,951 |
| Accounts receivable | **$ 53,922** | $ 73,048 |

[1] *As at December 31, 2012, a total of 55,000 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 $640 per ounce of palladium (December 31, 2011 – 69,500 ounces of palladium at an average price of $697 per ounce). Refer to notes 10 and 16.*

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, 2012 forward metal prices 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 three customers at December 31, 2012 (December 31, 2011 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amount due will be fully collected. The Company is not economically dependent on its customers, refer to note 16.

Accounts receivable have been pledged as security against a one-year US$60.0 million credit facility with a Canadian chartered bank, which is to be used for working capital liquidity and general corporate purposes. Under the credit facility, the Company utilized US$17.3 million for letters of credit primarily for reclamation deposits and has taken a drawdown of US$15.2 million ($15.1 million), leaving US$27.5 million available at December 31, 2012.

## 6. INVENTORIES

Inventories consist of the following:

| | At December 31 2012 | At December 31 2011 |
|---|---|---|
| Supplies [1] | **$ 10,633** | $ 11,209 |
| Gold inventory [1,2] | **-** | 6,068 |
| Concentrate inventory | **1,587** | 141 |
| Crushed and broken ore stockpiles [1,3] | **3,168** | 2,628 |
| Total | **$ 15,388** | $ 20,046 |

[1] *For 2012, gold and supplies inventory relating to discontinued operations amounting to $7,257 has been reclassified as held for sale. Refer to note 4.*

[2] *Gold inventory is 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.*

[3] *Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing. The amount of ore stockpiles that is not expected to be processed within one year, if any, is shown as a long-term asset.*

All inventory amounts are carried at cost for the periods presented with the exception of gold inventories which are written down to net realizable value.

Supplies inventory of $27,604 were recognized as an expense during the year ended December 31, 2012 (2011 – $24,111).

The company recognized a write-down of obsolete supplies inventory of $nil for the year ended December 31, 2012 (2011 – $1,352).

## 7. OTHER ASSETS

Other assets consist of the following:

| | **At December 31 2012** | At December 31 2011 |
|---|---|---|
| Prepaids [1] | **$ 1,375** | $ 695 |
| Sales taxes receivable [1] | **7,065** | 8,501 |
| Receivable from Ministry of Natural Resources [2] | **-** | 1,769 |
| Other [1] | **8** | 290 |
| | **$ 8,448** | $ 11,255 |

[1] *For 2012, other assets relating to discontinued operations amounting to $5,292 have been reclassified as held for sale . Refer to note 4.*

[2] *In 2011, the Company issued a letter of credit related to the Sleeping Giant mine and mill closure plan, replacing the mine closure deposit. The Ministry of Natural Resources acknowledged receipt of the letter of credit in 2011 and the cash proceeds were received in the first quarter of 2012.*

## 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, 2011 | $ 38,469 | $ 73,214 | $ 4,951 | $ 8,679 | $ 21,873 | $ 147,186 |
| Additions of physical assets – continuing operations | 6,164 | 135,358 | 3,669 | 5,429 | - | 150,620 |
| Additions of physical assets – discontinued operations | 2,133 | 6,981 | 274 | - | 28,507 | 37,895 |
| Revaluation of ARO assets – continuing operations | 5,717 | - | - | - | - | 5,717 |
| Revaluation of ARO assets – discontinued operations | 21 | - | - | - | - | 21 |
| Capitalization of borrowing costs | - | 1,574 | - | - | - | 1,574 |
| Reclassification of costs for finance leases maturing in the year | - | 1,510 | (1,510) | - | - | - |
| Disposals – continuing operations | (1,419) | (150) | - | - | - | (1,569) |
| Disposals – discontinued operations | (22) | - | - | - | - | (22) |
| **Balance at December 31, 2011** | **$ 51,063** | **$ 218,487** | **$ 7,384** | **$ 14,108** | **$ 50,380** | **$ 341,422** |
| 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** |

| | 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, 2011 | $ 9,072 | $ 9,937 | $ 462 | $ 1,429 | $ - | $ 20,900 |
| Depreciation for the period – continuing operations | 2,453 | 6,128 | 707 | 855 | - | 10,143 |
| Depreciation for the period – discontinued operations | 2,129 | 5,101 | 79 | 146 | - | 7,455 |
| Impairment loss – discontinued operations | 1,674 | 33,568 | - | 480 | 11,673 | 47,395 |
| Disposals – continuing operations | (469) | (150) | - | - | - | (619) |
| Disposals – discontinued operations | (11) | - | - | - | - | (11) |
| **Balance at December 31, 2011** | **$ 14,848** | $ 54,584 | $ 1,248 | $ 2,910 | $ 11,673 | $ 85,263 |
| Balance at January 1, 2012 | $ 14,848 | $ 54,584 | $ 1,248 | $ 2,910 | $ 11,673 | $ 85,263 |
| Depreciation for the period – continuing operations | 3,404 | 13,160 | 2,854 | 1,064 | - | 20,482 |
| Depreciation for the period – 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) |
| Disposals – discontinued operations | - | - | - | - | - | - |
| 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 |
| **Carrying amounts** | | | | | | |
| As at December 31, 2011 | $ 36,215 | $ 163,903 | $ 6,136 | $ 11,198 | $ 38,707 | $ 256,159 |
| **As at December 31, 2012** | **$ 37,322** | $ 278,883 | $ 15,568 | $ 11,719 | $ - | $ 343,492 |

[1] *For year ended December 31, 2012, $7,999 (2011 - $1,573) of interest costs on long-term debt was capitalized to mining interests.*

[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**

The Company announced on January 17, 2012 that it is discontinuing production at the Sleeping Giant mine.

After reviewing various mining scenarios, the Company concluded that mining would likely continue at high costs given the lack of grade continuity, with insufficient operating margin to justify continuing operations. The Company has therefore ceased mining operations at Sleeping Giant and has restructured the gold division, resulting in a non-cash impairment charge on its gold assets of $49.2 million for the year ended December 31, 2011.

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.

## 9. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION DEPOSITS

At December 31, 2012, the changes in asset retirement and the related mine restoration deposit are as follows:

| | At December 31 2012 |
|---|---|
| Asset retirement obligation, beginning of period | **$ 20,881** |
| Change in discount rate and estimated closure costs (note 8) | **1,530** |
| Asset retirement amounts paid | **(1,448)** |
| Accretion expense | **356** |
| Asset retirement obligation, end of period | **$ 21,319** |
| Transfer discontinued operations to held for sale (note 4) | **(6,105)** |
| Asset retirement obligation, end of period – continuing operations | **$ 15,214** |

| 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 |
| | | $ 6,105 | $ 1,920 | $ 1,880 | $ 7,004 |

[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 are inclusive of the requirements for the Sleeping Giant mine and the Vezza gold mine. Including a letter of credit for Shebandown West project, the total letters of credit outstanding are $16.3 million.*

Asset retirement obligations are comprised of the following as at December 31, 2011:

| Property | Expected timing of cash flows | Asset retirement obligation | Mine closure plan requirement | Letter of credit outstanding | Undiscounted asset retirement obligation |
|---|---|---|---|---|---|
| LDI mine | 2020 | $ 13,905 | $ 12,997 | $ 8,466 | $ 16,312 |
| Sleeping Giant mill [1] | 2021 | 4,426 | 1,920 | 1,769 | 5,360 |
| Sleeping Giant mine [1] | 2012 | 2,116 | - | - | 1,448 |
| Vezza gold mine [1] | 2021 | 434 | - | - | 533 |
| | | $ 20,881 | $ 14,917 | $ 10,235 | $ 23,653 |

[1] *The mine closure plan requirement and the letter of credit outstanding for the Sleeping Giant mill are 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 are $10.6 million.*

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

| | **At December 31 2012** | At December 31 2011 |
|---|---|---|
| **Continuing Operations:** | | |
| Inflation | **2.00** | 2.00 |
| Market risk | **5.00** | 5.00 |
| Discount rate | **1.63** | 1.84 |
| **Discontinued Operations [1]:** | | |
| Inflation | **2.00** | 2.00 |
| Market risk | **5.00** | 5.00 |
| Discount rate | **1.71** | 1.93 |

[1] *Comparative data for the key assumptions applied, at December 31, 2011, relating to discontinued operations is provided for information purposes. The comparative assumptions for discontinued operations are included in the weighted-average rates shown for continuing operations at December 31, 2011.*

The asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements. During the period, 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 2012** | At December 31 2011 |
|---|---|---|
| Accounts payable and accrued liabilities [1] | **$ 55,238** | $ 42,436 |
| Unrealized loss on financial contracts [2] | **3,236** | - |
| Accounts payable and accrued liabilities | **$ 58,474** | $ 42,436 |

*[1] For 2012, accounts payable and accrued liabilities relating to discontinued operations amounting to $5,908 has been reclassified as held for sale. Refer to note 4.*

*[2] As at December 31, 2012, a total of 55,000 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 $640 per ounce (December 31, 2011 – 69,500 ounces at an average price of $697 per ounce). 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.

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, 2012** | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | **$ 4,374** | **$ 657** | **$3,717** | $ 2,677 | $ 249 | $ 2,428 |
| Between one and five years | **10,963** | **1,007** | **9,956** | 2,228 | 124 | 2,104 |
| | **$ 15,337** | **$ 1,664** | **$13,673** | $ 4,905 | $ 373 | $ 4,532 |
| Less current portion | | | **3,717** | | | 2,428 |
| | | | **$9,956** | | | **$ 2,104** |

During 2012, the Company established a $15.0 million finance 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. 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. See note 8.

**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 2012** | At December 31 2011 |
|---|---|---|
| Less than one year | **$ 2,761** | $ 3,783 |
| Between one and five years | **3,960** | 2,918 |
| More than five years | **-** | 193 |
| | **$ 6,721** | $ 6,894 |

The total minimum lease payments recognized in expense during each of the stated year end periods are as follows:

| | **December 31 2012** | December 31 2011 |
|---|---|---|
| Minimum lease payments expensed | **$ 1,483** | $ 3,631 |

## 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 to occur in the first quarter of 2013.

## 13. LONG-TERM DEBT

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

| | **At December 31 2012** | At December 31 2011 |
|---|---|---|
| Senior secured notes | **$ 67,211** | $ 65,698 |
| Convertible debentures | **34,422** | - |
| | **$ 101,633** | $ 65,698 |

### 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 mature on October 4, 2014, with a one year extension at the option of the Company, were issued in $1,000 denominations and bear interest at a rate of 9.25% per year, payable semi-annually.

In addition to the senior secured notes, the debt agreement included the debt financing and embedded derivatives relating to the warrants, warrants settlement, and extension options relating to the notes which are available to the Company and the lender. Where applicable, the embedded derivatives which were not closely related to the debt financings were segregated and grouped for valuation and reporting purposes. Transaction costs were allocated to the debt financing on a pro-rata basis of assigned fair value at the initial recognition date of October 4, 2011. The net value of the debt is amortized using the effective interest rate method over the remaining term of the debt with interest and accretion charges being recognized through profit and loss in the period incurred. Interest charges have been capitalized as borrowing costs and included in mining interests (note 8). An effective interest rate of 13% has been applied.

The embedded derivatives relating to the debt financing are recorded at fair value through profit or loss at each reporting date. At December 31, 2012 and December 31, 2011, the warrants and related options were valued using a binomial model which included with the following key assumptions:

| | **December 31 2012** | December 31 2011 |
|---|---|---|
| Market price of palladium | **$ 699** | $ 636 |
| Strike price | **$ 620** | $ 620 |
| Volatility [1] | **30%** | 43% |
| Risk free rate | **1.14%** | 0.98% |
| Expected life (in years) | **1.76** | 2.76 |

[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 $4.0 million at December 31, 2012 ($4.9 million – December 31, 2011).

**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

At the respective reporting dates, the Company's subsidiaries are as follows:

| | | **Ownership interest** | |
|---|---|---|---|
| | Country of incorporation | **At December 31 2012** | At December 31 2011 |
| LDI | Canada | **100%** | 100% |
| NAP Quebec [1] | Canada | **100%** | 100% |

[1] *At December 31, 2012, the Company was committed to the plan to sell its gold division assets through the disposal of all of the shares of its wholly-owned subsidiary NAP Quebec. Refer to note 4.*

**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 2012** | December 31 2011 |
|---|---|---|
| Short-term employee benefits | **$ 2,412** | $ 2,709 |
| Post employment benefits | **93** | 72 |
| Share-based payments | **377** | 2,339 |
| | **$ 2,882** | $ 5,120 |

## 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) Common share purchase warrants

The changes in issued common share purchase warrants for the period end are summarized below:

| | **As at December 31 2012** | | As at December 31 2011 | |
|---|---|---|---|---|
| | **Warrants** | **Amount** | Warrants | Amount |
| Balance beginning of period | **-** | **$ -** | 13,837,924 | $ 5,113 |
| Warrants exercised | **-** | **-** | (5,009,986) | (1,239) |
| Warrants expired | **-** | **-** | (8,827,938) | (3,874) |
| Balance, end of period | **-** | **$ -** | - | $ - |

On December 8, 2010 the Company announced the acceleration of the expiry of the Series A warrants to January 14, 2011. During the first quarter of 2011, $21.3 million of proceeds were received from the exercise of 5,009,986 Series A warrants. Total proceeds of $38.8 million were received from the exercise of Series A warrants and 67,938 Series A warrants were not exercised prior to expiry.

On April 28, 2010, the Company completed an equity offering of 20,000,000 units at a price of $5.00 per unit for total net proceeds of $94.2 million (issue costs $5.8 million). Each unit consisted of one share and one-half a Series B warrant. As at December 31, 2010, 1,240,000 Series B warrants were exercised for total proceeds of $8.1 million. On October 28, 2011, the remaining Series B warrants expired unexercised.

### (c) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan, in which eligible employees can participate in at their option. The Company is required to make contributions on a quarterly basis equivalent to 3% of eligible employees' base compensation and up to an additional 2% matching, per employee per annum, made either in cash or treasury shares of the Company. The maximum number of common shares available for grant shall not exceed 10% of the issued and outstanding common shares of the Company, including the issuance under the Corporate Stock Option Plan and other securities-based compensation plans. 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, 2012, the Company contributed 551,401 shares with a fair value of $1,240 (2011 – 203,252 shares with a fair value of $841).

**(d) Flow-through share offerings**

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 is required to spend the gross proceeds of $4.0 million on eligible exploration and mine development expenditures, which expenditures are expected to be renounced to investors for the 2012 tax year. As at December 31, 2012, $1.9 million was spent, with the remaining $2.1 million expected to be 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 is required to spend the gross proceeds of $35.0 million on eligible exploration and mine development expenditures, which expenditures are expected to be renounced to investors for the 2012 tax year. As at December 31, 2012, $35.0 million was spent.

On February 18, 2011, the Company completed a flow-through share offering of 2,667,000 flow-through common shares. The Company was required to spend gross proceeds of $22.0 million on Canadian exploration expenses prior to December 31, 2012, which was fulfilled by December 31, 2011.

**(e) 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 10% of the issued and outstanding common shares of the Company, including the issuance under the Group Retirement Savings Plan and other securities-based compensation plans. As at December 31, 2012, 5,291,051 options (December 31, 2011 – 5,853,717 options) were available to be granted under the Plan.

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

| | **December 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Options** | **Weighted Average Exercise Price** | Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | **3,644,583** | **$ 4.43** | 3,847,833 | $ 4.22 |
| Granted | **1,772,000** | **$ 2.82** | 273,000 | $ 5.45 |
| Exercised | **-** | **-** | (317,919) | $ 2.13 |
| Cancelled | **(720,000)** | **$ 4.34** | (158,331) | $ 5.73 |
| Expired | **(489,334)** | **$ 5.14** | - | - |
| Outstanding, end of period | **4,207,249** | **$ 3.68** | 3,644,583 | $ 4.43 |
| Options exercisable at end of period | **2,335,591** | **$ 3.88** | 2,439,925 | $ 4.06 |

No options were exercised during the year ended December 31, 2012. For the year ended December 31, 2011, the weighted average share price on the dates common share purchase options were exercised was $3.57.

The following table summarizes information about the Company's stock options outstanding at December 31, 2012:

| Exercise price range | Average remaining contractual life (years) | Options Outstanding at December 31, 2012 | Options Exercisable at December 31, 2012 |
|---|---|---|---|
| $1.65-2.50 | 3.65 | 789,750 | 774,750 |
| $2.51-3.00 | 4.11 | 1,665,000 | 200,000 |
| $3.01-6.00 | 4.79 | 694,999 | 621,668 |
| $6.01-8.87 | 4.02 | 1,057,500 | 739,173 |
| | **4.11** | **4,207,249** | **2,335,591** |

The fair value of options granted during the year ended December 31, 2012 and the year ended December 31, 2011 have been estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

| | December 31 2012 | December 31 2011 |
|---|---|---|
| Awards granted | **1,772,000** | 273,000 |
| Weighted average fair value of awards | **$ 1.24** | $ 2.91 |
| Pre-vest forfeiture rate | **13%** | 14% |
| Grant price | **$ 2.82** | $ 5.45 |
| Market price | **$ 2.53** | $ 5.53 |
| Volatility [1] | **65%** | 65% |
| Risk free rate | **1.25%** | 2.04% |
| Dividend yield | **0%** | 0% |
| Expected life (in years) | **4.4** | 4.3 |

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

### (f) Reconciliation of the diluted number of shares outstanding:

| | December 31 2012 | December 31 2011 |
|---|---|---|
| Net loss available to common shareholders | **$ 66,037** | $ 65,154 |
| Effect of dilutive securities | **1,017** | - |
| Adjusted net loss available to common shareholders | **$ 67,054** | $ 65,154 |
| Weighted average number of shares outstanding | **170,960,774** | 162,011,253 |
| Effect of dilutive securities | **23,000** | - |
| Weighted average diluted number of shares outstanding | **170,983,774** | 162,011,253 |
| Diluted net loss per share | **$ 0.39** | $ 0.40 |

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 year ended 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. For the year ended December 31, 2011, the effect of outstanding palladium warrants and stock options has not been included in the determination of diluted loss per share because to do so would be anti-dilutive.

**(g) 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, 2012, 237,871 (December 31, 2011 – 129,418) restricted share units had been granted and were outstanding at an aggregate value of $253 (December 31, 2011 – $237).

**(h) 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, 2012** | Year ended December 31, 2011 |
|---|---|---|
| Registered retirement savings plan | **$ 1,073** | $ 634 |
| Common share stock options | **1,204** | 2,452 |
| Restricted share units | **82** | 135 |
| | **$ 2,359** | $ 3,221 |

## 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's exposure arises principally from its short term interest bearing deposits and accounts receivable. Historically, the Company has not experienced any losses related to individual customers. The Company invests its cash and cash equivalents primarily with a major Canadian bank.

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 2012 | At December 31 2011 |
|---|---|---|
| Cash and cash equivalents | **$ 20,168** | $ 50,935 |
| Accounts receivable | **53,922** | 73,048 |
| Other assets | **7,073** | 10,560 |
| | **$ 81,163** | $ 134,543 |

***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. In addition, the Company is exposed to market risk relating to fluctuations in the share price of the Company's common shares as a result of the RSU plan, which is marked-to-market using the Black-Scholes model at each period end.

**(i) 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 certain of its foreign based suppliers and revenues 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.

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, purchases and borrowings at December 31, 2012.

| | **US$** |
|---|---|
| Cash | $ 327 |
| Accounts payable and accrued liabilities | (199) |
| | $ 128 |

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 nominal decrease or increase, respectively, in the Company's statement of loss and comprehensive loss for the year ended December 31, 2012.

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.

**(ii) 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.

Management does not believe that the net impact of interest rate fluctuations on the current level of borrowings and short term investments will be significant and, therefore, has not provided a sensitivity analysis of this impact on net earnings.

**(iii) 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 55,000 ounces as at December 31, 2012 (69,500 ounces as at December 31, 2011). These contracts mature from January 2013 to May 2013 (2011 – January 2012 through June 2012) at an average forward price of $640 per ounce (or $US644 per ounce) (2011 – $697 per ounce (or $US699 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, 2012 was a liability of $3.2 million included in accounts payable and accrued liabilities (December 31, 2011 – $2.0 million asset included in accounts receivable).

During 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 Company also issued one warrant with each $1,000 note. Each warrant entitles the holder to purchase 0.35 ounces of palladium at a purchase price of US$620 (the "Strike Price") per ounce, anytime up to October 4, 2014. If the warrants are exercised, settlement will occur in cash with the Company paying each warrant held by the note holder the difference between 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. Alternatively, the Company has the option to settle the amount owing to the warrant holder at a 7% discount to 5-day weighted average market price of the common shares of the Company at the date of exercise. At December 31, 2012, the value of the warrants was $4.0 million, including a loss recognized in the Company's consolidated statement of loss and comprehensive loss of $0.9 million.

As at December 31, 2012, 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 $0.2 million decrease or increase, respectively, in the Company's loss and comprehensive loss for the year ended December 31, 2012.

***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to monitor the timing of sales and receivables, to ensure sufficient cash flows are generated from operations to meet the current debt requirements. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long term financing of its operations.

Anticipated operating cash flows and net proceeds on disposal of the gold division are not expected to provide sufficient cash to fund capital expenditures anticipated for 2013, therefore the Company plans to access the capital markets. In the event access to the capital markets is unavailable, the Company will review its options to preserve cash resources.

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, 2012 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 | $ 58,474 | $ 58,474 | $ - | $ - |
| Obligations under finance leases | 13,673 | 3,717 | 9,956 | - |
| Current derivative liability | 3,952 | - | 3,952 | - |
| Long-term debt | 101,633 | - | 101,633 | - |

The Company also has asset retirement obligations in the amount of $21.3 million that would become payable at the time of the closures of its LDI mine and its discontinued operations and assets held for sale (refer to Note 4). As the Company issued letters of credit of $15.9 million related to these obligations, $5.4 million of 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.

Management monitors consolidated cash flow, in detail, on a daily basis, monthly through month-end reporting, quarterly through forecasting and yearly through the budget process. Based on the financial liabilities due and noted above, the Company expects to have sufficient operating cash flow exceeding the amounts due.

***Fair Values***

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

Cash and cash equivalents are stated at fair value. The carrying value of 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.

The fair value of the obligations under finance leases approximate their carrying value due to the interest rate implicit in the leases approximating interest rates available at this time for similar lease terms. The fair value of RSUs are determined as described in note 15(g).

***Derivatives***

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

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

The Company enters into financial contracts to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar for past production already sold. For substantially all of the palladium delivered to the customer under the smelter agreement, 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 the derivative liability relating to the 2011 long term debt issuance primarily relates to the value of palladium warrants and related conversion options. These derivative instruments are valued 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, 2012 are senior secured notes ($68.4 million), convertible debentures ($43.0 million) and finance leases ($10.0 million).

***Fair Value Hierarchy***

The table below details the assets and liabilities measured at fair value at December 31, 2012:

| | 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 | $ 20,168 | $ - | $ - | $ 20,168 |
| Accounts receivable (note 5) | - | 53,922 | - | 53,922 |
| **Financial liabilities** | | | | |
| RSU liabilities* (note 15(g)) | - | (253) | - | (253) |
| Fair value of financial contracts* (note 10) | - | (3,236) | - | (3,236) |
| Fair value of current derivative liability | - | (3,952) | - | (3,952) |
| Net carrying value | **$ 20,168** | $ 46,481 | $ - | $ 66,649 |

** As detailed in notes 5 and 10, the asset or liability relating to the mark-to-market on financial contracts is included in the carrying value of accounts receivable or accounts payable and accrued liabilities on the balance sheet respectively. RSU liabilities are measured at fair value based on the Black-Scholes valuation model at each reporting date and are included in the balance of accounts payable and accrued liabilities.*

## 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.

There were no changes in the Company's approach to capital management during the year. The Company is subject to certain minimum capital requirements in its debt covenants which it fulfilled as of December 31, 2012.

## 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.

**(b) Operating Leases and Other Purchase Obligations**

As at December 31, 2012, the Company had outstanding operating lease commitments and other purchase obligations of $6.7 million and $84.9 million, respectively (December 31, 2011 – $6.9 million and $110.6 million, respectively) all of which had maturities of less than five years, with the exception of nil operating leases with a maturity greater than five years (December 31, 2011 – $193).

**(c) Letters of Credit**

As at December 31, 2012, the Company had outstanding letters of credit of $17.3 million, consisting of $16.3 million for various mine closure deposits and $1.0 million for a regulated energy supplier (December 31, 2011 – $12.1 million outstanding letter of credit, consisting of $10.6 million for various mine closure deposits and $1.5 million for a regulated energy supplier).

**(d) Flow-Through Shares**

As at December 31, 2012, the Company had outstanding commitments to spend $2.1 million on eligible exploration expenditures, which the Company expects to spend by March 31, 2013.

## 19. REVENUE FROM METAL SALES

| | Total | Palladium | Platinum | Gold | Nickel | Copper | Other Metals |
|---|---|---|---|---|---|---|---|
| **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** |
| 2011 | | | | | | | |
| Year ended December 31 | | | | | | | |
| Revenue – before pricing adjustments [1] | $ 148,480 | $ 107,035 | $ 15,369 | $ 11,581 | $ 7,914 | $ 6,133 | $ 448 |
| Pricing adjustments: | | | | | | | |
| Commodities | (5,407) | (3,229) | (1,691) | 223 | (361) | (326) | (23) |
| Foreign exchange | 586 | 198 | 189 | 167 | 32 | (3) | 3 |
| Revenue – after pricing adjustments | $ 143,659 | $ 104,004 | $ 13,867 | $ 11,971 | $ 7,585 | $ 5,804 | $ 428 |

[1] *Totals for the year ended December 31, 2012 exclude gold and silver revenues amounting to $3,004 (2011 – $26,813) 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 2012, the Company delivered all of its concentrate to three customers under the terms of the respective agreements (2011 – two customers).

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

## 20. INTEREST EXPENSE & OTHER COSTS AND OTHER INCOME

| | 2012 | 2011 |
|---|---|---|
| **Interest expense & other costs** | | |
| Interest on finance leases | **$ 843** | $ 157 |
| Financing costs | **-** | 767 |
| Asset retirement obligation accretion | **262** | 292 |
| Accretion expense on long-term debt | **2,996** | 457 |
| Interest expense | **580** | 330 |
| Unrealized loss on palladium warrants | **-** | 460 |
| | **$ 4,681** | $ 2,463 |
| **Other income** | | |
| Unrealized gain on palladium warrants | **$ (924)** | $ - |
| Gain on revaluation of debt | **(820)** | - |
| Gain on renouncement of flow-through expenditures | **(1,625)** | (1,840) |
| Interest income | **(229)** | (943) |
| | **$ (3,598)** | $ (2,783) |
| | **$ 1,083** | $ (320) |

## 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 does not believe such matters are material. In 2011, a Statement of Claim was filed with the Ontario Superior Court of Justice against the Company and two of its officers regarding a potential class action lawsuit. In 2012, a fresh Statement of Claim was filed increasing the amount of the claim to $100.0 million. In December of 2012, the plaintiffs filed a motion of record for certification and for leave. The Company intends to vigorously defend the potential claim. It is not possible at this time to estimate the outcome of the potential action and accordingly, the Company has not recorded any associated provisions within its consolidated financial statements at December 31, 2012.

## 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% [2] (2011 – 28.3%):

| | December 31 2012 | December 31 2011 |
|---|---|---|
| Income tax expense (recovery) using statutory income tax rates | **$ (3,022)** | $ 1,759 |
| Increase (decrease) in taxes resulting from: | | |
| Change in unrecognized temporary differences | **5,223** | (1,134) |
| Statutory permanent differences | **(2,202)** | (309) |
| Ontario Harmonization Transitional tax, in respect of the prior period | **-** | 2,388 |
| Expiration of warrants [1] | **-** | (555) |
| Difference in statutory tax rates | **1** | (316) |
| Income and mining tax expense – continuing operations | **$ -** | $ 1,833 |

[1] *Tax recovery on the expiration of share purchase warrants, whereas the deferred tax liability was charged to Contributed Surplus.*
[2] *The statutory tax rate decreased from 2011 to 2012 due to a reduction in Canadian Federal and Ontario rates over the period.*

## Components of Income tax expense

The details of the Company's income and mining tax expense (recovery) are as follows:

| | **December 31 2012** | December 31 2011 |
|---|---|---|
| Current income tax expense (recovery): | | |
| Income taxes | | |
| Adjustments for prior period [1] | **$ -** | $ 2,388 |
| Deferred income tax recovery: | | |
| Income taxes | **-** | (555) |
| Total | **$ -** | $ 1,833 |

[1] *Impact of a proposed CRA reassessment received in 2011 related to the Company's Ontario harmonization tax liability.*

## Deferred tax liabilities

The following table summarizes the components of deferred income and mining tax:

| | **December 31 2012** | December 31 2011 |
|---|---|---|
| Deferred mining tax liabilities | | |
| Gold mining interests | **$ -** | $ (4,264) |
| Deferred tax liabilities, net | **$ -** | $ (4,264) |

The following table summarizes the movement in deferred tax liabilities:

| | **2012** | 2011 |
|---|---|---|
| Balance at the beginning of the year | **$ (4,264)** | $ (1,207) |
| Discontinued operations | **4,264** | (3,057) |
| **Balance at the end of the year** | **$ -** | $ (4,264) |

## 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 2012** | December 31 2011 |
|---|---|---|
| Loss carryforwards | **$ 75,713** | $ 89,862 |
| Deductible temporary differences, income taxes | **$ 20,382** | $ 33,599 |
| Deductible temporary differences, mining taxes | **$ 2,559** | $ 9,183 |

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, 2012, the Company had the following approximate income tax attributes from continuing operations to carry forward:

| | Amount | Expiry Date |
|---|---|---|
| Non-capital losses | **$ 293,889** | 2015 - 2032 |
| Capital losses | **$ 7,260** | Indefinite |
| Undepreciated capital cost allowance | **$ 119,106** | Indefinite |
| Tax basis of mineral interests | **$ 265,501** | Indefinite |

## 23. OTHER DISCLOSURES

### Statement of Cash flows

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

| | 2012 | 2011 |
|---|---|---|
| Cash provided by (used in): | | |
| Accounts receivable | **$ 22,362** | $ 7,635 |
| Inventories | **(2,427)** | 7,326 |
| Other assets | **(1,802)** | (1,488) |
| Accounts payable and accrued liabilities | **22,403** | 2 |
| Other financial liabilities | **(923)** | - |
| Taxes payable | **42** | 2,549 |
| | **$ 39,655** | $ 16,024 |

## 24. SEGMENT INFORMATION

The Company is Canadian based and is in the business of exploring and mining palladium, platinum, gold and certain base metals. Its operations are organized into three reportable segments: palladium operations include the LDI palladium mine and mill; gold operations include the Vezza gold mine and Sleeping Giant mine and mill; and corporate and other. The palladium and gold operations include activities related to exploration, evaluation and development, mining, and milling. The corporate and other segment includes general corporate expenses and other projects not allocated to the other segments. The Company's revenue by significant product type is disclosed in Note 19. The Company's segments are summarized in the following table.

As at and during the years ended December 31, 2012 and December 31, 2011, segmented information is presented as follows:

| | At December 31, 2012 | | | | | At December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued | | | Discontinued | | |
| | Palladium operations | Corporate and other | Total | gold operations | Total | Palladium operations | gold operations | Corporate and other | Total |
| Cash and cash equivalents | **$ (180)** | **$ 20,348** | **$ 20,168** | **$ -** | **$ 20,168** | $ 1,456 | $ 71 | $ 49,408 | $ 50,935 |
| Accounts receivable | **53,922** | **-** | **53,922** | **-** | **53,922** | 73,048 | - | - | 73,048 |
| Inventories | **15,388** | **-** | **15,388** | **-** | **15,388** | 12,342 | 7,704 | - | 20,046 |
| Other current assets | **7,595** | **853** | **8,448** | **29,814** | **38,262** | 5,558 | 9,033 | 1,266 | 15,857 |
| Mining interests | **343,449** | **43** | **343,492** | **-** | **343,492** | 211,505 | 44,433 | 221 | 256,159 |
| **Total assets** | **$ 420,174** | **$ 21,244** | **$ 441,418** | **$ 29,814** | **$ 471,232** | $ 303,909 | $ 61,241 | $ 50,895 | $ 416,045 |
| Accounts payable and accrued liabilities | **$ 52,095** | **$ 6,379** | **$ 58,474** | **$ -** | **$ 58,474** | $ 26,849 | $ 12,184 | $ 3,403 | $ 42,436 |
| Credit Facility | **-** | **15,089** | **15,089** | **-** | **15,089** | - | - | - | - |
| Obligations under finance leases | **13,673** | **-** | **13,673** | **-** | **13,673** | 4,314 | 218 | - | 4,532 |
| Provisions | **-** | **1,000** | **1,000** | **-** | **1,000** | - | 1,000 | - | 1,000 |
| Asset retirement obligations | **15,214** | **-** | **15,214** | **-** | **15,214** | 13,905 | 6,976 | - | 20,881 |
| Other liabilities | **3,226** | **3,952** | **7,178** | **12,071** | **19,249** | 3,363 | 4,264 | 4,875 | 12,502 |
| Long-term debt | **-** | **101,633** | **101,633** | **-** | **101,633** | - | - | 65,698 | 65,698 |
| **Total liabilities** | **$ 84,208** | **$ 128,053** | **$ 212,261** | **$ 12,071** | **$ 224,322** | $ 48,431 | $ 24,642 | $ 73,976 | $ 147,049 |

| | Year ended December 31, 2012 | | | | | Year ended December 31, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Palladium operations | Corporate and other | Continuing operations Total | Discontinued gold operations | Total | Palladium operations | Corporate and other | Continuing operations Total | Discontinued gold operations | Total |
| **Revenue – after pricing adjustments** | **$ 160,704** | **$ -** | **$ 160,704** | **$ 3,004** | **$ 163,708** | $ 143,659 | $ - | **$ 143,659** | $ 26,813 | $ 170,472 |
| Depreciation and amortization | **19,528** | **178** | **19,706** | **199** | **19,905** | 9,961 | 183 | **10,144** | 7,460 | 17,604 |
| Gold mine impairment charge | **-** | **-** | **-** | **56,023** | **56,023** | - | - | **-** | 49,210 | 49,210 |
| Operating expenses | **125,307** | **-** | **125,307** | **3,197** | **128,504** | 105,111 | - | **105,111** | 31,628 | 136,739 |
| **Income (loss) from mining operations** | **15,869** | **(178)** | **15,691** | **(56,415)** | **(40,724)** | 28,587 | (183) | **28,404** | (61,485) | (33,081) |
| Other expenses | | | | | | | | | | |
| General and administration | **448** | **11,554** | **12,002** | **62** | **12,064** | 429 | 11,772 | **12,201** | 82 | 12,283 |
| Exploration | **14,408** | **105** | **14,513** | **2,768** | **17,281** | 9,834 | 105 | **9,939** | 6,728 | 16,667 |
| Other | **1,137** | **(558)** | **579** | **93** | **672** | 289 | (250) | **39** | 77 | 116 |
| **Income (loss) before taxes** | **(124)** | **(11,279)** | **(11,403)** | **(59,338)** | **(70,741)** | 18,035 | (11,810) | **6,225** | (68,372) | (62,147) |
| Income and mining tax (expense) recovery | **-** | **-** | **-** | **4,704** | **4,704** | (2,388) | 555 | **(1,833)** | (1,174) | (3,007) |
| **Net income (loss) and comprehensive income (loss) for the period** | **$ (124)** | **$ (11,279)** | **$ (11,403)** | **$ (54,634)** | **$ (66,037)** | $ 15,647 | $ (11,255) | **$ 4,392** | $ (69,546) | $ (65,154) |

| | Year ended December 31, 2012 | | | | | Year ended December 31, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Palladium operations | Corporate and other | Continuing operations Total | Discontinued gold operations | Total | Palladium operations | Corporate and other | Continuing operations Total | Discontinued gold operations | Total |
| **Additions to mining interests** | **$ 145,180** | **$ -** | **$ 145,180** | **$ 26,299** | **$ 171,479** | $ 148,309 | $ - | $ 148,309 | $ 37,324 | $ 185,633 |

For additional discussion relating to reliance on customers, refer to accounts receivable in note 5 and revenue from metal sales in note 19.

**Exhibit 1.4**

**KPMG LLP**
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**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, 2012 and December 31, 2011, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011. 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 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2012 and December 31, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also 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, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 21, 2013 expressed an unqualified opinion on the effectiveness of North American Palladium Ltd.'s internal control over financial reporting.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
February 21, 2013
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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**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, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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, 2012. 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2012 and December 31, 2011 and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and our report dated February 21, 2013 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
February 21, 2013
Toronto, Canada

**Exhibit 23.1**

**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 21, 2013 on the consolidated financial statements of North American Palladium Ltd. comprising the consolidated balance sheets as at December 31, 2012 and December 31, 2011, consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes comprising a summary of significant accounting policies and other explanatory information;
- our Report of Independent Registered Public Accounting Firm dated February 21, 2013 on the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2012, and December 31, 2011 and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011
- our Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting dated February 21, 2013 on North American Palladium Ltd.'s internal control over financial reporting as of December 31, 2012

each of which is contained in or incorporated by reference in this annual report on Form 40-F of North American Palladium Ltd. for the fiscal year ended December 31, 2012.

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. 383-13766).

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 20, 2013

**Exhibit 23.2**

TETRA TECH

1296780300-COA-R0005-00

**Subject Consent of Tetra Tech WEI Inc. – Todd McCracken, P.Geo.**

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 Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I" filed on February 19, 2013 (effective date of January 31, 2013) included in the 2012 Annual Information Form of North American Palladium Ltd., dated March 20, 2013 (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 20th day of March, 2013.

Per: /s/ Todd McCracken, P.Geo.
Todd McCracken, P.Geo.
Principal Geologist
Tetra Tech WEI Inc.

complex world | CLEAR SOLUTIONS™
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**Exhibit 23.3**

TETRA TECH

1296780300-COA-R0007-00

**Subject Consent of Tetra Tech WEI Inc. – William Richard McBride, P.Eng.**

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 Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I" filed on February 19, 2013 (effective date of January 31, 2013) included in the 2012 Annual Information Form of North American Palladium Ltd., dated March 20, 2013 (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 20th day of March, 2013.

Per: /s/ William Richard McBride, P.Eng.
William Richard McBride, P.Eng.
Senior Mining Engineer
Tetra Tech WEI Inc.

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**Exhibit 23.4**

TETRA TECH

1296780300-COA-R0008-00

**Subject Consent of Tetra Tech WEI Inc. – Philip Bridson, P.Eng.**

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 Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I" filed on February 19, 2013 (effective date of January 31, 2013) included in the 2012 Annual Information Form of North American Palladium Ltd., dated March 20, 2013 (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 20th day of March, 2013.

Per: /s/ Philip Bridson, P.Eng.
Philip Bridson, P.Eng.
Senior Mining Engineer
Tetra Tech WEI Inc.

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**Exhibit 23.5**

TETRA TECH

1296780300-COA-R0006-00

**Subject Consent of Tetra Tech WEI Inc. – Todd Kanhai, P.Eng.**

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 Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I" filed on February 19, 2013 (effective date of January 31, 2013) included in the 2012 Annual Information Form of North American Palladium Ltd., dated March 20, 2013 (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 20th day of March, 2013.

Per: /s/ Todd Kanhai, P.Eng.
Todd Kanhai, P.Eng.
Metallurgical Engineer
Tetra Tech WEI Inc.

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**Exhibit 23.6**

North American Palladium
Lac des Iles Mines Ltd.

**Consent of David N. 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 Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I" filed on February 19, 2013 (effective date of January 31, 2013) included in the 2012 Annual Information Form of North American Palladium Ltd., dated March 20, 2013 (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 20th day of March, 2013.

Per: /s/ David N. Penna, P.Geo.
David N. Penna, P.Geo.
Principal Geologist
Lac des Iles Mines Ltd.

P.O. Box 10547, Thunder Bay, Ontario, P7B 6T9
Tel: (807) 448-2000 Fax: (807) 448-2001
**www.nap.com**

**Exhibit 23.7**

North American Palladium Ltd.

**Consent of Kevin Small**

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 Lac des Iles Mine, Ontario, Incorporating Prefeasibility Study Offset Zone Phase I" filed on February 19, 2013 (effective date of January 31, 2013) included in the 2012 Annual Information Form of North American Palladium Ltd., dated March 20, 2013 (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 20th day of March, 2013.

Per: /s/ Kevin Small, P.Eng.
Kevin Small, P.Eng.
Director, Technical Services
North American Palladium Ltd.

Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2350, Toronto, Ontario, Canada M5J 2J2
Tel: (416) 360-7590 Fax: (416) 360-7709
**www.nap.com**

**Exhibit 31.1**

**Certifications**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, André J. Douchane, 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 20, 2013

/s/ André J. Douchane
By: André J. Douchane
Title: Interim 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 20, 2013

/s/ David Langille

By: David Langille
Title: Chief Financial Officer

**Exhibit 32.1**

**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"), André J. Douchane, as Interim 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/ André J. Douchane
By: André J. Douchane
Title: Interim Chief Executive Officer
Dated: March 20, 2013

/s/ David Langille
By: David Langille
Title: Chief Financial Officer
Dated: March 20, 2013

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.