

NORTH AMERICAN PALLADIUM LTD

FORM 6-K (Report of Foreign Issuer)

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SECURITIES AND EXCHANGE COMMISSION

Form 6-K

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

For the month of May, 2013

Commission File Number: 1-15142

NORTH AMERICAN PALLADIUM LTD.

(Name of Registrant)

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

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

Form 20-F Form 40-F

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

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

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

Yes Assigned File No. _____ No

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

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

SIGNATURES

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

Date: May 6, 2013

NORTH AMERICAN PALLADIUM LTD.

By: /s/ Tess Lofsky

Tess Lofsky
Vice President, General Counsel & Corporate Secretary

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description of Exhibit</u>
1	2013 Q1 – Management’s Discussion and Analysis
2	2013 Q1 – Financial Statements
3	News Release – “North American Palladium Announces First Quarter 2013 Results”



INTRODUCTION

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

The following is management's discussion and analysis of the financial condition and results of operations ("MD&A") to enable readers of the Company's consolidated financial statements and related notes to assess material changes in financial condition and results of operations for the quarter ended March 31, 2013, compared to those of the respective period in the prior year. This MD&A has been prepared as of May 3, 2013 and is intended to supplement and complement the consolidated financial statements and notes thereto for the quarter ended March 31, 2013 (collectively, the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. Readers are encouraged to review the Financial Statements in conjunction with their review of this MD&A and the most recent Form 40-F/Annual Information Form on file with the U.S. Securities and Exchange Commission ("SEC") and Canadian provincial securities regulatory authorities, available at www.sec.gov and www.sedar.com, respectively.

On March 22, 2013, the Company sold NAP Quebec for gross proceeds of \$18.0 million in cash, 1.5 million common shares of Maudore Minerals Ltd. ("Maudore") and \$1.8 million of receivable inventory amounts. For Financial Statement purposes, NAP Quebec has been treated as a discontinued operation (held for sale) in 2013 and 2012.

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 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 including the LDI mine expansion, project timelines, production plans, projected cash flows or expenditures, operating cost estimates, proposed mining methods 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 sufficient financing to fund current capital needs including to fund the expansion of the Lac des Iles mine, the possibility that the Lac des Iles mine 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



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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 (“LDI”) 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 costs per ounce.

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 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 an 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.

FIRST QUARTER REPORT 2013

**HIGHLIGHTS**

OPERATIONAL HIGHLIGHTS	Three months ended March 31	
	2013	2012
Mining		
Tonnes ore mined	540,694	532,427
Palladium head grade (g/t)	3.1	3.3
Milling		
Tonnes ore milled	503,585	519,944
Palladium head grade (g/t)	3.3	3.2
Palladium recovery (%)	80.1	77.2
Payable production		
Palladium (oz)	38,654	41,760
Platinum (oz)	2,842	2,598
Gold (oz)	3,001	2,746
Nickel (lb)	391,506	392,297
Copper (lb)	701,923	635,624
Realized palladium price per ounce (US\$)	\$ 730	\$ 661
Cash cost per ounce palladium sold (US\$) ¹	\$ 490	\$ 380
FINANCIAL HIGHLIGHTS		
(\$000s except per share amounts)		
	Three months ended March 31	
	2013	2012
Revenue	\$ 47,090	\$ 41,580
Expenses		
Production costs	28,941	25,394
Smelting, refining and freight	3,802	2,975
Royalty	2,509	1,594
Depreciation and amortization	6,085	3,792
Exploration	4,840	3,184
General and administration	2,913	3,303
Income from mining operations	5,124	7,825
Earnings		
(Loss) income from continuing operations	(5,357)	147
(Loss) Income from continuing operations per share	\$ (0.03)	\$ 0.00
Net loss	(2,848)	(928)
Net loss per share	\$ (0.02)	\$ (0.01)
Adjusted net (loss) income ¹	(834)	3,331
EBITDA ¹	2,937	4,994
Adjusted EBITDA ¹	7,460	8,178
Capital spending, continuing operations	38,068	37,210

FINANCIAL CONDITION

(\$000s)	As at March 31	As at December 31
	2013	2012
Net working capital	\$ 1,185	\$ 32,563
Cash balance	23,493	20,168
Shareholders' equity	245,417	246,900
Total debt	152,945	130,395

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 18-20.



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- In the first quarter of 2013, 540,694 tonnes at an average grade of 3.1 g/t palladium were mined compared to 532,427 tonnes at an average palladium grade of 3.3 g/t in the prior year.
- The mill processed 503,585 tonnes of ore at an average palladium head grade of 3.3 grams per tonne and a recovery of 80.1% to produce 38,654 ounces of payable palladium in the first quarter of 2013.
- Revenue increased to \$47.1 million in the first quarter of 2013 primarily due to greater quantities of payable metals sold, more favorable exchange rates and higher realized prices for palladium.
- Operating expenses increased to \$28.9 million in the first quarter of 2013 from \$25.4 million in the prior year period primarily due to increased milling, surface and stockpile mining costs and inventory and other adjustments partially offset by a decrease in underground mining costs.
- In the first quarter of 2013, capital expenditures from continuing operations totaled \$38.1 million with \$31.7 million spent on the LDI mine expansion including \$2.3 million of capitalized interest and an additional \$6.4 million spent primarily on the tailings management facility.
- On January 22, 2013, Dave Langille was appointed Chief Financial Officer of the Company. Mr. Langille is a seasoned finance executive with a solid track record of optimizing operations to improve margins, along with merger and acquisition experience, and raising capital through a broad range of capital market products.
- On February 19, 2013, the Company filed on SEDAR a National Instrument 43-101 technical report for the LDI property, which includes an initial mineral reserves estimate and Prefeasibility Study for Phase I of the Offset Zone.
- On March 22, 2013, the Company sold its Quebec gold division for gross proceeds of \$18.0 million in cash, 1.5 million common shares of Maudore and \$1.8 million of receivable inventory amounts.
- Effective March 25, 2013, Phil du Toit was appointed President and Chief Executive Officer of the Company. Mr. du Toit is an accomplished mining executive with a proven track record for executing on his management mandates and brings significant project management expertise.
- On May 6, 2013, the Company issued a news release addressing revisions to 2013 guidance for the Company. A copy of the news release has been filed with Canadian provincial securities regulatory authorities and is available at www.sedar.com.

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**PALLADIUM OPERATIONS –OPERATING, CAPITAL EXPENDITURES & FINANCIAL 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.

Operating Results

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

	Three months ended March 31	
	2013	2012
Ore mined (tonnes)		
Underground		
Roby	143,037	170,317
Offset	102,619	49,620
	<u>245,656</u>	<u>219,937</u>
Surface		
Open pit	290,369	280,670
High grade stockpile	0	5,365
Low grade stockpile	4,669	26,455
	<u>295,038</u>	<u>312,490</u>
Total	<u><u>540,694</u></u>	<u><u>532,427</u></u>
Mined ore grade (Pd g/t)		
Underground		
Roby	4.3	5.4
Offset	3.8	4.9
	<u>4.1</u>	<u>5.3</u>
Surface		
Open pit	2.4	2.0
High grade stockpile	0.0	1.8
Low grade stockpile	1.0	1.0
	<u>2.4</u>	<u>1.9</u>
Average	<u><u>3.1</u></u>	<u><u>3.3</u></u>
Milling		
Tonnes of ore milled	503,585	519,944
Palladium head grade (g/t)	3.3	3.2
Palladium recoveries (%)	80.1	77.2
Tonnes of concentrate produced	4,502	4,568
Total cost per tonne milled	\$ 57	\$ 49
Payable production		
Palladium (oz)	38,654	41,760
Platinum (oz)	2,842	2,598
Gold (oz)	3,001	2,746
Nickel (lbs)	391,506	392,297
Copper (lbs)	701,923	635,624
Cash cost per ounce of palladium sold (US\$) ¹	\$ 490	\$ 380

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 18-20.



Mining

Ore mined at LDI during the first quarter of 2013 consisted of 540,694 tonnes at an average grade of 3.1 g/t palladium compared to 532,427 tonnes at an average palladium grade of 3.3 g/t in the prior year. The increase in tonnage mined in 2013 was primarily due to more tonnes mined at the Offset zone and the open pit partially offset by fewer tonnes from the Roby zone and the high and low grade stockpiles. The average grade of ore mined decreased primarily due more tonnes of underground ore mined at a lower grade partially offset by fewer tonnes of stockpile ore at a higher grade compared with the prior year. The ore mined in the Offset zone in the first quarter of 2013 was at grades anticipated by the Company for that section of the ore body.

Milling

During the first quarter of 2013, the LDI mill processed 503,585 tonnes of ore at an average palladium head grade of 3.3 grams per tonne and a recovery of 80.1% to produce 38,654 ounces of payable palladium (2012 – 519,944 tonnes milled, average palladium head grade of 3.2 grams per tonne, palladium recovery of 77.2%, produced 41,760 ounces of payable palladium). The higher mill recovery was primarily due to improvements in the mill which increased recovery compared with the prior year and the higher average palladium head grades processed. Payable metal production was impacted by a new smelter contract which pays a lower percentage of contained metal compared to the contract in the prior year.

Production costs of \$57 per tonne milled in the first quarter were higher, compared to \$49 per tonne in the same quarter last year. The increase was primarily due to increased production costs in 2013 combined with lower tonnages milled compared with the prior year. As the mill has excess capacity relative to the mining rate, it operates on a two-week on/ two-week off schedule. Please refer to the production costs section of this MD&A for additional details.

Cash Cost per Ounce of Palladium Sold

The cash cost per ounce of palladium sold increased to US\$490¹ in the first quarter of 2013 compared to US\$380¹ per ounce in the prior year. Cash cost per ounce of palladium sold is a non-IFRS measure and the calculation is provided in the Non-IFRS Measures section of this MD&A. The increase in cash cost per ounce of palladium in 2013 was primarily due to increased production, smelting, refining and freight costs and royalty expense partially offset by higher by-product metal revenues and the effect of more payable palladium sold compared with 2012. Please refer to the LDI revenue, production costs, smelting, refining and freight costs and royalty expense sections of this MD&A for additional details.

¹ *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 18-20.*

Capital expenditures

The LDI mine continues its transition from mining underground by ramp to mining by shaft while continuing to utilize bulk mining methods. The Company expects that shaft mining will allow economic access to deeper mineralized zones at lower production costs than ramp mining.

In the first quarter of 2013, capital expenditures from continuing operations totaled \$38.1 million compared with \$37.2 million in 2012. Of the \$38.1 million, \$31.7 million was spent on the LDI mine expansion including: \$10.4 million on shaft sinking and infrastructure to extend the shaft 225 metres to the 670 metre level; \$4.3 million on level access and vertical development; \$4.0 million on surface and underground construction; \$2.5 million on procurement; \$1.9 million on parts and maintenance; \$1.3 million on capitalized exploration expenditures; \$2.9 million on general and administration, indirects and equipment charge-backs; \$2.3 million for capitalized interest and, \$2.1 million for other development costs. The Company spent an additional \$6.4 million on capital which included \$5.5 million for the tailings management facility. As at May 3, 2013, the shaft was at a depth of 695 metres.



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Financial Results

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

(\$000s)	Three months ended March 31	
	2013	2012
Revenue	\$ 47,090	\$ 41,580
Mining operating expenses		
Production costs		
Mining – surface and stockpile	\$ 6,484	\$ 4,958
Mining – underground	12,961	14,252
Milling	7,673	5,775
General and administration	1,764	1,701
	28,882	26,686
Inventory and others	59	(1,292)
	28,941	25,394
Smelting, refining and freight costs	3,802	2,975
Royalty expense	2,509	1,594
Depreciation and amortization	6,064	3,747
Loss on disposal of equipment	629	—
Total mining operating expenses	\$ 41,945	\$ 33,710
Income from mining operations	\$ 5,145	\$ 7,870

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

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 a designated shipping point. Final pricing is determined in accordance with LDI's smelter agreements. In most cases, final pricing is determined two months after delivery to the smelter for gold, nickel and copper and four months after delivery for palladium and platinum. These final pricing adjustments can result in additional revenues in a rising commodity price environment and reductions to revenue in a declining commodity price environment. Similarly, a weakening in the Canadian dollar relative to the U.S. dollar 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 prices and an appreciating Canadian dollar. These financial contracts represent 28,100 ounces of palladium as at March 31, 2013 (December 31, 2012 – 55,000 palladium ounces) and mature from April 2013 through May 2013 at an average forward price of US\$678 per ounce of palladium (December 31, 2012 – US\$640 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 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 March 31, 2013 was a liability of \$2.9 million included in accounts payable and accrued liabilities (December 31, 2012 – \$3.2 million).

Revenue for the three months ended March 31, 2013

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume ⁽¹⁾	39,760	2,903	3,076	391,506	712,277	n.a.	n.a.
Realized price (US\$) ⁽¹⁾	730	1,630	1,645	7.70	3.60	n.a.	n.a.
Revenue before price adjustment (\$000s)	30,128	4,734	4,992	3,087	2,564	45	45,550
Price adjustment (\$000s):							
Commodities	1,273	238	(29)	(28)	(84)	—	1,370
Foreign exchange	(187)	170	106	35	46	—	170
Revenue (\$000s)	31,214	5,142	5,069	3,094	2,526	45	47,090

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

Revenue for the three months ended March 31, 2012

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume (1)	<u>38,948</u>	<u>2,435</u>	<u>2,574</u>	<u>369,394</u>	<u>597,526</u>	<u>n.a.</u>	<u>n.a.</u>
Realized price (US\$) (1)	<u>672</u>	<u>1,588</u>	<u>1,677</u>	<u>8.78</u>	<u>3.77</u>	<u>n.a.</u>	<u>n.a.</u>
Revenue before price adjustment (\$000s)	26,581	4,039	4,378	3,208	2,294	187	40,687
Price adjustment (\$000s):							
Commodities	687	1,054	437	(166)	231	23	2,266
Foreign exchange	(868)	(177)	(172)	(86)	(65)	(5)	(1,373)
Revenue (\$000s)	<u>26,400</u>	<u>4,916</u>	<u>4,643</u>	<u>2,956</u>	<u>2,460</u>	<u>205</u>	<u>41,580</u>

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

The increased revenue in the first quarter of 2013 was primarily due to greater quantities of payable metals sold, more favorable exchange rates and higher realized prices for palladium and platinum partially offset by lower realized prices for nickel, copper and gold. Payable palladium in the first quarter of 2013 was impacted by a new smelter contract which pays a lower percentage of contained metal compared to the previous contract in the prior period.

Spot Metal Prices* and Exchange Rates

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

	Mar-31 2013	Dec-31 2012	Sep-30 2012	Jun-30 2012	Mar-31 2012	Dec-31 2011	Sep-30 2011	Jun-30 2011
Palladium – US\$/oz	\$ 770	\$ 699	\$ 642	\$ 578	\$ 651	\$ 636	\$ 614	\$ 761
Platinum – US\$/oz	\$ 1,576	\$ 1,523	\$ 1,668	\$ 1,428	\$ 1,640	\$ 1,381	\$ 1,511	\$ 1,722
Gold – US\$/oz	\$ 1,598	\$ 1,664	\$ 1,776	\$ 1,599	\$ 1,663	\$ 1,575	\$ 1,620	\$ 1,506
Nickel – US\$/lb	\$ 7.50	\$ 7.75	\$ 8.40	\$ 7.46	\$ 7.91	\$ 8.28	\$ 8.30	\$ 10.48
Copper – US\$/lb	\$ 3.44	\$ 3.59	\$ 3.75	\$ 3.44	\$ 3.83	\$ 3.43	\$ 3.24	\$ 4.22
Exchange rate (Bank of Canada) – CDN\$1 = US\$	<u>US\$ 0.98</u>	<u>US\$ 1.01</u>	<u>US\$ 1.02</u>	<u>US\$ 0.98</u>	<u>US\$ 1.00</u>	<u>US\$ 0.98</u>	<u>US\$ 0.96</u>	<u>US\$ 1.04</u>

* Based on the London Metal Exchange

Operating Expenses from Continuing Operations

Production costs

For the quarter ended March 31, 2013, operating expenses were \$28.9 million, compared to \$25.4 million in the prior year period. The \$3.5 million increase in operating expenses in 2013 was primarily due to a \$1.9 million increase in milling costs, a \$1.5 million increase in surface and stockpile mining costs, a \$1.4 million increase in inventory and other adjustments partially offset by a \$1.3 million decrease in underground mining costs.

Tonnes of open pit mineralized material mined increased a modest 3% in 2013 compared with 2012. The increase in cost for surface and stockpile mining were primarily due to a \$0.6 million increase in salaries and wages, a \$0.5 million increase in contractor costs and a \$0.2 million increase in fuel cost all related to an additional open pit contractor crew and the related costs associated with internal surface ore re-handling costs in the first quarter of 2013 compared to 2012.

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Underground mining costs decreased in the first quarter of 2013 despite 12% more tonnes mined underground primarily due to \$3.3 million lower contractor costs related to higher utilization of company personnel partially offset by \$0.9 million higher power costs, \$0.4 million higher salaries and wages, \$0.4 million increased infill drilling and \$0.4 million higher parts and supplies all associated with the higher tonnes mined from underground and increased labour rates and \$0.4 million restoration costs.

Despite slightly fewer tonnes milled, milling costs increased primarily due to a \$0.9 million SAG mill liner replacement in 2013, a \$0.5 million increase in power related to a mid-year 2012 power increase and increased grinding rates and a \$0.4 million increase in reagents which improved overall grade recovery.

Inventory and mining costs increased in 2013 primarily due to a \$1.9 million change in concentrate inventory (2013 drawdown compared to a build-up in 2012) partially offset by a \$0.8 million insurance recovery in 2013 related to the water inflows in 2012.

Smelting, refining and freight costs

Smelting, refining and freight costs for the quarter ended March 31, 2013 were \$3.8 million compared to \$3.0 million in the same period in 2012, a 28% increase. The increase over the prior year was primarily due to higher quantities of metals sold, higher smelting and refining charges associated with the current smelter contracts compared to the previous contract and higher freight costs associated with an overseas customer.

Royalty expense

For the quarter ended March 31, 2013, royalty expense was \$2.5 million compared to \$1.6 million in the same period in 2012. The increase was primarily due to higher payable metal prices for palladium partially offset by higher smelting, refining and freight costs.

Depreciation and amortization

Depreciation and amortization for the quarter ended March 31, 2013 was \$6.1 million compared to \$3.8 million for the quarter ended March 31, 2012. The increase over the prior year was primarily due to a significant increase in depreciable assets associated with the LDI mine expansion including the Offset zone and tailings management facilities and higher production.

OTHER EXPENSES

Exploration

Exploration expenditures for the quarter ended March 31, 2013 were \$4.8 million (2012 - \$3.2 million) exclusive of an additional \$1.3 million of Offset zone exploration which was capitalized. Of the \$4.8 million expense in 2013, \$2.2 million was spent on the Sheriff, North VT Rim, South VT Rim and South LDI near mine targets and \$1.8 million was spent on greenfields targets including Wakinoo Lake, Demers Lake, Chisamore and North LDI properties. In the first three months of 2013, 15,105 metres of exploration drilling was done with 10,143 on near mine targets and 4,962 on greenfields properties.

Interest expense and other costs

Interest expense and other costs for the quarter ended March 31, 2013 was \$2.2 million compared to \$1.1 million in the prior year. The increase was primarily due to a \$0.9 million increase in unrealized loss on palladium warrants and a \$0.4 million increase in long-term debt accretion expense.

FIRST QUARTER REPORT 2013

**GOLD OPERATIONS**

On March 22, 2013, the Company sold NAP Quebec for gross proceeds of \$18.0 million in cash, 1.5 million common shares of Maudore and \$1.8 million of receivable inventory amounts. For Financial Statement purposes, NAP Quebec has been treated as a discontinued operation (held for sale) in 2013 and 2012. The Company has recorded \$2.5 million income from discontinued operations, including a gain on disposal of discontinued operations of \$1.5 million, for the period ended March 31, 2013 compared to a loss from discontinued operations of \$1.1 million for the period ended March 31, 2012.

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

SUMMARY OF QUARTERLY RESULTS

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

	2013		2012			2011			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue	\$ 47,090	\$ 42,368	\$ 36,193	\$ 40,563	\$ 41,580	\$ 37,205	\$ 32,689	\$ 44,329	
Production costs	28,941	23,937	24,257	27,214	25,394	25,990	22,497	21,131	
Exploration expense	4,840	5,961	2,604	2,764	3,184	2,390	1,742	3,883	
Capital expenditures	38,068	41,810	34,088	32,072	37,210	44,446	39,673	31,450	
Net income (loss) from continuing operations	(5,357)	(3,739)	(5,908)	(1,903)	147	(4,343)	356	10,746	
Cash provided by (used in) operations	3,165	39,045	5,174	4,833	7,645	(147)	16,232	6,362	
Cash provided by (used in) financing activities	17,096	2,299	35,280	46,712	6,201	69,433	71	7,897	
Cash provided by (used in) investing activities	(37,078)	(41,831)	(33,864)	(31,829)	(37,131)	(43,864)	(38,822)	(30,998)	
Net income (loss) per share from continuing operations									
- basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ (0.01)	\$ 0.00	\$ (0.03)	\$ (0.00)	\$ 0.07	
Net income (loss) per share - basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.00)	\$ 0.07	
Cash provided by (used in) operations prior to changes in non-cash working capital per share ¹	0.02	0.03	0.00	0.03	0.04	(0.01)	0.03	0.08	
Tonnes milled	503,585	511,226	504,022	528,068	519,944	531,825	442,253	377,857	
Palladium sold (ounces)	39,760	44,394	36,218	42,285	38,948	35,116	34,524	46,362	

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 18-20.

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

(\$000s)	Three months ended March 31	
	2013	2012
Cash provided by operations prior to changes in non-cash working capital	\$ 3,031	\$ 6,662
Changes in non-cash working capital	134	983
Cash provided by operations	3,165	7,645
Cash provided by financing	17,096	6,201
Cash used in investing	(37,078)	(37,131)
Decrease in cash from continuing operations	(16,817)	(23,285)
Net change in cash attributable to discontinued operations	20,142	(8,955)
Increase (decrease) in cash and cash equivalents	\$ 3,325	\$ (32,240)

Operating Activities

For the quarter ended March 31, 2013, cash provided by operations prior to changes in non-cash working capital was \$3.0 million, compared to \$6.7 million in the prior year quarter. The decrease was primarily due to the \$5.4 million net loss in 2013 partially offset by a \$2.3 million non-cash increase in depreciation and amortization.

During the first quarter of 2013, changes in non-cash working capital resulted in a source of cash of \$0.1 million compared to \$1.0 million in the prior year. The 2013 source of \$0.1 million was primarily due to an increase in accounts payable of \$3.9 million partially offset by an increase in accounts receivable of \$4.1 million.

Financing Activities and Liquidity

For the quarter ended March 31, 2013, financing activities provided cash of \$17.1 million consisting primarily of \$23.0 million from a drawdown on the credit facility less \$4.6 million and \$1.3 million for interest paid and repayments of capital lease obligations respectively. This compared to cash provided by financing activities of \$6.2 million in the prior year period consisting primarily of an \$11.2 million drawdown of the credit facility partially offset by \$3.6 million interest paid on long-term debt and repayment of \$1.4 million of capital leases obligations.

Investing Activities

For the quarter ended March 31, 2013, investing activities used \$37.1 million of cash primarily due to additions to mining interests of \$38.1 million. For the quarter ended March 31, 2012, investing activities required cash of \$37.1 million primarily due to additions to mining interests of \$37.2 million. Refer to the capital expenditure section of this MD&A for additional details.

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**Liquidity and Capital Resources**

As at March 31, 2013, the Company had cash and cash equivalents of \$23.5 million compared to \$20.2 million as at December 31, 2012. The increase was due primarily to the sale of the gold division, credit facility utilization and cash from operations partially offset by investment in LDI's mine expansion. The funds are invested in short term interest bearing deposits at a major Canadian chartered bank.

The Company has, subject to a borrowing base cap, a US\$60.0 million credit facility that is secured by certain of the Company's accounts receivables and inventory and may be used for working capital liquidity and general corporate purposes and is due July 5, 2013. Under the credit agreement, the Company utilized US\$17.0 million for letters of credit primarily for reclamation deposits and has taken a drawdown of US\$37.1 million, fully utilizing the credit facility as at March 31, 2013.

The Company also has a \$15.0 million lease facility to fund equipment for the LDI mine expansion, of which \$14.0 million had been utilized as at March 31, 2013. Please also see the contractual obligations below for additional commitments.

The Company's anticipated operating cash flows and existing cash resources are not expected to be sufficient to fund capital expenditures relating to the shaft construction anticipated for the remainder of 2013 and as a result the Company will need to raise additional funds for these expenditures. While the Company is pursuing various financing alternatives and believes the debt and equity markets are currently available to finance its funding requirements, the certainty of completing a financing cannot be assured at this time. If sufficient financing is not obtained, it will have a material negative impact on the Company's operations.

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 were renounced to investors for the 2012 tax year. As at March 31, 2013, the full gross proceeds had been spent.

On July 31, 2012, the Company completed an offering of 43,000 convertible unsecured subordinated debentures of the Company at a price of \$1,000 per debenture, for total gross proceeds of \$43.0 million (\$40.8 million net proceeds). The debentures mature on September 30, 2017 and bear interest at a rate of 6.15% per year, payable semi-annually. At the option of the holder, the debentures may be converted into common shares of the Company at any time prior to maturity at a conversion price of \$2.90 per common share. Of the net proceeds of \$40.8 million, \$33.9 million has been allocated to long-term debt with the remaining portion of \$6.9 million allocated to the conversion feature and recorded in equity. If all of the convertible debentures were converted into common shares, 14,827,586 additional common shares would be issued.

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 March 31, 2013, the full gross proceeds had been spent.

During the second quarter of 2012, LDI signed a three-year smelting and refining contract for the majority of the mine's concentrate. This new contract has higher smelting and refining charges than 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 March 31, 2013 (\$000s)	Total	Payments Due by Period		
		1-3 Years	3-5 Years	5+ Years
Finance lease obligations	\$14,096	\$ 9,007	\$ 5,089	\$ —
Operating leases	5,722	4,940	782	—
Purchase obligations	74,264	74,264	—	—
	<u>\$94,082</u>	<u>\$88,211</u>	<u>\$ 5,871</u>	<u>\$ —</u>

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In addition to the above, the Company also has asset retirement obligations at March 31, 2013 in the amount of \$15.3 million for the LDI mine. The Company obtained letters of credit of \$14.1 million as financial surety for these future outlays. As a result, \$1.2 million of funding is required prior to or upon closure of these properties.

Contingencies and Commitments

Please refer to notes 16 and 18 of the Company's Financial Statements.

Related Party Transactions

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

OUTSTANDING SHARE DATA

As of May 3, 2013, there were 178,365,031 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 3,417,499 common shares of the Company at a weighted average exercise price of \$3.68 per share. In conjunction with \$72.0 million of convertible debentures issued in 2011, a palladium warrant consisting of 0.35 of an ounce of palladium at a strike price of US\$620 per ounce was issued with each \$1,000 convertible debenture representing an aggregate of 25,200 ounces of palladium. On the exercise of all of the palladium warrants, the Company has the option of financially settling the warrants with either cash or common shares. Using the March 31, 2013 closing share price, the Company estimates that the number of common shares which would have been required to settle the warrants was approximately 135,677 common shares.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

a. *Going Concern*

The Financial Statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2013, the Company had a cash balance of \$23.5 million and a working capital surplus of approximately \$1.2 million. The Company's credit facility, which was fully drawn on March 31, 2013, expires in July 2013. The Company's anticipated operating cash flows and existing cash resources are not expected to be sufficient to fund capital expenditures relating to the shaft construction anticipated for the remainder of 2013 and as a result the Company will need to raise additional funds for these expenditures. While the Company is pursuing various financing alternatives and believes the debt and equity markets are currently available to finance its funding requirements, the certainty of completing a financing cannot be assured at this time. Accordingly, these conditions have resulted in a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. The Financial Statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern.

b. *Use of estimates*

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

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



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

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

c. *Impairment assessments of long-lived assets*

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

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

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

d. *Depreciation and amortization of mining interests*

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



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

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

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

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

e. Revenue recognition

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

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

f. Asset retirement obligations

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

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

The liability for each mine site is accreted over time and the accretion charges are recognized as a finance cost in the Consolidated Statements of Operations and Comprehensive Loss. The liability is subject to re-measurement at each reporting date based on changes in discount rates and timing or amounts of the costs to be incurred. Changes in the



liability, other than accretion charges, relating to mine rehabilitation and restoration obligations, which are not the result of current production of inventory, are added to or deducted from the carrying value of the related asset retirement cost in the reporting period recognized. If the change results in a reduction of the obligation in excess of the carrying value of the related asset retirement cost, the excess balance is recognized as a recovery through profit or loss in the period.

Adoption of New Accounting Standards

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

IAS 1 Presentation of Financial Statements

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

IAS 19 Employee Benefits

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

Scope of a Reporting Entity

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

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosures of Interests in Other Entities

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

IAS 27 Consolidated and Separate Financial Statements

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

IFRS 13 Fair Value Measurement

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



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

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

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

New Standards and Interpretations Not Yet Adopted

The following new standards, amendments to standards and interpretations are not yet effective or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any, adoption of the standards will have on the disclosures in the Company's condensed interim consolidated financial statements:

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.

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.

RISKS AND UNCERTAINTIES

In addition to the risks and uncertainties discussed within the Company's most recent Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities and the Company's Short Form Base Shelf Prospectus filed on February 12, 2013, the reader should also consider the following risk factors:

Going Concern Risk – The Company's ability to continue operations and exploration and development activities (including the LDI mine expansion) as a going concern is dependent upon its ability to raise additional capital to (i) fund the capital expenditures required to continue the LDI mine expansion to the end of 2013 and (ii) repay the credit facility when it becomes due on July 5, 2013 (unless it is refinanced on commercially reasonable terms). While the Company is pursuing various financing alternatives and believes the debt and equity markets are currently available to finance its funding requirements, there can be no assurance that the Company will be able to raise additional capital or obtain sufficient financing or that any such financing would be available in a timely manner or on terms favourable to the Company.

Liquidity Risk – The Company may be exposed to liquidity risk, which is the risk that the Company will not be able to meet its financial obligations as they become due. Despite increased revenues over the prior year period, the Company incurred a net loss from continuing operations of \$5.4 million in the first quarter of 2013 and has incurred net losses for each of the three immediately preceding quarters. In spite of a working capital surplus of approximately \$1.2 million as at March 31, 2013, the Company's anticipated operating cash flows and existing cash resources are not expected to be sufficient to fund the repayment of the credit facility when it becomes due in July 2013 and the capital expenditures relating to the shaft construction anticipated for the remainder of 2013.



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

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 quarter ended March 31, 2013, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

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

Internal Control over Financial Reporting

For the quarter ended March 31, 2013, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company’s internal controls over the financial reporting that occurred during the most recent period ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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

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

OTHER INFORMATION

Additional information regarding the Company is included in the Company’s Form 40-F/Annual Information Form, 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 Form 40-F can be obtained from the SEC’s website at www.sec.gov.

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**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 of palladium, 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.

(\$000s)	Three months ended March 31	
	2013	2012
Net income (loss) from continuing operations for the period	\$ (5,357)	\$ 147
Operating items not involving cash		
Depreciation and amortization	6,085	3,792
Accretion expense	954	540
Deferred income and mining tax recovery	—	1,098
Share-based compensation and employee benefits	413	755
Other expense (income)	936	330
Cash provided by operations before changes in non-cash working capital	\$ 3,031	\$ 6,662

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

(\$000s except shares and per share amounts)	Three months ended March 31	
	2013	2012
Cash provided by operations prior to changes in non-cash working capital	\$ 3,031	\$ 6,662
Weighted average number of shares outstanding – basic	177,450,837	162,924,838
Cash provided by operations prior to changes in non-cash working capital per share	\$ 0.02	\$ 0.04

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 an indicator of a Company's ability to generate operating earnings and cash flow from its mining operations.

Reconciliation of Palladium Cash Cost per Ounce

(\$000s except ounce and per ounce amounts)	Three months ended March 31	
	2013	2012
Production costs including overhead	\$ 28,941	\$ 25,394
Smelting, refining and freight costs	3,802	2,975
Royalty expense	2,509	1,594
Insurance recoveries, net of mine restoration costs	317	—
Operational expenses	35,569	29,963
Less by-product metal revenue	15,876	15,180
	\$ 19,693	\$ 14,783
Divided by ounces of palladium sold	39,760	38,948
Cash cost per ounce (CDN\$)	\$ 495	\$ 380
Average exchange rate (CDN\$1 – US\$)	0.99	1.00
Cash cost per ounce (US\$), net of by-product credits	\$ 490	\$ 380

**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 to 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

(\$000s)	Three Months ended March 31	
	2013	2012
Net loss and comprehensive loss for the period	\$ (2,848)	\$ (928)
Exploration	4,840	3,184
(Gain) loss from discontinued operations	(2,509)	1,075
Insurance recoveries, net of mine restoration costs	(317)	—
Adjusted net (loss) income	\$ (834)	\$ 3,331

Adjusted EBITDA

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

EBITDA excludes the impact of the cost of financing activities and taxes, and the effects of changes in operating working capital balances, and therefore is not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate EBITDA differently. Adjusted EBITDA is a Non-IFRS financial measure, which excludes the following from loss:

- Income and mining tax expense;
- Interest 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)

(\$000s)	Three Months ended March 31	
	2013	2012
(Loss) income and comprehensive (loss) income from continuing operations for the period	\$ (5,357)	\$ 147
Interest and other financing costs	2,209	1,055
Depreciation and amortization	6,085	3,792
EBITDA	\$ 2,937	4,994
Exploration	4,840	3,184
Insurance recoveries, net of mine restoration costs	(317)	—
Adjusted EBITDA	\$ 7,460	\$ 8,178



North American Palladium Ltd.

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

	Notes	March 31 2013	December 31 2012
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 23,493	\$ 20,168
Accounts receivable	5	58,030	53,922
Inventories	6	16,844	15,388
Other assets	7	9,361	8,448
Assets of disposal group classified as held for sale	4	—	29,814
Total Current Assets		<u>107,728</u>	<u>127,740</u>
Non-current Assets			
Mining interests	8	374,155	343,492
Total Non-current Assets		<u>374,155</u>	<u>343,492</u>
Total Assets		<u>\$ 481,883</u>	<u>\$ 471,232</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 60,063	\$ 58,474
Credit facility	5	37,870	15,089
Current portion of obligations under finance leases	11	2,834	3,717
Provisions	12	—	1,000
Taxes payable		874	874
Current derivative liability	13	4,902	3,952
Liabilities of disposal group classified as held for sale	4	—	12,071
Total Current Liabilities		<u>106,543</u>	<u>95,177</u>
Non-current Liabilities			
Income taxes payable		2,352	2,352
Asset retirement obligations	9	15,330	15,214
Obligations under finance leases	11	9,724	9,956
Long-term debt	13	102,517	101,633
Total Non-current Liabilities		<u>129,923</u>	<u>129,155</u>
Shareholders' Equity			
Common share capital	14	777,884	776,632
Stock options and related surplus		9,238	9,125
Equity component of convertible debentures, net of issue costs	13	6,931	6,931
Contributed surplus		8,873	8,873
Deficit		(557,509)	(554,661)
Total Shareholders' Equity		<u>245,417</u>	<u>246,900</u>
Total Liabilities and Shareholders' Equity		<u>\$ 481,883</u>	<u>\$ 471,232</u>

Nature of operations and going concern – Note 1

Commitments and contingencies – Notes 16 and 18

See accompanying notes to the consolidated financial statements

FIRST QUARTER REPORT 2013



North American Palladium Ltd.

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

	Notes	Three months ended March 31	
		2013	2012
Revenue	17	\$ 47,090	\$ 41,580
Mining operating expenses			
Production costs		28,941	25,394
Smelting, refining and freight costs		3,802	2,975
Royalty expense		2,509	1,594
Depreciation and amortization		6,085	3,792
Loss on disposal of equipment		629	—
Total mining operating expenses		41,966	33,755
Income from mining operations		5,124	7,825
Other expenses			
Exploration		4,840	3,184
General and administration		2,913	3,303
Other income		(303)	(83)
Interest expense and other costs		2,209	1,055
Foreign exchange loss		822	219
Total other expenses		10,481	7,678
(Loss) income from continuing operations before taxes		(5,357)	147
Income and mining tax expense		—	—
(Loss) income and comprehensive (loss) income from continuing operations for the period		\$ (5,357)	\$ 147
Income (loss) and comprehensive income (loss) from discontinued operations for the period	4	2,509	(1,075)
Loss and comprehensive loss for the period		\$ (2,848)	\$ (928)
Loss per share			
Basic and diluted	14(d)	\$ (0.02)	\$ (0.01)
(Loss) income from continuing operations per share			
Basic and diluted		\$ (0.03)	\$ 0.00
Income (loss) from discontinued operations per share			
Basic and diluted		\$ 0.01	\$ (0.01)
Weighted average number of shares outstanding			
Basic and diluted	14(d)	177,450,837	162,924,838

See accompanying notes to the consolidated financial statements

FIRST QUARTER REPORT 2013



North American Palladium Ltd.

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

	Notes	Three months ended March 31	
		2013	2012
Cash provided by (used in)			
Operations			
Net (loss) income from continuing operations for the period		\$ (5,357)	\$ 147
Operating items not involving cash			
Depreciation and amortization		6,085	3,792
Accretion expense		954	540
Deferred income and mining tax recovery		—	1,098
Share-based compensation and employee benefits	14(f)	413	755
Other		936	330
		<u>3,031</u>	<u>6,662</u>
Changes in non-cash working capital	19	134	983
		<u>3,165</u>	<u>7,645</u>
Financing Activities			
Credit facility	5	23,000	11,239
Repayment of obligations under finance leases	11	(1,315)	(1,446)
Interest paid		(4,589)	(3,592)
		<u>17,096</u>	<u>6,201</u>
Investing Activities			
Additions to mining interests (net)		(38,068)	(37,210)
Proceeds on disposal of mining interests (net)		990	79
		<u>(37,078)</u>	<u>(37,131)</u>
Decrease in cash from continuing operations		(16,817)	(23,285)
Net change in cash attributable to discontinued operations	4	20,142	(8,955)
Increase (decrease) in cash and cash equivalents		3,325	(32,240)
Cash and cash equivalents, beginning of period		20,168	50,935
Cash and cash equivalents, end of period		<u>\$ 23,493</u>	<u>\$ 18,695</u>

See accompanying notes to the consolidated financial statements

FIRST QUARTER REPORT 2013



North American Palladium Ltd.

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

	Notes	Number of shares	Capital stock	Stock options	Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
Balance, January 1, 2012	14	162,851,432	\$740,888	\$7,859	\$ —	\$ 8,873	\$(488,624)	\$ 268,996
Stock based compensation:								
Stock-based compensation expense	14(b)	109,507	283	540	—	—	—	823
Net loss and comprehensive loss for the period ended March 31, 2012		—	—	—	—	—	(928)	(928)
Balance, March 31, 2012		<u>162,960,939</u>	<u>\$741,171</u>	<u>\$8,399</u>	<u>\$ —</u>	<u>\$ 8,873</u>	<u>\$(489,552)</u>	<u>\$ 268,891</u>
Balance, January 1, 2013	14	177,127,833	\$776,632	\$9,125	\$ 6,931	\$ 8,873	\$(554,661)	\$ 246,900
Common shares issued:								
Settlement of obligation relating to production targets	12	709,220	1,000	—	—	—	—	1,000
Transaction costs related to previous issuances of common and flow-through shares		—	(52)	—	—	—	—	(52)
Stock based compensation:								
Stock-based compensation expense	14(b)	245,351	304	113	—	—	—	417
Net loss and comprehensive loss for the period ended March 31, 2013		—	—	—	—	—	(2,848)	(2,848)
Balance, March 31, 2013		<u>178,082,404</u>	<u>\$777,884</u>	<u>\$9,238</u>	<u>\$ 6,931</u>	<u>\$ 8,873</u>	<u>\$(557,509)</u>	<u>\$ 245,417</u>

See accompanying notes to the consolidated financial statements

FIRST QUARTER REPORT 2013



North American Palladium Ltd.

Notes to the Consolidated Financial Statements
(expressed in thousands of Canadian dollars, except per share amounts and metal prices)

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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 Zone.

The Company also owned NAP Quebec Mines Ltd. (“NAP Quebec”), consisting of the Vezza gold mine and Sleeping Giant mill located north of Val D’or, Quebec. The Company’s other Québec-based properties consisted of Discovery, Floridin, Cameron Shear, Florence, Laflamme, Dormex and Harricana.

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.

On March 22, 2013, the Company completed the sale of NAP Quebec resulting in the disposition of all Gold Division assets.

The condensed interim consolidated financial statements for the Company as at March 31, 2013 and for the three month period ended March 31, 2013, include the Company and its subsidiary LDI (collectively referred to as the “Company”).

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2013, the Company had a cash balance of \$23.5 million and a working capital surplus of approximately \$1.2 million. The Company’s credit facility (note 5), which was fully drawn on March 31, 2013, expires in July 2013. The Company’s anticipated operating cash flows and existing cash resources are not expected to be sufficient to fund capital expenditures relating to the shaft construction anticipated for the remainder of 2013 and as a result the Company will need to renew its credit facility and access the debt and equity markets to fund these expenditures. While the Company is pursuing various financing alternatives and believes the debt and equity markets are currently available to finance its funding requirements, the certainty of completing a financing cannot be assured at this time. Accordingly, these conditions have resulted in a material uncertainty that casts substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of Compliance

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

FIRST QUARTER REPORT 2013



North American Palladium Ltd.

These condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of Measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies disclosed in the Company's annual financial statements for the year ended December 31, 2012 have been applied consistently by all Company entities for all periods presented in these condensed interim consolidated financial statements, unless otherwise indicated.

Adoption of New Accounting Standards

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

IAS 1 Presentation of Financial Statements

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

IAS 19 Employee Benefits

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

Scope of a Reporting Entity

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

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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



IFRS 12 Disclosures of Interests in Other Entities

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

IAS 27 Consolidated and Separate Financial Statements

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

IFRS 13 Fair Value Measurement

The new standard provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The standard is effective for reporting years beginning on or after January 1, 2013. Disclosures required under IFRS 13 for condensed interim consolidated financial statements have been included in note 15.

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

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

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

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any, adoption of the standards will have on the disclosures in the Company’s condensed interim consolidated financial statements:

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.

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.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On March 22, 2013, the Company divested of its interest in its gold division through the disposal of all of the shares of its wholly-owned subsidiary, NAP Quebec. 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. As a result, the Company has presented the consolidated financial statements to segregate the gold division as discontinued operations and related financial assets and liabilities held for sale from those balances relating to the Company’s continuing operations as at December 31, 2012 and for the period to March 22, 2013.

**Assets and liabilities held for sale**

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

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

¹ Maudore Minerals Ltd. provided 1.5 million of its common shares (“MAO” on the TSXV) as consideration towards the purchase price. These shares are subject to a 4 month hold period.

In addition to the recognized proceeds, the sale agreement also includes a provision for future settlement of amounts relating to gold contained in the liners at the Sleeping Giant mill. The valuation of the settlement amount is contingent upon future determination of gold content, pricing, and foreign exchange at the time the liners are changed. As a result, neither the contingent asset nor any estimate of income related to this contract provision has been reflected in the condensed interim consolidated financial statements. However, in the event that the liners have not been changed within one year of the sale date, the parties have agreed upon a preliminary settlement advance of \$1.0 million until such time as the cleaning is completed and a valuation is readily determinable.

Gold assets impairment charge

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

**Net income from discontinued operations**

Income and comprehensive income related to NAP Quebec have been segregated from continuing operations. Income (loss) from discontinued operations consists of the following:

	Three months ended March 31	
	2013	2012
Revenue	\$ 225	\$ 3,002
Mining operating expenses		
Production costs (recovery)	(292)	2,157
Smelting, refining and freight costs	—	3
Depreciation and amortization	10	144
Gain on disposal of equipment	—	(79)
Gold mine closure, care and maintenance costs	—	1,077
Total mining operating expenses (recovery)	(282)	3,302
Income (loss) from mining operations	507	(300)
Other expenses		
Exploration	151	819
General and administration	(34)	26
Other income	(18)	(19)
Interest expense and other costs	24	28
Total other expenses	123	854
Income (loss) before taxes	384	(1,154)
Income and mining tax recovery	596	79
Income (loss) and comprehensive income (loss) for the period before disposal	\$ 980	\$ (1,075)
Gain on disposal of gold division	1,529	—
Income (loss) and comprehensive income (loss) for the period	\$ 2,509	\$ (1,075)

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:

	Three months ended March 31	
	2013	2012
Cash flow provided by (used in):		
Operations	\$ 6,133	\$ (2,966)
Financing	301	267
Investing	14,239	(7,714)
Net cash provided by (used in) discontinued operations	\$ 20,673	\$ (10,413)
Opening cash held by discontinued operations	553	71
Closing cash held by discontinued operations	(1,084)	1,387
Net change in cash attributable to discontinued operations	<u>\$ 20,142</u>	<u>\$ (8,955)</u>

**5. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	At March 31	At December 31
	2013	2012
Accounts receivable	\$ 58,030	\$ 53,922

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 March 31, 2013 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 two customers at March 31, 2013 (December 31, 2012 – 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 17.

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, as of March 31, 2013, the Company utilized US\$17.0 million for letters of credit, primarily for reclamation deposits and has drawn down US\$37.3 million, of which US\$22.1 million (\$23.0 million) was drawn down during the period ended March 31, 2013. As of the date of the condensed interim consolidated financial statements, the credit facility is due July 5, 2013.

6. INVENTORIES

Inventories consist of the following:

	At March 31	At December 31
	2013	2012
Supplies ¹	\$ 10,730	\$ 10,633
Gold inventory ^{1,2}	2,046	—
Concentrate inventory	1,002	1,587
Crushed and broken ore stockpiles ^{1,3}	3,066	3,168
Total	\$ 16,844	\$ 15,388

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 gold-silver doré bars on hand at the refiner produced by NAP Quebec but not sold at March 31, 2013.

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 \$8,045 (March 31, 2012 - \$7,595) were recognized as an expense during the quarter ended March 31, 2013.

**7. OTHER ASSETS**

Other assets consist of the following:

	At March 31	At December 31
	2013	2012
Prepays	\$ 1,063	\$ 1,375
Sales taxes receivable	4,681	7,065
Investments ¹	1,410	—
Other ²	2,207	8
	<u>\$ 9,361</u>	<u>\$ 8,448</u>

¹ On March 22, 2013, the company sold its investment in NAP Quebec. A portion of the proceeds on the sale was equity-settled by the purchaser. Refer to note 4. For investments in shares of unrelated publicly listed companies, for which such holdings do not constitute a significant influence, the Company has elected to classify the investments as held-for-trading for accounting purposes. Such investments are stated at fair value through profit or loss based on the closing market price of the investee's common stock on the last trading day on or before the Company's reporting date. Any gain or loss in the value of the investments is recognized in the condensed interim consolidated statements of operations, comprehensive loss and deficit. The fair value of the investments at initial recognition and at March 31, 2013 was \$1,410.

² The balance includes \$1,801 receivable for inventory amounts related to the disposal of discontinued operations. Refer to note 4.

8. MINING INTERESTS

Mining interests are comprised of the following:

	Plant and equipment	Underground mine development †	Equipment under finance lease ²	Mining leases and claims, royalty interest, and development	Total
Carrying amounts					
As at December 31, 2012	\$ 37,322	\$ 278,883	\$ 15,568	\$ 11,719	\$343,492
As at March 31, 2013	\$ 44,887	\$ 303,867	\$ 13,958	\$ 11,443	\$374,155

¹ For the quarter ended March 31, 2013, \$2,326 (year ended December 31, 2012 - \$7,999) 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. 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.

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 March 31, 2013, the changes in asset retirement and the related mine restoration deposit are as follows:

	At March 31
	2013
Asset retirement obligation, beginning of period – continuing operations	\$ 15,214
Change in discount rate	54
Accretion expense	62
Asset retirement obligation, end of period – continuing operations	<u>\$ 15,330</u>

Property	Expected timing of cash flows	Asset retirement obligation	Mine closure plan requirement	Letter of credit outstanding	Undiscounted asset retirement obligation
Continuing Operations:					
LDI mine ¹	2020	\$ 15,330	\$ 14,055	\$ 14,055	\$ 17,380

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

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

	At March 31	At December 31
	2013	2012
Continuing Operations:		
Inflation	2.00	2.00
Market risk	5.00	5.00
Discount rate	1.60	1.63

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	At March 31	At December 31
	2013	2012
Accounts payable and accrued liabilities	\$ 57,190	\$ 55,238
Unrealized loss on financial contracts ¹	2,873	3,236
Accounts payable and accrued liabilities	<u>\$ 60,063</u>	<u>\$ 58,474</u>

¹ As at March 31, 2013, a total of 28,100 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 US\$678 per ounce (December 31, 2012 – 55,000 ounces at an average price of US\$640 per ounce).

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.



North American Palladium Ltd.

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:

	March 31, 2013			December 31, 2012		
	Future minimum		Present value of	Future minimum		Present value of
	lease payments	Interest	minimum lease payments	lease payments	Interest	minimum lease payments
Less than one year	\$ 3,432	\$ 598	\$ 2,834	\$ 4,374	\$ 657	\$ 3,717
Between one and five years	10,664	940	9,724	10,963	1,007	9,956
	<u>\$14,096</u>	<u>\$1,538</u>	<u>\$12,558</u>	<u>\$15,337</u>	<u>\$1,664</u>	<u>\$13,673</u>
Less current portion			2,834			3,717
			<u>\$ 9,724</u>			<u>\$ 9,956</u>

OPERATING LEASES

The Company, from time to time, enters into leasing arrangements for production and other equipment under a number of operating leases. These leases are generally short-term in nature and subject to cancellation clauses. The Company periodically reviews the nature of these leases to identify if there have been any significant changes to the terms and use of the items under operating lease which would require reclassification as a finance lease. Such changes are considered to indicate a renewal of the lease terms and the reclassification is applied prospectively from the date the revised lease terms become effective.

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

	At March 31	At December 31
	2013	2012
Less than one year	\$ 2,558	\$ 2,761
Between one and five years	3,164	3,960
More than five years	—	—
	<u>\$ 5,722</u>	<u>\$ 6,721</u>

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

	March 31	March 31
	2013	2012
Minimum lease payments expensed	\$ 387	\$ 248

12. PROVISIONS

In conjunction with the acquisition of Cadiscor Resources Inc. in 2009 (renamed NAP Quebec), the Company assumed an obligation in the amount of \$1.0 million, payable in cash or by the issuance of common shares of the Company, upon achieving a specified production target of 300,000 milled tonnes of ore at its Sleeping Giant mill. Based on production results, the Company achieved the production target in the last quarter of 2012 with settlement occurring on March 8, 2013 through the issuance of 709,220 common shares of the Company.

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**13. LONG-TERM DEBT**

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

	At March 31	At December 31
	<u>2013</u>	<u>2012</u>
Senior secured notes	\$ 67,755	\$ 67,211
Convertible debentures	34,762	34,422
	<u>\$ 102,517</u>	<u>\$ 101,633</u>

Senior secured notes

The embedded derivatives relating to the debt financing are recorded at fair value through profit or loss at each reporting date. At March 31, 2013 and December 31, 2012, the warrants and related options were valued using a binomial model which included the following key assumptions:

	March 31	December 31
	<u>2013</u>	<u>2012</u>
Market price of palladium	\$ 764	\$ 699
Strike price	\$ 620	\$ 620
Volatility ¹	29%	30%
Risk free rate	1.00%	1.14%
Expected life (in years)	1.51	1.76

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

The value of the derivative liability is \$4.9 million at March 31, 2013 (\$4.0 million – December 31, 2012).

Convertible Debentures

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

14. SHAREHOLDERS' EQUITY**(a) Authorized and Issued Capital Stock**

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

(b) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan ("RRSP Plan"), in which eligible employees can participate 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 issuances 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 quarter ended March 31, 2013, the Company contributed 245,351 shares with a fair value of \$304 (2012 – 109,507 shares with a fair value of \$283).

**(c) Corporate Stock Option Plan**

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 RRSP Plan and other securities-based compensation plans. As at March 31, 2013, 6,080,801 options (December 31, 2012 – 5,291,051 options) were available to be granted under the Plan.

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

	March 31, 2013		December 31, 2012	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,207,249	\$ 3.68	3,644,583	\$ 4.43
Granted	—	—	1,772,000	\$ 2.82
Cancelled	(765,000)	\$ 3.75	(720,000)	\$ 4.34
Expired	(24,750)	\$ 1.85	(489,334)	\$ 5.14
Outstanding, end of period	<u>3,417,499</u>	<u>\$ 3.68</u>	<u>4,207,249</u>	<u>\$ 3.68</u>
Options exercisable at end of period	<u>2,332,511</u>	<u>\$ 3.72</u>	<u>2,335,591</u>	<u>\$ 3.88</u>

No options were exercised during the quarter ended March 31, 2013 or during the quarter ended March 31, 2012.

The following table summarizes information about the Company's stock options outstanding at March 31, 2013:

Exercise price range	Average remaining contractual life (years)	Options Outstanding at	Options Exercisable at
		March 31, 2013	March 31, 2013
\$ 1.65-2.50	3.52	1,198,333	750,000
\$ 2.51-3.00	3.80	821,667	385,006
\$ 3.01-6.00	4.53	634,999	565,001
\$ 6.01-8.87	4.04	762,500	632,504
	<u>3.95</u>	<u>3,417,499</u>	<u>2,332,511</u>

(d) Reconciliation of the diluted number of shares outstanding – continuing operations:

For the quarters ended March 31, 2013 and March 31, 2012, the effect of stock options, convertible debentures, and the potential conversion of outstanding palladium warrants have not been included in the determination of diluted loss per share because to do so would be anti-dilutive. The maximum adjustment to the weighted average number of shares outstanding at March 31, 2013 from such anti-dilutive exercise or conversion was 22,594,222 shares.

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.



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

The Company has a Restricted Share Unit Plan (“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 RSU Plan is administered by the Board of Directors, who 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 March 31, 2013, 489,486 (December 31, 2012 – 237,871) restricted share units had been granted and were outstanding at an aggregate value of \$478 (December 31, 2012 – \$253).

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

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

	Three months ended March 31	
	2013	2012
Registered retirement savings plan	\$ 266	\$ 226
Common share stock options	147	515
Restricted share units	225	205
	<u>\$ 638</u>	<u>\$ 946</u>

15. FINANCIAL INSTRUMENTS

Fair Values

The Company’s financial assets and liabilities consist of cash and cash equivalents, accounts receivable, sales taxes receivable (included in other assets), accounts payable and accrued liabilities, 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, which are included in accounts payable and accrued liabilities, are determined as described in note 14(e).

Derivatives

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

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



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The Company enters into financial contracts to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar for past production already sold. For substantially all of the palladium delivered to 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 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 March 31, 2013 are senior secured notes (\$70.0 million), convertible debentures (\$43.0 million) and finance leases (\$12.5 million).

Fair Value Hierarchy

The table below details the assets and liabilities measured at fair value at March 31, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Aggregate Fair Value
Financial assets				
Cash and cash equivalents	\$ 23,493	\$ —	\$ —	\$ 23,493
Accounts receivable (note 5)	—	58,030	—	58,030
Financial liabilities				
RSU liabilities* (note 14(e))	—	(478)	—	(478)
Fair value of financial contracts* (note 10)	—	(2,873)	—	(2,873)
Fair value of current derivative liability	—	(4,902)	—	(4,902)
Net carrying value	<u>\$ 23,493</u>	<u>\$ 49,777</u>	<u>\$ —</u>	<u>\$ 73,270</u>

* As detailed in note 10, the liability relating to the mark-to-market on financial contracts is included in the carrying value of accounts payable and accrued liabilities on the balance sheet. 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.

16. 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 March 31, 2013, the Company had outstanding operating lease commitments and other purchase obligations of \$5.7 million and \$74.3 million, respectively (December 31, 2012 – \$6.7 million and \$84.9 million, respectively) all of which had maturities of less than five years.

(c) Letters of Credit

As at March 31, 2013 and 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.

**17. REVENUE FROM METAL SALES**

	<u>Total</u>	<u>Palladium</u>	<u>Platinum</u>	<u>Gold</u>	<u>Nickel</u>	<u>Copper</u>	<u>Other Metals</u>
2013							
Three months ended March 31							
Revenue – before pricing adjustments	\$45,550	\$30,128	\$4,734	\$4,992	\$3,087	\$2,564	\$ 45
Pricing adjustments:							
Commodities	1,370	1,273	238	(29)	(28)	(84)	—
Foreign exchange	170	(187)	170	106	35	46	—
Revenue – after pricing adjustments	\$47,090	\$31,214	\$5,142	\$5,069	\$3,094	\$2,526	\$ 45
2012							
Three months ended March 31							
Revenue – before pricing adjustments	\$40,687	\$26,581	\$4,039	\$4,378	\$3,208	\$2,294	\$187
Pricing adjustments:							
Commodities	2,266	687	1,054	437	(166)	231	23
Foreign exchange	(1,373)	(868)	(177)	(172)	(86)	(65)	(5)
Revenue – after pricing adjustments	\$41,580	\$26,400	\$4,916	\$4,643	\$2,956	\$2,460	\$205

During the first quarter of 2013, the Company delivered all of its concentrate to two customers under the terms of the respective agreements (2012 – one customer).

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.

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18. CONTINGENCIES

From time to time, the Company is involved in litigation, investigations, or proceedings related to claims arising in the ordinary course of business. The Company considers its provisions for outstanding and pending legal claims to be adequate. The final outcome with respect to actions outstanding or pending as at March 31, 2013 cannot be predicted with certainty. Significant contingencies not disclosed elsewhere in the condensed interim consolidated financial statements are as follows:

(a) B.R. Davidson Claim

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

(b) Class Action

In 2011, the Company became aware that a statement of claim had been filed with the Ontario Superior Court of Justice against the Company and two of its 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 in these condensed interim consolidated financial statements at March 31, 2013.

**19. OTHER DISCLOSURES****Statement of Cash flows**

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

	Three months ended March 31	
	2013	2012
Cash provided by (used in):		
Accounts receivable	\$ (4,108)	\$ (6,258)
Inventories	(1,152)	(2,006)
Other assets	497	3,199
Accounts payable and accrued liabilities	3,947	7,232
Other financial liabilities	950	—
Taxes payable	—	(1,184)
	<u>\$ 134</u>	<u>\$ 983</u>

Non-cash transactions that are not reflected in the condensed consolidated interim statements of cash flows are as follows:

	Three months ended March 31	
	2013	2012
Non-cash working capital:		
Other assets (investment in shares and receivable inventory amounts)	\$ (3,211)	\$ —
Provisions	(1,000)	—
Financing:		
Shares issued to settle production obligation	1,000	—
Addition of obligations under finance leases	1,331	1,498
Asset retirement obligations (fair value adjustment)	54	(143)
Investing:		
Additions to mining interests		
Equipment under finance lease	(1,331)	(1,498)
Equipment under sale-leaseback finance lease agreement	—	(11,239)
Fair value adjustment to asset retirement costs	(54)	143
Proceeds on disposal of mining interests (sale-leaseback agreement)	—	11,239
Discontinued Operations:		
Change in cash attributable to discontinued operations	3,211	—

20. SEGMENT INFORMATION

Following the sale of its discontinued gold operations on March 22, 2013 (see note 4), the Company has one reportable segment.

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North American Palladium Announces First Quarter 2013 Results

All figures are in Canadian dollars except where noted.

Toronto, Ontario, May 6, 2013 – North American Palladium Ltd. (“NAP” or the “Company”) (TSX: PDL) (NYSE Amex: PAL) today announced the operating, development, and financial results for the first quarter ended March 31, 2013.

Summary

- Produced 38,654 ounces of payable palladium at a cash cost per ounce ⁽¹⁾ of US\$490;
- Realized palladium selling price of US\$730 per ounce, giving a palladium operating margin of US\$240 per ounce, or US\$9.3 million;
- Revenue of \$47.1 million;
- Adjusted EBITDA ⁽¹⁾ of \$7.5 million;
- Invested \$38.1 million in capital expenditures at the Lac des Iles (“LDI”) mine, of which \$31.7 million was invested in the LDI mine expansion; and
- 2013 operating and capital expenditure plans under review by new management.

“There is significant value to be unlocked at LDI, and I am encouraged by LDI’s future cash generation potential,” said Phil du Toit, President and Chief Executive Officer. “My initial review of operations reaffirmed the potential that I saw when I accepted the role as CEO, but also identified some challenges as well as opportunities for improvement in areas such as strategic mine planning, cost optimization and project execution. This is a critical year for our transition and it will certainly not be without its challenges. We have a plan to unlock the high potential value of LDI, but this plan is contingent on a successful completion of a financing, therefore we are currently evaluating financing opportunities.”

Lac des Iles Operations

Q1, 2013 Production

In the first quarter of 2013, the Company’s LDI mine produced 38,654 ounces of payable palladium at a total cash cost of US\$490 per ounce ⁽¹⁾.

During the first quarter, 540,694 tonnes of ore were mined at LDI, of which 245,656 tonnes came from underground sources (with an average palladium grade of 4.1 grams per tonne), and 295,038 tonnes came from surface sources (with an average palladium grade of 2.4 grams per tonne). During the first quarter, the LDI mill processed 503,585 tonnes of ore at a combined average palladium mill head grade of 3.3 grams per tonne, at an 80.1% palladium recovery rate, and at a total cost of \$57 per tonne milled.

In the first quarter, capital expenditures at LDI totaled \$38.1 million, of which \$31.7 million was spent on the LDI mine expansion (including: \$10.4 million on shaft sinking and infrastructure to extend the shaft 225 metres to the 670-metre level; \$4.3 million on level access and vertical development; \$4.0 million on surface and underground construction; \$2.5 million on procurement; \$1.9 million on parts and maintenance; \$1.3 million on capitalized exploration expenditures; \$2.9 million on general and administration, indirects and equipment charge-backs; \$2.3 million for capitalized interest, and \$2.1 million for other development costs). The Company also spent an additional \$6.4 million on capital, including \$5.5 million for the tailings management facility (“TMF”).

2013 Forecast Review

At the end of the first quarter, the new Chief Executive Officer and the Chief Financial Officer embarked on a detailed review of the Company’s 2013 operating plan, as well as the life of mine plan for the Offset Zone. The review is expected to be completed by the end of the second quarter, however preliminary findings identified some negative trends in operations and capital expenditures that are currently being assessed.

The logistics of the transition between the Roby Zone and the Offset Zone are proving to be more complicated than previously anticipated, which has resulted in a delay in stope development and a corresponding decrease in volume from the Offset Zone in 2013. Though the stope sequencing delay will result in reduced production from the Offset Zone in 2013, the long term benefit is that the Offset Zone can be mined more economically via the shaft in 2014.

Management believes that the low end of the 150,000 to 160,000 ounce production guidance will be difficult to achieve, and could potentially decrease by about 10% to 15%. As a result of decreased underground production levels and lower head grade of mill feed, cash costs are expected to increase. These estimates are indicative only, remain subject to the ongoing review of the mine plan and are contingent on the successful completion of a financing.

To compensate for the expected decreased production from the Offset Zone, the Company is actively pursuing additional mineralized material from other sources on the property, including the drilled off extensions of the Roby Zone and contributions from other surface sources (including stockpiles).

Recognizing that operating efficiency can only start to improve in a meaningful way once Phase II is completed, accelerating the shaft sinking beyond the Phase I 825-metre level will be the primary focus of the 2013 development plan review currently underway. As part of the ongoing reviews, the Company is also considering alternative bulk mining methods for the Offset Zone to further optimize mining volumes and production costs.

The preliminary project review has also indicated that the required capital expenditures to complete development of Phase I of the shaft project have been underestimated. After a review of certain procurement items and development plans (including accelerating plans to commence Phase II of the shaft sinking in 2013), management expects that capital expenditures in 2013 could be up to 35% higher than the prior guidance of \$105 million. This estimate is preliminary, and is contingent on a financing.

The Company continues to look for opportunities to optimize its operations and development, and is actively sourcing opportunities for augmenting expected production with additional sources of ore. The Company also plans to strengthen its project team by engaging a professional project management contractor to assist with Phase II capital estimates, and to help implement improved cost and schedule controls for development.

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“Overall, despite some of the transitional challenges that we will experience this year, I remain very optimistic about our future prospects at LDI,” added Mr. du Toit. “The value creation from this point on will depend on our execution; therefore my focus over the next few months will be to ensure that the Company is prepared for the transition to shaft-based operations, and that our plans for Phase II fully optimize the asset.”

LDI Mine Expansion Development

The Company continues to make steady progress with its mine expansion development activities and remains well positioned to start utilizing the shaft for underground production by the end of the third quarter in 2013.

Recent highlights include:

- The shaft sinking is on schedule, recently reaching a depth of 695 metres below surface, representing 84% completion of the total 825 metres planned for the first phase of the shaft sinking.
- The production hoist is now operational, and the installation of the main skip dump is in progress.
- The first Offset Zone mining stope (where mining commenced in the fourth quarter of 2012) has been successfully mined out, and production commenced in the second Offset Zone stope. The development of additional mining stopes experienced some delays, but is in progress.
- The ramp extension reached the 825-metre level depth and the shaft station there has been excavated and is being prepared for the shaft.

Financial Results ⁽²⁾

Revenue for the first quarter was \$47.1 million compared to \$41.6 million in the first quarter of 2012. The increase in revenue was primarily due to greater quantities of payable metals sold, more favourable exchange rates and higher realized prices for palladium. Income from mining operations was \$5.1 million, compared to \$7.9 million in the same quarter last year. During the first quarter, the Company realized a palladium selling price of US\$730 per ounce.

Net loss for the quarter was \$2.8 million or \$0.02 per share compared to a net loss of \$0.9 million or \$0.01 per share in the same quarter last year. Adjusted net loss ⁽¹⁾ (which excludes exploration costs, gains and losses from discontinued operations, and insurance recoveries net of mine restoration costs) was \$0.8 million in the first quarter, compared to adjusted net income ⁽¹⁾ of \$3.3 million in the same quarter last year.

EBITDA ⁽¹⁾ was \$2.9 million for the first quarter, compared to \$5.0 million in the same quarter last year. Adjusted EBITDA ⁽¹⁾ (which excludes interest and other financing costs, depreciation and amortization, exploration, and insurance recoveries net of mine restoration costs) was \$7.5 million in the first quarter, compared to \$8.2 million in first quarter last year.

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In the first quarter, NAP invested \$6.1 million in exploration and infill drilling, of which \$1.3 million was capitalized in connection with the LDI mine expansion. Capital expenditures in the first quarter amounted to \$38.1 million, of which \$31.7 million was invested in the LDI mine expansion (including \$2.3 million on capitalized interest) and an additional \$6.4 million spent primarily on the tailings management facility. The Company's general and administration expenses for the quarter ended March 31, 2013 were \$2.9 million.

As at March 31, 2013, the Company had \$23.5 million cash on hand (which includes the proceeds from the sale of the gold division), and \$1.2 million in working capital.

Recognizing that the anticipated operating cash flows are not expected to provide sufficient cash to fund capital expenditures planned for 2013, the Company is currently in the process of evaluating financing opportunities and plans to access the debt and/or equity markets in the second quarter. While the Company believes that both the debt and equity markets are currently available to finance its funding requirement, certainty of completing a financing cannot be assumed at this time, and if sufficient financing is not obtained, it will have a materially negative impact on the Company.

Corporate Update

The Company also announced that Mr. Greg Struble has resigned as Vice President and Chief Operating Officer, effective May 15, 2013, to pursue an opportunity as Chief Executive Officer with another public company in the industry.

"On behalf of the entire team at NAP, I would like to thank Greg for his commitment to the Company and important contributions throughout his tenure," commented Mr. du Toit. "We wish him well with his new endeavor."

Q1 2013 Conference Call & Webcast Details

Date: Monday, May 6, 2013
Time: 8:30 a.m. ET
Webcast: www.nap.com
Live Call: 1-855-410-0553 or 1-646-583-7389 (PIN: 639795, followed by # sign)
Replay: 1-877-764-8714 or 1-646-583-7395 (PIN: 337553, followed by # sign)

Annual & Special Meeting of Shareholders

Date: Thursday, May 9, 2013
Time: 10:30 a.m. ET
Webcast: www.nap.com
Venue: The TSX Broadcast Centre Gallery
Address: The Exchange Tower, 130 King Street West, Toronto, Ontario

About North American Palladium

NAP is an established precious metals producer that has been operating its flagship Lac des Iles mine (LDI) 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 costs per ounce. The Company's shares trade on the NYSE MKT under the symbol PAL and on the TSX under the symbol PDL.

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For further information please contact:

Camilla Bartosiewicz
Director, Investor Relations and Corporate Communications
Telephone: 416-360-7374
Email: camilla@nap.com

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

(2) NAP's condensed interim consolidated financial statements for the first quarter ended March 31, 2013 are available in the Appendix of this news release. These financial statements should be read in conjunction with the notes and management's discussion and analysis available at www.nap.com, www.sedar.com, and www.sec.gov.

Cautionary Statement on Forward Looking Information

Certain information included in this news release constitutes 'forward-looking statements' within the meaning of the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. The words 'expect', 'believe', 'will', 'intend', 'estimate', 'guidance', and similar expressions identify forward-looking statements. Such statements include, without limitation, any information as to our future financial or operating performance, including: the Company's forward looking production guidance, projected capital expenditures, operating cost estimates, project timelines, mining and milling rates, projected grades, mill recoveries, and other statements that express management's expectations or estimates of future performance.

Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this news release, which may prove to be incorrect, include, but are not limited to: that metal prices will be consistent with the Company's expectations, that the exchange rate between the Canadian dollar and the United States dollar will be consistent with the Company's expectations, that there will be no significant disruptions affecting operations, that prices for key mining and construction supplies, including labour and transportation costs, will remain consistent with the Company's expectations, that the Company's current estimates of mineral reserves and resources are accurate, and that there are no material delays in the timing of ongoing development projects. The forward-looking statements are not guarantees of future performance. The Company cautions 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 metal prices, foreign exchange rates or operating costs may differ from management's expectations, uncertainty of mineral reserves and resources, inherent risks associated with mining and processing, the risk that the Lac des Iles mine and may not perform as planned and that the Offset Zone and other properties may not be successfully developed, the possibility of construction and commissioning delays, the possibility of project cost overruns, and uncertainty of the ability of the Company to obtain financing. For more details on the factors, assumptions and risks see the Company's most recent Form 40-F/Annual Information Form on file with the U.S. Securities and Exchange Commission and Canadian provincial securities regulatory authorities. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

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

	March 31 2013	December 31 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 23,493	\$ 20,168
Accounts receivable	58,030	53,922
Inventories	16,844	15,388
Other assets	9,361	8,448
Assets of disposal group classified as held for sale	—	29,814
Total Current Assets	<u>107,728</u>	<u>127,740</u>
Non-current Assets		
Mining interests	374,155	343,492
Total Non-current Assets	<u>374,155</u>	<u>343,492</u>
Total Assets	<u>\$ 481,883</u>	<u>\$ 471,232</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 60,063	\$ 58,474
Credit facility	37,870	15,089
Current portion of obligations under finance leases	2,834	3,717
Provisions	—	1,000
Taxes payable	874	874
Current derivative liability	4,902	3,952
Liabilities of disposal group classified as held for sale	—	12,071
Total Current Liabilities	<u>106,543</u>	<u>95,177</u>
Non-current Liabilities		
Income taxes payable	2,352	2,352
Asset retirement obligations	15,330	15,214
Obligations under finance leases	9,724	9,956
Long-term debt	102,517	101,633
Total Non-current Liabilities	<u>129,923</u>	<u>129,155</u>
Shareholders' Equity		
Common share capital	777,884	776,632
Stock options and related surplus	9,238	9,125
Equity component of convertible debentures, net of issue costs	6,931	6,931
Contributed surplus	8,873	8,873
Deficit	(557,509)	(554,661)
Total Shareholders' Equity	<u>245,417</u>	<u>246,900</u>
Total Liabilities and Shareholders' Equity	<u>\$ 481,883</u>	<u>\$ 471,232</u>

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

	Three months ended March 31	
	2013	2012
Revenue	\$ 47,090	\$ 41,580
Mining operating expenses		
Production costs	28,941	25,394
Smelting, refining and freight costs	3,802	2,975
Royalty expense	2,509	1,594
Depreciation and amortization	6,085	3,792
Loss on disposal of equipment	629	—
Total mining operating expenses	41,966	33,755
Income from mining operations	5,124	7,825
Other expenses		
Exploration	4,840	3,184
General and administration	2,913	3,303
Other income	(303)	(83)
Interest expense and other costs	2,209	1,055
Foreign exchange loss	822	219
Total other expenses	10,481	7,678
(Loss) income from continuing operations before taxes	(5,357)	147
Income and mining tax expense	—	—
(Loss) income and comprehensive (loss) income from continuing operations for the period	\$ (5,357)	\$ 147
Income (loss) and comprehensive income (loss) from discontinued operations for the period	2,509	(1,075)
Loss and comprehensive loss for the period	\$ (2,848)	\$ (928)
Loss per share		
Basic and diluted	\$ (0.02)	\$ (0.01)
(Loss) income from continuing operations per share		
Basic and diluted	\$ (0.03)	\$ 0.00
Income (loss) from discontinued operations per share		
Basic and diluted	\$ 0.01	\$ (0.01)
Weighted average number of shares outstanding		
Basic and diluted	177,450,837	162,924,838

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

	Three months ended March 31	
	2013	2012
Cash provided by (used in)		
Operations		
Net (loss) income from continuing operations for the period	\$ (5,357)	\$ 147
Operating items not involving cash		
Depreciation and amortization	6,085	3,792
Accretion expense	954	540
Deferred income and mining tax recovery	—	1,098
Share-based compensation and employee benefits	413	755
Other	936	330
	<u>3,031</u>	<u>6,662</u>
Changes in non-cash working capital	134	983
	<u>3,165</u>	<u>7,645</u>
Financing Activities		
Credit facility	23,000	11,239
Repayment of obligations under finance leases	(1,315)	(1,446)
Interest paid	(4,589)	(3,592)
	<u>17,096</u>	<u>6,201</u>
Investing Activities		
Additions to mining interests (net)	(38,068)	(37,210)
Proceeds on disposal of mining interests (net)	990	79
	<u>(37,078)</u>	<u>(37,131)</u>
Decrease in cash from continuing operations	(16,817)	(23,285)
Net change in cash attributable to discontinued operations	20,142	(8,955)
Increase (decrease) in cash and cash equivalents	3,325	(32,240)
Cash and cash equivalents, beginning of period	20,168	50,935
Cash and cash equivalents, end of period	<u>\$ 23,493</u>	<u>\$ 18,695</u>

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