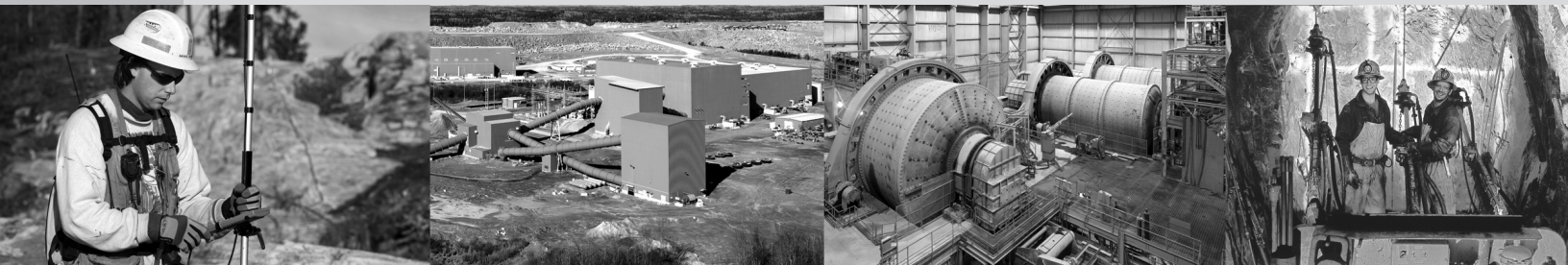




North American Palladium Ltd.

Investing for

GROWTH



Management's Discussion and Analysis
and Consolidated Financial Statements

Third Quarter 2011

For the nine months ended September 30, 2011



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Management's Discussion and Analysis

INTRODUCTION

Unless the context suggests otherwise, references to "NAP" or the "Company" or similar terms refer to North American Palladium Ltd. and its subsidiaries. "LDI" refers to Lac des Iles Mines Ltd., and "Cadiscor" refers to Cadiscor Resources Inc. On March 4, 2011, the name Cadiscor Resources Inc., was changed to NAP Quebec Mines Ltd.

The following is management's discussion and analysis ("MD&A") of the financial condition and results of operations 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 three and nine months ended September 30, 2011, compared to those of the respective periods in the prior year. This MD&A has been prepared as of November 2, 2011 and is intended to supplement and complement the unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2011 (collectively, the "Financial Statements"). Readers are encouraged to review the Financial Statements in conjunction with their review of this MD&A and the most recent Form 40-F/Annual Information Form on file with the U.S. Securities and Exchange Commission ("SEC") and Canadian provincial securities regulatory authorities, available at www.sec.gov and www.sedar.com, respectively.

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

FORWARD-LOOKING INFORMATION

Certain information included 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. The words 'expect', 'believe', 'will', 'intend', 'estimate' and similar expressions identify forward-looking statements. Such statements include without limitation: any information as to our future exploration, financial or operating performance, including the Company's forward looking production guidance, operating cost estimates, project timelines, the methods by which ore will be extracted, projected capital expenditures 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 MD&A, 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 approximately consistent with current levels, that there will be no significant disruptions affecting operations, that prices for key mining and construction supplies, including labour 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 assumptions and operating costs may differ from management's expectations, uncertainty of mineral reserves and resources, inherent risks associated with mining and processing, uncertainty of the ability of the Company to obtain financing, that the Lac des Iles and Sleeping Giant mines and may not perform as planned, and that the Offset Zone, Vezza project and other properties may not be successfully developed. 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.



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

North American Palladium Ltd. is a Canadian precious metals company focused on growing its production of palladium and gold in mining-friendly jurisdictions. As an established producer, the Company operates its two 100%-owned mines in Canada and has a pipeline of growth projects near its mine sites where both mills have excess capacity available for production growth.

Lac des Iles (“LDI”), the Company’s flagship mine, is one of the world’s two primary palladium producers. Located approximately 85 kilometres northwest of Thunder Bay, Ontario, LDI started producing palladium in 1993. The Company is expanding the LDI mine to transition from mining via ramp access to mining via shaft while utilizing a high volume bulk mining method. The mine expansion is currently underway, with commercial production from the shaft at an increased mining rate targeted for the fourth quarter of 2012. It is expected that this expansion will transform LDI into a long life, low cost producer of palladium.

NAP also owns and operates the Sleeping Giant gold mine located in the Abitibi region of Quebec, north of Val d’Or. The Company is also currently advancing the Veza gold project towards a production decision expected at the end of 2011.

The Company has a strong portfolio of development and exploration assets near the LDI and Sleeping Giant mines, and is engaged in a significant exploration program in 2011 aimed at increasing its reserves and resources.

With an experienced senior management team, a strong balance sheet of over \$96 million in working capital (including \$37 million in cash) as at September 30, 2011, and a recently completed \$72 million term debt financing, NAP is well positioned to pursue its growth strategy.

NAP trades on the TSX under the symbol PDL and on the NYSE Amex under the symbol PAL. The Company’s common shares are included in the S&P/TSX Composite Index.



North American Palladium Ltd.

KEY HIGHLIGHTS

(expressed in thousands of dollars except cash cost and per share amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
FINANCIAL HIGHLIGHTS				
Revenue				
Revenue after pricing adjustments	\$ 38,310	\$ 38,451	\$ 126,422	\$ 67,596
Unit sales				
Palladium (oz)	34,524	38,122	111,341	62,211
Gold (oz)	4,977	5,295	17,877	17,067
Platinum (oz)	2,278	2,013	6,570	3,100
Nickel (lb)	159,476	146,496	464,924	236,129
Copper (lb)	380,287	238,698	944,778	412,184
Earnings				
Net income (loss)	\$ (2,816)	\$ 2,804	\$ (7,757)	\$ (27,396)
Net income (loss) per share	\$ (0.02)	\$ 0.02	\$ (0.05)	\$ (0.20)
Adjusted net income (loss) ¹	\$ (1,751)	\$ 9,898	\$ 3,039	\$ (3,696)
EBITDA ¹	\$ 1,727	\$ 5,432	\$ 7,475	\$ (16,366)
Adjusted EBITDA ¹	\$ 2,792	\$ 12,526	\$ 18,271	\$ 7,334
Cash flow provided by (used in) operations				
Cash flow provided by (used in) operations before changes in non-cash working capital	\$ 3,061	6,092	\$ 7,850	\$ (11,792)
Cash flow provided by (used in) operations before changes in non-cash working capital per share ¹	\$ 0.02	\$ 0.04	\$ 0.05	\$ (0.08)
Capital spending	\$ 50,561	\$ 14,589	\$ 133,068	\$ 29,222
OPERATING HIGHLIGHTS				
Production				
Palladium (oz)	34,871	34,420	112,503	62,259
Gold (oz)	4,747	5,287	16,287	15,505
Platinum (oz)	2,309	1,830	6,639	3,103
Nickel (lb)	164,126	131,154	472,606	236,297
Copper (lb)	390,800	214,853	960,385	412,464
Realized metal prices				
Palladium	\$ 769	-	\$ 721	-
Gold	\$ 1,597	\$ 1,231	\$ 1,479	\$ 1,172
Cash costs¹				
Palladium (US\$)	\$ 496	\$ 219	\$ 436	\$ 253
Gold (US\$)	\$ 1,869	\$ 1,660	\$ 1,835	\$ 1,527

FINANCIAL CONDITION

(expressed in thousands of dollars)	As at September 30	As at December 31
	2011	2010
Net working capital	\$ 95,663	\$ 169,559
Cash balance	\$ 37,479	\$ 75,159
Shareholders' equity	\$ 325,996	\$ 290,450

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



EXECUTIVE SUMMARY

Financial Highlights

Revenue for the quarter ended September 30, 2011 was \$38.3 million. Net loss for the third quarter was \$2.8 million or \$0.02 per share and adjusted net loss¹ for the quarter was \$1.8 million. NAP provided cash from operating activities of \$3.1 million, before changes in non-cash working capital, or \$0.02 per share.¹ EBITDA¹ was \$1.7 million and adjusted EBITDA¹ was \$2.8 million.

Strong Balance Sheet

As at September 30, 2011, the Company had approximately \$95.7 million in working capital, including \$37.5 million cash on hand. Subsequent to the quarter end, the Company closed a \$72.0 million term debt financing which included the sale of senior secured notes by way of a private placement with Sprott Resource Lending Corp. as the lead investor. The notes mature on October 4, 2014 (subject to a one year extension at the option of the Company) and bear interest at a rate of 9.25%. With the debt financing completed, combined with the Company's cash, operating line of credit, and cash flow from operations, NAP has the financial resources to accomplish its current mine expansion objectives.

Investment in Growth

For the quarter ended September 30, 2011, the Company invested \$2.0 million in exploration activities (\$1.8 million at its palladium operations and \$0.2 million at its gold operations) and \$50.6 million in development expenditures (\$39.7 million at its palladium operations and \$10.9 million at its gold operations).

LDI Mine Palladium Production

During a very active development period, LDI achieved steady results in the third quarter, producing 34,871 ounces of payable palladium (at an average palladium head grade at the mill of 3.46 grams per tonne), at a cash cost¹ (net of byproduct credits) of US\$496 per ounce.

LDI's cash costs¹ in the third quarter were higher than the Company's 2011 annual forecast of US\$450 per ounce due primarily to lower grades processed by the mill, and due in part to higher spending on contractor costs on surface to process stockpiles of oversized ore. The cash costs¹ were also adversely affected by the precipitous decline in September in the value of LDI's provisionally priced by-product metals, which increased cash costs¹ by approximately US\$35 per ounce.

Third quarter production at the LDI mine included the blending of higher grade underground ore with lower grade surface stockpiles. The decreased head grade during the third quarter resulted from processing more lower grade surface stockpiles than in past quarters. For the nine months ended September 30, 2011, the milled head grade was 4.1 grams per tonne, which is in line with the Company's guidance of 4.2 grams per tonne for 2011. Quarterly variability in LDI's production metrics is to be expected during the Company's mine expansion transition phase, and reflects the planned mining sequence to mitigate logistical congestion between operations and the underground development activities.

LDI Mine Expansion Update

The Company is currently expanding the LDI mine to transition from mining via ramp access to mining via shaft to increase future production at lower cash costs¹ per ounce. During the third quarter, the Company made significant progress in advancing the critical aspects of the mine expansion and remains on schedule for commercial production from Phase I of the new production shaft in the fourth quarter of 2012 at an increased mining rate of 3,500 tonnes per day. Phase II entails sinking the shaft deeper and further increasing the mining rate to 5,500 tonnes per day in the first quarter of 2015. This is expected to increase production to over 250,000 ounces of palladium, at cash costs¹ of approximately US\$200 per ounce using current metal price assumptions.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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Recent mine expansion development highlights include:

- Completed an updated mine expansion plan that capitalizes on the significant growth of the Offset Zone and various scope changes to further enhance the expansion;
- Surface construction activities continued to progress to a scheduled completion date at the end of the first quarter of 2012;
- Completed the 2.4-metre diameter Phase I shaft pilot raise to surface;
- Awarded the Phase I shaft sinking contract and began mobilization activities for a start to shaft sinking activities in the fourth quarter of 2011;
- Completed over 50% of the 456-metre long primary ventilation raise;
- Exceeded internal lateral development forecast by 20% year to date;
- Advanced ramp development to just below the 4740 mine level, approximately 715 metres from surface; and
- Began an engineering scoping study for the future underground backfill system.

In the nine month period ended September 30, 2011, \$99.1 million was invested in the mine expansion (of which \$38.5 million was spent during the third quarter). Capital expenditures for mine expansion activities in 2011 are estimated at \$175 million.

Sleeping Giant Mine Gold Production

During the third quarter, Sleeping Giant produced 2,976 ounces of gold (at an average head grade at the mill of 6.68 grams per tonne), at a cash cost¹ of US\$1,869 per ounce. While development of higher grade zones at depth continues, mining was focused above the 975-metre elevation – mining the lower grade remnant reserves left behind by the previous operator. As the Company completes the development work and refines its mining plan to reflect the labour-related challenges it faces, the goal is to reduce operating costs to achieve break-even cash flow for the balance of 2011. Profitability from Sleeping Giant is expected to improve in 2012 when the Company will be mining from new deeper mine levels and continues to rationalize the overall cost structure.

In July, mining operations shut down for a two-week maintenance period to allow the development team to re-rope the hoist for the new shaft depth (1,275 metres). During that period, the Company also implemented a new shift schedule and restructuring plan aimed at optimizing operations, which came into effect when the mining crews returned after the maintenance shutdown. Along with the shift schedule change, a detailed operational review was initiated through a third party consultant to look for operational improvements in productivity to reduce operating costs per tonne. Despite mining in the remnant areas above the 975 level and at overall lower grade than initially expected, the operations have made some improvement in reducing the cost profile from the beginning of the year.

Sleeping Giant Mine Development Update

The Company also made progress during the quarter in the development work at depth which will be integral for improved profitability in 2012. With the 200-metre mine shaft deepening and commissioning completed, underground development of the new mining levels is in progress. Accessing the higher grade zone extensions in 2012 will be integral to improving Sleeping Giant's operating results next year.

Veza Gold Project Development Update

During the quarter, the Company made good progress in the development work at its advanced-stage Veza gold project which is currently being advanced through exploration and development towards a production decision at year-end.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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Recent highlights include:

- Advanced permitting (obtained Certificate of Authorization for 40,000-tonne bulk sample, and milling permit applied for and expected in the fourth quarter);
- Secured contract with Promec Mining Inc., a local Val d'Or mining contractor, to provide the mining workforce at Vezza (total workforce including contractors is expected to be in the range of 150 people);
- Progressed lateral development on levels 100, 200, 300, 450 and 550 and 650;
- Completed excavation related to the ventilation raise and ore pass raise;
- Completed 6,418 metres of underground diamond drilling in the third quarter (year to date, 6,258 metres were drilled from surface, and 12,285 metres from underground);
- Completed an engineering study on the crown pillars and commenced the update of the Sleeping Giant mill tailings storage facilities expansion; and
- Commenced studies on backfill requirements and initiated the design of a cement slurry plant.

The capital budget to advance Vezza to be production ready in 2012 is estimated at \$34 million. Management expects that the total spend will be reduced by estimated pre-production revenue of \$9 million from the bulk sample.

Exploration Updates

During the third quarter, the 2011 drill program at LDI was increased from 52,000 metres to 78,000 metres. Since the start of 2011 until September 14, 2011 (the date of the LDI exploration update press release), a total of 28,000 metres have been drilled from the underground and 40,000 metres from surface, for a total of 68,000 metres at LDI.

During the third quarter on September 14, 2011, the Company released the second tranche of drilling results from its 2011 exploration program at LDI. Highlights included:

- Positive infill drill results in the Offset Zone, including 26 metres at 6.0 grams per tonne palladium ("g/t Pd") in the upper part of the zone;
- Surface drilling on the Offset Zone intersected significant mineralization close to the deepest limit of the current resource wireframe, supporting further exploration potential; and
- Exploration drilling following the possible extension of the upper north Roby Zone encountered palladium mineralization to be followed up with additional drilling.

As previously disclosed, NAP is investigating the upper north and south resource extensions of the Roby Zone, which have the potential to provide an additional source of production ore in 2012. During the third quarter the Company completed its definition drilling program on the upper north Roby Zone extension (to allow development planning to begin for this area of the Roby Zone resource), and has recently completed the access development extension drift in the upper south Roby Zone resource to conduct definition drilling during the fourth quarter.

From the beginning of the year until July 12, 2011 (the date of the most recent gold exploration update press release), a total of 11,234 metres have been drilled at Vezza, and 24,477 metres at Sleeping Giant. Highlights of the most recent update included:

- Surface and underground drilling at Vezza advanced the project towards bulk sampling and confirmed the grades, continuity, and widths of the gold zones (which were similar or better than the last resource estimate dated December 31, 2010); and
- Sleeping Giant's gold zones continue to extend at depth below the proposed three new mine levels and announced the discovery of new zones in the lower part of the mine, along with a number of other significant gold intersections.



Outlook

Despite the recent volatility in the price of palladium arising from global macroeconomic concerns, the supply and demand fundamentals of palladium remain strong, and most forecasters continue to have a positive outlook. A supporting factor behind the positive outlook for the metal's future performance is the resilient industrial demand, increasing investment demand and constrained global supply.

For the balance of 2011, the Company plans to focus on:

- Progressing the LDI mine expansion;
- Progressing the development work at depth at Sleeping Giant;
- Advancing the Veza gold project towards a production decision by year-end; and
- Continuing exploration programs aimed at increasing reserves and resources at LDI and in the gold division.

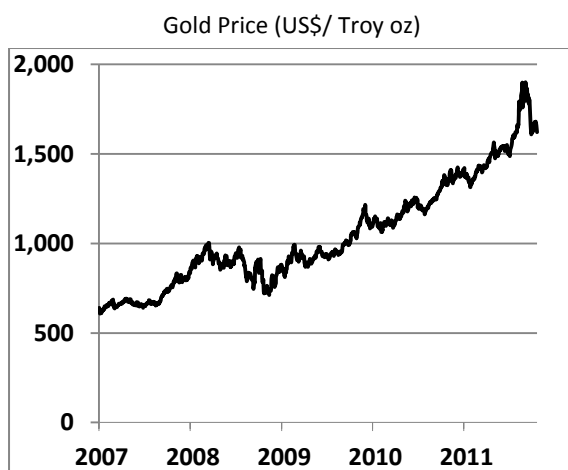
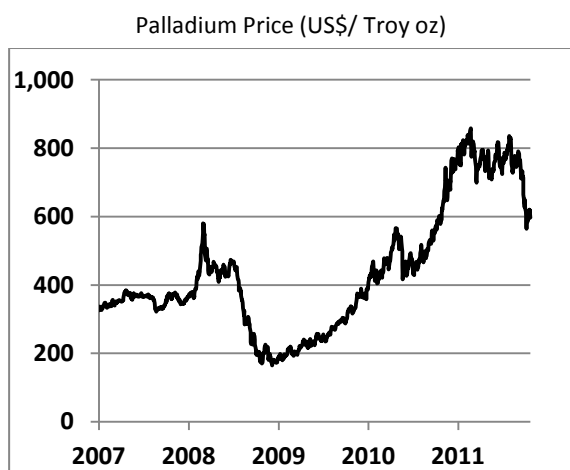
The Company expects to release detailed guidance for its 2012 production and cash costs¹, capital expenditures, and exploration budget in January 2012.

Selected Quarterly Information

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue	\$ 38,310	\$ 38,451	\$ 126,422	\$ 67,596
Income (loss) from mining operations	2,534	11,389	15,973	(2,735)
Net income (loss)	(2,816)	2,804	(7,757)	(27,396)
Net income (loss) per share – Basic and diluted	(0.02)	0.02	(0.05)	(0.20)
Cash flow provided by (used in) operations prior to changes in non-cash working capital	3,061	6,092	7,850	(11,792)
Total assets	390,295	308,584	390,295	308,584
Obligations under finance leases	2,051	2,575	2,051	2,575

Metal Prices



In 2008, the price of palladium declined significantly by 69% to US\$183 per ounce prompting the Company to put the LDI mine on temporary care and maintenance. As the price of palladium began to recover, the Company restarted the LDI mine in April 2010, ahead of schedule and under budget.



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During the third quarter of 2011, the palladium price averaged US\$752 per ounce, ranging from a low of US\$612 to a high of US\$836 per ounce. During the first part of the quarter, palladium benefited from positive automotive news and rising investment demand. In September, palladium price came under heavy selling pressure as the global economic outlook appeared increasingly dim and as concerns of a new worldwide recession grew. This led to ETF selling which further exacerbated the fall in price. Amid global economic uncertainty in Europe and U.S., the price of palladium still showed strong support above US\$550 per ounce level. As of November 1, 2011, the price of palladium was US\$637 per ounce.

Despite the recent volatility in the price of palladium arising from global macroeconomic concerns, the supply and demand fundamentals of palladium remain strong. Most forecasters continue to have an optimistic outlook for the price of palladium. A supporting factor behind the positive outlook for the metal's future performance is the resilient industrial demand, increasing investment demand, and constrained global supply.

During the third quarter of 2011, the average price of gold was US\$1,706 per ounce, with gold trading in a range of US\$1,488 to US\$1,900 per ounce. The price of gold rallied during the first part of the quarter and reached an all time high of \$1,920. Worries over a slowing global economy and fear that the European debt crisis might drive sovereign defaults caused a significant retracement in the price of gold in September. The price of gold was US\$1,720 as of November 1, 2011.

At the end of the third quarter, the U.S. dollar rallied as investors sought out safe-haven assets like U.S. treasury bills. The Canadian dollar closed at \$0.96 cents to the U.S. dollar, compared to \$1.04 at the end of the second quarter of 2011. As of November 1, 2011, the Canadian dollar exchange rate was \$1.02.

Realized Metal Prices and Exchange Rates

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Palladium – US\$/oz ¹	\$ 769	-	\$ 721	-
Platinum – US\$/oz	\$ 1,773	-	\$ 1,769	-
Gold – US\$/oz	\$ 1,597	\$ 1,231	\$ 1,479	\$ 1,172
Nickel – US\$/lb	\$ 10.12	\$ 9.35	\$ 10.98	\$ 9.35
Copper – US\$/lb	\$ 4.18	\$ 3.23	\$ 4.23	\$ 3.23
Average exchange rate (Bank of Canada) – CDN\$1 = US\$	\$ 1.02	\$ 0.96	\$ 1.02	\$ 0.97

¹ Includes adjustments for financial contracts.

Under LDI's smelter agreement, metal prices are not finalized until three months after delivery to the smelter for base metals and six months for precious metals. Prior to final pricing and settlement, LDI's metals are provisionally priced at month end forward prices. The Company enters into financial contracts to mitigate this provisional pricing exposure to rising or declining palladium prices for past production already delivered and sold to the smelters. For further details, see the Financial Review section.



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Spot Metal Prices* and Exchange Rates

For comparison purposes, the following table details recorded spot metal prices and exchange rates.

	Sep-30 2011	Jun-30 2011	Mar-31 2011	Dec-31 2010	Sep-30 2010	Jun-30 2010	Mar 31 2010	Dec 31 2009
Palladium – US\$/oz	\$ 614	\$ 761	\$ 766	\$ 791	\$ 573	\$ 446	\$ 479	\$ 393
Gold – US\$/oz	\$ 1,620	\$ 1,506	\$ 1,439	\$ 1,410	\$ 1,307	\$ 1,244	\$ 1,116	\$ 1,104
Platinum – US\$/oz	\$ 1,511	\$ 1,722	\$ 1,773	\$ 1,731	\$ 1,662	\$ 1,532	\$ 1,649	\$ 1,461
Nickel – US\$/lb	\$ 8.30	\$ 10.48	\$ 11.83	\$ 11.32	\$ 10.57	\$ 8.78	\$ 11.33	\$ 8.38
Copper – US\$/lb	\$ 3.24	\$ 4.22	\$ 4.26	\$ 4.38	\$ 3.65	\$ 2.95	\$ 3.56	\$ 3.33
Exchange rate (Bank of Canada) – CDN\$1 = US\$	\$ 0.96	US\$1.04	US\$1.03	US\$1.01	US\$0.97	US\$0.94	US\$0.98	US\$0.96

* Based on the London Metal Exchange

FINANCIAL REVIEW

LDI Palladium Mine

Income from mining operations for the LDI palladium mine are summarized in the following table.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue after pricing adjustments	\$ 32,689	\$ 33,394	\$ 106,454	\$ 49,462
Operating expenses				
Production costs	\$ 22,497	\$ 13,700	\$ 63,667	\$ 29,834
Smelting, refining and freight costs	2,425	1,940	5,970	3,103
Royalty expense	1,106	1,439	4,131	2,184
Inventory pricing adjustment	-	(388)	-	-
Depreciation and amortization	2,693	677	7,042	3,874
Loss (gain) on disposal of equipment	(891)	84	(1,133)	105
Total operating expenses	\$ 27,830	\$ 17,452	\$ 79,677	\$ 39,100
Income (loss) from mining operations	\$ 4,859	\$ 15,942	\$ 26,777	\$ 10,362

Revenue – LDI Mine

Revenue is affected by sales volumes, commodity prices and currency exchange rates. Metal sales for LDI are recognized in revenue at provisional prices when delivered to a smelter for treatment or designated shipping point. On a substantial amount of sales, final pricing is not determined until the refined metal is sold by the smelter, which in the case of LDI base metals is three months and precious metals is six months after delivery to the smelter. 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 Corporation 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 delivered to the smelter. The total of these financial contracts represent 76,500 ounces of palladium as at September 30, 2011. These contracts mature from October 2011 through March 2012 at an average price of \$743 per ounce of palladium. The amounts specified in the financial contracts substantially match final pricing settlement periods of palladium delivered to the customer under the smelter agreement. The palladium financial contracts are being recognized on a mark-to-market basis as an adjustment to revenue. The fair value of these contracts at September 30, 2011 was an asset of \$7.5 million, included in accounts receivable (December 31, 2010 - \$11.1 million liability).



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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Sales volumes				
Palladium (oz)	34,524	38,122	111,341	62,211
Gold (oz)	1,736	1,553	4,726	2,525
Platinum (oz)	2,278	2,013	6,570	3,100
Nickel (lbs)	159,476	146,496	464,924	236,129
Copper (lbs)	380,287	238,698	944,778	412,184
Cobalt (lbs)	4,588	3,622	12,295	5,941
Silver (oz)	1,519	-	2,364	-

Revenue from metal sales from the LDI palladium mine are set out below.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue before pricing adjustments	\$ 34,417	\$ 28,667	\$ 110,735	\$ 45,200
Pricing adjustments	(1,728)	4,727	(4,281)	4,262
Revenue after pricing adjustments	\$ 32,689	\$ 33,394	\$ 106,454	\$ 49,462
Revenue by metal				
Palladium	\$ 23,423	\$ 24,989	\$ 80,187	\$ 36,568
Gold	3,568	2,141	7,903	3,425
Platinum	3,413	3,503	10,363	5,296
Nickel	1,085	1,984	4,385	2,524
Copper	1,101	701	3,345	1,524
Cobalt	68	61	186	106
Silver	31	15	85	19
	\$ 32,689	\$ 33,394	\$ 106,454	\$ 49,462

For the three months ended September 30, 2011, revenue before pricing adjustments was \$34.4 million, compared to \$28.7 million for the same comparative period last year, reflecting higher realized palladium prices in the current year, partially offset by fewer ounces of palladium sold. For the nine months ended September 30, 2011, revenue before pricing adjustments was \$110.7 million, compared to \$45.2 million for the same comparative period last year. Due to the recovery of metal prices, the Company recommenced operations in April 2010 after being on care and maintenance since October 2008.

Revenue after pricing adjustments from metal settlements for the three months ended September 30, 2011 was \$32.7 million, reflecting a \$3.0 million negative commodity price adjustment partially offset by a \$1.3 million positive foreign exchange adjustment. For the nine months ended September 30, 2011, revenue after pricing adjustments from metal settlements was \$106.5 million, including a \$6.7 million negative commodity price adjustment partially offset by a \$2.4 million positive foreign exchange adjustment.



Operating Expenses – LDI Mine

For the three months ended September 30, 2011, operating expenses were \$27.8 million compared to \$17.5 million in the same period last year. Operating expenses for the nine months ended September 30, 2011 were \$79.7 million compared to \$39.1 million in the same period last year. The three and nine months ended September 30, 2010 included costs related to restarting the LDI mine and mill, which occurred in April 2010. Cash costs¹ per ounce of palladium sold, net of by product credits¹, were US\$496 for the three months ended September 30, 2011 (2010 – US\$219) and US\$436 for the nine months ended September 30, 2011 (2010 - US\$253). The increase in operating expenses in 2011 result from processing lower grade stockpiles blended with the higher grade underground ore.

Smelting, refining and freight costs for the three months ended September 30, 2011 were \$2.4 million compared to \$1.9 million in the same period last year and \$6.0 million compared to \$3.1 million for the nine months ended September 30, 2011 and 2010, respectively. The increase over the prior year is due to the LDI mine and mill restart in April 2010 as well as increased production volume in the nine months ended September 30, 2011.

For the three months ended September 30, 2011, the royalty expense was \$1.1 million compared to \$1.4 million in the same period last year. Royalty expense was \$4.1 million for the nine months ended September 30, 2011 compared to \$2.2 million for the same period last year. Royalty expense was lower in the current year quarter as a result of lower sales volume in the current year. Royalty expense was higher in the current year to date period as revenue increased in 2011 as well as the mine was restarted in April 2010.

Depreciation and amortization at the LDI mine for the three months ended September 30, 2011 was \$2.7 million, compared to \$0.7 million for the three months ended September 30, 2010. For the nine months ended September 30, 2011, depreciation and amortization was \$7.0 million compared to \$3.9 million in the same period last year. The increase over the prior year is due to the LDI mine and mill restart in April 2010.

During the second quarter, the Company was advised of its inclusion in the Ontario government's Northern Industrial Electricity Rate ("NIER") program to receive electricity price rebates of two cents per kilowatt hour. The NIER program is a three-year initiative designed to help large industries in Northern Ontario improve energy efficiency and sustainability. It is available to industrial facilities that consume greater than 50,000 megawatt hours of electricity per year. The Company's commitment to the preparation and implementation of comprehensive energy management plans qualified the Company to participate, which resulted in a rebate of \$1.4 million for the three months ended September 30, 2011, representing a rebate for the period April 1, 2011 through September 30, 2011. The rebate was treated as a reduction of third quarter operating expenses. For the nine months ended September 30, 2011, a rebate of \$3.3 million was received, including a retroactive rebate of \$1.9 million for LDI's electricity costs for the period of April 1, 2010 through March 31, 2011, reflected in the second quarter of 2011. LDI will be entitled to receive additional quarterly rebates over the next two years if it continues to meet eligibility criteria, which the Company anticipates will be the case.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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Sleeping Giant Gold Mine

Income from mining operations for the Sleeping Giant gold mine is summarized in the following table.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue	\$ 5,621	\$ 5,057	\$ 19,968	\$ 18,134
Operating expenses				
Production costs	\$ 6,431	\$ 6,752	\$ 24,471	\$ 23,319
Smelting, refining and freight costs	7	13	37	44
Depreciation and amortization	1,464	2,815	6,126	7,784
Loss (gain) on disposal of equipment	-	2	-	(2)
Total operating expenses	\$ 7,902	\$ 9,582	\$ 30,634	\$ 31,145
Loss from mining operations	\$ (2,281)	\$ (4,525)	\$ (10,666)	\$ (13,011)

Revenue – Sleeping Giant Mine

Metal sales for the Sleeping Giant gold mine are recognized at the time the title is transferred to a third party. Sales volumes are set out in the table below.

Revenue from metal sales from the Sleeping Giant gold mine is set out below.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue	\$ 5,621	\$ 5,057	\$ 19,968	\$ 18,134
Revenue by metal				
Gold	\$ 5,122	\$ 4,763	\$ 19,123	\$ 17,661
Silver	499	\$ 294	845	\$ 473
	\$ 5,621	\$ 5,057	\$ 19,968	\$ 18,134

For the three months ended September 30, 2011, revenue was \$5.6 million, reflecting gold sales of 3,241 ounces with a realized price of US\$1,596 per ounce, compared to \$5.1 million in the prior year with gold sales of 3,742 ounces with a realized price of US\$1,231 per ounce. Revenue was \$20.0 million for the nine months ended September 30, 2011, compared to \$18.1 million in the prior year, reflecting gold sales of 13,151 ounces with a realized price of US\$1,482 per ounce (2010 – 14,542 ounces at US\$1,172 per ounce).

Operating Expenses – Sleeping Giant Mine

For the three months ended September 30, 2011, total production costs at the Sleeping Giant gold mine were \$6.4 million as compared to \$6.8 million in the same period in 2010 due to fewer ounces produced in the current year period. Total production costs were \$24.5 million for the nine months ended September 30, 2011, compared to \$23.3 million in 2010. Cash costs¹ were US\$1,869 per ounce for the quarter ended September 30, 2011, compared to US\$1,660 per ounce for the three months ended September 30, 2010 and US\$1,835 per ounce for the nine months ended September 30, 2011 compared to US\$1,527 per ounce for the same period in the prior year due to higher labour costs.

Depreciation and amortization at the Sleeping Giant gold mine was \$1.5 million for the three months ended September 30, 2011, compared to \$2.8 million in the prior year due to fewer ounces produced in the current year period. For the nine months ended September 30, 2011, depreciation and amortization was \$6.1 million compared to \$7.8 million in the prior year.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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General and administration

The Company's general and administration expenses for the three months ended September 30, 2011 were \$2.9 million, compared to \$2.5 million, an increase of \$0.4 million. For the nine months ended September 30, 2011, general and administration costs were \$9.5 million compared to \$7.8 million in the prior year, an increase of \$1.7 million. The increase is due to additional administration costs from increased activities at the LDI palladium mine and at the Corporate head quarters.

Exploration

Exploration expenditures for the three months ended September 30, 2011 were \$2.0 million compared to \$7.0 million in the prior year period and \$11.9 million for the nine months ended September 30, 2011 compared to \$17.6 million in the same period in the prior year. The decrease reflects \$1.9 million of exploration costs capitalized to the mine expansion for the three months ended September 30, 2011 (\$8.3 million for the nine months ended September 30, 2010), compared to \$1.1 million in the prior year quarter (\$1.1 million for the nine months ended September 30, 2010). Exploration expenditures are comprised as follows:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Ontario exploration projects*	1,742	3,764	7,549	10,792
Sleeping Giant mine property	669	796	2,647	2,265
Other Quebec exploration projects**	737	2,448	2,925	4,537
Exploration tax credits	(1,192)	-	(1,192)	-
Total exploration expenditures	\$ 1,956	\$ 7,008	\$ 11,929	\$ 17,594

* Ontario exploration projects are comprised of LDI exploration projects, including the Cowboy, Outlaw and Sheriff zones, West LDI, North VT Rim, and the Legris Lake option and Shebandowan.

** Other Quebec exploration projects are comprised of the Veza, Flordin, Discovery, Dormex, Montbray, Harricana, Cameron Shear, Laflamme, and Florence properties.

On February 18, 2011, the Company completed a flow-through share offering of 2,667,000 flow-through common shares. The Company is required to spend gross proceeds of \$22.0 million on Canadian exploration expenses prior to December 31, 2012. For the three months ended September 30, 2011, \$3.2 million was spent (\$18.8 million for the nine months ended September 30, 2011).

Interest and other costs (income)

Interest and other income for the three months ended September 30, 2011 was \$0.3 million compared to a nominal amount in the prior year. The current year balance includes a gain on renouncement of flow-through expenditures of \$0.5 million and \$0.2 million of interest income. For the nine months ended September 30, 2011, interest and other income was \$1.7 million compared to \$2.0 million in the prior year. The current year balance includes a gain on renouncement of flow-through expenditures of \$1.8 million and interest income of \$0.8 million and the prior year balance consists primarily of interest income, partially offset by interest expense and accretion. Interest and other income also include interest on capital leases, accretion expense, interest income and interest expense in the current and prior year period.



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Income and Mining Tax Recovery (Expense)

The income and mining tax recovery (expense) for the three and nine months ended September 30, are provided in the table below.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
LDI palladium mine				
Ontario transitional tax (debit) credit	\$ -	\$ -	\$ (2,387)	\$ 280
Corporate minimum tax credit	-	-	-	75
Ontario resource allowance recovery	-	-	-	315
	\$ -	-	\$ (2,387)	\$ 670
<hr/>				
Sleeping Giant gold mine				
Quebec mining duties (expense) recovery	\$ 925	-	\$ 833	\$ 110
Quebec income tax recovery	-	-	107	26
Mining interests temporary difference expense	(1,555)	(456)	(2,219)	(273)
	\$ (630)	\$ (456)	\$ (1,279)	\$ (137)
<hr/>				
Corporate and other				
Expiration of warrants	-	-	\$ 3	\$ 542
Renunciation of exploration expenditures	-	1,322	-	(2,404)
	-	\$ 1,322	\$ 3	\$ (1,862)
	\$ (630)	\$ 866	\$ (3,663)	\$ (1,329)

For the three months ended September 30, 2011, income and mining tax expense was \$0.6 million compared to a \$0.9 million recovery in the same period in 2010, primarily due to mining interest temporary differences in Quebec (\$1.6 million), partially offset by Quebec mining duties recovery (\$0.9 million) in the current year, as compared to renunciation of exploration expenditures (\$1.3 million), partially offset by mining interest temporary differences in Quebec (\$0.5 million) in the prior year period. Income and mining tax expense for the nine months ended September 30, 2011 was \$3.7 million compared to \$1.3 million in the same period in the prior year. In the current year, income and mining tax expense includes Ontario transitional tax debits (\$2.4 million) and mining interest temporary differences (\$2.2 million), partially offset by Quebec mining duties recovery (\$0.8 million). The prior year balance includes renunciation of exploration expenditures (\$2.4 million), partially offset by the expiration of warrants (\$0.5 million).

Net Income (loss)

For the three months ended September 30, 2011, the Company reported a net loss of \$2.8 million or \$0.02 per share compared to net income of \$2.8 million or \$0.02 per share in the prior year. For the nine months ended September 30, 2011, net loss was \$7.8 million or \$0.05 per share compared to a net loss of \$27.4 million or \$0.20 per share in 2010.



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Summary of Quarterly Results

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

	2011				2010			2009*
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 38,310	\$ 51,398	\$ 36,714	\$ 39,502	\$ 38,451	\$ 21,215	\$ 7,930	\$ 1
Exploration expense	1,956	6,134	3,839	12,532	7,008	6,421	4,165	4,287
Cash provided by (used in) operations	15,883	4,121	24,647	(25,234)	(20,053)	(18,433)	(10,172)	(12,186)
Cash provided by (used in) operations prior to changes in non-cash working capital per share ¹	0.02	0.07	(0.04)	-	0.04	(0.04)	(0.11)	(0.11)
Capital expenditures	50,561	41,363	41,144	20,142	14,589	10,146	4,487	4,450
Net income (loss)	(2,816)	5,380	(10,321)	(260)	3,185	(11,560)	(14,624)	(14,361)
Net income (loss) per share – basic and diluted	\$ (0.02)	\$ 0.03	\$ (0.06)	-	\$ 0.02	\$ (0.08)	\$ (0.11)	\$ (0.11)

* Certain prior period amounts, prepared under Canadian GAAP, have been reclassified to conform to the current period's classification.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash provided by (used in) operations prior to changes in non-cash working capital	\$ 3,061	\$ 6,092	\$ 7,850	\$ (11,792)
Changes in non-cash working capital	12,822	(26,099)	36,801	(36,762)
Cash provided by (used in) operations	15,883	(20,007)	44,651	(48,554)
Cash provided by (used in) financing	67	(724)	49,434	92,700
Cash provided by (used in) investing	(49,710)	(14,185)	(131,765)	(28,787)
Increase (decrease) in cash and cash equivalents	\$ (33,760)	\$ (34,916)	\$ (37,680)	\$ 15,359

Operating Activities

For the three months ended September 30, 2011, cash provided by operations prior to changes in non-cash working capital was \$3.1 million, compared to cash provided by operations of \$6.1 million in the prior year, a decrease of \$3.0 million. This decrease is due primarily to lower net income of \$4.9 million (including \$0.7 million increased depreciation and amortization) and an increase in gains on disposal of equipment (\$1.0 million), partially offset by an increase of deferred income and mining tax expense (\$2.4 million). Cash provided by operations prior to changes in non-cash working capital was \$7.9 million for the nine months ended September 30, 2011, compared to cash used in operations of \$11.8 million in the prior year, an increase of \$19.7 million. This increase is primarily due to higher net income of \$21.2 million (including \$1.6 million increased depreciation and amortization) partially offset by lower deferred income and mining tax expense of \$1.8 million.

For the three months ended September 30, 2011, changes in non-cash working capital resulted in a source of cash of \$12.8 million compared to a use of cash of \$26.1 million in the prior year. The current quarter balance of \$12.8 million is substantially due to a decrease in accounts receivable (\$11.3 million), a decrease in inventories (\$2.3 million) and an increase in accounts payable and accrued liabilities (\$2.4 million), partially offset by an increase in other assets (\$1.1 million) and a decrease in taxes payable (\$2.0 million). Changes in non-cash working capital for the nine months ended September 30, 2011 provided cash of \$36.8 million compared to a use of cash of \$36.8 million in the prior year. The 2011 balance is primarily due to a decrease in other assets (\$21.1 million) representing proceeds received from the exercise of warrants, a decrease in accounts receivable (\$11.7 million) and a decrease in inventories (\$7.1 million), partially offset by an increase in accounts payable and accrued liabilities (\$3.3 million).



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For the three months ended September 30, 2011, cash provided by operations was \$15.9 million compared to cash used in operations of \$20.0 million in the comparative period in 2010. Cash provided by operations for the nine months ended September 30, 2011 was \$44.7 million compared to cash used in operations of \$48.6 million in the prior year period.

Financing Activities

For the three months ended September 30, 2011, financing activities provided cash of \$0.1 million consisting of \$0.5 million related to the issuance of common shares, partially offset by the scheduled repayment of capital leases of \$0.4 million. This compared to cash used in financing activities of \$0.7 million in the corresponding period last year. For the nine months ended September 30, 2011, financing activities provided cash of \$49.4 million of which \$19.8 million was related to the exercise of warrants. This compared to cash provided by financing activities in the prior year of \$92.7 million. Net proceeds of \$94.2 million were received from the April 2010 equity offering discussed below.

In October 2009, the Company completed an equity offering of 18.4 million units for net proceeds of \$53.6 million. Each unit consisted of one common share and one-half of one common share purchase warrant of the Company. Each whole warrant (Series A warrants) entitled the holder to purchase an additional common share at a price of \$4.25 per share, subject to adjustment, at any time prior to September 30, 2011. Since the 20-day volume weighted average price of the common shares on the TSX was equal to or greater than C\$5.75 per share (as per the acceleration event in the warrant indenture), on December 8, 2010 the Company announced the acceleration of the expiry of the Series A warrants to January 14, 2011. During the first quarter of 2011, \$21.3 million of proceeds were received from the exercise of 5,009,986 Series A warrants. Total proceeds of \$38.8 million were received from the exercise of Series A warrants and 67,938 Series A warrants were not exercised prior to expiry.

On April 28, 2010, the Company completed an equity offering of 20 million units at a price of \$5.00 per unit for total net proceeds of \$94.2 million (issue costs \$5.8 million), which included the exercise of an over-allotment option in the amount of 2,600,000 units at a price of \$5.00 per unit. Each unit consists of one common share and one-half of one common share purchase warrant of the Company. Each whole warrant (Series B warrants) entitled the holder to purchase an additional common share at a price of \$6.50, subject to adjustment, at any time prior to October 28, 2011. In the event that the 20-day volume weighted average price of the common shares on the TSX was greater than \$7.50 per share, the Company had the option to accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants would have expired on the 30th day after the date on which such notice would have been given by the Company. In 2010, 1,240,000 Series B warrants were exercised for total proceeds of \$8.1 million. No additional warrants were exercised in 2011. Subsequent to the third quarter ended September 30, 2011, on October 28, 2011, the Series B warrants expired.

Investing Activities

For the three months ended September 30, 2011, investing activities required cash of \$49.7 million, relating to additions to mining interests and proceeds on disposal of equipment of \$0.9 million. For the three months ended September 30, 2010, investing activities required cash of \$14.2 million, relating to additions to mining interests. Investing activities required cash of \$131.8 million for the nine months ended September 30, 2011, compared to \$28.8 million cash required by investing activities for the nine months ended September 30, 2010. The majority of the additions to mining interests were attributable to LDI's mine expansion project as well as the Sleeping Giant gold mine.



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Additions to mining interests

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Palladium operations				
Offset Zone development	\$ 36,622	\$ 3,979	\$ 90,821	\$ 9,951
Roby Zone development	82	1,443	149	2,425
Offset Zone exploration costs	1,893	1,127	8,260	1,127
Roby Zone exploration costs	-	639	45	639
Jaw crusher	-	90	-	1,132
Mill flotation redesign	-	2	-	798
Tailings management facility	391	227	584	524
Other equipment and betterments	685	805	4,004	1,545
	\$ 39,673	\$ 8,312	\$ 103,863	\$ 18,141
Gold operations				
Veza project	\$ 8,333	\$ 3,779	\$ 20,941	\$ 3,779
Sleeping Giant Shaft deepening	1,209	1,504	4,603	4,162
Sleeping Giant Mill expansion	805	-	1,639	-
Sleeping Giant Underground and deferred development	472	892	1,733	2,406
Other equipment and betterments	69	102	289	734
	\$ 10,888	\$ 6,277	\$ 29,205	\$ 11,081
	\$ 50,561	\$ 14,589	\$ 133,068	\$ 29,222

In addition to the mining interests acquired by cash reflected in the above table, the Company also acquired by means of finance leases, equipment in the amount \$0.1 million for the three months ended September 30, 2011 and \$1.0 million for the nine months ended September 30, 2011.

Capital Resources

As at September 30, 2011, the Company had cash and cash equivalents of \$37.5 million compared to \$75.2 million as at December 31, 2010. The funds are invested in short term interest bearing deposits at a major Canadian chartered bank.

In July 2011, the Company increased its operating line of credit with the Bank of Nova Scotia from \$30 million to \$60 million. The credit facility is secured by the Company's accounts receivables and inventory and may be used for working capital liquidity and general corporate purposes. At September 30, 2011, the Company had \$50.0 million available to be drawn from the credit facility and \$10.0 million was utilized for letters of credit primarily for reclamation deposits.

During the quarter, the Company received an advanced payment under its smelter agreement for \$11.3 million.

Subsequent to the third quarter end, on October 4, 2011, the Company sold \$72.0 million of senior secured notes by way of a private placement for net proceeds of \$69.6 million. The notes which mature on October 4, 2014, were issued in \$1,000 denominations and bear interest at a rate of 9.25% per year, payable semi-annually. The Company also issued a palladium warrant with each note. Each warrant entitles the holder to purchase 0.35 ounces of palladium at a purchase price of US\$620 per ounce, anytime up to October 4, 2014. If the palladium warrants are exercised, the Company has the option to pay the amount owing to the warrant holder in either cash or common shares priced at a 7% discount. At the Company's option, notes may be extended for one additional year.

The Company's operating cash flow and capital resources provide the Company with the financial flexibility to advance its development projects.

**Contractual Obligations**

As at September 30, 2011 (expressed in thousands of Canadian dollars)	Total	Payments Due by Period		
		Less than 1 year	2-5 Years	>5 years
Capital lease obligations	\$ 2,173	\$ 1,448	\$ 725	-
Operating leases	8,673	5,760	2,643	270
Purchase obligations	122,938	122,938	-	-
	\$ 133,784	\$ 130,146	\$ 3,368	\$ 270

In addition to the above, the Company also has asset retirement obligations at September 30, 2011 in the amount of \$19.9 million that would become payable at the time of the closures of the LDI and Sleeping Giant mines. Deposits established by the Company to offset these future outlays amount to \$2.1 million. In addition, the Company obtained a letter of credit of \$8.5 million to offset these future outlays. As a result, \$9.3 million of funding is required prior to closure of the mines.

Related Party Transactions

There were no related party transactions for the quarter ended September 30, 2011.

OUTSTANDING SHARE DATA

As of November 1, 2011, there were 162,851,432 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 3,769,582 common shares of the Company at a weighted average exercise price of \$4.47 per share.

REVIEW OF OPERATIONS**LDI Palladium Mine**

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Tonnes of ore milled	442,253	198,907	1,157,956	401,910
Production				
Palladium (oz)	34,871	34,420	112,503	62,259
Gold (oz)	1,771	1,408	4,791	2,526
Platinum (oz)	2,309	1,830	6,639	3,103
Nickel (lbs)	164,126	131,154	472,606	236,297
Copper (lbs)	390,800	214,853	960,385	412,464
Palladium head grade (g/t)	3.46	7.05	4.07	6.41
Palladium recoveries (%)	76.38	82.10	79.74	80.90
Tonnes of ore mined	477,923	225,960	1,239,138	405,194
Total cost per tonne milled	\$ 51	\$ 69	\$ 55	\$ 59
Cash cost (\$USD) ¹	\$ 496	\$ 218	\$ 436	\$ 253

The LDI mine consists of a previously mined open pit, an operating underground mine, and a mill with a design capacity of approximately 15,000 tonnes per day. The primary deposits on the property are the Roby Zone and the Offset Zone, both disseminated magmatic palladium-platinum group metal ("PGM") deposits. The other identified underground mineralized zones include the Cowboy, Outlaw and Sheriff zones, which are not included in the Company's current mine expansion plan due to insufficient drilling at this time.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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Third quarter production at the LDI mine included the blending of underground ore with lower-grade surface stockpiles. During the three months ended September 30, 2011, 477,923 tonnes of ore was extracted from underground and from the surface stockpiles (2010 – 225,960 tonnes). For the nine months ended September 30, 2011, 1,239,138 tonnes of ore was extracted (2010 – 405,194 tonnes).

Ore production from the Roby Zone at the LDI mine is operating at approximately 2,600 tonnes per day, seven days a week, on two 12-hour shifts per day. The Company has a workforce of approximately 270 people at LDI and its collective agreement with the United Steelworkers is effective until May 31, 2012.

LDI Mill

For the three months ended September 30, 2011, the LDI mill processed 442,253 tonnes of ore at an average of 10,352 tonnes per operating day, producing 34,871 ounces of payable palladium at an average palladium head grade of 3.46 grams per tonne, with a palladium recovery of 76.4%, and mill availability of 99.0% (2010 – 198,907 tonnes processed, producing 34,420 ounces at an average grade of 7.05 grams per tonne). LDI's cash costs¹, net of byproduct credits, were US\$496 per ounce (2010 – US\$219 per ounce, when production consisted of only higher-grade underground ore). Production costs, per tonne of ore milled, were \$51 for the quarter ended September 30, 2011. The mill is operating on a batch basis, with a two-week operating and a two-week planned non-operating schedule.

For the nine months ended September 30, 2011, the LDI mill processed 1,157,956 tonnes of ore at an average of 9,891 tonnes per operating day, producing 112,503 ounces of payable palladium at an average palladium head grade of 4.07 grams per tonne, palladium recovery of 79.7% and mill availability of 97.3% (2010 – 401,910 tonnes processed, producing 62,259 ounces at an average grade of 6.41 grams per tonne). LDI's cash costs¹, net of byproduct credits, were US\$436 per ounce (2010 – US\$253 per ounce, when production consisted of only higher-grade underground ore).

LDI's cash costs¹ in the third quarter were higher than the Company's calendar year 2011 forecast of US\$450 per ounce due primarily to lower grades processed by the mill, and due in part to higher spending on contractor costs on surface to process stockpiles of oversized ore. The cash costs¹ were also adversely affected by the precipitous decline in September in the value of LDI's provisionally priced by-product metals, which increased costs by approximately \$35 per ounce.

The average palladium head grade at the mill during the third quarter was 3.46 grams per tonne. The decreased head grade during the third quarter resulted from processing more lower grade surface stockpiles than in past quarters. For the nine months ended September 30, 2011, the milled head grade was 4.1 grams per tonne, which is in line with the Company's guidance of 4.2 grams per tonne for 2011.

Quarterly variability in LDI's production metrics is to be expected during the Company's mine expansion transition phase, and reflects the planned mining sequence to mitigate logistical congestion between operations and the underground development activities.

LDI Mine Expansion Update

The Company is currently expanding the LDI mine to transition from mining via ramp access to mining via shaft to increase future production at lower cash costs¹ per ounce. During the third quarter, the Company made significant progress in advancing the critical aspects of the mine expansion and remains on schedule for commercial production from Phase I of the new production shaft in the fourth quarter of 2012 at an increased mining rate of 3,500 tonnes per day. Phase II entails sinking the shaft deeper and further increasing the mining rate to 5,500 tonnes per day in the first quarter of 2015. This is expected to increase production to over 250,000 ounces of palladium, at cash costs¹ of approximately US\$200 per ounce using current metal price assumptions.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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Recent mine expansion development highlights include:

- Completed an updated mine expansion plan that capitalizes on the significant growth of the Offset Zone and various scope changes to further enhance the expansion;
- Surface construction activities continued to progress to a scheduled completion date at the end of Q1, 2012;
- Completed the 2.4-metre diameter Phase I shaft pilot raise to surface;
- Awarded the Phase I shaft sinking contract and began mobilization activities for start to shaft sinking activities in the fourth quarter of 2011;
- Completed over 50% of the 456-metre long primary ventilation raise;
- Exceeded internal lateral development forecast by 20% year to date;
- Advanced ramp development to just below the 4740 mine level, approximately 715 metres from surface; and
- Began an engineering scoping study for the future underground backfill system.

In the nine month period ended September 30, 2011, \$99.1 million was invested in the mine expansion (of which \$38.5 million was spent during the third quarter). Capital expenditures for 2011 are estimated at \$175 million.

Sleeping Giant Gold Mine

The key operating results for the Sleeping Giant gold mine are set out in the following table.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Tonnes of ore milled	14,322	21,645	57,661	71,546
Production				
Gold (oz)	2,976	3,879	11,496	12,979
Gold head grade (g/t)	6.68	5.84	6.43	5.54
Gold recoveries (%)	96.74	95.50	96.35	95.40
Tonnes of ore hoisted	14,322	22,494	57,208	73,076
Total cost per tonne milled	\$ 449	\$ 312	\$ 424	\$ 326
Cash cost (\$USD) ¹	\$ 1,869	\$ 1,660	\$ 1,835	\$ 1,527

The Sleeping Giant gold mine consists of a narrow vein underground mine and a mill with a capacity of 900 tonnes per operating day that can be easily expanded. For the three months ended September 30, 2011, 14,322 tonnes of ore were hoisted from the underground mine with an average gold grade of 6.68 grams per tonne (2010 – 22,494 tonnes hoisted with average grade of 5.84 grams per tonne). For the nine months ended September 30, 2011, 57,208 tonnes of ore were hoisted with an average gold grade of 6.43 grams per tonne (2010 – 73,076 tonnes hoisted with average grade of 5.54 grams per tonne).

While development of higher grade zones at depth continues, mining was focused above the 975-metre elevation – mining the lower grade remnant reserves left behind by the previous operator. As the Company completes the development work and refines its mining plan to reflect the labour-related challenges it faces, the goal is to reduce operating costs to achieve break-even cash flow for the balance of 2011. Profitability from Sleeping Giant is expected to improve in 2012 when the Company will be mining from new deeper mine levels and continues to rationalize the overall cost structure.

¹ Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-34.



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In July, mining operations shut down for a two-week maintenance period to allow the development team to re-rope the hoist for the new shaft depth (1,275 metres). During that period, the Company also implemented a new shift schedule and restructuring plan aimed at optimizing operations, which came into effect when the mining crews returned after the maintenance shutdown. Along with the shift schedule change, a detailed operational review was initiated through a third party consultant to look for operational improvements in productivity to reduce operating costs per tonne. Despite mining in the remnant areas above the 975 level and at overall lower grade than initially expected, the operations have made some improvements in reducing the cost profile from the beginning of the year.

The Company made good progress during the quarter in the development work at depth which will be integral for improved profitability in 2012. With the 200-metre mine shaft deepening and commissioning completed, underground development of the new mining levels is in progress. Accessing the higher grade zone extensions in 2012 will be integral to improving Sleeping Giant's operating results next year.

Sleeping Giant Mill

For the three months ended September 30, 2011, the mill processed 14,322 tonnes of ore, producing 2,976 ounces of gold at an average gold head grade of 6.68 grams per tonne, with a gold recovery of 96.7% and mill availability of 100.0% (2010 – 21,645 tonnes processed, producing 3,879 ounces at an average grade of 5.84 grams per tonne). For the nine months ended September 30, 2011, 57,661 tonnes of ore were processed, producing 11,496 ounces of gold at an average gold head grade of 6.43 grams per tonne, gold recovery of 96.4% and mill availability of 98.5% (2010 – 71,546 tonnes processed, producing 12,979 ounces at an average grade of 5.54 grams per tonne).

Sleeping Giant's cash costs¹ were US\$1,869 per ounce for the three months ended September 30, 2011 and US\$1,835 per ounce for the nine months ended September 30, 2011, compared to US\$1,660 per ounce and US\$1,527 per ounce for the three and nine months ended September 30, 2010, respectively. Production costs per tonne of ore milled were \$449 for the three months ended September 30, 2011 (2010 - \$312 per tonne) and \$424 per tonne of ore milled for the nine months ended September 30, 2011 (2010 - \$326 per tonne).

At September 30, 2011, the mill contained approximately 1,656 ounces of gold that was included in inventory and valued at net realizable value, as it had not been sold by the end of the period.

The Sleeping Giant mill has a rated capacity of 900 tonnes per day and was operating at approximately 715 tonnes per operating day, for the three months ended September 30, 2011 and 789 tonnes per operating day for the nine months ended September 30, 2011.

The expansion of Sleeping Giant's mill to either 1,250 or 1,750 tonnes per day has been deferred to 2012 to give the Company the flexibility to do a one-step increase depending on the Company's other gold projects development timelines. In 2011, the Company will spend approximately \$2.0 million on the expansion, which includes the detailed engineering work, the geotechnical tests, building and foundation designs, receiving the required construction permits, materials procurement, and refurbishing the rod mill and jaw crusher.

EXPLORATION UPDATE

NAP's future growth will come from its significant exploration upside and through the continued exploration and development of the Company's projects. With permits, mine infrastructure and excess capacity at both of its mills, NAP can move from exploration success to production on an accelerated timeline.

LDI Mine & Property

Exploration is central to LDI's future and will represent an important part of future growth for the mine and for the Company. Situated in unique geology, LDI's substantial +33,000-acre land package offers exploration upside that is further complimented by the underutilized, large 15,000-tonnes per day mill. Beyond the mine site, most of the land has had minimal historic exploration. The exploration success achieved during the past few years gives management great encouragement that there is strong potential to continue to grow the Company's palladium reserve and resource base through exploration.



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The LDI mine consists of the following underground zones:

- Roby Zone: currently being mined.
- Offset Zone: discovered in 2001, located below and approximately 250 metres south west of the Roby Zone. The Offset Zone remains open in all directions and continues to expand through exploration. LDI mine expansion is currently underway to access Offset Zone ore.
- Cowboy Zone*: discovered in 2009 during infill drilling of the Offset Zone, located 30 to 60 metres to the west of the Offset Zone. This new discovery has the potential to extend LDI's mine life and could potentially impact the economics of the mine.
- Outlaw Zone*: discovered in 2009, located to the west of the Offset Zone and the Cowboy Zone. Further drilling is required to explore the vertical and lateral limit of this mineralization.
- Sheriff Zone*: discovered in 2010, located approximately 100 metres south east of the Offset Zone.

The current LDI mine plan does not include the three nearby underground zones: Cowboy, Outlaw and Sheriff.

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

During the third quarter on September 14, 2011, the Company released the second tranche of drilling results from its 2011 exploration program.

Highlights included:

- Positive infill drill results in the Offset Zone, including 26 metres at 6.0 grams per tonne palladium ("g/t Pd") in the upper part of the zone;
- Surface drilling on the Offset Zone intersected significant mineralization close to the deepest limit of the current resource wireframe, supporting further exploration potential; and
- Exploration drilling following the possible extension of the upper north Roby Zone encountered palladium mineralization to be followed up with additional drilling.

During the third quarter, the 2011 drill program budget was increased from 52,000 metres to 78,000 metres. The exploration program at LDI is aimed at expanding the size of the Offset Zone, increasing the knowledge of the Offset Zone mineralization to facilitate more efficient mine planning, and identifying potential surface deposits. Since the start of 2011 until September 14, 2011 (the date of the palladium exploration update press release), a total of 28,000 metres (129 holes) have been drilled from the underground and 40,000 metres (53 holes) from surface, for a total of 68,000 metres (182 holes). Due to logging and assaying delays, only approximately 70% of the assays were available at the time of the update.

As previously disclosed, NAP is investigating the upper north and south resource extensions of the Roby Zone, which have the potential to provide an additional source of production ore in 2012. During the third quarter the Company completed its definition drilling program on the upper north Roby Zone extension (to allow development planning to begin for this area of the Roby Zone resource), and has recently completed the access development extension drift in the upper south Roby Zone resource to conduct definition drilling during the fourth quarter.

Legris Lake Property

The property Legris Lake is adjacent to the south east portion of the Company's LDI property and is comprised of 15 claims and covering an area of approximately 4,297 hectares. The property is underlain by mafic and ultramafic rocks and was optioned for its PGE potential. The property is at a preliminary exploration stage, however its PGM potential and close proximity to the LDI mill presents an exciting exploration target. In 2011, the Company plans to conduct 3,000 metres of drilling at this property.



Sleeping Giant Gold Mine & Property

The Company believes there is additional exploration potential at the Sleeping Giant mine as well as on the surrounding property, which is located approximately 80 kilometres north of Amos, Quebec, a major regional centre in the Abitibi District.

Since the beginning of 2011 until July 12, 2011 (the date of the most recent gold exploration update press release), 88 drill holes were completed at Sleeping Giant, totaling 24,477 metres. The primary objective of the 2011 exploration program at Sleeping Giant is to define and extend zones within the current mine on the proposed three new mining levels at depth to allow future mine development planning. Of the 88 holes that were drilled, 74 holes targeted the three new levels (between mine elevations 975 and 1,175) and 13 holes at depth below these levels. The update indicated that Sleeping Giant's gold zones continue to extend at depth below the proposed three new mine levels and announced the discovery of new zones in the lower part of the mine, along with a number of other significant gold intersections.

Veza Gold Property

Veza is an advanced-stage project located in the prolific Abitibi region in Quebec, approximately 85 kilometres by paved road from the Sleeping Giant mine, and approximately 25 kilometres to the south of the town of Matagami. The deposit was historically subject to extensive surface and underground exploration (approximately 85,000 metres of drilling) and substantial underground development. During 2011, the Company continues to advance Veza through exploration and development towards a production decision by year-end. Given the project's quick ramp up potential, production could commence in the first quarter of 2012 in the range of 39,000 ounces of gold per year over a 9-year mine life.

The production projection for Veza is based upon internal technical and scientific information and mineral resources that are considered too speculative geologically to have an economic consideration applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the production projection will be materialized.

From the beginning of the year until July 12, 2011 (the date of the gold exploration update press release), 36 surface holes were completed at Veza (totaling 5,367 metres) and 61 holes from underground (totaling 5,867 metres) for a combined total of 11,234 metres in 97 holes.

Exploration drilling confirmed grades, continuity and widths of the gold zone, which are similar or better than the last resource estimate (dated December 31, 2010). The widths and near vertical nature of the gold zone also confirmed that either alimak or long hole mining methods could be used at the Veza mine.

Recent development highlights include:

- Advanced permitting (obtained Certificate of Authorization for 40,000-tonne bulk sample, and milling permit applied for and expected in the fourth quarter);
- Secured contract with Promec Mining Inc., a local Val d'Or mining contractor, to provide the mining workforce at Veza (total workforce including contractors is expected to be in the range of 150 people);
- Progressed lateral development on levels 100, 200, 300, 450 and 550 and 650;
- Completed excavation related to the ventilation raise and ore pass raise;
- Completed 6,418 metres of underground diamond drilling in the third quarter (year to date, 6,258 metres were drilled from surface, and 12,285 metres from underground);
- Completed an engineering study on the crown pillars and commenced the update of the Sleeping Giant mill tailings storage facilities expansion; and
- Commenced studies on backfill requirements and initiated the design of a cement slurry plant.

During the third quarter, \$8.3 million was spent in development expenditures at Veza and \$20.9 million was spent year to date 2011. The capital budget to advance Veza to be ready for production in 2012 is estimated at \$34 million. Management expects that the total spend will be reduced by estimated pre-production revenue of \$9 million from the bulk sample.



Flordin Property

The Flordin project is located approximately 30 kilometres north of the town of Lebel-sur-Quévillon, and approximately 70 kilometres away from the Sleeping Giant mill. The Company conducted a significant drilling program in 2010, consisting of 212 holes totaling 25,720 metres, which revealed the presence of several parallel gold veins near surface. The Company believes that the Flordin gold project has the potential to provide additional feed for the Sleeping Giant mill and is currently evaluating open pit or a combination of open pit and underground operation scenarios.

An updated estimate of mineral resources was released on July 12, 2011 and indicates an increase in the Measured and Indicated categories of the resource estimates due to increased density of drilling. The updated resource estimate was based on 329 drill holes totaling 38,331 metres and a resource update including an additional 157 drill holes drilled will be included in a future update. Measured and Indicated resources now total 2.8 million tonnes, containing 162,035 ounces of gold, and Inferred resources total 1.9 million tonnes, containing 97,651 ounces of gold.

The Company hired an independent consulting firm to conduct ore sorting tests on Flordin's mineralized zones and waste rocks to evaluate potential pre-concentration of ore before trucking it to the Sleeping Giant mill. Preliminary results indicate that pre-concentration can reject in the order of 50% low-grade rock in run-of-mine material, reducing transport costs and increasing head grade. This technology could increase the mill feed head grade and offer significant cost savings with important implications for overall gold production costs in an eventual mining operation. A second phase of ore sorting test work involved two different sorting techniques to evaluate efficiency: optical and x-ray. The x-ray technique, which proved to offer more advantages, is currently being considered by NAP.

In 2011, the Company is conducting a 4,500 metre drill program.

Discovery Property

Discovery is an advanced-stage gold exploration project located approximately 35 kilometres northwest of the town of Lebel-sur-Quévillon, and approximately 70 kilometres from the Sleeping Giant mine and mill. The Discovery project is contiguous to the Flordin project. A 2008 scoping study confirmed the project to be economically feasible and generate positive cash flow under certain assumptions, with potential to produce 44,000 ounces of gold per year for four years. During 2011, the Company intends to update the scoping study with current costs and revised estimates of future gold prices.

Recent drilling was aimed at extending the 1200E zone, which was not considered in the 2008 Scoping Study, which considered the west gold zones only. Drilling the eastern extension of the 1200E zone has revealed new gold zones at depth and followed known zones deeper, eastward and westward. An updated estimate of resources will be prepared once all data has been received and integrated into a geological model, expected in the Company's next annual mineral reserve and resource update targeted for early second quarter of 2012.

During the quarter the Company also received the Certificate of Authorization from the Quebec's Ministry of Sustainable Development, Environment and Parks to conduct underground exploration as planned in the 2008 Scoping Study.

In 2011, the Company plans to conduct 8,000 metres of drilling on the project, targeting the extension of the 1200E Zone, and to advance permitting.

Dormex Property

Dormex is an early-stage gold exploration project located adjacent to the Sleeping Giant mine and mill and is believed to have potential gold targets similar to Sleeping Giant. The 2010 exploration program was comprised of 4,206 metres of drilling and included a major reverse circulation drill program to better delineate overburden gold anomalies, as well as ground and airborne geophysics. Following a large-scale IP survey conducted in late 2010, a series of promising targets were identified and the results from the 2010 program confirmed the presence of gold in the tills.

In 2011, the Company plans to conduct 2,400 metres of drilling, IP surveys and RC drilling. The Company recently commenced surface drilling and geophysical anomalies to follow-up on gold anomalies discovered in the 2010 reverse circulation program, and to test new geophysical targets.



Cameron Shear and Florence Properties

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

Laflamme Gold Property

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

On June 15, 2011, Midland Exploration Inc. ("Midland") announced the discovery of a new mineralized zone with nickel, copper and platinum group elements. Midland also recently announced that a helicopter-borne electromagnetic VTEM survey was recently completed, and that ground-based geophysical electromagnetic (TDEM) and induced polarization (IP) surveys are scheduled to begin shortly on the Laflamme Property. In 2011, the Company plans to conduct 2,400 metres of drilling and ground geophysics.

Shebandowan Property

The Company holds a 50% interest in the former producing Shebandowan mine and the surrounding Haines and Conacher properties pursuant to an Option and Joint Venture Agreement with Vale Inco Limited ("Vale"). The properties, known as the Shebandowan property, contain a series of nickel copper-PGM mineralized bodies. The land package, which totals approximately 7,842 hectares, is located 90 kilometres west of Thunder Bay, Ontario, and approximately 100 kilometres southwest from the Company's LDI mine. Vale retains an option to increase its interest from 50% to 60%, exercisable in the event that a feasibility study on the property results in a mineral reserve and mineral resource estimate of the equivalent of 200 million pounds of nickel and other metals.

In 2010, the Company and Vale conducted a large ground geophysical survey on the property. Preliminary results support further exploration work on the property.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

a. Use of estimates

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



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

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

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortization charged in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change;
- Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in the units of production basis of depreciation and amortization;
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

b. Impairment assessments of long-lived assets

The carrying amounts of the Company's non-financial assets, other than investment property, 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 Income (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" and its "fair value less costs to sell". 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 Income (Loss) if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

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



c. Depreciation and amortization of mining interests

Mining interests relating to plant and equipment, mining leases and claims, royalty interests, and other development costs are recorded at cost with depreciation and amortization provided on the unit-of-production method over the estimated remaining ounces of palladium (LDI) and gold (NAP Quebec) to be produced based on the proven and probable reserves.

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 value beyond proven and probable reserves (“VBPP”) and land are not amortized.

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

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

d. Revenue recognition

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

Revenue from the sale of palladium and by-product metals from the LDI mine is provisionally recognized net of royalties 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 is recorded net of estimated treatment and refining costs, which are subject to final assay adjustments. Subsequent adjustments to provisional pricing amounts due to changes in metal prices and foreign exchange, are reflected separately from initial revenues on the consolidated statements of operations and comprehensive loss.

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

e. Asset retirement obligations

In accordance with Company policies, asset retirement obligations relating to legal and constructive obligations for future site reclamation and closure of the Company’s mine sites are recognized when incurred and a liability and corresponding asset are recorded at fair value. 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



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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 to reflect the unwinding of the discount. The accretion charges are recognized as a finance cost in the Consolidated Statements of Operations and Comprehensive Income (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 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.

ACCOUNTING STANDARDS

Impact of International Financial Reporting Standards (“IFRS”)

Accounting Policies

During the conversion project, the Company compared and evaluated the impact of IFRS standards on its operations in comparison to those standards previously applied under Canadian GAAP. The Company completed its final review of the applicability of IFRS 1 elections and adopted IFRS in the first quarter of 2011, the first filing under IFRS.

The following discussion outlines details of certain accounting policies the Company has applied which have been reflected in the Company’s IFRS consolidated opening balance sheet for the January 1, 2010 date of transition to IFRS and subsequent periods. A detailed discussion of accounting policies applied under IFRS is included in Note 3 and the quantitative impact of adopting IFRS is further discussed in Note 19 of the condensed interim consolidated financial statements for September 30, 2011.

Functional Currency

Based upon the application of IAS 21 (The Effects of Changes in Foreign Exchange Rates), the Company has determined that the Canadian dollar appropriately represents both its functional and reporting currency for the purposes of reporting under IFRS. This methodology is consistent with Canadian GAAP applied previously and did not result in additional translation adjustments.

Mining Interests and Depreciation and Amortization

Although certain aspects of the standards under Canadian GAAP are converged with IFRS, differences still exist primarily with regards to the determination of impairment of assets under IAS 36. Under IFRS, the Company is required to identify cash generating units (“CGU’s”) independently for each of its consolidated entities. These CGU’s represent the smallest group of assets which are capable of generating cash independently from other assets held by the Company.

In determining whether impairment exists under Canadian GAAP, the Company performs a two-step approach that compares the net book value of assets to the undiscounted and discounted expected future cash flows from operations. Under IFRS, a one-step approach is used by which the determination of impairments require the comparison of the net book value of each of the CGU’s to the recoverable amount of the CGU. The recoverable amount is determined as the higher of the fair value of the expected future cash flows from that CGU, less costs to sell (“Fair Value Less Cost to Sell”) and the “Value in Use”.

Under Canadian GAAP, any impairment assessed is not reversed. Under IFRS, impairments assessed must be reversed in subsequent periods should economic conditions recover.

In accordance with IFRS 1, the Company may elect to measure certain property, plant and equipment at the date of transition to IFRSs at fair value and deem that fair value to be the cost of those assets at that date. The fair value of property, plant and equipment may be based on a previous GAAP revaluation at, or before, the date of transition to IFRS.



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Under Canadian GAAP, the carrying value of the mineral properties and fixed assets at LDI were previously impaired and were written down to fair value at December 31, 2008. In addition, the Sleeping Giant mine was acquired in 2009 and was included on the books at fair value on the date of acquisition. The Company has elected to use the Canadian GAAP impaired and acquisition amounts as the deemed cost for the mineral properties and fixed assets for each mine respectively. Therefore, no adjustment existed on transition to IFRS on January 1, 2010 as no further impairments were identified subsequent to the fair value dates for each property.

Financial Instruments

Although the allocation of fair values between the debt and equity components of compound financial instruments issued by the Company is performed differently under IAS 32, Financial Instruments Presentation, from the pro-rata method applied under Canadian GAAP, the measurement of the fair values of such instruments does not differ materially.

The Company has elected to apply the IFRS 1 exemption relating to compound financial instruments. Therefore, transition variances relating to debt instruments fully repaid prior to the January 1, 2010 transition date have not been recognized. As a result, only outstanding debt instruments and compound instruments denominated in foreign currencies would require retrospective restatement to comply with the standards within IAS 32 at the time of transition to IFRS on January 1, 2010.

The adoption of IAS 32 resulted in material reallocations of balances within the Company's debt and equity accounts. The impact of the adoption of IAS 32 was limited primarily to the foreign-denominated convertible notes and related embedded derivatives issued by the Company in 2006.

Management is presently reviewing proposed amendments to IFRS standards relating to financial instruments which may further impact the adjustments required for conversion to IFRS. Therefore, the Company's determination of the financial impact of the final transition adjustments may be impacted by future amendments to IFRS standards.

Share-Based Payment Transactions

Under Canadian GAAP, stock compensation expense can be calculated on a straight-line depreciation method over the respective vesting period for each stock option. In accordance with IFRS 2, stock compensation expense is recognized on a graduated method over the vesting period and a provision is generally applied against the recognized expense based on the historical rate of non-vesting of options.

Under Canadian GAAP, the fair value assigned to the liability of outstanding RSU's is the value of the Company's share price at each reporting date. Under IFRS, the fair value of the RSU liability at each reporting date is calculated by applying an option pricing model. Management has utilized the Black-Scholes model to determine the option value contained in each RSU.

The Company's election under IFRS 1 relating to share-based payments has restricted the adjustments relating to the measurement of such equity instruments to only those instruments granted after November 7, 2002 and which have not vested at the date of transition of January 1, 2010.

Mine Reclamation Obligations

The measurement of decommissioning liabilities and related balances included in the cost of property, plant and equipment in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets differs from that applied by the Company under Canadian GAAP. An election by the Company under IFRS 1 has resulted in the initial measurement of these amounts as at January 1, 2010 with prospective application of IFRS standards subsequent to that date.



Flow-Through Shares

Under Canadian GAAP, the accounting treatment of flow-through shares is addressed by Emerging Issues Committee (“EIC”) 146, Flow-Through Shares. Under IFRS, IAS 12, Income Taxes, contains no specific guidance on the appropriate accounting for flow-through shares. Therefore, entities are required to apply judgment in developing an appropriate model accounting policy based on the principles of IFRS standards.

SIC Interpretation 25, Income Taxes – Changes in the Tax Status of an Entity or its Shareholders, provides some additional guidance in that it requires that the current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit to the recognized amount of equity. The portion of tax liabilities or assets related to such recognized equity amounts which is not included in profit or loss must be charged or credited directly to equity.

Under Canadian GAAP, proceeds received from the issue of flow-through shares are included in the value of the Company’s common share capital. The subsequent renunciation of tax deductions by the Company results in the recognition of a future tax liability and an equivalent charge is applied to reduce common share capital.

Under IFRS, on the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the closing market price of the Company’s common shares is allocated to liabilities. As the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and deferred income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized through profit or loss as other income.

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction against which a valuation allowance has been provided, the Company reduces its valuation allowance to offset the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through profit or loss in the reporting period.

Revenue Recognition

Revenue from the sale of palladium and by-product metals from the LDI mine is provisionally recognized net of royalties 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. Revenue from the sale of gold-silver doré bars from Sleeping Giant is recognized when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reasonably estimated.

Since each of the above methods of revenue recognition are supported by IAS 18, and the Company recognizes revenues separately for each of the metals contained in the concentrate and doré bars, management’s initial review of IAS 18 (Revenue) did not identify any significant issues which would require a material change to the Company’s existing revenue recognition policies at the IFRS transition date.

Income Taxes

Similar to Canadian GAAP, deferred tax assets and liabilities are recognized under IFRS based on temporary timing differences between the carrying value of assets and liabilities for accounting purposes and the respective value assigned to those assets and liabilities for tax purposes. As a result, the Company has recognized the corresponding increase or decrease in its reported deferred tax asset or liability balances at the January 1, 2010 IFRS transition date and subsequent reporting periods based on the resultant differences between the restated carrying value of assets and liabilities under IFRS and their associated tax bases.



Internal Controls over Financial Reporting & Disclosure Controls and Procedures

Management has continually evaluated the impact of the adoption of IFRS on the reporting and disclosure processes of the Company. Throughout the conversion project, management has made those modifications to its data analysis, information systems, and reporting processes that were required to incorporate the collection of information necessary under IFRS.

As a result of the convergence of Canadian GAAP with IFRS standards, the Company has not presently incorporated any material changes to its ICFR or DC&P during the course of its conversion project. Most changes to the Company's internal controls were already incorporated incrementally over time as a result of the Company's adoption of the converged standards.

In conjunction with the analysis of the Company's January 1, 2010 opening balances under IFRS, management has implemented changes to certain of its internal reports and data analysis to facilitate the appropriate collection of data for IFRS reporting purposes. The changes were implemented in parallel to existing reporting and appropriately reconciled to previously reported totals to ensure the completeness and accuracy of the revised reports and analyses. Since these changes represented only a component part of the reporting process, no material changes to the Company's internal controls have been specifically required as a result of these modifications.

Business Activities

The conversion to IFRS may result in certain consequences which are dependent upon how certain business activities are approached, monitored, or concluded by the Company. Consideration of such issues as foreign currency, hedging activities, debt covenants, compensation arrangements, and risk management practices may be required.

Whereas foreign currency considerations, compensation arrangements, and risk management issues are addressed by the Company on a regular basis, at January 1, 2010, the Company did not have any outstanding debt, with the exception of certain capital leases, and no hedging activities or contracts existed. Management will continue to monitor the impact of IFRS upon its current and future business activities.

Information Systems

In order to facilitate the compilation of information required for IFRS reporting and disclosures, management has made appropriate modifications to its information gathering and analysis procedures. However, no material changes to the Company's existing accounting systems or related internal controls have been required. Those changes which have been implemented generally required minor changes to reports or data analysis to ensure that additional information required for disclosures under IFRS that were not currently collected under Canadian GAAP, were appropriately tracked for IFRS reporting purposes.

RISKS AND UNCERTAINTIES

The risks and uncertainties are discussed within the Company's most recent Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities.

INTERNAL CONTROLS

Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over the financial reporting that occurred during the most recent period ended September 30, 2011 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting. Additional disclosure regarding internal controls is provided within the discussion of the impact of IFRS earlier in this MD&A.



OTHER INFORMATION

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

NON-IFRS MEASURES

This MD&A refers to cash used in operating activities per share and cash cost¹ per ounce which are not recognized measures under Canadian GAAP. Such Non-IFRS financial measures do not have any standardized meaning prescribed by Canadian GAAP 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 Canadian GAAP. The following tables reconcile these non-IFRS measures to the most directly comparable Canadian GAAP measures:

Reconciliation of Cash Used in Operations per Share*

(expressed in thousands of dollars except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010*	2011	2010*
Cash provided by (used in) operations prior to changes in non-cash working capital	\$ 3,061	\$ 6,092	\$ 7,850	\$ (11,792)
Weighted average number of shares outstanding – basic	162,585,679	147,537,429	161,739,687	138,814,869
Cash provided by (used in) operations prior to changes in non-cash working capital per share	\$ 0.02	\$ 0.04	\$ 0.05	\$ (0.08)

* Certain prior period amounts have been reclassified to conform to the classification adopted in the current period.

Cash Costs

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



North American Palladium Ltd.

(a) Reconciliation of Palladium Cash Cost per Ounce

(expressed in thousands of dollars except per ounce amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Production costs including overhead	\$ 22,497	\$ 13,700	\$ 63,667	\$ 23,831
Smelting, refining and freight costs	2,425	1,940	5,970	3,103
Royalty expense	1,106	1,439	4,131	2,184
Total operating expenses	26,028	17,079	73,768	29,118
Divided by ounces of palladium sold	34,524	38,122	111,341	62,211
Cash cost per ounce (CDN\$)	\$ 754	\$ 448	\$ 663	\$ 468
Exchange rate (CDN\$1 – US\$)	1.02	0.96	1.02	0.97
Cash cost per ounce before by-product credits (US\$)	\$ 769	\$ 430	\$ 676	\$ 454
Total operating expenses	26,028	17,079	73,768	29,118
Less by-product metal revenue	9,266	8,405	26,267	12,894
	\$ 16,762	\$ 8,674	\$ 47,501	\$ 16,224
Divided by ounces of palladium sold	34,524	38,122	111,341	62,211
Cash cost per ounce (CDN\$)	\$ 486	\$ 228	\$ 427	\$ 261
Exchange rate (CDN\$1 – US\$)	1.02	0.96	1.02	0.97
Cash cost per ounce (US\$), net of by-product credits	\$ 496	\$ 219	\$ 436	\$ 253

(b) Reconciliation of Gold Cash Cost per Ounce

(expressed in thousands of dollars except per ounce amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Production costs including overhead	\$ 6,431	\$ 6,752	\$ 24,471	\$ 23,319
Refining and freight costs	7	13	37	44
Total operating expenses	6,438	6,765	24,508	23,363
Less by-product metal revenue	499	294	845	473
	\$ 5,939	\$ 6,471	\$ 23,663	\$ 22,890
Divided by ounces of gold sold	3,241	3,742	13,151	14,542
Cash cost per ounce (CDN\$)	\$ 1,832	\$ 1,729	\$ 1,799	\$ 1,574
Exchange rate (CDN\$1 – US\$)	1.02	0.96	1.02	0.97
Cash cost per ounce (US\$)	\$ 1,869	\$ 1,660	\$ 1,835	\$ 1,527



North American Palladium Ltd.

(c) Adjusted net income (loss)

Adjusted net income (loss) is a Non-IFRS financial measure, which excludes the following from net income (loss):

- Exploration;
- Mine startup costs;
- Mine shutdown costs;
- Asset impairment charges;
- Loss (gain) on disposal of equipment; and
- Insurance recoveries.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Net income (loss) and comprehensive income (loss) for the year	\$ (2,816)	\$ 2,804	\$ (7,757)	\$ (27,396)
Exploration	1,956	7,008	11,929	17,594
Mine startup costs	-	-	-	6,003
(Gain) loss on disposal of equipment	(891)	86	(1,133)	103
Adjusted net income (loss)	\$ (1,751)	\$ 9,898	\$ 3,039	\$ (3,696)

(d) Adjusted EBITDA

Adjusted EBITDA is a Non-IFRS financial measure, which excludes the following from net income (loss):

- Income and mining tax expense (recovery);
- Interest and other financing costs (income);
- Depreciation and amortization;
- Exploration;
- Mine startup costs;
- Mine shutdown costs;
- Loss (gain) on disposal of equipment; and
- Insurance recoveries.

Management believes that EBITDA is a valuable indicator of the Company's ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations, and fund capital expenditures.

EBITDA excludes the impact of cash costs 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.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Net income (loss) and comprehensive income (loss) for the year	\$ (2,816)	\$ 2,804	\$ (7,757)	\$ (27,396)
Income and mining tax expense (recovery)	630	(866)	3,663	1,329
Interest and other financing income	(288)	(26)	(1,737)	(2,043)
Depreciation and amortization	4,201	3,520	13,306	11,744
EBITDA	1,727	5,432	7,475	(16,366)
Exploration	1,956	7,008	11,929	17,594
Mine startup costs	-	-	-	6,003
(Gain) loss on disposal of equipment	(891)	86	(1,133)	103
Adjusted EBITDA	\$ 2,792	\$ 12,526	\$ 18,271	\$ 7,334



Condensed Interim Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

(unaudited)

	Notes	September 30 2011	December 31 2010	January 1 2010
ASSETS				
Current Assets				
Cash		\$ 37,479	\$ 75,159	\$ 98,255
Accounts receivable	4	68,956	80,683	-
Taxes receivable		1,137	734	204
Inventories	5	20,493	27,487	25,306
Other assets	6	6,462	27,551	2,495
Total Current Assets		134,527	211,614	126,260
Non-current Assets				
Mining interests	7	253,668	126,286	85,014
Reclamation deposit	8	2,100	10,537	10,503
Total Non-current Assets		255,768	136,823	95,517
Total Assets		\$ 390,295	\$ 348,437	\$ 221,777
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	9	\$ 36,505	\$ 39,859	\$ 12,442
Current portion of obligations under finance leases		1,359	1,196	558
Provisions	10	1,000	1,000	1,000
Other financial liabilities		-	-	56
Total Current Liabilities		38,864	42,055	14,056
Non-current Liabilities				
Taxes payable		1,459	936	1,573
Asset retirement obligations	8	19,858	12,594	13,602
Obligations under finance leases		692	1,195	576
Deferred mining tax liability		3,426	1,207	832
Total Non-current Liabilities		25,435	15,932	16,583
Shareholders' Equity				
Common share capital and purchase warrants	11	744,102	702,787	574,878
Stock options and related surplus		7,570	5,596	4,242
Contributed surplus		5,551	5,537	6,079
Deficit		(431,227)	(423,470)	(394,061)
Total Shareholders' Equity		325,996	290,450	191,138
Total Liabilities and Shareholders' Equity		\$ 390,295	\$ 348,437	\$ 221,777

Subsequent events – Note 20

See accompanying notes to the condensed interim consolidated financial statements



Condensed Interim Consolidated Statements of Operations and Comprehensive Income (loss)

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

	Notes	Three months ended September 30 2011	2010	Nine months ended September 30 2011	2010
Revenue	14	\$ 38,310	\$ 38,451	\$ 126,422	\$ 67,596
Operating expenses					
Production costs		28,928	20,452	88,138	53,153
Smelting, refining and freight costs		2,432	1,953	6,007	3,147
Royalty expense		1,106	1,439	4,131	2,184
Depreciation and amortization		4,201	3,520	13,306	11,744
Inventory pricing adjustment	5	-	(388)	-	-
Loss (gain) on disposal of equipment		(891)	86	(1,133)	103
Total operating expenses		35,776	27,062	110,449	70,331
Income (loss) from mining operations		2,534	11,389	15,973	(2,735)
Other expenses					
Exploration		1,956	7,008	11,929	17,594
General and administration		2,938	2,470	9,478	7,789
Interest and other costs (income)	15	(288)	(26)	(1,737)	(2,043)
Foreign exchange loss (gain)		114	(1)	397	(8)
Total other expenses		4,720	9,451	20,067	23,332
Income (loss) before taxes		(2,186)	1,938	(4,094)	(26,067)
Income and mining tax recovery (expense)		(630)	866	(3,663)	(1,329)
Income (loss) and comprehensive income (loss) for the period		\$ (2,816)	\$ 2,804	\$ (7,757)	\$ (27,396)
Income (loss) per share					
Basic and diluted		\$ (0.02)	\$ 0.02	\$ (0.05)	\$ (0.20)
Weighted average number of shares outstanding					
Basic	11(f)	162,585,679	147,537,429	161,739,687	138,814,869
Diluted	11(f)	162,585,679	148,357,596	161,739,687	138,814,869

See accompanying notes to the condensed interim consolidated financial statements



Condensed Interim Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)
(unaudited)

	Notes	Three months ended September 30		Nine months ended September 30	
		2011	2010	2011	2010
Cash provided by (used in)					
Operations					
Net income (loss) for the period		\$ (2,816)	\$ 2,804	\$ (7,757)	\$ (27,396)
Operating items not involving cash					
Depreciation and amortization		4,201	3,520	13,306	11,744
Deferred income and mining tax expense (recovery)		1,555	(867)	376	2,134
Share-based compensation and employee benefits		884	450	2,674	1,367
Other		(763)	185	(749)	359
		3,061	6,092	7,850	(11,792)
Changes in non-cash working capital	17	12,822	(26,099)	36,801	(36,762)
		15,883	(20,007)	44,651	(48,554)
Financing Activities					
Issuance of common shares and warrants, net of issue costs		461	51	42,472	94,258
Repayment of obligations under capital leases		(356)	(729)	(1,350)	(1,454)
Interest paid on capital leases		(38)	(46)	(125)	(104)
Mine reclamation deposit		-	-	8,437	-
		67	(724)	49,434	92,700
Investing Activities					
Additions to mining interests		(50,561)	(14,589)	(133,068)	(29,222)
Proceeds on disposal of mining interests		851	404	1,303	435
		(49,710)	(14,185)	(131,765)	(28,787)
Increase (decrease) in cash		(33,760)	(34,916)	(37,680)	15,359
Cash, beginning of period		71,239	148,530	75,159	98,255
Cash, end of period		\$ 37,479	\$ 113,614	\$ 37,479	\$ 113,614

See accompanying notes to the condensed interim consolidated financial statements



North American Palladium Ltd.

Consolidated Statements of Shareholders' Equity

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

	Notes	Number of shares	Capital stock	Stock options	Warrants	Contributed surplus	Deficit	Total shareholders' equity
Balance, January 1, 2010	19	127,383,051	\$ 572,332	\$ 4,242	\$ 2,546	\$ 6,079	\$ (394,061)	\$ 191,138
Common shares issued/issuable:								
Related to 2010 unit offering, net of issue costs		20,000,000	\$ 89,804	-	\$ 4,423	-	-	94,227
Related to purchase of Vezza property		1,368,421	\$ 6,500					6,500
Warrants:								
Tax allocation on expiration of warrants		-	-	-	-	(542)	-	(542)
Stock based compensation:								
Stock options exercised	11(e)	24,750	67	(34)	-	-	-	33
Stock-based compensation expense		42,500	165	1,200	-	-	-	1,365
Net loss and comprehensive loss for the nine months ended September 30, 2010		-	-	-	-	-	(27,396)	(27,396)
Balance, September 30, 2010		148,818,722	\$ 668,868	\$ 5,408	\$ 6,969	\$ 5,537	\$ (421,457)	\$ 265,325
Balance, January 1, 2011		154,653,275	\$ 697,674	\$ 5,596	\$ 5,113	\$ 5,537	\$ (423,470)	\$ 290,450
Common shares issued/issuable:								
Private placement of flow-through shares	11(d)	2,667,000	20,592	-	-	-	-	20,592
Premium on flow-through shares		-	(1,840)	-	-	-	-	(1,840)
Warrants:								
Pursuant to 2009 unit offering	11(b)	5,009,986	21,292	-	-	-	-	21,292
Fair value of warrants exercised	11(b)	-	1,222	-	(1,239)	14	-	(3)
Stock based compensation:								
Stock options exercised	11(e)	152,919	660	(72)	-	-	-	588
Stock-based compensation expense	11(c)	124,188	628	2,046	-	-	-	2,674
Net loss and comprehensive loss for the nine months ended September 30, 2011		-	-	-	-	-	(7,757)	(7,757)
Balance, September 30, 2011		162,607,368	\$ 740,228	\$ 7,570	\$ 3,874	\$ 5,551	\$ (431,227)	\$ 325,996

See accompanying notes to the condensed interim consolidated financial statements



Notes to the Consolidated Financial Statements

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

(unaudited)

1. NATURE OF OPERATIONS

North American Palladium Ltd. (“NAP” or “the Company”) is domiciled in Canada and was incorporated on September 12, 1991 under the Canadian Business Corporations Act. The Company is a diversified precious metals company focused on growing its production of palladium and gold in a mining-friendly jurisdiction. NAP owns two producing mines and various mineral properties near its mine sites where both mills have excess capacity available for production growth. The Company’s 100%-owned subsidiaries are Lac des Iles Mines Ltd. (“LDI Mines”) and NAP Quebec Mines Ltd. (“NAP Quebec”).

NAP’s flagship operation is the Lac des Iles (“LDI”) mine, one of the world’s two primary palladium producers. Located approximately 85 kilometres northwest of Thunder Bay, Ontario, LDI 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 a high volume bulk mining method. The mine expansion is expected to result in increased palladium production.

The Company is incurring additional exploration expenditures on other palladium opportunities at LDI that could increase future production, including the Cowboy, Outlaw and Sheriff zones that are adjacent to the underground operations.

The Company’s other operating mine is the Sleeping Giant gold mine located in the Abitibi region of Quebec, north of Val d’Or. Sleeping Giant was acquired in 2009 and reached commercial production on January 1, 2010. The Company is also currently advancing its Veza gold project, also located in the Abitibi region. Veza was acquired in 2010 and the Company expects to make a production decision on the project at the end of 2011. The Company’s other Québec-based properties consist of Discovery, Flordin, Cameron Shear, Florence, Laflamme, Dormex and Harricana.

The interim consolidated financial statements for the Company as at September 30, 2011 and for the three and nine month periods ended September 30, 2011, include the Company and its subsidiaries (collectively referred to as “the Company”).

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In the consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.



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These interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") and IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The Company's first annual consolidated financial statements under IFRS will be presented for the year ending December 31, 2011. The accounting policies adopted in these interim financial statements are consistent with the accounting policies the Company expects to adopt in its IFRS consolidated financial statements for the year ending December 31, 2011, and are based on IFRS as issued by the International Accounting Standards Board ("IASB") that the Company expects to be applicable at that time. There have been no changes from the accounting policies applied in the March 31, 2011 and June 30, 2011 interim financial statements. Note 19 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 2, 2011, the date the Board of Directors approved the interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 19 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

Basis of Measurement

The 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) Cash and cash equivalents are measured at fair value.
- (ii) Accounts receivable and related derivative instruments are measured at fair value.
- (iii) Financial instruments at fair value through profit or loss are measured at fair value.
- (iv) Investments relating to mine reclamation deposits are measured at fair value.
- (v) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

Functional and Presentation Currency

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

Use of Estimates and Judgments

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



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Certain assumptions are dependent upon reserves, which represent the estimated amount of ore that can be economically and legally extracted from the Company's properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity demand, 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.

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

- Note 4 – Accounts receivable
- Note 8 – Asset retirement obligations
- Note 11 – Shareholders' equity
- Note 14 – Revenue from metal sales

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

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

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

- Note 7 – Mining interests
- Note 10 – Provisions
- Note 16 – Contingencies

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by all Company's entities for all periods presented in these interim consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

Basis of Consolidation

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

(a) Business combinations

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



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

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

(b) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the interim consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the accounting policies of the Company.

(c) Transactions eliminated on consolidation

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

Foreign Currency Translations

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

Financial Instruments

(a) Non-derivative financial assets

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

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

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

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

Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method, less any impairment losses. The Company's held-to-maturity financial assets consist of debentures receivable from subsidiaries. The effect of these transactions have been eliminated on consolidation. The Company's loan and receivables are included in other assets (refer to note 6). Cash and cash equivalents are stated at fair value and include cash on account less outstanding cheques, demand deposits and short-term guaranteed investments with original maturities of three months or less.



(b) Non-derivative financial liabilities

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

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

The Company has the following non-derivative financial liabilities: debentures payable, loans and borrowings, bank overdrafts, credit facilities, and trade and other payables.

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

(c) Derivative financial instruments

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

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

Separable embedded derivatives

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

Other non-trading derivatives

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

Inventories

Concentrate, crushed and broken ore stockpiles, and gold inventory are valued at the lower of average production cost (including an allocation of the depreciation of production related assets) and net realizable value. Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing. The amount of stockpiled ore that is not expected to be processed within one year, if any, is shown as a long-term asset. Gold inventory is comprised of unprocessed ore either in stockpiles or bins, unrecovered gold in either carbon or solution within the milling circuit, and gold-silver doré bars produced but not sold as at the reporting date. Supplies inventory is valued at the lower of average cost and net realizable value.



Mining Interests

(a) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. The Company capitalizes interest on major projects where direct indebtedness has occurred.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(b) Value Beyond Proven and Probable Reserves (“VBPP”)

On acquisition of a mineral property, the Company prepares an estimate of the fair value of the resources and exploration potential of that property and records this amount as an asset (“VBPP”) as at the date of acquisition. The acquisition cost classified as VBPP are not amortized.

On an annual basis, estimates of proven and probable mineral reserves for each mineral property acquired are prepared. The change in reserves, net of production costs is, among other things, used to determine the amount to be converted from VBPP to proven and probable reserves subject to amortization.



(c) Subsequent costs

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

(d) Depreciation and amortization

Mining interests relating to plant and equipment, mining leases and claims, royalty interests, and other development costs are recorded at cost with depreciation and amortization provided on the unit-of-production method over the estimated remaining ounces of palladium (LDI) and gold (NAP Quebec) to be produced based on the proven and probable reserves.

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 VBPP and 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) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if the carrying amount of these assets will be recovered principally through a sale transaction rather than through continued use. This condition will only be regarded as met if the sale transaction is highly probable and the asset (or disposal group) is available for sale in its present condition. For the sale to be highly probable, management must be committed to the plan to sell the asset (or disposal group) and the transaction should be expected to qualify for recognition as a completed sale within 12 months from date of classification.

Non-current assets (or disposal groups) held for sale are measured at the lower of their previous carrying amounts and their fair value less costs to sell.

Impairment

The carrying amounts of the Company's non-financial assets, other than investment property, 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" and its "fair value less costs to sell". 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.



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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.

Employee benefits

(a) Defined contribution plans

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

(b) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; the benefit is discounted to determine its present value, and the fair value of any related assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

Compensation Agreements

(a) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(b) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(c) Share-based payment transactions

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



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performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

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

Provisions

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

(a) Production Obligations

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

(b) Asset Retirement Obligations

In accordance with Company policies, asset retirement obligations relating to legal and constructive obligations for future site reclamation and closure of the Company's mine sites are recognized when incurred and a liability and corresponding asset are recorded at fair value. 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 to reflect the unwinding of the discount. 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.

(c) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.



Revenue and Accounts Receivable

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

Revenue from the sale of palladium and by-product metals from the LDI mine is provisionally recognized net of royalties 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 is recorded net of estimated treatment and refining costs which are subject to final assay adjustments. Subsequent adjustments to provisional pricing amounts due to changes in metal prices and foreign exchange are reflected separately from initial revenues on the consolidated statements of operations and comprehensive loss.

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

Interest and other costs

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

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

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

Income Taxes

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

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

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

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



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

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

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

Basic and Diluted Loss Per Share

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

Flow-Through Shares

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

Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized through profit or loss as other income.

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction against which a valuation allowance has been provided, the Company reduces its valuation allowance to offset the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through profit or loss in the reporting period.

Segment Reporting

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

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



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

Adoption of New Accounting Standards

In addition to the initial adoption of IFRSs in effect at the January 1, 2010 transition date and any amendments effective on or before January 1, 2011, the following new accounting standards have been adopted by the Company.

IFRS 1 – First-time adoption of International Financial Reporting Standards – (Amendment)

Limited exemption from comparative IFRS 7 disclosures for first time adopters

The amendment provides an exemption to first time adopters of IFRS, from providing the additional disclosures required in terms of the revision to IFRS 7 Financial Instruments: Disclosures. Disclosures in these interim consolidated financial statements have been prepared in accordance with Company's adoption of this standard.

IAS 24 Related party disclosures – (Amendment) – Revised definitions of related parties

The amendment provides a revised definition of related parties by simplifying the definition and removing inconsistencies. The amendment also provides a partial exemption for the disclosures relating to government-related entities. The revised standard is applied retrospectively for annual periods beginning on or after January 1, 2011. Therefore, all related party disclosures in these interim consolidated financial statements have been prepared in accordance with Company's adoption of this standard.

IAS 27 Consolidated and Separate Financial Statements – (Amendment)

Consequential amendments arising from amendments to IFRS 3

The amendments to this standard resulted in the following key changes:

- (i) Changes in a parent's ownership of a subsidiary after control has been obtained that do not result in a loss of control, are accounted for as equity transactions;
- (ii) Transactions involving the loss of control of a subsidiary will result in the holding company derecognizing the assets and liabilities and related equity components of the former subsidiary with any gain or loss being recognized in profit or loss. Any investment retained in the former subsidiary would then be measured at its fair value at the date of loss of control; and
- (iii) Losses applicable to non-controlling interests are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a negative balance.

Adoption of this standard did not have any impact on the interim consolidated financial statements of the Company. The amendments to the standard will be applied prospectively to any transaction that results in a change in the ownership interest of a subsidiary that takes place within the Company, on or after January 1, 2010.

IAS 32 Classification of Rights Issues

The amendment is effective for years beginning on or after February 1, 2010 and addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Prior to the amendment, such rights were accounted for as derivative liabilities. The amendment states that, if such rights are issued pro rate to an entity's existing shareholders for a fixed amount of any currency, they should be classified as equity, regardless of the currency in which the exercise price is denominated. Adoption of this standard did not have any impact on the interim consolidated financial statements of the Company.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The IFRIC clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. Adoption of this standard did not have any impact on the interim consolidated financial statements of the Company.



Improvements to IFRS Standards

The Improvements to IFRSs 2010 is the result of the IASB's annual improvements project. This project has involved the IASB accumulating, throughout 2010, those improvements believed to be non-urgent, but necessary, and processing the amendments collectively. Effective dates, early application and transitional provisions are dealt with on a standard by standard basis with the majority of the amendments effective for periods beginning on or after January 1, 2011, with early adoption permitted. The Company has adopted and reflected applicable amendments in these interim consolidated financial statements.

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective for the quarter ended September 30, 2011 or have otherwise not yet been adopted by the Company.

IFRS 7 Financial Instruments: Disclosures

These amendments enhance required disclosures in respect of risk exposures arising from the transfers of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

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, 2013.

The Company is in the process of assessing the impact of IFRS 9. However, management does not believe that the adoption of the amendment to IFRS 7 will have a material impact on the disclosures of financial assets.

IAS 1 Presentation of Financial Statements

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

IAS 12 Income Taxes

An amendment to standards relating to deferred tax accounting for investment property at fair value introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. This amendment is presently not expected to impact the interim or annual consolidated financial statements of the Company.

IAS 19 Employee Benefits

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



New Standards Addressing the Scope of a Reporting Entity

The following IFRS standards are introduced and IAS standards amended accordingly:

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosures of Interests in Other Entities

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

IAS 27 Consolidated and Separate Financial Statements

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

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

IFRS 13 Fair Value Measurement

The new standard provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The standard is effective for reporting years beginning on or after January 1, 2013.

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

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

IFRIC 20 is effective for reporting years beginning on or after January 1, 2013, although earlier application is permitted. The Company is assessing the impact, if any, the adoption of this standard may have on the interim or annual consolidated financial statements of the Company.

**4. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	At September 30 2011	At December 31 2010	At January 1 2010
Accounts receivable	72,724	\$ 80,683	\$ -
Smelter agreement advance	(11,305)	-	-
Unrealized gain on financial contracts ¹	7,537	-	-
Accounts receivable	\$ 68,956	\$ 80,683	\$ -

¹ As at September 30, 2011, a total of 76,500 ounces of past palladium production that had been delivered and sold to the smelter, was priced using forward prices for the month of final settlement at an average price of US\$759 per ounce (December 31, 2010 – 68,950 ounces at an average price of US\$631 per ounce). Refer to notes 9 and 12.

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, valued using the September 30, 2011 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 is due from two customers at September 30, 2011. A reserve for doubtful accounts has not been established, as in the opinion of management, the amount due will be fully received. The Company is not economically dependent on its customers, refer to note 14.

Effective July 2011, 85% of the balance of accounts receivable has been pledged as security against a one-year \$60 million operating line of credit with the Bank of Nova Scotia, which is to be used for working capital liquidity and general corporate purposes. The Company had \$50.0 million available to be drawn from the credit facility and \$10.0 million was utilized for letters of credit primarily for reclamation deposits, refer to note 13c.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

5. INVENTORIES

Inventories consist of the following:

	At September 30 2011	At December 31 2010	At January 1 2010
Supplies	\$ 11,302	\$ 12,580	\$ 12,555
Gold inventory ¹	5,999	5,928	4,890
Crushed and broken ore stockpiles ²	3,192	8,979	7,861
Total	\$ 20,493	\$ 27,487	\$ 25,306

¹ Gold inventory is comprised of unprocessed ore either in stockpiles or bins, unrecovered gold in either carbon or solution within the milling circuit, and gold-silver doré bars produced but not sold as at the reporting date.

² Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing. The amount of stockpiles ore 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 carried at net realizable value.

Supplies inventory of \$3,745 (2010 – \$4,444) were utilized during the three months ended September 30, 2011 and \$16,757 were utilized during the nine months ended September 30, 2011 (2010 - \$12,075).

The Company did not recognize any write-downs of crushed and broken ore stockpiles during the three months ended September 30, 2011 (2010 - \$388 write-up) or during the nine months ended September 30, 2011 (2010 - \$nil).

**6. OTHER ASSETS**

Other assets consist of the following:

	At September 30 2011	At December 31 2010	At January 1 2010
Prepays	\$ 221	\$ 2,555	\$ 1,165
Sales taxes receivable	5,321	5,120	1,275
Warrant proceeds receivable ¹	-	19,777	-
Other	920	99	55
	\$ 6,462	\$ 27,551	\$ 2,495

¹ In 2011, \$21.3 million of proceeds were received from the exercise of 5,009,986 Series A warrants. Refer to note 11b for further details.

7. MINING INTERESTS

Mining interests are comprised of the following:

	Plant and equipment	Underground mine development	Equipment under finance lease	Mining Leases and claims, royalty interest, and development	Exploration properties	Total
Carrying amounts						
As at January 1, 2010	\$ 25,098	\$ 35,717	\$ 2,469	\$ 4,963	\$ 16,767	\$ 85,014
As at December 31, 2010	\$ 29,396	\$ 63,278	\$ 4,489	\$ 7,250	\$ 21,873	\$ 126,286
As at September 30, 2011	\$ 38,529	\$ 156,798	\$ 3,505	\$ 11,677	\$ 43,159	\$ 253,668

(a) Asset restrictions and contractual commitments

The Company's assets are subject to certain restrictions on title, property, plant and equipment pledged as security for credit facility arrangements.

(b) Fair value determination***Existing mining interests***

The Company reviews mining plans for the remaining life of each property to determine the fair value of its existing mining properties, related assets, and cash-generating units. Future cash flows are estimated based on quantities of recoverable minerals, expected palladium, gold, and other commodity prices and expected foreign exchange rates (considering current, historical and expected future prices and foreign exchange rates and related factors), production levels and cash costs of production and capital and reclamation expenditures, all based on detailed life-of-mine plans and projections. The term "recoverable minerals" refers to the estimate of recoverable production from measured, indicated and inferred mineral resources that are considered economically mineable and are based on management's confidence in converting such resources to proven and probable reserves. 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.



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Significant changes in mine plans can occur as a result of mining experience, new discoveries, changes in mining methods and rates, process changes, investments in new equipment and technology and other factors. The Company reviews its accounting estimates and adjusts these estimates based recoverable minerals determined by the Company in the current mine plan. Assumptions underlying future cash flow estimates are subject to risk and uncertainty. Any differences between significant assumptions and market conditions such as metal prices, exchange rates, recoverable metal, and/or the Company's operating performance could have a material effect on the Company's ability to recover the carrying amounts of its long-lived assets resulting in possible additional impairment charges.

Mining interests acquired through a business combination

The fair value of mining interests recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

8. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION DEPOSITS

Total estimated cash flows required to settle obligations for the restoration of the LDI mine, Sleeping Giant mine and Veza Gold Project are approximately \$19,858 as at September 30, 2011 (December 31, 2010: \$12,594). The obligation is to be paid at the end of the life of each mine. The key assumptions applied for determination of the ARO obligation are as follows as at:

	At September 30 2011	At December 31 2010	At January 1 2010
Inflation	2.00	1.97	1.99
Market risk	5.00	5.00	5.00
Risk free rate	2.06	2.62	1.50

The asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements. For the year ended December 31, 2010, the timing of LDI's mining property closure plan was extended to include the Offset Zone project, which resulted in a reduction of \$1.3 million in 2010 to the cost of the related restoration asset. During the third quarter, the mine closure obligations for the LDI mine, Sleeping Giant mine and Veza Gold Project were revised to reflect the Company's most current closure cost estimates, expected mine lives and market rate assumptions. The current mine closure obligations include: LDI mine (\$14,794), Sleeping Giant mine (\$4,633) and Veza Gold Project (\$431).

The Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the "Ministry") and the Ministère des Ressources naturelles et de la Faune du Québec (the "Ministère"), has established trust funds (the "Funds") pursuant to the Company's mine closure plan for eventual clean-up and restoration of the LDI mine site, the Shebandowan West Property, and the Sleeping Giant gold mine.

The LDI mine closure plan requires a total amount of \$8,400 to be accumulated in the Fund. At September 30, 2011, the Company had a letter of credit outstanding for \$8,466 (December 31, 2010 – \$8,438 was on deposit with the Ministry including accrued interest of \$908). All current amounts required have been contributed as at September 30, 2011.

The Sleeping Giant gold mine closure plan requires a total amount of \$1,920 to be accumulated in the Fund. At September 30, 2011, the Company had \$1,769 on deposit with the Ministère (December 31, 2010 - \$1,769). All current amounts required have been contributed as at September 30, 2011.



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The Company also has an amount of \$330 relating to the Shebandowan West Project on deposit in the form of a guaranteed investment certificate.

The funds on deposit bear interest at current short-term deposit rates and will be returned to the Company once the mine closure is completed.

At September 30, 2011, the asset retirement and the related mine restoration deposit are as follows as at:

	At September 30 2011	At December 31 2010	At January 1 2010
Asset retirement obligation, beginning of period	\$ 12,594	\$ 13,602	\$ 12,921
Change in estimated closure costs	7,005	(1,217)	681
Accretion expense (note 15)	259	209	-
Asset retirement obligation, end of period	\$ 19,858	\$ 12,594	\$ 13,602
Reclamation deposits	2,100	10,537	10,503
Obligation in excess of deposit	\$ 17,758	\$ 2,057	\$ 3,099

At the respective reporting dates, the undiscounted asset retirement obligations are as follows as at:

	At September 30 2011	At December 31 2010	At January 1 2010
Asset retirement obligation, undiscounted	\$ 24,132	\$ 16,121	\$ 14,022

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	At September 30 2011	At December 31 2010	At January 1 2010
Accounts payable and accrued liabilities	36,505	\$ 28,761	\$ 12,442
Unrealized loss on financial contracts ¹	-	11,098	-
Accounts payable and accrued liabilities	\$ 36,505	\$ 39,859	\$ 12,442

¹ As at September 30, 2011, a total of 76,500 ounces of past palladium production that had been delivered and sold to the smelter, was priced using forward prices for the month of final settlement at an average price of US\$759 per ounce (December 31, 2010 – 68,950 ounces at an average price of US\$631 per ounce). Refer to notes 4 and 12.

10. PROVISIONS

In conjunction with the acquisition of CRI, the Company assumed an obligation in the amount of \$1,000, 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 gold mine. Based on stated production targets, the Company expects to achieve the production target within the next twelve months, therefore, the provision is reflected in current liabilities. There have been no changes to this provision in any of the reporting periods reflected in these consolidated statements.

11. SHAREHOLDERS' EQUITY

(a) Authorized and Issued Capital Stock

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



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(b) Common share purchase warrants

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

	As at September 30 2011		As at December 31 2010	
	Warrants	Amount	Warrants	Amount
Balance beginning of period	13,837,924	\$ 5,113	12,286,665	\$ 10,584
Issued pursuant to unit offerings, net of issue costs	-	-	10,000,000	4,423
Warrants exercised	(5,009,986)	(1,239)	(5,692,076)	(1,856)
Warrants expired	(67,938)	-	(2,756,665)	(8,038)
Balance, end of period	8,760,000	\$ 3,874	13,837,924	\$ 5,113

Issuance	Number of Warrants	Exercise Price	Expiry Date
Series B	8,760,000	\$ 6.50	October 28, 2011

In September 2009, the Company completed an equity offering for total net proceeds of \$46,455. In October 2009, the Company issued additional units for total net proceeds of \$7,121. Each whole warrant (Series A warrants) entitled the holder to purchase an additional common share at a price of \$4.25, subject to adjustment, at any time on or prior to September 30, 2011. Since the 20-day volume weighted average price of the common shares on the TSX was equal to or greater than \$5.75 per share (as per the acceleration event in the warrant indenture), on December 8, 2010 the Company announced the acceleration of the expiry of the Series A warrants to January 14, 2011. During the first quarter of 2011, \$21.3 million of proceeds were received from the exercise of 5,009,986 Series A warrants. Total proceeds of \$38.8 million were received from the exercise of Series A warrants and 67,938 Series A warrants were not exercised prior to expiry.

On April 28, 2010, the Company completed an equity offering of 20,000,000 units at a price of \$5.00 per unit for total net proceeds of \$94,227 (issue costs \$5,773). Each unit consists of one common share and one-half of one common share purchase warrant of the Company. Each whole warrant (Series B warrants) entitles the holder to purchase an additional common share at a price of \$6.50, subject to adjustment, at any time prior to October 28, 2011. As at December 31, 2010, 1,240,000 Series B warrants were exercised for total proceeds of \$8.1 million. No additional warrants were exercised during the first nine months of 2011. Subsequent to the third quarter ended September 30, 2011, on October 28, 2011, the Series B warrants expired. Refer to note 20.

(c) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan, in which eligible employees can participate in at their option. The Company is required to make contributions on a quarterly basis equivalent to 3% of eligible employees' base compensation and up to an additional 2% matching, per employee per annum, made either in cash or treasury shares of the Company. The maximum number of common shares available for grant shall not exceed 10% of the issued and outstanding common shares of the Company, including the issuance under the Corporate Stock Option Plan and other securities-based compensation plans. If the matching contribution is made in treasury shares, the price per share issued is the 5-day volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") preceding the end of the quarter. During the three months ended September 30, 2011, the Company contributed 65,943 shares with a fair value of \$253 (2010 – \$47) and for the nine months ended September 30, 2011, 124,188 shares with a fair value of \$628 (2010 - \$165) were contributed.

(d) Flow-through share offering

On February 18, 2011, the Company completed a flow-through share offering of 2,667,000 flow-through common shares. The Company is required to spend gross proceeds of \$22,000 on Canadian exploration expenses prior to December 31, 2012.



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(e) Corporate Stock Option Plan

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

The maximum number of common shares available for grant shall not exceed 10% of the issued and outstanding common shares of the Company, including the issuance under the Group Retirement Savings Plan and other securities-based compensation plans. As at September 30, 2011, 5,728,718 options (December 31, 2010 – 5,968,386 options, January 1, 2010 – 1,511,190 options) were available to be granted under the Plan.

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

	September 30, 2011		December 31, 2010	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,847,833	\$ 4.22	3,057,800	\$ 3.50
Granted	273,000	\$ 5.45	1,105,000	\$ 6.14
Exercised	(152,919)	\$ 3.00	(124,634)	\$ 2.78
Cancelled/forfeited	(33,332)	\$ 5.52	(190,333)	\$ 4.80
Outstanding, end of period	3,934,582	\$ 4.34	3,847,833	\$ 4.22
Options exercisable at end of period	1,996,590	\$ 3.55	1,742,833	\$ 3.64



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The following table summarizes information about the Company's stock options outstanding at September 30, 2011:

Exercise Price	Expiry Dates	Options Outstanding at September 30, 2011	Options Exercisable at September 30, 2011
\$ 1.32	June 17, 2013	165,000	165,000
\$ 1.85	March 17, 2013	24,750	24,750
\$ 2.20	September 30, 2016	750,000	750,000
\$ 2.85	July 18, 2017	200,000	133,334
\$ 3.03	February 2, 2012	330,000	330,000
\$ 3.22	December 7, 2017	675,000	208,335
\$ 3.22	December 14, 2017	74,999	21,669
\$ 3.26	August 10, 2016	80,000	-
\$ 3.31	August 12, 2018	30,000	10,001
\$ 3.39	July 31, 2017	13,333	6,667
\$ 4.18	February 21, 2018	10,000	3,334
\$ 5.22	June 8, 2016	10,000	10,000
\$ 5.52	May 9, 2016	30,000	-
\$ 6.24	December 7, 2015	675,000	-
\$ 6.24	December 7, 2018	390,000	-
\$ 6.47	May 21, 2016	150,000	150,000
\$ 6.52	January 9, 2016	143,000	-
\$ 8.40	June 20, 2014	35,000	35,000
\$ 8.84	December 14, 2013	10,000	10,000
\$ 8.87	January 14, 2015	7,500	7,500
\$ 10.18	April 15, 2015	30,000	30,000
\$ 11.90	June 23, 2012	101,000	101,000
		3,934,582	1,996,590

The fair value of options granted during 2011 and 2010 has been estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	September 30 2011	December 31 2010
Awards granted	273,000	1,105,000
Weighted average fair value of awards	\$ 2.91	\$ 3.21
Pre-vest forfeiture rate	13.81%	13.19%
Grant price	\$ 5.45	\$ 6.14
Market price	\$ 5.53	\$ 6.05
Volatility	65.00%	65.70%
Risk free rate	2.04%	2.31%
Dividend yield	0%	0%
Expected life (in years)	4.31	4.50

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

For the three months ended September 30, 2010, the effect of stock options and warrants has been included in the determination of diluted earnings per share. The effect of stock options and warrants has not been included in the determination of diluted loss per share for the three months ended September 30, 2011, the nine months ended September 30, 2011 or nine months ended September 30, 2010 because to do so would be anti-dilutive.

At September 30, 2011, there were 10,756,590 (December 31, 2010 – 15,580,757) equity instruments convertible to common shares which have been excluded from the calculation of diluted net loss per share because to include in the calculation would have been anti-dilutive.



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

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

As at September 30, 2011, 129,418 (December 31, 2010 – 90,599; January 1, 2010 – 256,882) restricted share units had been granted and were outstanding at an aggregate value of \$276 (December 31, 2010 – \$312; January 1, 2010– \$987).

(h) Shareholder Rights Plan

On March 22, 2011, the Company announced the adoption of a Shareholder Rights Plan, which was approved by the Company’s shareholders on May 11, 2011. The primary objectives of the shareholder rights plan are to ensure shareholders are given fair treatment in the event of any take-over bid for the Company’s common shares and provide Shareholders adequate time to properly evaluate an offer. The Shareholder Rights Plan provides for the issuance of one right for each outstanding common share of the Company on the occurrence of certain events. Refer to the Company’s Shareholder Rights Plan for further details.

12. FINANCIAL INSTRUMENTS

Fair Values

The Company’s financial assets and liabilities consist of cash and cash equivalents, accounts receivable, other assets, reclamation deposits, accounts payable and accrued liabilities, obligations under finance leases, provisions, and asset retirement obligations.

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 and equity instruments are determined as described in note 11.

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.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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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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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The table below details the assets and liabilities measured at fair value at September 30, 2011:

	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	\$ 37,479	\$ -	\$ -	\$ 37,479
Accounts receivable (note 4)	61,419	-	-	61,419
Mark to market on financial contracts* (note 4)	-	7,537	-	7,537
Reclamation deposits	2,100	-	-	2,100
Financial liabilities				
RSU liabilities*	-	(277)	-	(277)
Net carrying value	\$ 100,998	\$ 7,260	\$ -	\$ 108,258

* As detailed in note 4, the asset relating to the mark to market on financial contracts is included in the carrying value of accounts receivable 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.

13. COMMITMENTS

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

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

(b) Operating Leases and Other Purchase Obligations

As at September 30, 2011, the Company had outstanding operating lease commitments and other purchase obligations of \$8,673 and \$122,939, respectively (December 31, 2010 – \$4,115 and \$37,189, respectively) all of which had maturities of less than five years.

(c) Letters of credit

As at September 30, 2011, the Company had outstanding letters of credit of \$10.0 million, consisting of an \$8.5 million outstanding letter of credit relating to the LDI mine closure deposit, a \$1.4 million required as part of a regulatory requirement by a third party supplier for purchases made by the LDI mine and accrued interest of \$0.1 million.

**14. REVENUE FROM METAL SALES**

	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2011							
Three months ended September 30							
Revenue – before pricing adjustments	\$ 40,038	\$ 24,887	\$ 3,781	\$ 7,974	\$ 1,334	\$ 1,459	\$ 603
Pricing adjustments:							
Commodities	(3,029)	(1,453)	(992)	250	(386)	(434)	(14)
Foreign exchange	1,301	(11)	624	466	137	76	9
Revenue – after pricing adjustments	\$ 38,310	\$ 23,423	\$ 3,413	\$ 8,690	\$ 1,085	\$ 1,101	\$ 598
2010							
Three months ended September 30							
Revenue – before pricing adjustments	\$ 33,724	\$ 20,834	\$ 3,324	\$ 6,785	\$ 1,878	\$ 529	\$ 374
Pricing adjustments:							
Commodities	5,691	4,876	275	185	150	207	(2)
Foreign exchange	(964)	(721)	(96)	(66)	(44)	(35)	(2)
Revenue – after pricing adjustments	\$ 38,451	\$ 24,989	\$ 3,503	\$ 6,904	\$ 1,984	\$ 701	\$ 370
2011							
Nine months ended September 30							
Revenue – before pricing adjustments	\$ 130,703	\$ 83,392	\$ 11,311	\$ 26,290	\$ 4,769	\$ 3,812	\$ 1,129
Pricing adjustments:							
Commodities	(6,696)	(4,818)	(1,335)	423	(444)	(504)	(18)
Foreign exchange	2,415	1,613	387	313	60	37	5
Revenue – after pricing adjustments	\$ 126,422	\$ 80,187	\$ 10,363	\$ 27,026	\$ 4,385	\$ 3,345	\$ 1,116
2010							
Nine months ended September 30							
Revenue – before pricing adjustments	\$ 63,334	\$ 32,804	\$ 5,129	\$ 20,923	\$ 2,439	\$ 1,437	\$ 602
Pricing adjustments:							
Commodities	5,025	4,346	241	211	121	109	(3)
Foreign exchange	(763)	(582)	(74)	(48)	(36)	(22)	(1)
Revenue – after pricing adjustments	\$ 67,596	\$ 36,568	\$ 5,296	\$ 21,086	\$ 2,524	\$ 1,524	\$ 598

During the third quarter of 2011, the Company delivered all of its concentrate to two customers under the terms of the respective agreements. In the third quarter of 2010, the Company delivered all of its concentrate to one customer under the terms of the agreement.

Although the Company sells its refined metals 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 metals.

**15. INTEREST AND OTHER COSTS (INCOME)**

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Finance expense				
Interest on capital leases	\$ 38	\$ 46	\$ 125	\$ 104
Asset retirement obligation accretion	90	53	259	157
Interest expense	337	156	487	327
	465	255	871	588
Finance income				
Gain on renouncement of flow-through expenditures	(545)	-	(1,840)	-
Interest income	(208)	(281)	(768)	(2,575)
Gain on investments	-	-	-	(56)
	\$ (753)	\$ (281)	\$ (2,608)	\$ (2,631)
	\$ (288)	\$ (26)	(1,737)	\$ (2,043)

16. CONTINGENCIES

From time to time, the Company is involved in litigation, investigations, or proceedings related to claims arising out of its operations in the ordinary course of business. During the third quarter of 2011, the Company was made aware of a Statement of Claim that had been filed against the Company and two of its officers regarding a potential class action lawsuit. The Company has retained legal counsel and intends to vigorously defend the potential claim.

17. STATEMENT OF CASH FLOWS

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash provided by (used in):				
Accounts receivable	\$ 11,290	\$ (29,931)	\$ 11,727	\$ (44,279)
Inventories and stockpiles	2,282	(121)	7,145	602
Other assets	(1,085)	(1,140)	21,089	(1,176)
Accounts payable and accrued liabilities	2,361	5,235	(3,280)	8,937
Other financial liabilities	-	-	-	(56)
Taxes payable (recoverable)	(2,026)	(142)	120	(790)
	\$ 12,822	\$ (26,099)	\$ 36,801	\$ (36,762)

18. SEGMENT INFORMATION

The Company is Canadian based and is in the business of exploring and mining palladium, platinum, gold and certain base metals. Its operations are organized into three reportable segments: palladium operations include the LDI palladium mine and mill; gold operations include the Sleeping Giant gold mine and mill; and corporate and other. The palladium and gold operations include activities related to exploration, evaluation and development, mining, and milling. The corporate and other segment includes general corporate expenses and other projects not allocated to the other segments. The Company's revenue by significant product type is disclosed in Note 14. The Company's segments are summarized in the following table.



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As at and during the periods ended September 30, December 31 and January 1, segmented information is presented as follows:

	At September 30, 2011				At December 31, 2010				At January 1, 2010			
	Palladium operations	Gold operations	Corporate and other	Total	Palladium operations	Gold operations	Corporate and other	Total	Palladium operations	Gold operations	Corporate and other	Total
Cash and cash equivalents	\$ 562	\$ 3,195	\$ 33,722	\$ 37,479	\$ 3,232	\$ (2,013)	\$ 73,940	\$ 75,159	\$ 689	\$ 576	\$ 96,990	\$ 98,255
Accounts receivable	68,956	-	-	68,956	80,683	-	-	80,683	-	-	-	-
Inventories	14,435	6,058	-	20,493	19,673	7,814	-	27,487	19,649	5,657	-	25,306
Other current assets	2,608	4,333	658	7,599	4,308	3,048	20,929	28,285	708	1,510	481	2,699
Mining interests	168,581	84,821	266	253,668	64,465	61,376	445	126,286	33,516	51,165	333	85,014
Other non-current assets	-	1,769	331	2,100	8,438	1,769	330	10,537	8,406	1,769	328	10,503
Total assets	\$ 255,142	\$ 100,176	\$ 34,977	\$ 390,295	\$ 180,799	\$ 71,994	\$ 95,644	\$ 348,437	\$ 62,968	\$ 60,677	\$ 98,132	\$ 221,777
Accounts payable and accrued liabilities	\$ 23,777	\$ 11,062	\$ 1,666	\$ 36,505	\$ 27,463	\$ 9,363	\$ 3,033	\$ 39,859	\$ 3,339	\$ 4,160	\$ 4,943	\$ 12,442
Obligations under finance leases	2,000	51	-	2,051	2,326	65	-	2,391	1,104	30	-	1,134
Provisions	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000
Asset Retirement Obligations	14,794	5,064	-	19,858	7,897	4,697	-	12,594	9,077	4,525	-	13,602
Other liabilities	1,459	3,426	-	4,885	935	1,207	1	2,143	1,571	832	58	2,461
Total liabilities	\$ 42,030	\$ 20,603	\$ 1,666	\$ 64,299	\$ 38,621	\$ 16,332	\$ 3,034	\$ 57,987	\$ 15,091	\$ 10,547	\$ 5,001	\$ 30,639

	Three months ended September 30, 2011				Three months ended September 30, 2010			
	Palladium operations	Gold operations	Corporate and other	Total	Palladium operations	Gold operations	Corporate and other	Total
Revenue – after pricing adjustments	\$ 32,689	\$ 5,621	\$ -	\$ 38,310	\$ 33,394	\$ 5,057	\$ -	\$ 38,451
Depreciation and amortization	2,693	1,464	44	4,201	677	2,815	28	3,520
Operating expenses	25,137	6,438	-	31,575	16,775	6,767	-	23,542
Income (loss) from mining operations	4,859	(2,281)	(44)	2,534	15,942	(4,525)	(28)	11,389
Other expenses								
General and administration	144	32	2,762	2,938	50	41	2,379	2,470
Exploration	1,718	214	24	1,956	3,669	3,244	95	7,008
Other	1,219	14	(1,407)	(174)	83	249	(359)	(27)
Income (loss) before taxes	1,778	(2,541)	(1,423)	(2,186)	12,140	(8,059)	(2,143)	1,938
Income and mining tax (expense) recovery	1	(631)	-	(630)	-	(456)	1,322	866
Net income (loss) and comprehensive income (loss) for the period	\$ 1,779	\$ (3,172)	\$ (1,423)	\$ (2,816)	\$ 12,140	\$ (8,515)	\$ (821)	\$ 2,804



North American Palladium Ltd.

	Nine months ended September 30, 2011				Nine months ended September 30, 2010			
	Palladium operations	Gold operations	Corporate and other	Total	Palladium operations	Gold operations	Corporate and other	Total
Revenue – after pricing adjustments	\$ 106,454	\$ 19,968	\$ -	\$ 126,422	\$ 49,462	\$ 18,134	\$ -	\$ 67,596
Depreciation and amortization	7,042	6,126	138	13,306	3,874	7,784	86	11,744
Operating expenses	72,635	24,508	-	97,143	35,226	23,361	-	58,587
Income (loss) from mining operations	26,777	(10,666)	(138)	15,973	10,362	(13,011)	(86)	(2,735)
Other expenses								
General and administration	300	73	9,105	9,478	172	141	7,476	7,789
Exploration	7,475	4,380	74	11,929	10,452	6,802	340	17,594
Other	907	94	(2,341)	(1,340)	187	749	(2,987)	(2,051)
Income (loss) before taxes	18,095	(15,213)	(6,976)	(4,094)	(449)	(20,703)	(4,915)	(26,067)
Income and mining tax (expense) recovery	(2,387)	(1,279)	3	(3,663)	670	(137)	(1,862)	(1,329)
Net income (loss) and comprehensive income (loss) for the period	\$ 15,708	\$ (16,492)	\$ (6,973)	\$ (7,757)	\$ 221	\$ (20,840)	\$ (6,777)	\$ (27,396)

	Three months ended September 30, 2011				Three months ended September 30, 2010			
	Palladium operations	Gold operations	Corporate and other	Total	Palladium operations	Gold operations	Corporate and other	Total
Additions to mining interests	\$ 39,673	\$ 10,888	\$ -	\$ 50,561	\$ 8,312	\$ 6,277	\$ -	\$ 14,589

	Nine months ended September 30, 2011				Nine months ended September 30, 2010			
	Palladium operations	Gold operations	Corporate and other	Total	Palladium operations	Gold operations	Corporate and other	Total
Additions to mining interests	\$ 103,863	\$ 29,205	\$ -	\$ 133,068	\$ 18,141	\$ 11,081	\$ -	\$ 29,222

For additional discussion relating to reliance on customers, refer to accounts receivable in note 4 and revenue from metal sales in note 14.

19. FIRST TIME ADOPTION OF IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). For all periods from January 1, 2011 onwards, the Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

Transition to IFRS

To transition to IFRS, the Company must apply “IFRS 1 – First Time Adoption of IFRS” that sets out the rules for first time adoption. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity’s first IFRS financial statements. This requires that an entity apply IFRS to its opening IFRS balance sheet as at the beginning of the earliest comparative period presented in the entity’s first IFRS financial statements, being January 1, 2010.

During the first quarter of 2011, the Company completed its reconciliation of its opening IFRS balance sheet as at January 1, 2010 and each of its quarterly filings in 2011. These reconciliations reflect the impact of the applicable IFRS 1 elections the Company has applied in its transition to IFRS. The adjusted consolidated balance sheets also reflect the impact of accounting policy differences arising from the transition from Canadian GAAP to IFRS.

The Company has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 and the significant accounting policies meeting those requirements are described in note 3 of these consolidated financial statements.



Exemptions applied under IFRS 1

In preparing the interim consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions and all mandatory exceptions from full retrospective application of IFRS.

Optional exemptions from full retrospective application

In the first year of adoption, IFRS 1 allows optional exemptions from the general requirements to apply certain IFRS standards in effect when the Company prepares its interim and annual financial statements. The following summarizes the preliminary discussion relating to those optional exemptions under IFRS 1 and related elections available to the Company.

Business combinations exemption

The Company has elected to apply the business combinations exemption. As a result, the Company has not restated business combinations or otherwise applied IFRS 3 Business Combinations to any acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before the Company's January 1, 2010 transition date.

Share-based payment transaction exemption

The Company has elected to apply the share-based payment exemption. As a result, IFRS 2 Share-based Payment has not been applied to any equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before the latter of January 1, 2005 and the date of transition of January 1, 2010. For cash-settled share-based payment arrangements, the Company has not applied IFRS 2 to liabilities that were settled before January 1, 2010.

Fair value as deemed cost exemption

The Company has elected to utilize the fair value as deemed cost exemption for the valuation of certain assets located at its LDI and Sleeping Giant mines. By making this election, the Company is permitted to measure certain items of property, plant and equipment at fair values determined on or before January 1, 2010, with appropriate retrospective adjustments applied under IFRS during the interim period reflected in the opening IFRS balance sheet at January 1, 2010. Other mining interests have been recorded under IFRS using historical costs.

Investments in subsidiaries, jointly controlled entities and associates exemption

At the January 1, 2010 transition date, the Company would be required to account for investments in subsidiaries at cost or fair value in accordance with IAS 39. However, the application of this exemption, provided by IFRS 1, allows the Company to elect the previous Canadian GAAP carrying amount to be the deemed cost under IFRS at the January 1, 2010 transition date. The Company has elected to apply this exemption to its subsidiary operations.

Compound financial instruments exemption

Under this exemption, a first-time adopter need not separate the liability and equity components under the IAS 32 requirements if the liability component is no longer outstanding on January 1, 2010 transition date. Since various compound financial instruments in the form of convertible notes, debentures, and unit offerings with foreign-denominated warrants have been used by the Company in recent years, the Company has elected to apply this exemption relating to compound instruments.

Designation of previously recognized financial instruments exemption

This exemption permits an election to initially recognize certain financial instruments as available-for-sale or designate certain instruments as being at fair value through profit or loss at the date of transition. Neither the Company nor its subsidiaries possessed financial assets or liabilities at January 1, 2010 which would benefit from the application of this exemption. Therefore, the Company has elected not to apply this exemption to its IFRS consolidated financial statements.



Fair value measurement of financial assets or liabilities at initial recognition

This exemption restricts the fair value approach under IAS 39, requiring consistent application of the methodology to be applied prospectively from October 25, 2002 or January 1, 2004. As a result of other IFRS 1 exemptions and standards applied, the Company and its subsidiaries' financial assets and liabilities reflected in the January 1, 2010 IFRS consolidated opening balance sheet relate to the period after the specified dates for prospective application and would therefore not benefit from the application of this election. As a result, the Company has elected not to apply this exemption to its IFRS consolidated financial statements.

Decommissioning liabilities included in the cost of property, plant and equipment exemption

The Company recognizes an asset retirement obligation ("ARO") in respect of environmental liabilities relating to contamination caused to land, decommissioning of existing production facilities and reclamation of mining properties. The election in IFRS 1, provides an exemption from the full retrospective application of IFRIC 1- Changes in existing decommissioning, restoration and similar liabilities and permits the determination of a revised ARO provision and related adjustment to the net ARO asset value at the transition date of January 1, 2010.

The Company has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As a result the Company has re-measured its ARO provisions as at January 1, 2010 under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the historical risk adjusted discount rates, and recalculated the accumulated amortization under IFRS up to the transition date.

Extinguishing financial liabilities with equity instruments

This exemption permits the Company to apply the transitional provisions within IFRIC 19. Although no financial liabilities exist which are contemplated for, or eligible for such extinguishment, IFRIC 19 becomes effective for annual periods beginning on or after July 1, 2010 and retrospective application and disclosure of the change in accounting policy would be required at that time. Therefore, the Company has elected to utilize the exemption (whether applicable or not) and early adopt the standard at the January 1, 2010 transition date.

Disclosures about financial instruments

This exemption was implemented to avoid the application of hindsight and equalize the accounting requirements between existing IFRS filers and adopting entities. Therefore, management considers it reasonable to apply this exemption at the time of transition as permitted by IFRS 1.



North American Palladium Ltd.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations summarize the effect of the transition to IFRS on the Company's previously reported balances.

Reconciliation of Consolidated Balance Sheets

	Notes	December 31, 2010		January 1, 2010			
		GAAP	Effect of transition to IFRS	GAAP	Effect of transition to IFRS	IFRS	
ASSETS							
Current Assets							
Cash and cash equivalents		\$ 75,159	\$ -	\$ 75,159	\$ 98,255	\$ -	\$ 98,255
Accounts receivable		80,683	-	80,683	-	-	-
Taxes receivable		734	-	734	204	-	204
Inventories		27,487	-	27,487	25,306	-	25,306
Other assets		27,551	-	27,551	2,495	-	2,495
		211,614	-	211,614	126,260	-	126,260
Non-current Assets							
Mining interests	(a)	126,196	90	126,286	82,448	2,566	85,014
Reclamation deposits		10,537	-	10,537	10,503	-	10,503
Total assets		\$ 348,347	\$ 90	\$ 348,437	\$ 219,211	\$ 2,566	\$ 221,777
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities							
Accounts payable and accrued liabilities	(b)	\$ 40,799	\$ (940)	\$ 39,859	\$ 11,195	\$ 1,247	\$ 12,442
Current portion of obligations under capital leases		1,196	-	1,196	558	-	558
Provisions	(c)	-	1,000	1,000	-	1,000	1,000
Other financial liabilities	(d)	-	-	-	-	56	56
		41,995	60	42,055	11,753	2,303	14,056
Non-current Liabilities							
Taxes payable		936	-	936	1,573	-	1,573
Asset retirement obligations	(e)	11,637	957	12,594	12,921	681	13,602
Obligations under capital leases		1,195	-	1,195	576	-	576
Deferred mining tax liability	(f)	1,207	-	1,207	127	705	832
		\$ 56,970	\$ 1,017	\$ 57,987	\$ 26,950	\$ 3,689	\$ 30,639
Shareholders' Equity							
Common share capital and purchase warrants	(g)	697,846	4,941	702,787	583,089	(8,211)	574,878
Stock options and related surplus	(h)	5,069	527	5,596	3,896	346	4,242
Contributed surplus	(i)	24,861	(19,324)	5,537	18,416	(12,337)	6,079
Deficit	(j)	(436,399)	12,929	(423,470)	(413,140)	19,079	(394,061)
Total shareholders' equity		291,377	(927)	290,450	192,261	(1,123)	191,138
Total shareholders' equity and liabilities		\$ 348,347	\$ 90	\$ 348,437	\$ 219,211	\$ 2,566	\$ 221,777



North American Palladium Ltd.

Reconciliation of Consolidated Balance Sheets cont'd

		September 30, 2010		
	Notes	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		\$ 113,614	\$ -	\$ 113,614
Accounts receivable		44,279	-	44,279
Taxes receivable		357	-	357
Inventories		25,054	-	25,054
Other assets		3,671	-	3,671
		186,975	-	186,975
Non-current Assets				
Mining interests	(a)	109,721	1,380	111,101
Reclamation deposits		10,508	-	10,508
Total assets		\$ 307,204	\$ 1,380	\$ 308,584
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	(b)	\$ 22,249	\$ (870)	\$ 21,379
Current portion of obligations under capital leases		1,221	-	1,221
Future income tax liability		2,404	-	2,404
Provisions	(c)	-	1,000	1,000
		25,874	130	26,004
Non-current Liabilities				
Taxes payable		936	-	936
Asset retirement obligations	(e)	13,443	416	13,859
Obligations under capital leases		1,354	-	1,354
Deferred mining tax liability	(f)	1,106	-	1,106
		\$ 42,713	\$ 546	\$ 43,259
Shareholders' Equity				
Common share capital and purchase warrants	(g)	670,874	4,963	675,837
Stock options and related surplus	(h)	4,895	513	5,408
Contributed surplus	(i)	24,861	(19,324)	5,537
Deficit	(j)	(436,139)	14,682	(421,457)
Total shareholders' equity		264,491	834	265,325
Total shareholders' equity and liabilities		\$ 307,204	\$ 1,380	\$ 308,584



North American Palladium Ltd.

Reconciliation of Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

	Notes	Three months ended September 30,			Nine months ended September 30, 2010			Year ended December 31, 2010		
		GAAP	2010 Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS
Revenue – before pricing adjustments		\$ 33,724	-	\$ 33,724	\$ 63,334	-	\$ 63,334	\$ 99,714	-	\$ 99,714
Pricing adjustments:										
Commodities		5,691	-	5,691	5,025	-	5,025	8,941	-	8,941
Foreign exchange		(964)	-	(964)	(763)	-	(763)	(1,557)	-	(1,557)
Revenue – after pricing adjustments		\$ 38,451	\$ -	\$ 38,451	\$ 67,596	\$ -	\$ 67,596	\$ 107,098	\$ -	\$ 107,098
Operating expenses										
Production costs		20,452	-	20,452	53,153	-	53,153	74,709	-	74,709
Royalty expense		1,439	-	1,439	2,184	-	2,184	4,202	-	4,202
Smelting, refining and freight costs		1,953	-	1,953	3,147	-	3,147	4,779	-	4,779
Inventory pricing adjustments		(388)	-	(388)	-	-	-	-	-	-
Depreciation and amortization	(a)	3,171	349	3,520	11,252	492	11,744	13,175	2,415	15,590
Loss on disposal of equipment		86	-	86	103	-	103	(270)	-	(270)
Total operating expenses		26,713	349	27,062	69,839	492	70,331	96,595	2,415	99,010
Income (loss) from mining operations		11,738	(349)	11,389	(2,243)	(492)	(2,735)	10,503	(2,415)	8,088
Other expenses										
General and administration	(b), (g), (h)	2,432	38	2,470	7,739	50	7,789	10,676	(28)	10,648
Exploration		7,008	-	7,008	17,594	-	17,594	30,126	-	30,126
Interest and other income	(d),(e), (g)	66	(92)	(26)	289	(2,332)	(2,043)	282	(2,424)	(2,142)
Foreign exchange loss (gain)		(1)	-	(1)	(8)	-	(8)	(23)	-	(23)
Total other expenses		9,505	(54)	9,451	25,614	(2,282)	23,332	41,061	(2,452)	38,609
Income (loss) before taxes		2,233	(295)	1,938	(27,857)	1,790	(26,067)	(30,558)	37	(30,521)
Income and mining tax recovery (expense)	(g), (i)	952	(86)	866	4,858	(6,187)	(1,329)	7,299	(6,187)	1,112
Net income (loss) and comprehensive income (loss) for the period		3,185	(381)	2,804	(22,999)	(4,397)	(27,396)	(23,259)	(6,150)	(29,409)
Deficit, beginning of period		(439,324)	15,063	(424,261)	(413,140)	19,079	(394,061)	(413,140)	19,079	(394,061)
Deficit, end of period		\$ (436,139)	\$ 14,682	\$ (421,457)	\$ (436,139)	\$ 14,682	\$ (421,457)	\$ (436,399)	\$ 12,929	\$ (423,470)
Net income (loss) per share										
Basic and diluted		\$ 0.02	\$ (0.00)	\$ 0.02	\$ (0.17)	\$ (0.03)	\$ (0.20)	\$ (0.16)	\$ (0.05)	\$ (0.21)
Weighted average number of shares outstanding										
Basic		147,537,429	-	147,537,429	138,814,869	-	138,814,869	141,537,377	-	141,537,377
Diluted		148,357,596	-	148,357,596	138,814,869	-	138,814,869	141,537,377	-	141,537,377



North American Palladium Ltd.

Reconciliation of Consolidated Statements of Cash Flows

	Notes	Three months ended September 30, 2010			Nine months ended September 30, 2010			Year ended December 31, 2010		
		GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS
Cash provided by (used in)										
Operations										
Net income (loss) for the period		\$ 3,185	\$ (381)	\$ 2,804	\$ (22,999)	\$ (4,397)	\$ (27,396)	\$ (23,259)	\$ (6,150)	\$ (29,409)
Operating items not involving cash										
Depreciation and amortization	(a), (e)	3,171	349	3,520	11,252	492	11,744	13,175	2,415	15,590
Deferred income and mining tax expense (recovery)	(g), (i)	(953)	86	(867)	(4,053)	6,187	2,134	(6,356)	6,187	(169)
Stock based compensation and employee benefits	(h)	388	62	450	1,200	167	1,367	1,752	159	1,911
Loss on disposal of equipment		86	-	86	103	-	103	(270)	-	(270)
Other	(e)	191	(92)	99	532	(276)	256	686	(368)	318
		6,068	24	6,092	(13,965)	2,173	(11,792)	(14,272)	2,243	(12,029)
Changes in non-cash working capital		(26,075)	(24)	(26,099)	(34,589)	(2,173)	(36,762)	(59,478)	(2,243)	(61,721)
		(20,007)	-	(20,007)	(48,554)	-	(48,554)	(73,750)	-	(73,750)
Financing Activities										
Issuance of common shares and warrants, net of issue costs		51	-	51	94,258	-	94,258	101,074	-	101,074
Repayment of obligations under capital leases		(729)	-	(729)	(1,454)	-	(1,454)	(1,721)	-	(1,721)
Interest paid on capital leases		(46)	-	(46)	(104)	-	(104)	(142)	-	(142)
		(724)	-	(724)	92,700	-	92,700	99,211	-	99,211
Investing Activities										
Additions to mining interests		(14,589)	-	(14,589)	(29,222)	-	(29,222)	(49,364)	-	(49,364)
Proceeds on disposal of mining interests		404	-	404	435	-	435	807	-	807
		(14,185)	-	(14,185)	(28,787)	-	(28,787)	(48,557)	-	(48,557)
Increase (decrease) in cash and cash equivalents		(34,916)	-	(34,916)	15,359	-	15,359	(23,096)	-	(23,096)
Cash and cash equivalents, beginning of period		148,530	-	148,530	98,255	-	98,255	98,255	-	98,255
Cash and cash equivalents, end of period		\$ 113,614	\$ -	\$ 113,614	\$ 113,614	\$ -	\$ 113,614	\$ 75,159	\$ -	\$ 75,159
Cash and cash equivalents consisting of:										
Cash		113,614	-	113,614	113,614	-	113,614	75,159	-	75,159
Short-term investments		-	-	-	-	-	-	-	-	-
Total assets		\$ 113,614	\$ -	\$ 113,614	\$ 113,614	\$ -	\$ 113,614	\$ 75,159	\$ -	\$ 75,159



North American Palladium Ltd.

Reconciliation of Consolidated Statements of Shareholders' Equity

	Number of shares	Capital stock	Shares issuable	Stock options	Warrants	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2009 as reported under Canadian GAAP	127,383,051	\$ 572,505	\$ -	\$ 2,704	\$ 10,584	\$ 19,608	\$ (413,140)	\$ 192,261
Reallocation of equity not related to IFRS transition	-	-	-	1,192	-	(1,192)	-	-
Balance, December 31, 2009 as reported under Canadian GAAP - restated	127,383,051	\$ 572,505	\$ -	\$ 3,896	\$ 10,584	\$ 18,416	\$ (413,140)	\$ 192,261
Net impact of IFRS transition adjustments	-	(173)	-	346	(8,038)	(12,337)	19,079	(1,123)
Balance, January 1, 2010 as reported under IFRS	127,383,051	\$ 572,332	\$ -	\$ 4,242	\$ 2,546	\$ 6,079	\$ (394,061)	\$ 191,138
	Number of shares	Capital stock	Shares issuable	Stock options	Warrants	Contributed surplus	Deficit	Total shareholders' equity
Balance, September 30, 2010 as reported under Canadian GAAP	148,818,722	\$ 663,905	\$ -	\$ 3,676	\$ 6,969	\$ 26,080	\$ (436,139)	\$ 264,491
Reallocation of equity not related to IFRS transition	-	-	-	1,219	-	(1,219)	-	-
Balance, September 30, 2010 as reported under Canadian GAAP - restated	148,818,722	\$ 663,905	\$ -	\$ 4,895	\$ 6,969	\$ 24,861	\$ (436,139)	\$ 264,491
Net impact of IFRS transition adjustments	-	4,963	-	513	-	(19,324)	14,682	834
Balance, September 30, 2010 as reported under IFRS	148,818,722	\$ 668,868	\$ -	\$ 5,408	\$ 6,969	\$ 5,537	\$ (421,457)	\$ 265,325
	Number of shares	Capital stock	Shares issuable	Stock options	Warrants	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2010 as reported under Canadian GAAP	154,653,275	\$ 692,733	\$ -	\$ 3,661	\$ 5,113	\$ 26,269	\$ (436,399)	\$ 291,377
Reallocation of equity not related to IFRS transition	-	-	-	1,408	-	(1,408)	-	-
Balance, December 31, 2010 as reported under Canadian GAAP - restated	154,653,275	\$ 692,733	\$ -	\$ 5,069	\$ 5,113	\$ 24,861	\$ (436,399)	\$ 291,377
Net impact of IFRS transition adjustments	-	4,941	-	527	-	(19,324)	12,929	(927)
Balance, December 31, 2010 as reported under IFRS	154,653,275	\$ 697,674	\$ -	\$ 5,596	\$ 5,113	\$ 5,537	\$ (423,470)	\$ 290,450



North American Palladium Ltd.

Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the balance sheet and income statement.

(a) Mining interests

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Adjustment to asset retirement costs and related accumulated amortization	\$ 11	\$ 1,872	\$ 553	\$ 1,861
(ii) Net adjustment to carrying value of assets due to deemed cost election under IFRS 1	-	-	-	705
(iii) Adjustments to depreciation and amortization of mining interests subsequent to the January 1, 2010 transition date due to revised carrying values under IFRS	(349)	(492)	(463)	-
Total adjustment at transition to IFRS	\$ (338)	\$ 1,380	\$ 90	\$ 2,566

- (i) Under IFRS 1 exemptions, the Company elected to determine the fair value of the ARO as at January 1, 2010 and discount that fair value to determine the related asset and accumulated amortization. As a result, a recovery of accumulated amortization charges was realized under IFRS and has been reflected in the opening mining interest balances.
- (ii) The Company has elected under IFRS 1 to apply the deemed cost exemption in respect of the LDI and Sleeping Giant mining interests. The valuation of the LDI property was deemed to be the fair value as determined at December 31, 2008. For Sleeping Giant mine, the final fair values relating to the May 26, 2009 acquisition date were elected as the deemed cost. The change in accumulated depreciation and amortization as at January 1, 2010 as a result of the deemed cost elections has been included to reflect the net change in carrying values.

Information on impairment provisions

The recoverable amount of a cash generating unit (“CGU”) is determined based on the greater of the CGU’s fair value less cost to sell and value-in-use calculations. These calculations use cash flow projections based on financial budgets and extended operational plans approved by management.

The Company performed an analysis of impairment of all CGUs as at January 1, 2010 and at each subsequent reporting date. As a result of those analyses, it was concluded that the deemed costs assigned to CGUs were not impaired at the date of transition to IFRS or in each of the subsequent reporting periods in 2010 and no modifications were required to be made to the useful lives and residual values of mining interests.

(b) Accounts payable and accrued liabilities

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Reclassification of premiums related to flow-through shares	\$ -	\$ -	\$ -	\$ 2,000
(ii) Reclassification of provisions included in accrued payables	-	(1,000)	(1,000)	(1,000)
(iii) Adjustments to accounting for restricted share units	(24)	130	60	247
Total adjustment at transition to IFRS	\$ (24)	\$ (870)	\$ (940)	\$ 1,247



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- (i) In accordance with IFRS interpretations, the premium of proceeds received on flow-through shares in excess of the market value of the shares on the date of issue represents the value of the liability relating to the transfer of income tax credits foregone and owing to investors upon renunciation. Similar to U.S. GAAP, these liabilities have been reclassified from equity to liabilities and will be reversed to reduce the deferred income tax expense recognized at the time that renunciation of costs occurs.
- (ii) Under Canadian GAAP, certain contractual provisions were included as accrued payables. Under IFRS, these provisions have been reclassified as provisions.
- (iii) Under Canadian GAAP, the liability relating to restricted share units (“RSUs”) which have vested and are outstanding is determined based on the spot price for the Company’s common shares at the end of the reporting period. Under IFRS 2, the valuation at the end of the reporting period is based on the use of valuation models which include consideration of the volatility of the underlying common share pricing. The Company determined the fair value under IFRS based on the use of the Black-Scholes model.

(c) Provisions

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Reclassification of provisions included in accrued payables	\$ -	\$ 1,000	\$ 1,000	\$ 1,000
Total adjustment at transition to IFRS	\$ -	\$ 1,000	\$ 1,000	\$ 1,000

- (i) Under Canadian GAAP, certain contractual provisions were included as accrued payables. Under IFRS, these provisions have been reclassified as current provisions.

(d) Other financial liabilities

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Reclassification of foreign-denominated warrants under IAS 32	\$ -	\$ -	\$ -	\$ 56
Total adjustment at transition to IFRS	\$ -	\$ -	\$ -	\$ 56

- (i) Under IAS 32, warrants and similar call options, denominated in a foreign currency, which have not been issued on a pro-rata basis to all holders of the same class of shares are classified as liabilities. The warrants relating to the convertible debentures issued in 2006 were denominated in U.S. dollars and were therefore reclassified accordingly on the balance sheet at January 1, 2010. The two tranches of foreign-denominated warrants expired on March 29, 2010 and June 23, 2010 respectively.



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(e) Asset retirement obligations

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Adjustments to the valuation of asset retirement obligations	\$ 11	\$ 692	\$ 1,325	\$ 681
(ii) Differences realized due to accretion of adjusted obligation balances under IFRS	(92)	(276)	(368)	-
Total adjustment at transition to IFRS	\$ (81)	\$ 416	\$ 957	\$ 681

- (i) Under IFRS 1 exemptions, the Company elected to determine the fair value of the ARO as at January 1, 2010. As a result of differences between the methodology, rates, and assumptions required to be used under IFRS versus Canadian GAAP, a transitional variance has been recognized at January 1, 2010.

Additional valuation differences are reflected in the December 31, 2010 balance for asset retirement obligations relating to the acquisition of the Vezza property in the third quarter of 2010 and the revaluation of the Lac des Iles mine asset retirement obligation in the fourth quarter of 2010. Both these revaluations under Canadian GAAP were similarly performed under IFRS and the resultant variance adjusted in each of the respective reporting periods.

- (ii) Under IFRS, accretion charges are reflected as financing costs. Therefore, these changes have been reclassified to interest and other costs (income) on the consolidated statements of operations, comprehensive loss.

(f) Deferred mining tax liability

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Net adjustment to deferred mining tax liability due to deemed cost election under IFRS 1	\$ -	\$ -	\$ -	\$ 705
Total adjustment at transition to IFRS	\$ -	\$ -	\$ -	\$ 705

- (i) The Company has elected under IFRS 1 to apply the deemed cost exemption in respect of the LDI and Sleeping Giant mining interests. The valuation of the LDI property was deemed to be the fair value as determined at December 31, 2008. For Sleeping Giant mine, the final fair values relating to the May 26, 2009 acquisition date were elected as the deemed cost. The change in deferred mining tax liability as at January 1, 2010 is a result of temporary differences realized as a result of the recognition of the change in accounting carrying values.



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(g) Common share capital and purchase warrants

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Reclassification of foreign-denominated warrants under IAS 32	\$ -	\$ -	\$ -	\$ (8,038)
(ii) Reclassification of premiums related to flow-through shares	-	(2,000)	(2,000)	(2,000)
(iii) Adjustment to expense deferred income tax provision on flow-through share renunciations prior to the January 1, 2010 IFRS transition date	-	1,827	1,827	1,827
(iv) Future income tax on flow-through renunciations in 2010	86	5,136	5,136	-
(v) Difference between IFRS 2 and Canadian GAAP relating to valuation of vested options exercised	-	-	(22)	-
Total adjustment at transition to IFRS	\$ 86	\$ 4,963	\$ 4,941	\$ (8,211)

- (i) Under IAS 32, warrants denominated in a foreign currency which have not been issued on a pro-rata basis to all holders of the same class of shares are classified as liabilities. The warrants relating to the convertible debentures issued in 2006 were denominated in U.S. dollars and were therefore reclassified accordingly on the balance sheet at January 1, 2010.
- (ii) In accordance with IFRS interpretations, the premium received on flow-through shares represents the value of the liability relating to the transfer of income tax credits foregone and owing to investors upon renunciation. These liabilities have been reclassified from equity to liabilities and will be reversed at the time that renunciation of costs occurs.
- (iii) Under Canadian GAAP, renunciations related to flow-through shares results in an increase in deferred taxes payable and a decrease in equity. Under IFRS, the related tax expense has been charged through profit or loss in the period of renunciation.
- (iv) During the first quarter of 2010, the Company fully renounced expenditures relating to its 2009 flow-through share issuance. Under Canadian GAAP, the estimated deferred income tax impact was charged to common stock. Under IFRS, the related balance was reallocated to deferred income tax expense and recognized through profit or loss in the period.

(h) Stock options

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Adjustment to compensation expense due to adoption of IFRS 2	\$ 62	\$ 513	\$ 527	\$ 346
Total adjustment at transition to IFRS	\$ 62	\$ 513	\$ 527	\$ 346

- (i) Under IFRS 2, compensation expense is realized using the graduated method over all respective vesting periods with the inclusion of a provision for forfeiture based on historical non-vesting rates. Under Canadian GAAP, compensation expense is recognized on a straight-line basis over each vesting period.



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(i) Contributed surplus

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Reclassification of foreign-denominated conversion option under IAS 32	\$ -	\$ (12,337)	\$ (12,337)	\$ (12,337)
(ii) Eliminate expiry of convertible notes warrants	-	(8,038)	(8,038)	-
(iii) Eliminate deferred income tax provision relating to warrant expirations	-	1,051	1,051	-
Total adjustment at transition to IFRS	\$ -	\$ (19,324)	\$ (19,324)	\$ (12,337)

- (i) Under IAS 32, warrants and similar call options, denominated in a foreign currency, which have not been issued on a pro-rata basis to all holders of the same class of shares are classified as liabilities. The conversion option relating to the Convertible Debentures issued in 2006 were denominated in U.S. dollars and were therefore reclassified accordingly on the balance sheet at January 1, 2010.
- (ii) Under Canadian GAAP, the warrants relating to the 2006 convertible note issuance were classified as equity for reporting purposes. At expiry, the equity balance was reclassified to contributed surplus. Under IFRS, the foreign-denominated warrants are classified as liabilities and revalued at their fair value at each reporting date with the change in value recognized through profit or loss in the period. As a result, the transition to IFRS required the Company to reverse the transactions under Canadian GAAP relating to the expired warrants.
- (iii) In conjunction with item (ii) above, the Company also eliminated transactions relating to income tax provisions relating to the expired warrants.

(j) Deficit

All above adjustments were recorded against the opening deficit. The total net impact on the reported deficit at each of the reporting dates reflected as follows:

	Three months ended September 30 2010	Nine months ended September 30 2010	December 31 2010	January 1 2010
(i) Net impact of all IFRS transitional adjustments	\$ (381)	\$ 14,682	\$ 12,929	\$ 19,079
Total adjustment at transition to IFRS	\$ (381)	\$ 14,682	\$ 12,929	\$ 19,079

20. SUBSEQUENT EVENTS

On October 4, 2011, the Company sold \$72.0 million of senior secured notes by way of a private placement for net proceeds of \$69.6 million. The notes which mature on October 4, 2014, with a one year extension at the option of the Company, were issued in \$1,000 denominations and bear interest at a rate of 9.25% per year, payable semi-annually. The Company also issued one warrant with each note. Each warrant entitles the holder to purchase 0.35 ounces of palladium at a purchase price of US\$620 per ounce, anytime up to October 4, 2014. If warrants are exercised, the Company has the option to pay the amount owing to the warrant holder in either cash or common shares priced at a 7% discount to market.

On October 28, 2011, 8,760,000 Series B warrants issued as part of April 28, 2010 equity offering expired. Refer to note 11 for further details.



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