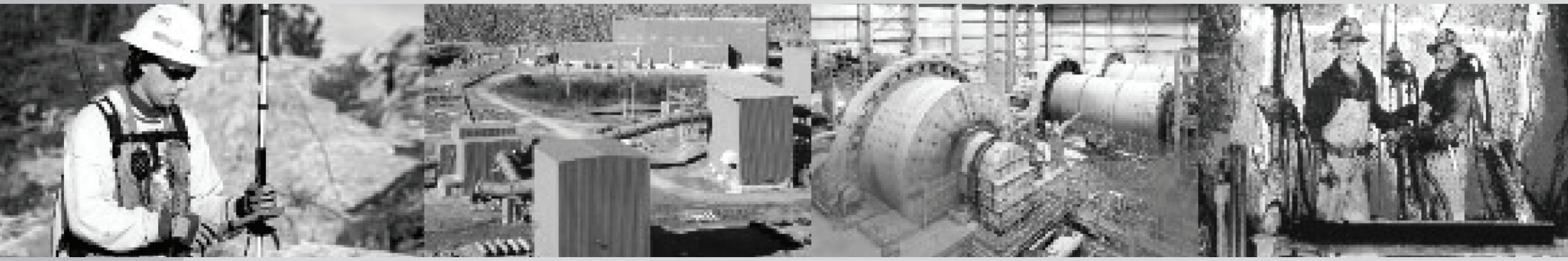
North American Palladium Ltd.

Investing for GROWTH



Management's Discussion and Analysis and Consolidated Financial Statements

First Quarter 2011

For the three months ended March 31, 2011

TABLE OF CONTENTS

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 quarter ended March 31, 2011, compared to those of the respective periods in the prior years. This MD&A has been prepared as of May 9, 2011 and is intended to supplement and complement the unaudited consolidated financial statements and notes thereto for the quarter ended March 31, 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 US 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, including any information as to the Company's future financial or operating performance and other statements, which include future oriented financial information, that express management's expectations or estimates of future performance, constitute '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', 'plan', 'targeting', 'goal', 'vision' and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties, risks and contingencies. The Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of the Company to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements and that the forward-looking statements are not guarantees of future performance. These statements are also based on certain factors and assumptions including factors and assumptions related to future prices of palladium, gold and other metals, the Canadian dollar exchange rate, the ability of the Company to meet operating cost estimates, inherent risks associated with mining and processing, as well as those estimates, risks, assumptions and factors described in the Company's most recent Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities. In addition, there can be no assurance that the Company's Lac des Iles and Sleeping Giant mines will operate as anticipated, or that the other properties can be successfully developed. 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, parametres 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 currently expanding the LDI mine to transition from mining via ramp access to mining via shaft while utilizing a highly mechanized 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, where the Company plans to organically grow the gold operations through the development of its other gold assets. As part of NAP’s growth strategy for its gold operations, the Company has initiated an expansion of the Sleeping Giant mill, which is expected to process ore from NAP’s other gold development projects should they be brought into production. The Company is also currently advancing the Vezza gold project towards a production decision expected at the end of 2011, and is continuing to advance its other projects through exploration and permitting.

The Company has a strong portfolio of development and exploration assets near the LDI and Sleeping Giant mines, and is pursuing 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 $160 million in working capital (including $100 million in cash) as at March 31, 2011 and no long-term debt, 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.

KEY HIGHLIGHTS

(expressed in thousands of dollars except total cash cost and per share amounts)	Three months ended March 31	
	2011	2010
FINANCIAL HIGHLIGHTS		
Revenue		
Revenue after pricing adjustments	**$ 36,714**	$ 7,930
Unit sales		
Palladium (oz)	**30,455**	-
Gold (oz)	**6,300**	6,700
Platinum (oz)	**1,683**	-
Nickel (lb)	**133,055**	-
Copper (lb)	**228,591**	-
Earnings		
Net loss	**$ (10,321)**	$ (18,351)
Net loss per share	**$ (0.06)**	$ (0.14)
Adjusted net income (loss)[1]	**$ (6,482)**	$ (8,175)
EBITDA[1]	**$ (3,756)**	$ (14,977)
Adjusted EBITDA[1]	**$ 83**	$ (4,801)
Cash flow used in operations		
Cash flow used in operations before changes in non-cash working capital	**$ (6,568)**	$ (12,186)
Cash flow used in operations before changes in non-cash working capital per share[1]	**$ (0.04)**	$ (0.10)
Capital spending	**$ 41,144**	$ 4,487
OPERATING HIGHLIGHTS		
Production		
Palladium (oz)	**30,661**	-
Gold (oz)	**4,906**	4,863
Platinum (oz)	**1,692**	-
Nickel (lb)	**133,836**	-
Copper (lb)	**230,006**	-
Total cash costs[1]		
Palladium (US$)	**$ 519**	-
Gold (US$)	**$ 1,991**	$ 1,417

FINANCIAL CONDITION

(expressed in thousands of dollars)	**As at March 31 2011**	As at December 31 2010
Net working capital	**$ 163,335**	$ 169,559
Cash balance	**$ 100,136**	$ 75,159
Shareholders' equity	**$ 321,122**	$ 290,450

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

EXECUTIVE SUMMARY

Financial Highlights

Revenue, after pricing adjustments, for the quarter ended March 31, 2011 was $36.7 million. Net loss for the first quarter was $10.3 million or $0.06 per share. Adjusted net loss[1] for the quarter was $6.5 million. NAP used cash from operating activities of $6.6 million, before changes in non-cash working capital, or $0.04 per share[1]. EBITDA[1] was a negative $3.8 million and adjusted EBITDA[1] was $0.1 million.

Strong Balance Sheet

As at March 31, 2011, the Company had approximately $163.3 million in working capital (including $100.1 million of cash on hand) and no long-term debt. During the quarter, the Company received proceeds of $21.3 million from the exercise of Series A warrants and $22.0 million from financing of flow-through shares. The Company's operating cash flow, together with its cash reserves and credit facilities, which remain undrawn, provide the Company with the financial flexibility to advance its development projects.

Investment in Growth

For the quarter ended March 31, 2011, the Company invested $3.8 million in exploration activities at its palladium operations ($1.9 million) and gold operations ($1.9 million) and $41.1 million in development expenditures.

LDI Mine Palladium Production

First quarter production at the LDI mine included the blending of underground ore with surface stockpiles. During the first quarter, NAP produced 30,661 ounces of payable palladium (at an average palladium head grade at the mill of 3.85 grams per tonne), at total cash costs[1] (net of byproduct credits) of US$519 per ounce, compared to planned cash costs[1] of US$458 per ounce.

First quarter underground tonnage production at LDI was essentially on plan (although slightly at lower grades due to stope sequencing), while production from surface stockpiles was significantly lower due to the severity of the winter (one of the coldest on record in Thunder Bay) and crew availability. To make up for the weather-related issues affecting surface production, the Company has hired additional contractors to assist with the break-up of the oversized stockpiles.

As the Company endeavours to simultaneously produce, develop and explore underground at LDI, 2011 will be a key transitional year. With the mine expansion as the Company's number one priority, the Company is revising the 2011 mine plan to put greater emphasis on development in order to keep the expansion on track and optimize operations for future production. Accordingly, the Company has reduced its annual production guidance to 145,000 to 155,000 ounces (previously 165,000 – 175,000 ounces) for 2011 to alleviate some of the pressure on development and the congestion that results from mining while developing. Due to the high fixed cost component of operating costs with lower production volume, appreciation in the Canadian dollar and higher contractor costs since the start of the year, cash costs[1] per ounce are expected to be higher. Accordingly, management has increased its cash cost[1] guidance for 2011 to US$450 per ounce. This should not be construed as being indicative of cash costs for 2012, when higher grade underground ore will not be diluted by the processing of low grade surface stockpiles.

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 costs[1] per ounce. The Company is targeting commercial production from the shaft at a capacity of 3,500 tonnes per day to commence in the fourth quarter of 2012, with plans to increase it to 5,500 tonnes per day starting in the first quarter of 2015. During the first quarter of 2011, the Company spent approximately $30.8 million (including $3.8 million on exploration) on the mine expansion development activities.

[1] Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.

During the first quarter, the Company made significant progress in advancing the critical aspects of the mine expansion development activities, which include the completion of the pilot hole for the shaft raisebore (raiseboring commenced in May), drilling the pilot hole for the vent raise, the critical foundation and construction work, as well as advancing the level development.

The Company intends to update its LDI Mine Expansion Plan in the third quarter of this year to reflect the updated reserve and resource calculation (expected in the second quarter), more current metal price assumptions, and the new seismic information that may impact stope design.

Sleeping Giant Mine Gold Production

While development of higher grade zones at depth continues, mining was focused above the 975-metre elevation – mining the remnant reserves left behind by the previous operator. During the first quarter, Sleeping Giant produced 3,699 ounces of gold (at an average head grade at the mill of 5.83 grams per tonne), at a cash cost[1] of US$1,991 per ounce. The shortfall in production and higher cash costs[1] reflect the Company's ongoing challenges of hiring and retaining more skilled, underground miners, which had a negative impact on the volume of tonnes mined and the grade controls. Availability of skilled underground miners is critical for production growth at Sleeping Giant. Experienced miners are in high demand in the sector, particularly in the highly competitive Abitibi region.

Under the new leadership of Greg Struble, Vice President and Chief Operating Officer, the Sleeping Giant mine embarked on a detailed review of all operating systems for the balance of 2011. Operations will be refocused on quality of mining (fewer stopes and higher grade) from the current focus on volume (tonnage). The Company is currently evaluating all components of operating costs in the context of lower production, with a view to reducing costs to achieve break-even cash flow. Accordingly, management has reduced its 2011 gold production guidance for the remainder of 2011 to 15,000 to 20,000 ounces (previously 30,000 to 35,000 ounces).

Sleeping Giant Mine & Mill Development Update

During the quarter, the Company made good progress in the development work related to the 200-metre shaft deepening at Sleeping Giant, embarked on to give access to stopes in zones that have historically provided good tonnage and higher grades. The work at depth remains on target for completion at the end of the second quarter and will be integral for increased production and profitability in 2012. The development of the three new mining levels at depth is scheduled to commence in the third quarter. During the first quarter, the Company spent $1.8 million on the shaft deepening activities.

Management is also in the process of developing its mine plan for 2012, when the Company will have access to mining three new higher-grade levels at depth. When that process is completed in the third quarter, management will confirm or revise its current 2012 guidance range of 40,000 to 50,000 ounces of production.

The $7.0 million expansion of Sleeping Giant's mill (from 900 tonnes per day to 1,250 tonnes per day) commenced in the first quarter and is expected to be completed at the end of the third quarter. In the first quarter, NAP retained a construction manager for this project, completed the geo-technical tests and foundation design, and received the required construction permits. The Company spent $0.2 million in the first quarter on the mill expansion.

Vezza Gold Project Development Update

During the quarter, the Company made good progress in the development work at its Vezza gold project which is currently being advanced through exploration and development towards a production decision at year-end. The Company completed the dewatering of the shaft (741 metres from surface) and the four existing underground drifts. Underground rehabilitation of the drifts, stations and underground services (power, pumping and compressed air) is nearly complete. A 5,000-metre surface drilling program has started and two underground diamond drills are mobilized on site.

[1] Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.

A bulk sample of up to 40,000 tonnes is also scheduled for the end of the third quarter of 2011. The Company has approval from the Ministry of Natural Resources and Wildlife for the bulk sample and is completing the permitting process with the Ministry of Sustainable Development, Environment and Parks. Subsequent to quarter end, the Company also announced that Vezza's measured and indicated resource increased by 12% to 321,000 contained ounces. Inferred resources total 121,000 ounces.

Exploration Updates

During the first quarter, the Company released positive results from its 2010 drilling program for its LDI mine, Sleeping Giant mine and the Vezza gold project. The release also provided an update on exploration activities at Flordin, Discovery, Dormex, Cameron Shear and Laflamme projects. Selected highlights of the updates included continued positive drill results throughout LDI's Offset Zone (which show that the Offset Zone continues to expand), the extension at depth on Sleeping Giant's known zones towards the three new proposed mining levels, and confirmed continuity and grade in the near surface, eastern extension of Vezza's deposit (where only inferred resources currently exist). Subsequent to quarter-end, the Company also released an updated gold mineral reserves and resources at Sleeping Giant and for Vezza.

During the first quarter, at its operating mines, the Company drilled 23,251 metres at LDI (of which 9,326 metres was definition drilling for the mine expansion), and 10,762 metres at Sleeping Giant.

A mineral reserve and resource update incorporating 2010 drilling at LDI is expected to be completed in the second quarter. It will exclude the new Cowboy, Outlaw and Sherriff zones as there is insufficient drilling on these zones at this time. Although the bulk of the 2010 drilling was infill drilling to facilitate planning for the mine expansion underway, early indications suggest there is likely to be a significant increase in resources driven by step-out drilling and a lower cut-off grades as a result of the increase in metal prices (palladium and by-product metals platinum, gold, copper, and nickel) since the date of the last resource update.

Outlook

The Company believes it is delivering on its vision to create a diversified mid-tier precious metals producer. NAP is well positioned to benefit from the rise in the price of palladium as the LDI mine expansion is expected to significantly increase production through the development of the Offset Zone over the next couple of years.

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

- Progressing the LDI mine expansion;
- Completing the LDI reserve and resource update (Q2);
- Updating the LDI mine expansion plan (Q3)
- Completing the shaft deepening and mill expansion at Sleeping Giant (Q3);
- Advancing the Vezza gold project through exploration and development towards a production decision by year-end; and
- Continuing exploration programs aimed at increasing reserves and resources at LDI and in the gold division.

While management is focused on organic growth, there could be attractive strategic opportunities to consider in the current environment. The Company may use its strong balance sheet to pursue platinum group metal ("PGM") and/or gold acquisition and joint venture opportunities, but with discipline to ensure it pursues only those transactions that can deliver enhanced and sustainable shareholder value.

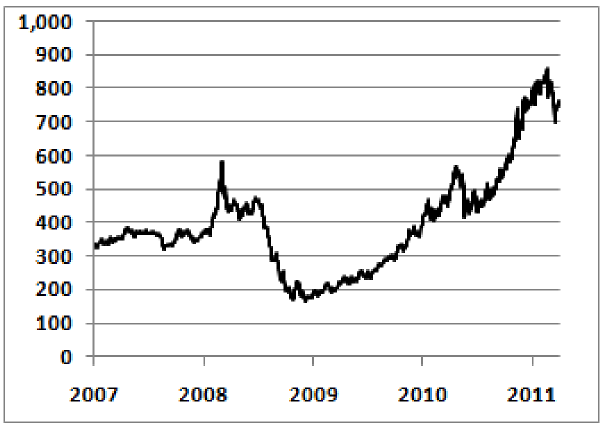
Selected Quarterly Information

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

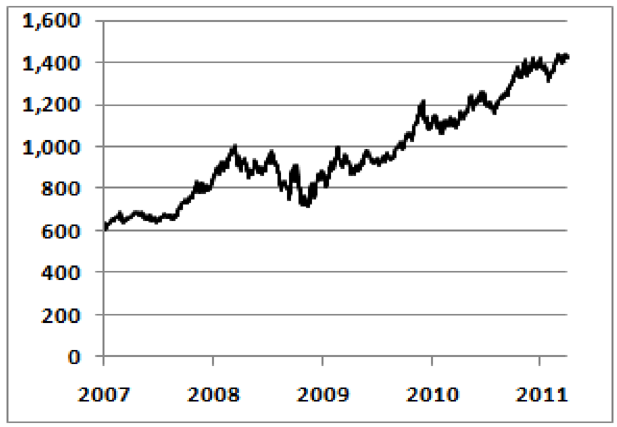
	Three months ended March 31	
	2011	2010
Revenue after pricing adjustments	**$ 36,714**	$ 7,930
Loss from mining operations	**(443)**	(10,172)
Net loss	**(10,321)**	(18,351)
Net loss per share – Basic and diluted	**(0.06)**	(0.14)
Cash flow from (used in) operations prior to changes in non-cash working capital	**(6,568)**	(12,186)
Total assets	**374,978**	211,180
Obligations under capital leases	**2,810**	3,692

Metal Prices

Palladium Price (US$/ Troy oz)



Gold Price (US$/ Troy oz)



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.

During the first quarter of 2011, the palladium price averaged US$792 per ounce, ranging from a low of US$699 to a high of US$859 per ounce. The price of palladium continues to benefit from the increased investment demand, strong fabrication demand and constrained supply. Palladium is increasingly behaving like a precious metal with rising investment and jewelry demand, yet has the fundamental underpinning of an industrial metal. Palladium was the best performing metal in percentage terms in 2010 and reached a ten year high of US$859 per ounce in early 2011. As of May 9, 2011, the price of palladium was US$729 per ounce.

During the first quarter of 2011, the average price of gold was US$1,382 per ounce, with gold trading in a range of US$1,314 to US$1,437 per ounce. As of May 9, 2011, the price of gold was US$1,510. The price of gold has recently increased as the US dollar continues to weaken and with the US Federal Reserve's commitment to keep interest rates low in the near term.

The Canadian dollar modestly strengthened during the first quarter of 2011 from $1.00 to $1.03 relative to the U.S. dollar ("USD"). The Canadian dollar was $1.03 at March 31, 2011, above parity with the U.S. currency, closing at its highest level in two and a half years amid rising commodity prices.

NAP Metal Prices and Exchange Rates

	Three months ended March 31	
	2011	2010
Palladium – US$/oz	**$ 785**	-
Platinum – US$/oz	**$ 1,768**	-
Gold – US$/oz	**$ 1,377**	$ 1,116
Nickel – US$/lb	**$ 11.53**	-
Copper – US$/lb	**$ 4.30**	-
Average exchange rate (Bank of Canada) – CDN$1 = US$	**$ 1.01**	$ 0.96

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.

Spot Metal Prices* and Exchange Rates

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

	Mar-31 2011	Dec-31 2010	Sep-30 2010	Jun-30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009	Jun-30 2009
Palladium – US$/oz	**$ 766**	$ 791	$ 573	$ 446	$ 479	$ 393	$ 294	$ 249
Gold – US$/oz	**$ 1,439**	$ 1,410	$ 1,307	$ 1,244	$ 1,116	$ 1,104	$ 996	$ 934
Platinum – US$/oz	**$ 1,773**	$ 1,731	$ 1,662	$ 1,532	$ 1,649	$ 1,461	$ 1,287	$ 1,186
Nickel – US$/lb	**$ 11.83**	$ 11.32	$ 10.57	$ 8.78	$ 11.33	$ 8.38	$ 7.86	$ 7.26
Copper – US$/lb	**$ 4.26**	$ 4.38	$ 3.65	$ 2.95	$ 3.56	$ 3.33	$ 2.78	$ 2.31
Exchange rate (Bank of Canada) – CDN$1 = US$	**US$1.03**	US$1.01	US$0.97	US$0.94	US$0.98	US$0.96	US$0.93	US$0.86

** 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 March 31	
	2011	2010
Revenue after pricing adjustments	**$ 29,436**	-
Operating expenses		
Production costs	**$ 20,039**	$ 6,002
Smelting, refining and freight costs	**1,427**	-
Royalty expense	**1,126**	-
Depreciation and amortization	**1,755**	35
Loss (gain) on disposal of equipment	**-**	12
Total operating expenses	**$ 24,347**	$ 6,049
Income (loss) from mining operations	**$ 5,089**	$ (6,049)

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. 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 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 already sold. The total of these financial contracts represent 60,500 ounces of palladium as at March 31, 2011. These contracts mature from April 2011 through September 2011 at an average price of $722 per ounce (or US$706 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 March 31, 2011 was a liability of $1,289, included in accounts payable and accrued liabilities (December 31, 2010 - $11,098 liability).

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

	Three months ended March 31	
	2011	2010
Sales volumes		
Palladium (oz)	**30,455**	-
Gold (oz)	**1,200**	-
Platinum (oz)	**1,683**	-
Nickel (lbs)	**133,055**	-
Copper (lbs)	**228,591**	-
Cobalt (lbs)	**3,324**	-
Silver (oz)	**967**	-

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

	Three months ended March 31	
	2011	2010
Revenue before pricing adjustments	**$ 31,048**	-
Pricing adjustments	**(1,612)**	-
Revenue after pricing adjustments	**$ 29,436**	-
Revenue by metal		
Palladium	**$ 22,496**	-
Gold	**1,606**	-
Platinum	**2,770**	-
Nickel	**1,604**	-
Copper	**884**	-
Cobalt	**50**	-
Silver	**26**	-
	$ 29,436	-

For the quarter ended March 31, 2011, revenue before pricing adjustments was $31.0 million, compared to $nil for the same comparative periods last year, reflecting no production from the LDI mine. 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 quarter ended March 31, 2011 was $29.4 million, reflecting a $1.6 million negative commodity price adjustment and a nominal foreign exchange adjustment.

Operating Expenses – LDI Mine

For the quarter ended March 31, 2011, operating expenses were $24.3 million compared to $6.0 million in the same period last year. The first quarter of 2010 included costs of $6.0 million related to restarting the LDI mine and mill, which occurred in April 2010. The first quarter restart costs were expensed since the Company kept the LDI operations commercially available and retained all key senior management in anticipation of a prompt restart when metal prices recovered. Total cash costs[1] per ounce of palladium sold, net of by product credits[1] were US$519 for the quarter ended March 31, 2011.

Smelting, refining and freight costs for the quarter ended March 31, 2011 were $1.4 million compared to $nil in the same period last year, the increase is due to the LDI mine and mill restart in April 2010.

For the quarter ended March 31, 2011, the royalty expense was $1.1 million compared to $nil in the same period last year. In the prior year, the mine was on temporary care and maintenance.

Depreciation and amortization at the LDI mine for the quarter ended March 31, 2011 was $1.8 million, compared to a nominal amount in the quarter ended March 31, 2010.

Sleeping Giant Gold Mine

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

	Three months ended March 31	
	2011	2010
Revenue after pricing adjustments	**$ 7,278**	$ 7,930
Operating expenses		
Production costs	**$ 10,388**	$ 10,049
Smelting, refining and freight costs	**12**	18
Depreciation and amortization	**2,362**	1,961
Loss (gain) on disposal of equipment	**-**	(3)
Total operating expenses	**$ 12,762**	$ 12,025
Loss from mining operations	**$ (5,484)**	$ (4,095)

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.

	Three months ended March 31	
	2011	2010
Sales volumes		
Gold (oz)	**5,100**	**6,700**
Silver (oz)	**11,400**	**10,000**

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

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

	Three months ended March 31	
	2011	2010
Revenue before pricing adjustments	**$ 7,278**	$ 7,930
Pricing adjustments	**-**	-
Revenue after pricing adjustments	**$ 7,278**	$ 7,930
Revenue by metal		
Gold	**$ 6,932**	$ 7,751
Silver	**$ 346**	$ 179
	$ 7,278	$ 7,930

For the quarter ended March 31, 2011, revenue was $7.3 million, reflecting gold sales of 5,100 ounces with an average realized price of US$1,359 per ounce.

Operating Expenses – Sleeping Giant Mine

For the quarter ended March 31, 2011, total production costs at the Sleeping Giant gold mine were $10.4 million as compared to $10.0 million in the first quarter of 2010. Total cash costs[1] were US$1,991 per ounce for the quarter ended March 31, 2011 compared to $1,417 per ounce for the quarter ended March 31, 2010.

Depreciation and amortization at the Sleeping Giant gold mine was $2.4 million for the quarter ended March 31, 2011 compared to $2.0 million in the prior year.

Other Expenses

The Company's general and administration expenses for the quarter ended March 31, 2011 were $3.5 million, compared to $2.7 million, an increase of $0.8 million due to additional administration costs from increased activities at the Sleeping Giant gold mine and LDI palladium mine.

Exploration expenditures for the quarter ended March 31, 2011 were $3.9 million compared to $4.2 million in the prior year period, comprised as follows:

	Three months ended March 31	
	2011	2010
LDI Offset Zone project	**$ 566**	$ 1,661
Other Ontario exploration projects*	**1,358**	1,393
Sleeping Giant mine property	**1,112**	852
Other Quebec exploration projects**	**869**	259
Exploration tax credits	**(66)**	-
Total exploration expenditures	**$ 3,839**	$ 4,165

* *Other 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 Vezza, Flordin, Discovery, Dormex, Montbray, Harricana, Cameron Shear, Laflamme, and Florence properties.*

Interest and other income for the quarter ended March 31, 2011 was $0.4 million compared to $2.0 million in the prior year, which included a gain on renouncement of flow-through expenditures of $0.3 million compared to $2.0 million in the prior year quarter. Interest and other income include interest on capital leases, accretion expense, interest income and interest expense in the current and prior year.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

Asset Impairment

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances arise that may result in impairment in the carrying value of those assets. Impairment is considered to exist if total estimated future undiscounted cash flows are less than the carrying amount of the asset. In the opinion of management, for the quarter ended March 31, 2011, there were no events or changes in circumstances giving rise to an impairment in the carrying value of long-lived assets. 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 impairment charges.

Income and Mining Tax Recovery (Expense)

The income and mining tax recovery (expense) for the quarters ended March 31 are provided in the table below.

	Three months ended March 31	
	2011	2010
LDI palladium mine		
Ontario transitional tax credit	**$ (2,387)**	$ -
Ontario resource allowance recovery	**-**	315
	$ (2,387)	$ 315
Sleeping Giant gold mine		
Quebec mining duties recovery	**$ 45**	-
Quebec income tax recovery	**107**	26
Mining interests temporary difference expense	**(580)**	107
	$ (428)	$ 133
Corporate and other		
Expiration of warrants	**$ 3**	$ 542
Renunciation of exploration expenditures	**-**	(4,335)
	$ 3	$ (3,793)
	$ (2,812)	$ (3,345)

For the quarter ended March 31, 2011, the income and mining tax expense was $2.8 million compared to a $3.3 million expense in the same period in 2010, due primarily to Ontario transitional tax credits ($2.4 million) and mining interest temporary difference expense ($0.6 million).

Net Loss

For the quarter ended March 31, 2011, the Company reported a net loss of $10.3 million or $0.06 per share compared to a net loss of $18.4 million or $0.14 per share in the prior year.

Summary of Quarterly Results

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

	2011	2010				2009*		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue – after pricing adjustments	**$ 36,714**	$ 39,502	$ 38,451	$ 21,215	$ 7,930	$ 1	$ 1	$ (1,278)
Exploration expense	**3,839**	12,532	7,008	6,421	4,165	4,287	2,623	3,916
Cash provided by (used in) operations	**24,647**	(25,234)	(20,053)	(18,433)	(10,172)	(12,186)	(8,911)	11,464
Cash provided by (used in) operations prior to changes in non-cash working capital per share[1]	**(0.04)**	-	0.04	(0.04)	(0.11)	(0.11)	(0.06)	(0.11)
Capital expenditures	**41,144**	20,142	14,589	10,146	4,487	4,450	5,647	1,898
Net income (loss)	**(10,321)**	(260)	3,185	(11,560)	(14,624)	(14,361)	(6,194)	(9,806)
Net loss per share – basic and diluted	**$ (0.06)**	-	$ 0.02	$ (0.08)	$ (0.11)	$ (0.11)	$ (0.06)	$ (0.11)

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

1 *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

	Three months ended March 31	
	2011	2010
Cash used in operations prior to changes in non-cash working capital	**$ (6,568)**	$ (12,186)
Changes in non-cash working capital	**31,215**	2,028
Cash provided by (used in) operations	**24,647**	(10,158)
Cash provided by (used in) financing	**41,474**	(228)
Cash provided by (used in) investing	**(41,144)**	(4,482)
Increase (decrease) in cash and cash equivalents	**$ 24,977**	$ (14,868)

Operating Activities

For the quarter ended March 31, 2011, cash used in operations prior to changes in non-cash working capital was $6.6 million, compared to $12.2 million in the prior year, a decrease of $5.6 million. This decrease is due primarily to the lower net loss of $10.2 million (including $2.1 million increased depreciation and amortization) partially offset by an increase of deferred income and mining tax recoveries of $4.9 million.

For the quarter ended March 31, 2011, changes in non-cash working capital resulted in a source of cash of $31.2 million compared to a source of cash of $2.0 million in the prior year. The $31.2 million amount is substantially due to a decrease in other assets ($22.2 million) representing proceeds received from the exercise of warrants, a decrease in accounts receivable ($9.8 million), a decrease in inventories ($3.7 million) and an increase in taxes payable ($2.2 million), partially offset by a decrease in accounts payable and accrued liabilities ($6.7 million).

For the quarter ended March 31, 2011, cash provided by operations was $24.6 million compared to cash used in operations of $10.2 million in the comparative period in 2010.

Financing Activities

For the quarter ended March 31, 2011, financing activities provided cash of $41.5 million of which $19.8 million was related to the exercise of warrants, partially offset by the scheduled repayment of capital leases of $0.5 million. This compared to cash used in financing activities of $0.2 million in the corresponding period last year. The Company's obligations under capital leases increased to $2.8 million at March 31, 2011 from $2.4 million at December 31, 2010 due to new capital lease obligations of $0.9 million, offset by scheduled capital lease repayments of $0.5 million.

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) 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. In the event that the 20-day volume weighted average price of the common shares on the TSX is greater than $7.50 per share, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is 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 during the first quarter of 2011.

Investing Activities

For the quarter ended March 31, 2011, investing activities required cash of $41.1 million, relating to additions to mining interests as set out in the table below. For the quarter ended March 31, 2010, investing activities required cash of $4.5 million, relating to additions to mining interests, the majority of which was attributable to the development of the Sleeping Giant gold mine and various mill projects at the LDI palladium mine.

Additions to mining interests

	Three months ended March 31	
	2011	2010
LDI palladium mine		
Offset Zone development	**$ 26,921**	$ 936
Roby Zone development	**60**	106
Offset Zone exploration costs	**3,833**	-
Roby Zone exploration costs	**88**	-
Jaw crusher	**-**	879
Mill flotation redesign	**-**	573
Tailings management facility	**42**	-
Other equipment and betterments	**1,796**	387
	$ 32,740	$ 2,881
Sleeping Giant gold mine		
Shaft deepening	**$ 1,810**	$ 961
Vezza project	**5,288**	-
Mill expansion	**226**	-
Underground and deferred development	**850**	556
Other equipment and betterments	**230**	85
	$ 8,404	$ 1,602
Corporate and other		
Other equipment and betterments	**-**	$ 4
	$ 41,144	$ 4,487

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 $0.9 million for the quarter ended March 31, 2011.

Capital Resources

As at March 31, 2011, the Company had cash and cash equivalents of $100.1 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 2010, the Company obtained a $30 million operating line of credit with the Bank of Nova Scotia. The credit facility has a one year term, secured by the Company's accounts receivables and may be used for working capital liquidity and general corporate purposes. At March 31, 2011, the operating line of credit was undrawn.

For the quarter ended March 31, 2011, $21.3 million of proceeds were received from the exercise of Series A warrants. In addition, the Company received $22 million of proceeds from the flow-through share financing during the quarter.

The cash flow from the LDI palladium mine and the Sleeping Giant gold mine, together with the Company's cash reserves and credit facilities, are expected to be sufficient to fund the Company's requirements in 2011.

Contractual Obligations

As at March 31, 2011		Payments Due by Period		
(expressed in thousands of Canadian dollars)	Total	Less than 1 year	2-5 Years	>5 years
Capital lease obligations	$ 2,968	$ 1,835	$ 1,133	-
Operating leases	7,822	5,776	1,633	413
Purchase obligations	58,688	58,688		
	$ 69,478	$ 66,299	$ 2,766	$ 413

In addition to the above, the Company also has asset retirement obligations at March 31, 2011 in the amount of $12.7 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 $10.6 million. As a result, $2.1 million of funding is required prior to closure of the mines.

Related Party Transactions

There were no related party transactions for the quarter ended March 31, 2011.

OUTSTANDING SHARE DATA

As of May 9, 2011, there were 162,371,897 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 3,958,332 common shares of the Company at a weighted average exercise price of $4.30 per share. As of the same date, there were also 8,760,000 Series B warrants outstanding, each warrant entitling the holder thereof to purchase one common share at a weighted average exercise price of $6.50 per share before October 28, 2011.

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 March 31	
	2011	2010
Tonnes of ore milled	**337,846**	-
Production		
Palladium (oz)	**30,661**	-
Gold (oz)	**1,207**	-
Platinum (oz)	**1,692**	-
Nickel (lbs)	**133,836**	-
Copper (lbs)	**230,006**	-
Palladium head grade (g/t)	**3.85**	-
Palladium recoveries (%)	**78.79**	-
Tonnes of ore mined	**332,523**	24,840
Cost per tonne milled	**$ 59**	-
Total cash cost ($USD)[1]	**$ 519**	-

The LDI mine consists of an open pit (now depleted), an operating underground mine (currently producing from the Roby Zone), and a mill with a nominal capacity of approximately 15,000 tonnes per day. The primary deposits on the property are the Roby Zone and the Offset Zone, both disseminated magmatic nickel-copper-platinum group metal ("PGM") deposits.

First quarter production at the LDI mine included the blending of underground ore with lower-grade surface stockpiles. During the quarter, 332,523 tonnes of ore were extracted from underground and from the surface stockpiles, of which underground ore sources provided 238,221 tonnes from the Roby Zone and some silling ore from the Offset Zone (at an average combined palladium grade of 4.76 grams per tonne), while 94,302 tonnes came from surface stockpiles (at an average palladium grade of 1.68 grams per tonne). During the first quarter of 2010, no ore was extracted as the LDI mine was on temporary care and maintenance. Ore production from the Roby Zone at the LDI mine is operating at 2,600 tonnes per day, seven days a week, on two 12-hour shifts per day. The Company has a workforce of approximately 215 people at LDI and a new collective agreement with the United Steelworkers that is effective until May 31, 2012.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

First quarter underground production at LDI was essentially on plan (although at slightly lower grades due to stope sequencing), while production from surface stockpiles was significantly lower due to the severity of the winter (one of the coldest on record in Thunder Bay) and crew availability.

The surface production shortfall resulted from lower than planned feed from the oversized surface source, which was impacted by weather-related issues. The freezing temperatures hampered the feed capabilities of broken oversized material into the primary crusher, as a build-up of snow and ice resulted in a period of limited or no crushing ability. This necessitated the Company to make up for the tonnage by supplementing the oversized stockpiles (at an average grade of 1.8 grams per tonne) with its secondary low-grade stockpiles (also referred to as the RGO Stockpiles in the Company's resource report, at an average grade 0.97 grams per tonne). To make up for the weather-related issues affecting surface production, the Company has hired additional contractors to assist with the break-up of the oversized stockpiles.

During the quarter, the Company also implemented a geotechnical monitoring system following an unforeseen geotechnical occurrence that caused two sill pillars in the lower part of the Roby Zone to become unstable. Issues of this nature are not uncommon in underground mines and did not impact production as the Company initiated a controlled extraction from the affected pillars. The new system monitors seismic activity and will refine the Company's understanding of the geotechnical data that will ultimately determine optimal stope design for the Offset Zone. As a result of the new information, the Company intends to consider various backfilling scenarios for the mine expansion.

As the Company endeavours to simultaneously produce, develop and explore underground at LDI, 2011 will be a key transitional year. With the mine expansion as the Company's number one priority, management feels it is prudent to revise the 2011 mine plan to put greater emphasis on development in order to keep the expansion on track and optimize operations for future production. Accordingly, management has reduced its annual production guidance to 145,000 to 155,000 ounces (previously 165,000 to 175,000 ounces) for 2011 to alleviate some of the pressure on development and the congestion that results from mining while developing. Due to the high fixed cost component of operating costs with lower production volume, appreciation in the Canadian dollar and higher contractor costs since the start of the year, cash costs[1] per ounce are expected to be higher. Accordingly, management has increased its cash cost guidance for 2011 to US$450 per ounce. This should not be construed as being indicative of cash costs for 2012, when higher grade underground ore will not be diluted by the processing of low grade surface stockpiles.

LDI Mill

For the quarter ended March 31, 2011, the LDI mill processed 337,846 tonnes of ore at an average of 8,819 tonnes per operating day, producing 30,661 ounces of payable palladium at an average palladium head grade of 3.85 grams per tonne, with a palladium recovery of 78.8%, and mill availability of 96.0%. During the first quarter of 2010, the LDI mill was on temporary care and maintenance. LDI's cash costs[1], net of byproduct credits, were US$519 per ounce, compared to planned cash costs[1] of US$458 per ounce. Production costs, per tonne of ore milled, were $59 for the quarter ended March 31, 2011. The mill is operating on a batch basis, with a two-week operating and a two-week shutdown schedule.

LDI Mine Expansion Project 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 costs[1] per ounce. The Company is targeting commercial production from the shaft at a capacity of 3,500 tonnes per day to commence in the fourth quarter of 2012, with plans to increase it to 5,500 tonnes per day starting in the first quarter of 2015. During the first quarter, the Company spent approximately $31.3 million (including $3.0 million on exploration) on the mine expansion development activities.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

During the first quarter the Company made significant progress in advancing the critical aspects of the mine expansion construction activities; highlights include:

- Completed the pilot hole for the shaft raisebore machine;
- Commenced raiseboring in May;
- Began drilling the pilot hole for the vent raise into the Offset Zone;
- Substantially completed the critical foundation work:
  - 80% of hoist house walls poured
  - 25% of head frame footings poured
  - 75% of collar house footings poured
  - 75% of walls formed
- Completed development of the shaft station and installation of ground support;
- Completed construction of permanent dry and commenced construction of 96-person camp addition;
- Began staging the construction steel for the hoist house and head frame structures; and
- Advanced level development (around Level 4925) to allow for access to the Upper Offset Zone.

The Company intends to update its LDI Mine Expansion Plan in the third quarter of this year to take into account the updated reserve and resource calculation (expected in the second quarter), more current metal price assumptions, and the new seismic information that may impact stope design.

The mine expansion's execution risk is mitigated since the LDI complex already includes a mill, tailings management facility, infrastructure and the Company has permits in place. Timing risk has been substantially diminished as the Company has already purchased the production, sinking and service cage hoists that are critical to the project. NAP hired a seasoned project management group with significant underground development experience. This team is onsite at LDI and is responsible for all aspects of the Offset Zone development which includes procuring the major construction components for the project as well as providing technical support to the contractors. During the first quarter, NAP successfully integrated its operating and development teams, giving the Company the flexibility to allocate resources between the two activities.

The Company estimates capital expenditures at LDI for 2011 to be approximately $147.0 million.

Development work in 2011 will be focused on:

- Completing the raised bore section of the production shaft and ventilation raise bore;
- Installing adequate ventilation at surface and underground;
- Advancing the ramp towards the 4570 mine level;
- Developing the 4790 mine level;
- Constructing the head frame, hoist room and substation; and
- Installing the hoists.

Sleeping Giant Gold Mine

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

	Three months ended March 31	
	2011	2010
Tonnes of ore milled	**20,642**	26,823
Production		
Gold (oz)	**3,699**	4,863
Gold head grade (g/t)	**5.83**	4.92
Gold recoveries (%)	**95.62**	95.40
Tonnes of ore hoisted	**20,282**	26,832
Cost per tonne milled	**$ 503**	$ 375
Total cash cost ($USD)[1]	**$ 1,991**	$ 1,417

The Sleeping Giant gold mine consists of a narrow vein underground mine and a mill with a capacity of 900 tonnes per operating day. For the quarter ended March 31, 2011, 20,282 tonnes of ore were hoisted from the underground mine with an average gold grade of 5.83 grams per tonne.

Mining activities at Sleeping Giant are still confined to the remnants left behind by the previous owners, focused above the 975-metre elevation. The shortfall in production and higher cash costs[1] reflect the Company's ongoing challenges of hiring and retaining more skilled, underground miners, which had a negative impact on the volume of tonnes mined and the grade controls. Availability of skilled underground miners is critical for production growth at Sleeping Giant. Experienced miners are in high demand in the sector, particularly in the highly competitive Abitibi region. NAP's efforts at implementing a program to increase employee retention and to attract new underground miners and geologists are ongoing, which includes competitive compensation, retention and incentive bonuses, as well as career advancement opportunities. For the balance of 2011, a number of measures will be implemented to better manage the grade and tonnage controls at Sleeping Giant. Some of these measure include: tighter definition drilling, increased emphasis on long hole stoping opportunities where applicable, remnant mining in the older stoping areas, and above all, a stronger focus on grade control.

In 2010, recognizing that the future of the Sleeping Giant mine is at depth, the Company commenced the deepening of the mine shaft by about 200 metres to gain access to three new mining levels that follow the continuity trends of higher grade zones. The mine shaft deepening is expected to be completed in the second quarter of 2011, following which development work will commence on the three new mining levels in preparation for 2012 production

Under the new leadership of Greg Struble, Vice President and Chief Operating Officer, the mine embarked on a detailed review of all operating systems. Operations will be refocused on quality of mining (grade) from the current focus on volume (tonnage). The Company is currently evaluating all components of operating costs with a view to reduce costs to achieve break-even cash flow. Accordingly, management has reduced its 2011 gold production guidance to 15,000 to 20,000 ounces (previously 30,000 to 35,000 ounces).

The Company is conducting further infill drilling in order to develop its mine plan for 2012, when Sleeping Giant will have access to mining three new higher-grade levels at depth. The 2012 mine plan is expected to be completed in the third quarter at which time management will confirm or revise its expectation of 40,000 to 50,000 ounces of production in 2012.

Sleeping Giant Mill

For the quarter ended March 31, 2011, the mill processed 20,642 tonnes of ore, producing 3,699 ounces of gold at an average gold head grade of 5.83 grams per tonne, with a gold recovery of 95.6% and mill availability of 98.2%. Sleeping Giant's second quarter cash costs[1] were US$1,991 per ounce. Production costs per tonne of ore milled were $503 for the quarter ended March 31, 2011.

At March 31, 2011, the mill contained approximately 1,757 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 803 tonnes per operating day, for the quarter ended March 31, 2011.

In 2011, as part of NAP's growth strategy for its gold operations, the Company is expanding the Sleeping Giant mill, which has the potential to serve NAP's other gold projects in the Abitibi region. For a capital cost of approximately $7 million, in 2011 NAP will expand the mill to 1,250 tonnes per day. For the quarter ended March 31, 2011, the Company spent $0.2 million on the mill expansion activities. In the first quarter, NAP retained a construction manager for this project, completed the geo-technical tests and foundation design, and received the required construction permits.

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.

In 2011, NAP plans to spend $8.8 million on palladium exploration, comprised of 32,000 metres of drilling, and $9.1 million on gold exploration, comprised of 49,000 metres of drilling.

Lac des Iles 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 +30,000-acre land package offers exploration upside that is further complimented by the underutilized, large 15,000-tonne 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.

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

During the first quarter, 63 holes totaling 23,251 metres were drilled at LDI, of which 13,925 metres represented exploration drilling and 9,326 metres was definition drilling as part of the mine expansion. Most of the exploration activities during the first quarter were related to definition drilling in the Offset Zone, as well as some surface drilling targeting the south extension of the Offset Zone.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

During the quarter, the Company also released the remainder of the 2010 drilling results. Highlights included:

- Continued positive drill results throughout the Offset Zone (including 40 metres at 6.2 g/t Pd)
- Excellent results from definition drilling in the top part of the Offset Zone
- Offset Zone continues to extend higher towards surface
- Deep drilling results confirm Offset Zone continues at depth
- Cowboy Zone intersected again in Offset drilling

A mineral reserve and resource update incorporating 2010 drilling at LDI is currently being completed, expected to be filed later in the second quarter. It will exclude the new Cowboy, Outlaw and Sherriff zones as there is insufficient drilling on these zones at this time. Although the bulk of the 2010 drilling was infill drilling to facilitate planning for the mine expansion currently underway, early indication suggests there is likely to be a significant increase in resources driven by step-out drilling and lower cut-off grades as a result of the large increase in metal prices (palladium and by-product metals platinum, gold, copper, and nickel) since the date of the last resource update.

Sleeping Giant Gold Mine & Property

The Company expects there will be additional exploration potential at the Sleeping Giant mine as well as on the surrounding property. On February 14, 2011, the Company released the remainder of the 2010 drill results, which announced that stematic drilling from underground has improved the Company's understanding of several known zones and extended them to greater depths towards three new proposed mine levels. As well, surface drilling near the mine encountered new gold veins. The new gold veins report grades of 11.7 g/t Au and 12.3 g/t Au over 1 metre, which are comparable to grades at the mine. These new occurrences are located approximately 500 metres south of the formerly worked JD zones.

An updated reserve and resource report that incorporated all the 2010 drilling (38,000 metres) at Sleeping Giant was recently released on April 27, 2011. The 2010 drilling at the Sleeping Giant mine increased the contained ounces in the measured and indicated category giving a higher level of confidence in the mineral resource.

Compared to the 2009 reserves and resources, the 2010 drilling program nearly tripled the measured and indicated resource tonnage, while at the same time conserving roughly the same reserves at the end of the year following a year of production. Contained ounces were slightly lower in the reserves category while they more than doubled in the measured and indicated resource categories. Tighter drilling conducted during the year reduced the overall grades but increased the confidence level of the estimation, whereas the overall gold content remained roughly the same year over year. More contained ounces were in higher categories at the end of 2010.

In 2011, NAP plans to conduct 26,500 metres of drilling at Sleeping Giant, targeting the zones below the 975 mine level and the three new levels at depth. This includes 25,000 metres of underground extensional drilling and 1,500 metres of surface drilling, Induced Polarization ("IP") survey and Reverse Circulation ("RC") drilling. During the first quarter of 2011, 47 underground drill holes completed 10,762 metres of drilling. Currently there are two drills testing the extensions of the zones to the proposed three new mining levels to prepare for development when the shaft deepening is completed at the end of the second quarter. A series of deep holes are also being completed to test the gold zones' extensions up to 300 metres under the three new deeper levels of the mine to plan future development at Sleeping Giant. Results are expected in the fourth quarter of 2011.

Vezza Gold Property

Vezza is an advanced-stage exploration 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. When NAP took over in 2010, the work continued at an aggressive pace with 12,105 metres of drilling and dewatering of the underground drifts. During 2011, the Company will continue to advance Vezza through exploration and development towards a production decision by year end. Given the project's quick ramp up potential, production could commence early in 2012 in the range of 39,000 ounces of gold per year over a 9-year mine life.

On February 14, 2011, the Company released the remainder of the 2010 drilling results. The surface drilling program confirmed both continuity and grade in the near surface, eastern extension of the deposit where only inferred resources currently exist. On April 27, 2011, NAP released an updated resource report for Vezza, as well as provided an update on exploration and development. Highlights include:

- Vezza's measured and indicated resource increased by 12% to 321,000 contained ounces. Inferred resources total 121,000 ounces.
- Remainder of 2010 drill hole assays from Vezza confirm continuity and grade, including the best result of 8.6 metres grading 14.6 g/t Au in hole V-10-210.
- Vezza dewatering completed and permitting for bulk sampling well underway.

The Company has dewatered the shaft and underground drifts to conduct underground diamond drilling. Underground rehabilitation of the drifts, stations and underground services (power, pumping and compressed air) is nearly complete. A 5,000-metre surface drilling program has started and two underground diamond drills are mobilized on site.

A bulk sample of up to 40,000 tonnes is also scheduled for the end of the third quarter of 2011. The Company has approval from the Ministry of Natural Resources and Wildlife for the bulk sample and is completing the permitting process with the Ministry of Sustainable Development, Environment and Parks.

The Company is planning to spend $25.8 million in 2011 to advance the Vezza project towards a production decision expected in the fourth quarter. These expenditures are expected to be reduced by estimated pre-production revenue.

Flordin Property

The Flordin project is located in the prolific Abitibi region in Quebec, approximately 30 kilometres north of the town of Lebel-sur-Quévillion, 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 examining open pit scenarios.

An updated estimate of mineral resources was begun by an independent consultant and is expected to be ready in the second quarter of 2011 after all the drill holes are logged and analyses received. Although not all results are yet available, selected results released on February 14, 2011 announced that systematic definition drilling extended Flordin's known gold zones east and west and identified several new zones, immediately south of historical resources.

In 2011, NAP plans to conduct 4,500 metres of drilling to evaluate open pit potential, permitting and bulk sampling. During the first quarter, samples of the gold zones and of waste rock were sent to a specialized lab for ore sorting tests. Ore sorting, if successful, would reduce tonnage being trucked to the Sleeping Giant mill, and achieve better grade control.

Discovery Property

Discovery is an advanced-stage gold exploration project located in the prolific Abitibi region in Quebec, 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.

In 2010, 40 drill holes totalling 25,495 metres were completed, two-thirds of which have now been logged and analyses received. 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 and eastward. An updated estimate of resources will be prepared once all data has been received and integrated into a geological model, expected in the second quarter of 2011.

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

Legris Lake Property

During the second quarter of 2010, the Company signed an Option and Purchase Agreement with prospectors pursuant to which the Company can acquire a 100% interest in the Legris Lake property in exchange for cash payments totalling $0.3 million, advance royalty payments totalling $0.1 million, and a 2.5% NSR. A portion of the royalty can be purchased by the Company and the Company has a right of first refusal on the sale of the royalties.

The property 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 given its PGM potential and close proximity to the LDI mill presents an exciting exploration target. In 2011, NAP plans to conduct 3,000 metres of drilling at this property.

Dormex Property

Dormex is an early-stage gold exploration project in the Abitibi region of Quebec, 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 included a major reverse circulation drill program to better delineate overburden gold anomalies, as well as ground and airborne geophysics. Logging and analysis of the 2010 work (4,206 metres of drilling) is ongoing, expected to be completed during the second quarter, and is expected to influence the 2011 drilling program once all new information is interpreted and integrated.

In 2011, NAP plans to conduct 2,400 metres of drilling, IP surveys and RC drilling. The Company is currently preparing for surface drilling 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 in the Abitibi region in Quebec, 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 early-stage property, although economic intersections have yet been encountered at this juncture. Logging of drill core from the 2010 program is currently ongoing and is expected to be completed in the second quarter of 2011.

Laflamme Gold Property

Laflamme is an early-stage gold exploration project in the Abitibi region of Quebec. The property is situated on favourable geology, following the trend from NAP's Discovery project to the Sleeping Giant mine. The Company has the option to acquire a 50% interest in the property over four years for cash payments totalling $100,000 plus exploration expenditures totalling $1 million over four years.

In 2011, the Company plans to conduct 2,400 metres of drilling and ground geophysics. During the first quarter, three surface holes completed 1,176 metres of drilling, and the Company completed a geophysical grid and survey on the property. NAP is currently preparing for permits and access for two new drill holes on geophysical targets.

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.

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 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 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 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 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 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.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 31-33.*

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 has adopted IFRS during 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 20 of the condensed interim consolidated financial statements for March 31, 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.

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

Disclosure Controls and Procedures
Management is responsible for the information disclosed in this management's discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable.

For the three months ended March 31, 2011, the President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

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

Internal Control over Financial Reporting
For the three-months ended March 31, 2011, the President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS").

There have been no changes in the Company's internal controls over the financial reporting that occurred during the most recent period ended March 31, 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.

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

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

OTHER INFORMATION

Additional information regarding the Company is included in the Company's 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 cost 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*

	Three months ended March 31	
(expressed in thousands of dollars except per share amounts)	**2011**	2010*
Cash provided by (used in) operations prior to changes in non-cash working capital	**$ (6,568)**	$ (12,186)
Weighted average number of shares outstanding – basic and diluted	**160,198,305**	127,405,601
Cash provided by (used in) operations prior to changes in non-cash working capital per share	**$ (0.04)**	$ (0.10)

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

Total Cash Costs

The Company reports total cash costs on a sales basis. Total 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. Total cash costs are reduced by any by-product revenue and is then divided by ounces sold to arrive at the total 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.

(a) Reconciliation of Palladium Total Cash Cost per Ounce

(expressed in thousands of dollars except per ounce amounts)

	Three months ended March 31	
	2011	2010
Production costs including overhead	**$ 20,039**	-
Smelting, refining and freight costs	**1,427**	-
Royalty expense	**1,126**	-
	22,592	-
Less by-product metal revenue	**6,939**	-
	$ 15,653	-
Divided by ounces of palladium sold	**30,455**	-
Cash cost per ounce (CDN$)	**$ 514**	-
Exchange rate (CDN$1 – US$)	**1.01**	-
Cash cost per ounce (US$)	**$ 519**	-

(b) Reconciliation of Gold Total Cash Cost per Ounce

(expressed in thousands of dollars except per ounce amounts)

	Three months ended March 31	
	2011	2010
Production costs including overhead	**$ 10,388**	$ 10,049
Refining and freight costs	**12**	18
	10,400	10,067
Less by-product metal revenue	**346**	179
	10,054	9,888
Divided by ounces of gold sold	**5,100**	6,700
Cash cost per ounce (CDN$)	**$ 1,971**	$ 1,476
Exchange rate (CDN$1 – US$)	**1.01**	0.96
Cash cost per ounce (US$)	**$ 1,991**	$ 1,417

(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 March 31	
	2011	2010
Net loss and comprehensive loss for the year	**$ (10,321)**	$ (18,351)
Exploration	**3,839**	4,165
Mine startup costs	**-**	6,002
Loss on disposal of equipment	**-**	9
Adjusted net income (loss)	**$ (6,482)**	$ (8,175)

(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 March 31	
	2011	2010
Net loss and comprehensive loss for the year	**$ (10,321)**	$ (18,351)
Income and mining tax expense (recovery)	**2,812**	3,345
Interest and other financing costs (income)	**(412)**	(1,995)
Depreciation and amortization	**4,165**	2,024
EBITDA	**(3,756)**	(14,977)
Exploration	**3,839**	4,165
Mine startup costs	**-**	6,002
Loss (gain) on disposal of equipment	**-**	9
Adjusted EBITDA	**$ 83**	$ (4,801)

Condensed Interim Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

(unaudited)

	Notes	March 31 2011	December 31 2010	January 1 2010
ASSETS				
Current Assets				
Cash and cash equivalents		**$ 100,136**	$ 75,159	$ 98,255
Accounts receivable	**4**	**70,844**	80,683	-
Taxes receivable		**-**	734	204
Inventories	**5**	**23,803**	27,487	25,306
Other assets	**6**	**5,392**	27,551	2,495
Total Current Assets		**200,175**	211,614	126,260
Non-current Assets				
Mining interests	**7**	**164,245**	126,286	85,014
Reclamation deposit	**8**	**10,558**	10,537	10,503
Total Non-current Assets		**174,803**	136,823	95,517
Total Assets		**$ 374,978**	$ 348,437	$ 221,777
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	**9**	**$ 34,122**	$ 39,859	$ 12,442
Current portion of obligations under finance leases		**1,718**	1,196	558
Provisions	**10**	**1,000**	1,000	1,000
Other financial liabilities		**-**	-	56
Total Current Liabilities		**36,840**	42,055	14,056
Non-current Liabilities				
Taxes payable		**1,460**	936	1,573
Asset retirement obligations	**8**	**12,677**	12,594	13,602
Obligations under finance leases		**1,092**	1,195	576
Deferred mining tax liability		**1,787**	1,207	832
Total Non-current Liabilities		**17,016**	15,932	16,583
Shareholders' Equity				
Common share capital and purchase warrants	**12**	**743,163**	702,787	574,878
Stock options and related surplus	**12**	**6,199**	5,596	4,242
Contributed surplus		**5,551**	5,537	6,079
Deficit		**(433,791)**	(423,470)	(394,061)
Total Shareholders' Equity		**321,122**	290,450	191,138
Total Liabilities and Shareholders' Equity		**$ 374,978**	$ 348,437	$ 221,777

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

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

	Notes	Three months ended March 31 2011	2010
Revenue – before pricing adjustments	**15**	**$ 38,326**	$ 7,930
Pricing adjustments:			
Commodities	**15**	**(1,603)**	-
Foreign exchange	**15**	**(9)**	-
Revenue – after pricing adjustments	**15**	**36,714**	7,930
Operating expenses			
Production costs		**30,427**	16,051
Royalty expense		**1,126**	-
Smelting, refining and freight costs		**1,439**	18
Depreciation and amortization		**4,165**	2,024
Loss on disposal of equipment		**-**	9
Total operating expenses		**37,157**	18,102
Loss from mining operations		**(443)**	(10,172)
Other expenses			
General and administration		**3,479**	2,677
Exploration		**3,839**	4,165
Interest and other costs (income)	**16**	**(412)**	(1,995)
Foreign exchange loss (gain)		**160**	(13)
Total other expenses		**7,066**	4,834
Loss before taxes		**(7,509)**	(15,006)
Income and mining tax recovery (expense)		**(2,812)**	(3,345)
Loss and comprehensive loss for the period		**(10,321)**	(18,351)
Loss per share			
Basic and diluted		**$ (0.06)**	$ (0.14)
Weighted average number of shares outstanding			
Basic and diluted		**160,198,305**	127,405,601

See accompanying notes to the condensed interim consolidated financial statements

North American Palladium Ltd.

Condensed Interim Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)
(unaudited)

	Notes	Three months ended March 31 2011	2010
Cash provided by (used in)			
Operations			
Net loss for the period		**$ (10,321)**	$ (18,351)
Operating items not involving cash			
Depreciation and amortization		**4,165**	2,024
Deferred income and mining tax expense (recovery)		**(1,263)**	3,686
Share-based compensation and employee benefits		**739**	387
Other		**112**	68
		(6,568)	(12,186)
Changes in non-cash working capital	**18**	**31,215**	2,028
		24,647	(10,158)
Financing Activities			
Issuance of common shares and warrants, net of issue costs		**42,025**	33
Repayment of obligations under capital leases		**(503)**	(247)
Interest paid on capital leases		**(48)**	(14)
		41,474	(228)
Investing Activities			
Additions to mining interests		**(41,144)**	(4,487)
Proceeds on disposal of mining interests		**-**	5
		(41,144)	(4,482)
Increase (decrease) in cash and cash equivalents		**24,977**	(14,868)
Cash and cash equivalents, beginning of period		**75,159**	98,255
Cash and cash equivalents, end of period		**$ 100,136**	$ 83,387
Cash and cash equivalents consisting of:			
Cash		**$ 100,136**	$ 83,101
Short-term investments		**-**	286
		$ 100,136	$ 83,387

See accompanying notes to the condensed interim consolidated financial statements

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	**20**	127,383,051	$ 572,332	$ 4,242	$ 2,546	$ 6,079	$ (394,061)	$ 191,138
Warrants:								
Tax allocation on expiration of warrants		-	-	-	-	(542)	-	(542)
Stock based compensation:								
Stock options exercised	**12(e)**	24,750	33	-	-	-	-	33
Fair value of stock options exercised		-	34	(34)	-	-	-	-
Stock-based compensation expense		-	-	387	-	-	-	387
Net loss and comprehensive loss for the three months ended March 31, 2010		-	-	-	-	-	(18,351)	(18,351)
Balance, March 31, 2010		127,407,801	$ 572,399	$ 4,595	$ 2,546	$ 5,537	$ (412,412)	$ 172,665
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		2,667,000	20,606	-	-	-	-	20,606
Premium on flow-through shares		-	(1,840)	-	-	-	-	(1,840)
Warrants:								
Pursuant to 2009 unit offering	**12(b)**	5,009,986	21,292	-	-	-	-	21,292
Fair value of warrants exercised	**12(b)**	-	1,222	-	(1,239)	14	-	(3)
Stock based compensation:								
Stock options exercised	**12(e)**	29,169	127	-	-	-	-	127
Fair value of stock options exercised		-	72	(72)	-	-	-	-
Stock-based compensation expense		19,967	136	675	-	-	-	811
Net loss and comprehensive loss for the three months ended March 31, 2011		-	-	-	-	-	(10,321)	(10,321)
Balance, March 31, 2011		162,379,397	$ 739,289	$ 6,199	$ 3,874	$ 5,551	$ (433,791)	$ 321,122

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 that owns two mines and various mineral properties in mining friendly jurisdictions.

NAP’s operations consist of the Lac des Iles Mines Ltd. (“LDI”) palladium mine, located in the Thunder Bay District in Ontario, which commenced operations in 1993, and the Sleeping Giant gold mine acquired in 2009, located in the Abitibi region in Quebec, Canada, which reached commercial production on January 1, 2010.

The Company’s other Québec based properties consist of the Vezza Gold Project, Discovery Project, Flordin, Cameron Shear and Florence Properties, Laflamme Gold Property, and Dormex and Harricana properties.

The Company’s financial position and operating results are directly affected by the market price of palladium and gold in relation to the Company’s production costs. The prices of palladium and gold, foreign currency, and by-product metals (platinum, nickel and copper) fluctuate widely and are affected by numerous factors beyond the Company’s control. On October 29, 2008, due to declining metal prices, the LDI mine was temporarily placed on care and maintenance and operations were restarted on April 1, 2010.

The interim consolidated financial statements for the Company as at and for the three month period ended March 31, 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.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 20, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 20 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 May 9, 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 20 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.

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 12 – Shareholders' equity
Note 15 – 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) Overburden removal costs recorded on the balance sheet or charged to the statement of operations may change or impacted due to changes in the units of production basis of depreciation and amortization;
(iv) Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
(v) 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 17 – 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.

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 affect 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.

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 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 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, 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.

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.

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 March 31, 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.

4. ACCOUNTS RECEIVABLE

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 March 31, 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 March 31, 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 15.

Effective July 2010, the balance of accounts receivable has been pledged as security against a one-year $30 million operating line of credit with the Bank of Nova Scotia, which is to be used for working capital liquidity and general corporate purposes. At March 31, 2011, the outstanding liability relating to this facility was $nil (December 31, 2010 - $nil).

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 March 31 2011	At December 31 2010	At January 1 2010
Supplies	**$ 12,184**	$ 12,580	$ 12,555
Gold inventory[1]	**4,073**	5,928	4,890
Crushed and broken ore stockpiles[2]	**7,546**	8,979	7,861
Total	**$ 23,803**	$ 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 $7,641 (2010 – $3,371) were utilized during the quarter ended March 31, 2011.

6. OTHER ASSETS

Other assets consist of the following:

	At March 31 2011	At December 31 2010	At January 1 2010
Prepaids	**$ 1,268**	$ 2,555	$ 1,165
HST receivable	**1,709**	2,830	-
GST receivable	**1,174**	905	781
QST receivable	**1,210**	1,385	494
Warrant proceeds receivable[1]	**-**	19,777	-
Other	**31**	99	55
	$ 5,392	$ 27,551	$ 2,495

[1] *For the quarter ended March 31, 2011, $21.3 million of proceeds were received from the exercise of 5,009,986 Series A warrants. Refer to note 12b 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 March 31, 2011	**$ 30,704**	**$ 91,947**	**$ 5,279**	**$ 9,154**	**$ 27,161**	**$ 164,245**

(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.

Contractual obligations related to equipment under finance leases are summarized in Note 11 and under the discussion of liquidity risk in Note 13.

(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.

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 and Sleeping Giant mining properties are approximately $12,677 as at March 31, 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 March 31 2011	At December 31 2010	At January 1 2010
Inflation	**1.97**	1.97	1.99
Market risk	**5.00**	5.00	5.00
Risk free rate	**2.62**	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.

The Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the "Ministry") and the Ministère des Resources 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 March 31, 2011, the Company had $8,459 (December 31, 2010 – $8,438) on deposit with the Ministry including accrued interest of $928 (December 31, 2010 - $908). All current amounts required have been contributed as at March 31, 2011.

The Sleeping Giant gold mine closure plan requires a total amount of $1,920 to be accumulated in the Fund. At March 31, 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 March 31, 2011.

The Company also has an amount of $330 relating to the Shebandowan West Project on deposit in the form of a guaranteed investment certificate and $90 relating to the Vezza Gold Project.

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 March 31, 2011, the asset retirement and the related mine restoration deposit are as follows as at:

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

	At March 31 2011	At December 31 2010	At January 1 2010
Asset retirement obligation, undiscounted	**$ 16,121**	$ 16,121	$ 14,022

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	At March 31 2011	At December 31 2010	At January 1 2010
Accounts payable	**11,622**	$ 16,531	$ 6,282
Unrealized loss on financial contracts[1]	**1,289**	11,098	-
Other accrued liabilities	**20,311**	12,230	6,160

Accounts payable and accrued liabilities	**$ 33,222**	$ 39,859	$ 12,442

[1] *As at March 31, 2011, a total of 60,500 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$706 per ounce (December 31, 2010 – 68,950 ounces at an average price of US$631 per ounce. Refer to notes 5 and 15(c).*

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. RELATED PARTY TRANSACTIONS

At the respective reporting dates, the Company's related parties and related transactions are as follows:

(c) Significant Subsidiaries

	Ownership interest Country of incorporation	**At March 31 2011**	At December 31 2010	At January 1 2010
Lac des Iles Mines Ltd. ("LDI")	Canada	**100%**	100%	100%
NAP Quebec Mines Ltd. ("NAP Quebec") (formerly Cadiscor Resources Inc.("CRI"))	Canada	**100%**	100%	100%

12. SHAREHOLDERS' EQUITY

(a) Authorized and Issued Capital Stock

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

(b) Common share purchase warrants

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

	As at March 31 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 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 20,000,000 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. In the event that the 20-day volume weighted average price of the common shares on the TSX is greater than $7.50 per share, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company. 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 quarter of 2011.

(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 first quarter of 2011, the Company contributed 19,967 shares with a fair value of $136 (2010 – $nil).

(d) Private Placements

On February 18, 2011, the Company completed a private placement 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, 2011.

(e) Corporate Stock Option Plan

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

The maximum number of common shares available for grant shall not exceed 10% of the issued and outstanding common shares of the Company, including the issuance under the Group Retirement Savings Plan and other securities-based compensation plans. As at March 31, 2011, 5,828,718 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:

	March 31, 2011 Options	March 31, 2011 Weighted Average Exercise Price	December 31, 2010 Options	December 31, 2010 Weighted Average Exercise Price
Outstanding, beginning of period	**3,847,833**	**$ 4.22**	3,057,800	$ 3.50
Issued pursuant to acquisition of NAP Quebec (formerly Cadiscor)	**-**	**-**	-	-
Granted	**163,000**	**$ 6.52**	1,105,000	$ 6.14
Exercised	**(29,169)**	**$ 4.35**	(124,634)	$ 2.78
Cancelled/forfeited	**(23,332)**	**$ 5.09**	(190,333)	$ 4.80
Outstanding, end of period	**3,958,332**	**$ 4.30**	3,847,833	$ 4.22
Options exercisable at end of period	**1,733,676**	**$ 3.62**	1,742,833	$ 3.64

The following table summarizes information about the Company's stock options outstanding at March 31, 2011:

Exercise Price	**Expiry Dates**	**Options Outstanding at March 31, 2011**	**Options Exercisable at March 31, 2011**
$ 1.32	June 17, 2013	189,750	189,750
$ 1.85	March 17, 2013	24,750	24,750
$ 2.20	September 30, 2016	750,000	500,000
$ 2.85	July 18, 2017	200,000	66,667
$ 3.03	September 10, 2011	429,000	429,000
$ 3.22	December 7, 2017	675,000	208,335
$ 3.22	December 14, 2017	74,999	21,669
$ 3.31	August 12, 2018	30,000	-
$ 3.39	July 31, 2017	13,333	-
$ 4.18	February 21, 2018	10,000	3,334
$ 5.22	June 8, 2016	10,000	6,667
$ 6.24	December 7, 2015	675,000	-
$ 6.24	December 7, 2018	390,000	-
$ 6.47	May 21, 2016	150,000	100,004
$ 6.52	January 9, 2016	153,000	-
$ 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
		3,958,332	1,733,676

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:

	March 31 2011	December 31 2010
Awards granted	163,000	1,105,000
Weighted average fair value of awards	$ 3.63	$ 3.21
Pre-vest forfeiture rate	14.36%	13.19%
Grant price	$ 6.52	$ 6.14
Market price	$ 6.81	$ 6.05
Volatility	65.00%	65.70%
Risk free rate	2.31%	2.31%
Dividend yield	0%	0%
Expected life (in years)	4.29	4.50

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

	March 31 2011	March 31 2010
Net loss available to common shareholders	**$ (10,321)**	$ (18,351)
Weighted average number of shares outstanding	**160,198,305**	127,405,601
Effect of dilutive securities	**-**	-
Weighted average diluted number of shares outstanding	**160,198,305**	127,405,601
Diluted net loss per share	**$ (0.06)**	$ (0.14)

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

At March 31, 2011, there were 10,493,676 (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. These excluded equity instruments could potentially dilute basic earnings per share in the future.

The share-based transactions which occurred following the year-ended December 31, 2010 that would have significantly affected the number of common shares outstanding at that reporting date were the acceleration of Series A warrants (refer to note 12(b) and the issuance of flow-through shares (refer to note 12(d)).

(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 March 31, 2011, 117,144 (December 31, 2010 – 90,599; January 1, 2010 – 256,882) restricted share units had been granted and were outstanding at an aggregate value of $385 (December 31, 2010 – $252; January 1, 2010– $737).

13. 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 12.

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.

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 March 31, 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	$ 100,136	$ -	$ -	$ 100,136
Accounts receivable	70,844	-	-	70,844
Reclamation deposits	10,558	-	-	10,558
Financial liabilities				
Mark to market on financial contracts*	-	(1,289)	-	(1,289)
RSU liabilities*	-	(385)	-	(385)
Net carrying value	$ 181,538	$ (1,674)	$ -	$ 179,864

* *As detailed in note 9, the liability 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.*

14. COMMITMENTS

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

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

(b) Operating Leases and Other Purchase Obligations

As at March 31, 2011, the Company had outstanding operating lease commitments and other purchase obligations of $7,822 and $58,688, respectively (December 31, 2010 – $4,115 and $37,189, respectively) all of which had maturities of less than five years.

(c) Letter of credit and guaranteed investment certificate

As at March 31, 2011, the Company had a $1.4 million outstanding letters of credit, required by a third party supplier for purchases made by the LDI mine. The Company also has an amount of $330 relating to the Shebandowan West Project on deposit in the form of a guaranteed investment certificate.

15. REVENUE FROM METAL SALES

	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2011							
Three months ended March 31							
Revenue – before pricing adjustments	**$ 38,326**	**$ 23,731**	**$ 2,985**	**$ 8,594**	**$ 1,609**	**$ 985**	**$ 422**
Pricing adjustments:							
Commodities	(1,603)	(1,652)	(16)	72	57	(67)	3
Foreign exchange	(9)	417	(199)	(128)	(62)	(34)	(3)
Revenue – after pricing adjustments	**$ 36,714**	**$ 22,496**	**$ 2,770**	**$ 8,538**	**$ 1,604**	**$ 884**	**$ 422**
2010							
Three months ended March 31							
Revenue – before pricing adjustments	$ 7,930	$ -	$ -	$ 7,751	$ 179	$ -	$ -
Pricing adjustments:							
Commodities	-	-	-	-	-	-	-
Foreign exchange	-	-	-	-	-	-	-
Revenue – after pricing adjustments	$ 7,930	$ -	$ -	$ 7,751	$ 179	$ -	$ -

During the first quarter of 2011, the Company delivered all of its concentrate to two customers under the terms of the respective agreements. There was no production in the first quarter of 2010 from the LDI mine due to the mine being on care and maintenance.

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.

16. INTEREST AND OTHER COSTS (INCOME)

	Three months ended March 31	
	2011	2010
Finance expense		
Interest on capital leases	**$ 48**	$ 14
Asset retirement obligation accretion	**85**	52
Interest expense	**106**	78
	239	144
Finance income		
Gain on investments	**-**	(33)
Gain on renouncement of flow-through expenditures	**(347)**	-
Interest income	**(304)**	(2,106)
	$ (651)	$ (2,139)
	$ (412)	$ (1,995)

17. 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. At March 31, 2011, there were no current claims and lawsuits in the aggregate, even if adversely settled, that would have a material effect on the Company's interim consolidated financial statements.

18. STATEMENT OF CASH FLOWS

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

	Three months ended March 31	
	2011	2010
Cash provided by (used in):		
Accounts receivable	**$ 9,839**	$ -
Inventories and stockpiles	**3,739**	1,707
Other assets	**22,158**	(307)
Accounts payable and accrued liabilities	**(6,679)**	1,071
Other financial liabilities	**-**	(33)
Taxes payable (recoverable)	**2,158**	(410)
	$ 31,215	$ 2,028

19. SEGMENT INFORMATON

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 15. The Company's segments are summarized in the following table.

Statement of operations information for the gold operations has only been presented for periods subsequent to the acquisition of NAP Quebec (formerly Cadiscor) in May 2009.

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

	At March 31, 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	**$ 453**	**$ 4,408**	**$ 95,275**	**$ 100,136**	$ 3,232	$ (2,013)	$ 73,940	$ 75,159	$ 689	$ 576	$ 96,990	$ 98,255
Accounts receivable	**70,844**	**-**	**-**	**70,844**	80,683	-	-	80,683	-	-	-	-
Inventories	**17,735**	**6,068**	**-**	**23,803**	19,673	7,814	-	27,487	19,649	5,657	-	25,306
Other current assets	**1,688**	**3,069**	**635**	**5,392**	4,308	3,048	20,929	28,285	708	1,510	481	2,699
Mining interests	**96,430**	**67,418**	**397**	**164,245**	64,465	61,376	445	126,286	33,516	51,165	333	85,014
Other non-current assets	**8,459**	**1,769**	**330**	**10,558**	8,438	1,769	330	10,537	8,406	1,769	328	10,503
Total assets	**$ 195,609**	**$ 82,732**	**$ 96,637**	**$ 374,978**	$ 180,799	$ 71,994	$ 95,644	$ 348,437	$ 62,968	$ 60,677	$ 98,132	$ 221,777
Accounts payable and accrued liabilities	**$ 18,896**	**$ 10,913**	**$ 3,413**	**$ 33,222**	$ 27,463	$ 9,363	$ 3,033	$ 39,859	$ 3,339	$ 4,160	$ 4,943	$ 12,442
Obligations under finance leases	**2,750**	**60**	**-**	**2,810**	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	**7,962**	**4,715**	**-**	**12,677**	7,897	4,697	-	12,594	9,077	4,525	-	13,602
Other liabilities	**2,904**	**1,787**	**(544)**	**4,147**	935	1,207	1	2,143	1,571	832	58	2,461
Total liabilities	**$ 32,512**	**$ 18,475**	**$ 2,869**	**$ 53,856**	$ 38,621	$ 16,332	$ 3,034	$ 57,987	$ 15,091	$ 10,547	$ 5,001	$ 30,639

	Three months ended March 31, 2011				Three months ended March 31, 2010			
	Palladium operations	**Gold operations**	**Corporate and other**	**Total**	Palladium operations	Gold operations	Corporate and other	Total
Revenue – after pricing adjustments	**$ 29,436**	**$ 7,278**	**$ -**	**$ 36,714**	$ -	$ 7,930	$ -	$ 7,930
Depreciation and amortization	**1,755**	**2,362**	**48**	**4,165**	35	1,961	28	2,024
Operating expenses	**22,592**	**10,400**	**-**	**32,992**	6,014	10,064	-	16,078
Income (loss) from mining operations	**5,089**	**(5,484)**	**(48)**	**(443)**	(6,049)	(4,095)	(28)	(10,172)
Other expenses								
General and administration	**50**	**54**	**3,375**	**3,479**	50	34	2,593	2,677
Exploration	**1,908**	**1,915**	**16**	**3,839**	2,918	1,110	137	4,165
Other	**(350)**	**73**	**25**	**(252)**	27	26	(2,061)	(2,008)
Income (loss) before taxes	**3,481**	**(7,526)**	**(3,464)**	**(7,509)**	(9,044)	(5,265)	(697)	(15,006)
Income and mining tax (expense) recovery	**(2,387)**	**(428)**	**3**	**(2,812)**	315	133	(3,793)	(3,345)
Net income (loss) and comprehensive income (loss) for the period	**$ 1,094**	**$ (7,954)**	**$ (3,461)**	**$ (10,321)**	$ (8,729)	$ (5,132)	$ (4,490)	$ (18,351)

	Three months ended March 31, 2011				Three months ended March 31, 2010			
	Palladium operations	**Gold operations**	**Corporate and other**	**Total**	Palladium operations	Gold operations	Corporate and other	Total
Additions to mining interests	**$ 32,740**	**$ 8,404**	**$ -**	**$ 41,144**	$ 2,881	$ 1,602	$ 4	$ 4,487

For additional discussion relating to reliance on customers, refer to accounts receivable in note 4 and revenue from metal sales in note 15.

20. 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). These consolidated financial statements, for the three months ended March 31, 2011, are the first statements the Company has prepared 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.

A) **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 IFIRC 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.

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

		December 31, 2010			January 1, 2010		
	Notes	GAAP	Effect of transition to IFRS	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

Reconciliation of Consolidated Balance Sheets cont'd

		March 31, 2010		
	Notes	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 83,387	$ -	$ 83,387
Accounts receivable		-	-	-
Taxes receivable		614	-	614
Inventories		23,923	-	23,923
Other assets		2,802	-	2,802
		110,726	-	110,726
Non-current Assets				
Mining interests	(a)	87,396	2,554	89,950
Reclamation deposits		10,504	-	10,504
Total assets		$ 208,626	$ 2,554	$ 211,180
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	(b)	$ 14,335	$ (822)	$ 13,513
Current portion of obligations under capital leases		1,492	-	1,492
Future income tax liability		4,335	-	4,335
Provisions	(c)	-	1,000	1,000
Other financial liabilities	(d)	-	23	23
		20,162	201	20,363
Non-current Liabilities				
Taxes payable		1,573	-	1,573
Asset retirement obligations	(e)	13,065	589	13,654
Obligations under capital leases		2,200	-	2,200
Deferred mining tax liability	(f)	20	705	725
		$ 37,020	$ 1,495	$ 38,515
Shareholders' Equity				
Common share capital and purchase warrants	(g)	571,868	3,077	574,945
Stock options and related surplus	(h)	4,216	379	4,595
Contributed surplus	(i)	23,286	(17,749)	5,537
Deficit	(j)	(427,764)	15,352	(412,412)
Total shareholders' equity		171,606	1,059	172,665
Total shareholders' equity and liabilities		$ 208,626	$ 2,554	$ 211,180

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

	Notes	Three months ended March 31, 2010 GAAP	Effect of transition to IFRS	IFRS	Year ended December 31, 2010 GAAP	Effect of transition to IFRS	IFRS
Revenue – after pricing adjustments		$ 7,930	$ -	$ 7,930	$ 107,098	$ -	$ 107,098
Operating expenses							
Production costs		16,051	-	16,051	74,709	-	74,709
Royalty expense		-	-	-	4,202	-	4,202
Smelting, refining and freight costs		18	-	18	4,779	-	4,779
Depreciation and amortization	(a)	2,012	12	2,024	13,175	2,415	15,590
Loss on disposal of equipment		9	-	9	(270)	-	(270)
Total operating expenses		18,090	12	18,102	96,595	2,415	99,010
Income (loss) from mining operations		(10,160)	(12)	(10,172)	10,503	(2,415)	8,088
Other expenses							
General and administration		2,713	(36)	2,677	10,676	(28)	10,648
Exploration		4,165	-	4,165	30,126	-	30,126
Interest and other income	(d),(e)	130	(2,125)	(1,995)	282	(2,424)	(2,142)
Foreign exchange loss (gain)		(13)	-	(13)	(23)	-	(23)
Total other expenses		6,995	(2,161)	4,834	41,061	(2,452)	38,609
Income (loss) before taxes		(17,155)	2,149	(15,006)	(30,558)	37	(30,521)
Income and mining tax recovery (expense)	(b),(f),(h)	2,531	(5,876)	(3,345)	7,299	(6,187)	1,112
Net income (loss) and comprehensive income (loss) for the period		(14,624)	(3,727)	(18,351)	(23,259)	(6,150)	(29,409)
Deficit, beginning of period		(413,140)	19,079	(394,061)	(413,140)	19,079	(394,061)
Deficit, end of period		$ (427,764)	$ 15,352	$ (412,412)	$ (436,399)	$ 12,929	$ (423,470)
Net income (loss) per share							
Basic and diluted		$ (0.11)	$ (0.03)	$ (0.14)	$ (0.16)	$ (0.04)	$ (0.21)
Weighted average number of shares outstanding							
Basic and diluted		127,405,601	-	127,405,601	141,537,377	-	141,537,377

Reconciliation of Consolidated Statements of Cash Flows

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Notes	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		$ (14,624)	$ (3,727)	$ (18,351)	$ (23,259)	$ (6,150)	$ (29,409)
Operating items not involving cash							
Depreciation and amortization	(a)	2,012	12	2,024	13,175	2,415	15,590
Deferred income and mining tax expense (recovery)	(f), (h)	(2,190)	5,876	3,686	(6,356)	6,187	(169)
Stock based compensation and employee benefits		354	33	387	1,752	159	1,911
Loss on disposal of equipment		9	-	9	(270)	-	(270)
Other	(e)	137	(92)	45	544	(368)	176
		(14,302)	2,102	(12,200)	(14,414)	2,243	(12,171)
Changes in non-cash working capital		4,130	(2,102)	2,028	(59,478)	(2,243)	(61,721)
		(10,172)	-	(10,172)	(73,892)	-	(73,892)
Financing Activities							
Issuance of common shares and warrants, net of issue costs		33	-	33	101,074	-	101,074
Repayment of obligations under capital leases		(247)	-	(247)	(1,721)	-	(1,721)
		(214)	-	(214)	99,353	-	99,353
Investing Activities							
Additions to mining interests		(4,487)	-	(4,487)	(49,364)	-	(49,364)
Proceeds on disposal of mining interests		5	-	5	807	-	807
		(4,482)	-	(4,482)	(48,557)	-	(48,557)
Increase (decrease) in cash and cash equivalents		(14,868)	-	(14,868)	(23,096)	-	(23,096)
Cash and cash equivalents, beginning of period		98,255	-	98,255	98,255	-	98,255
Cash and cash equivalents, end of period		$ 83,387	$ -	$ 83,387	$ 75,159	$ -	$ 75,159
Cash and cash equivalents consisting of:							
Cash		$ 83,387	$ (286)	$ 83,101	$ 75,159	$ -	$ 75,159
Short-term investments		$ -	$ 286	$ 286	$ -	$ -	$ -
Total assets		$ 83,387	$ -	$ 83,387	$ 75,159	$ -	$ 75,159

Reconciliation of Consolidated Statements of Shareholders' Equity

	Notes	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

	Notes	Number of shares	Capital stock	Shares issuable	Stock options	Warrants	Contributed surplus	Deficit	Total shareholders' equity
Balance, March 31, 2010 as reported under Canadian GAAP		127,407,801	$ 567,522	$ -	$ 2,997	$ 4,346	$ 24,505	$ (427,764)	$ 171,606
Reallocation of equity not related to IFRS transition		-	-	-	1,219	-	(1,219)	-	-
Balance, March 31, 2010 as reported under Canadian GAAP - restated		127,407,801	$ 567,522	$ -	$ 4,216	$ 4,346	$ 23,286	$ (427,764)	$ 171,606
Net impact of IFRS transition adjustments		-	4,877	-	379	(1,800)	(17,749)	15,352	1,059
Balance, March 31, 2010 as reported under IFRS		127,407,801	$ 572,399	$ -	$ 4,595	$ 2,546	$ 5,537	$ (412,412)	$ 172,665

	Notes	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

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

	March 31 2010	December 31 2010	January 1 2010
(i) Adjustment to asset retirement costs and related accumulated amortization	$ 1,861	$ 553	$ 1,861
(ii) Net adjustment to carrying value of assets due to deemed cost election under IFRS 1	705	-	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	(12)	(463)	-
Total adjustment at transition to IFRS	$ 2,554	$ 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

	March 31 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	178	60	247
Total adjustment at transition to IFRS	$ (822)	$ (940)	$ 1,247

(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

	March 31 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

	March 31 2010	December 31 2010	January 1 2010
(i) Reclassification of foreign-denominated warrants under IAS 32	$ 23	$ -	$ 56
Total adjustment at transition to IFRS	$ 23	$ -	$ 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.

(e) Asset retirement obligations

	March 31 2010	December 31 2010	January 1 2010
(i) Adjustments to the valuation of asset retirement obligations	$ 681	$ 1,325	$ 681
(ii) Differences realized due to accretion of adjusted obligation balances under IFRS	(92)	(368)	-
Total adjustment at transition to IFRS	$ 589	$ 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

	March 31 2010	December 31 2010	January 1 2010
(i) Net adjustment to deferred mining tax liability due to deemed cost election under IFRS 1	$ 705	$ -	$ 705
Total adjustment at transition to IFRS	$ 705	$ -	$ 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.

(g) Common share capital and purchase warrants

	March 31 2010	December 31 2010	January 1 2010
(i) Reclassification of foreign-denominated warrants under IAS 32	$ (1,800)	$ -	$ (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	5,050	5,136	-
(v)Difference between IFRS 2 and Canadian GAAP relating to valuation of vested options exercised	-	(22)	-
Total adjustment at transition to IFRS	$ 3,077	$ 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

	March 31 2010	December 31 2010	January 1 2010
(i) Adjustment to compensation expense due to adoption of IFRS 2	$ 379	$ 527	$ 346
Total adjustment at transition to IFRS	$ 379	$ 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.

(i) Contributed surplus

	March 31 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	(6,238)	(8,038)	-
(iii)Eliminate deferred income tax provision relating to warrant expirations	826	1,051	-
Total adjustment at transition to IFRS	$ (17,749)	$ (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:

	March 31 2010	December 31 2010	January 1 2010
(i) Net impact of all IFRS transitional adjustments	$ 15,352	$ 12,929	$ 19,079
Total adjustment at transition to IFRS	$ 15,352	$ 12,929	$ 19,079

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