



Management's Responsibility for Financial Statements

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

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

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

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

James D. Excell
President and CEO

Michael C. Thompson
Manager of Administration
and Senior Controller and
acting Chief Financial Officer

Toronto, Canada
February 27, 2007



Auditors' Report to the Shareholders of North American Palladium Ltd.

We have audited the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Toronto, Canada,
February 27, 2007.



Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

December 31	2006	2005
ASSETS		
Current Assets		
Cash	\$ 3,153	\$ 15,031
Concentrate awaiting settlement, net – Note 3	82,050	37,453
Taxes recoverable	145	-
Inventories – Note 4	14,164	8,599
Crushed and broken ore stockpiles	7,134	7,267
Other assets	2,602	2,344
	109,248	70,694
Mining interests, net – Note 5	146,617	159,523
Mine restoration deposit – Note 6	8,041	7,247
Crushed and broken ore stockpiles	289	239
Deferred financing costs – Note 7	962	654
	\$ 265,157	\$ 238,357
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 21,526	\$ 16,392
Taxes payable	-	386
Future mining tax liability – Note 18	149	-
Current portion of obligations under capital leases – Note 8	2,104	2,323
Current portion of convertible notes payable – Note 9	22,148	-
Current portion of long-term debt – Note 10	6,662	6,664
Kaiser-Francis credit facility – Note 11	5,827	13,407
	58,416	39,172
Mine restoration obligation	8,211	7,894
Obligations under capital leases – Note 8	4,111	6,218
Convertible notes payable – Note 9	23,062	-
Long-term debt – Note 10	10,992	17,660
Future mining tax liability – Note 18	381	202
	105,173	71,146
SHAREHOLDERS' EQUITY		
Common share capital and purchase warrants – Note 13	339,743	325,592
Equity component of convertible notes payable, net of issue costs – Note 9	12,336	-
Contributed surplus	1,269	874
Deficit	(193,364)	(159,255)
Total shareholders' equity	159,984	167,211
	\$ 265,157	\$ 238,357

Commitments – Notes 1 and 15 Contingencies – Note 6 and 17 Subsequent Events – Note 20

See accompanying notes to the consolidated financial statements

On Behalf of the Board

André J. Douchane
Director

Greg Van Staveren
Director



Consolidated Statements of Loss and Deficit

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

Year ended December 31	2006	2005	2004
Revenue from metal sales – Note 16	\$ 159,200	\$ 92,606	\$ 185,204
Operating expenses			
Production costs, excluding amortization and asset retirement costs	112,458	99,322	102,936
Smelter treatment, refining and freight costs	15,438	15,777	23,602
Insurance recovery – Note 17(b)	-	-	(7,148)
Amortization – Note 5(b)	30,103	18,297	36,296
Administrative	6,734	6,616	5,557
Exploration	11,831	7,927	2,479
Loss on disposal of equipment	194	-	277
Asset retirement costs	554	476	905
Write-down of mining interests – Note 5(c)	-	-	108,000
Total operating expenses	177,312	148,415	272,904
Loss from mining operations	(18,112)	(55,809)	(87,700)
Other income (expenses)			
Interest on long-term debt, capital leases and convertible notes payable – Notes 8,9,10 and 11	(5,009)	(2,509)	(1,756)
Write-off of deferred financing costs	(504)	-	(788)
Foreign exchange gain (loss)	(1,759)	268	(340)
Interest income	801	1,641	494
Amortization of deferred financing costs	(586)	(43)	(414)
Accretion expense relating to convertible notes payable – Note 9	(10,090)	-	-
Derivative income	-	-	213
Interest expense	(259)	(41)	(29)
Total other income (expenses)	(17,406)	(684)	(2,620)
Loss before income taxes	(35,518)	(56,493)	(90,320)
Income tax expense (recovery) – Note 18	(1,409)	(2,882)	1,790
Net loss for the year	(34,109)	(53,611)	(92,110)
Deficit, beginning of year	(159,255)	(105,644)	(13,534)
Deficit, end of year	\$ (193,364)	\$ (159,255)	\$ (105,644)
Net loss per share			
Basic	\$ (0.65)	\$ (1.03)	\$ (1.79)
Diluted – Note 13(f)	\$ (0.65)	\$ (1.03)	\$ (1.79)
Weighted average number of shares outstanding – basic	52,562,939	52,006,548	51,379,542
Weighted average number of shares outstanding – diluted – Note 13(f)	52,562,939	52,006,548	51,379,542

See accompanying notes to the consolidated financial statements



Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

Year ended December 31	2006	2005	2004
Cash provided by (used in)			
Operations			
Net loss for the year	\$ (34,109)	\$ (53,611)	\$ (92,110)
Operating items not involving cash			
Accretion expense relating to convertible notes payable	10,090	-	-
Amortization	30,103	18,297	36,296
Amortization of deferred financing costs	586	43	414
Accrued interest on convertible notes	1,974	-	-
Accrued interest on mine restoration deposit	(194)	(74)	(40)
Unrealized foreign exchange gain	(419)	(1,433)	(3,687)
Loss on disposal of equipment	194	-	277
Asset retirement costs	554	476	905
Future income tax expense (recovery) – Note 18	(739)	(3,286)	643
Write-off of deferred financing costs	504	-	788
Write-down of mining interests – Note 5(c)	-	-	108,000
Stock based compensation and employee benefits	1,771	1,728	573
	10,315	(37,860)	52,059
Changes in non-cash working capital – Note 19(a)	(44,104)	29,587	29,731
	(33,789)	(8,273)	81,790
Financing Activities			
Issuance of convertible notes	41,037	-	-
Increase in long-term debt and credit facility	8,111	-	36,809
Deferred financing costs	(2,364)	-	(504)
Issuance of common shares	3,955	3,200	9,415
Repayment of long-term debt	(6,566)	(6,798)	(44,290)
Repayment of obligations under capital leases	(2,278)	(2,253)	(1,751)
Mine restoration deposit	(600)	(1,200)	(1,200)
	41,295	(7,051)	(1,521)
Investing Activities			
Additions to mining interests	(19,384)	(35,415)	(28,728)
Proceeds on disposal of mining interests	-	15	451
Restricted cash equivalents	-	-	1,813
	(19,384)	(35,400)	(26,464)
Increase (decrease) in cash and cash equivalents	(11,878)	(50,724)	53,805
Cash and cash equivalents, beginning of year	15,031	65,755	11,950
Cash and cash equivalents, end of year	\$ 3,153	\$ 15,031	\$ 65,755

Supplementary information – Note 19(b), (c) (d) and (e)

See accompanying notes to the consolidated financial statements



Notes to the Consolidated Financial Statements

for the years ended December 31, 2006, 2005 and 2004

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

1. NATURE OF OPERATIONS

North American Palladium Ltd. ("NAP" or "the Company") is a Canadian company in the business of exploring and mining Platinum Group Metals ("PGMs") and certain base and precious metals. Its principal asset is the Lac des Iles mine located in the Thunder Bay District in Ontario. The Company also has a number of base metal exploration projects located in Canada and an advanced PGM exploration project located in Finland in which it is earning an interest in under an agreement dated March 24, 2006. The Company operates in one operating segment, mining.

The Company's financial position and operating results are directly affected by the market price of the PGMs in relation to the Company's production costs. The prices of PGMs (palladium, platinum) and by-product metals (gold, copper and nickel) fluctuate widely and are affected by numerous factors beyond the Company's control.

Life-of-Mine Plan Review and Measurement Uncertainty of Mining Interests

During the first quarter of 2006, the ultimate pit design implemented in 2004 was changed to an interim pit design that addressed previously disclosed south pit wall instability issues. The Company engaged an independent geotechnical consultant to review the slope stability issues and their recommendations have been used in designing a reconfigured open pit mining plan. As a result of these events the Company completed a detailed review of its life-of-mine operating plan for the Lac des Iles mine, the Company's only operating mine, revised its mine plan and compared the carrying value of the Company's mining interests to the estimated recoverability, based upon this revised mine plan and the updated reserve reports received from independent third party consultants. Based on this review the Company's management believes an impairment charge and a corresponding reduction in the carrying value of its mining interests is not required.

Arctic Platinum Project

On March 24, 2006, the Company entered into an agreement with Gold Fields Limited to further explore and develop a mining operation at the Arctic Platinum Project ("APP") located in Finland. The APP includes several advanced stage PGM Projects. The Company has been granted an option to earn up to a 50% interest and, in certain circumstances, a 60% interest in APP, in which event a joint venture will be formed and the Company will become the project operator. In order to exercise the option, the Company must spend US\$12.5 million, complete a feasibility study and make a production decision as well as pay Gold Fields US\$36 million or US\$45 million to earn a 50% or 60% interest, respectively through the issuance of the Company's common shares (approximately 7.3 million or 9.2 million shares as the case maybe) on or before August 31, 2008. As at December 31, 2006, the Company has incurred \$6,824 (US\$6,019) in expenditures on the APP and these costs have been charged to exploration expense.

Shebandowan Project

On December 3, 2003, the Company entered into an option and joint venture agreement with Inco Limited on the Haines-Conacher property which surrounds the past producing Shebandowan mine. The agreement was subsequently amended March 31, 2006 to include the mine.

The nickel, copper PGM Shebandowan Project is located approximately 100 km southwest of the Lac des Iles mine. Successive diamond drilling programs in 2005 and 2006 warrant follow up on three relatively shallow mineralized zones known as the West, Road and "D" zones.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are in Canadian dollars unless otherwise noted. The more significant accounting policies are summarized as follows:



Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Lac des Iles Mines Ltd. ("LDI"), North American Palladium Finland Ltd. ("NAPFL"), and North American Palladium Arctic Services Ltd. ("NAPFS"). All inter-company balances and transactions have been eliminated.

Revenue and Concentrate Awaiting Settlement

Revenue from the sale of palladium and by-product metals is recognized net of royalties upon the delivery of concentrate to the smelter, which is when title transfers and the rights and obligations of ownership pass. The Company's metals are sold under contracts that provide for final prices that are determined by quoted market prices in a period subsequent to the date of sale. Variations from the provisionally priced sales are recognized as revenue adjustments as they occur until the price is finalized. Provisional pricing is based upon market prices in the month of recognition. Concentrate awaiting settlement at the smelter is net of estimated treatment and refining costs.

Although the Company sold its metals during 2006 to a limited number of customers, the Company is not economically dependent upon them as there are other markets throughout the world for the Company's metals.

Derivative Financial Instruments

From time to time the Company enters into forward commodity sales contracts to hedge the effect of changes in the prices of metals it produces on the Company's revenues. Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales over the term of the hedging contract. The Company had no outstanding contracts as at December 31, 2006.

From time to time the Company enters into foreign exchange forward sales contracts to manage the effect of fluctuations in the value of committed U.S. dollar denominated revenues. For those forward exchange contracts designated by the Company as hedges, the related revenue is recorded at the forward contract rate. Those foreign exchange forward sales contracts not designated by the Company as hedges are marked-to-market as at the balance sheet date and the resultant gains or losses are included in earnings for the period. The fair value of the Company's derivative financial instruments is determined based on forward prices supplied by knowledgeable, independent third parties. The Company had no outstanding contracts as at December 31, 2006.

The Company does not hold financial instruments or derivative financial instruments for trading purposes. Cash flows arising in respect of hedging transactions are recognized under cash flows from operating activities.

Concentrate, Crushed and Broken Ore Stockpiles and Supplies Inventories

Concentrate and crushed and broken ore stockpiles are valued at the lower of average production cost (including an allocation of the amortization 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. Stockpile tonnages are verified by periodic surveys. The amount of stockpiled ore that is not expected to be processed within one year is shown as a long-term asset. Supplies inventory is valued at the lower of average direct acquisition cost and replacement cost.

Mining Interests

Plant and equipment are recorded at cost with amortization generally provided either on the unit-of-production method over the proven and probable reserves to which they relate or on a straight-line basis over their estimated useful lives, ranging from three to seven years. The Company capitalizes interest on major projects where direct indebtedness has occurred. During 2006 \$188 of interest was capitalized (2005 - \$307).

The Company leases certain equipment under capital leases. These leases are capitalized based on the lower of fair market value and the present value of future minimum lease payments. The corresponding liabilities are recorded as obligations under capital leases. This equipment is being amortized on the same basis as described above.



Mining leases and claims and royalty interests are recorded at cost and are amortized on the unit-of-production method over the proven and probable reserves.

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 established proven and probable reserves, future development and exploration expenditures are capitalized. Determination as to reserve potential is based on the results of feasibility 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.

Impairment of Long-lived Assets

Each year, the Company reviews mining plans for the remaining life of each property. Significant changes in the mine plan 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. Based on year-end ore reserves and the current mine plan, the Company reviews annually its accounting estimates and makes adjustments accordingly.

The Company assesses long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When the carrying value of a long-lived asset is less than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset is less than the carrying value. Future cash flows are estimated based on quantities of recoverable minerals, expected palladium 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 estimated amount of palladium and other commodities that will be obtained from proven and probable reserves after taking into account losses during mining, ore processing and concentrate treatment. 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 (note 5(c)).

Asset Retirement Obligations

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement obligation is capitalized as part of mining interests and amortized over the estimated life of the mine. Total undiscounted cash flows required to settle the obligations are estimated to be approximately \$7.8 million, the majority of which is to be paid at the end of the mine life, which is currently expected to end in 2010. A credit adjusted risk-free rate of 4% has been utilized to determine the obligation recorded on the balance sheet. The estimated asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

The following is a reconciliation of the changes in the asset retirement obligation during the year:

	2006	2005
Balance, beginning of the year	\$ 7,894	\$ 7,592
Accretion expense	317	302
Balance at the end of year	\$ 8,211	\$ 7,894



Stock-Based Compensation Plans

The Company has a stock-based compensation plan which is described in note 13 (e) and a Restricted Share Unit Plan ("RSU") which is described in note 13 (g). The Company recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees and directors. The fair value of each RSU, being the fair market value of the Company's common shares at the grant date, is recorded as a liability on the Company's consolidated balance sheet over the vesting period. The value of the RSU liability is adjusted to reflect changes in the market value of the Company's common shares at each period end.

Translation of Foreign Currency

The reporting and functional currency of the Company 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 loss and deficit.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs. The Company provides a valuation allowance for future tax assets when it is more likely than not that some portion or all of the future tax assets will not be realized.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on account less outstanding cheques, demand deposits and short-term guaranteed investments with original maturities of three months or less and are stated at cost.

Deferred Financing Costs

Deferred financing costs represent the costs of negotiating and securing the Company's long-term debt facilities and costs incurred in connection with the filing of a shelf prospectus. The amortization of the costs of securing the long-term debt facilities is included in amortization expense on a straight-line basis over the term of the debt facility. The equity financing was not completed before the expiration of the then outstanding shelf prospectus and as a result, deferred financing costs in the amount of \$504 related to the shelf prospectus were expensed during the year ended December 31, 2006.

Basic and Diluted Loss Per Share

Basic loss per common share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the reporting period. Diluted loss per common share 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 issue of flow-through shares. The Company renounces the deductions to investors and accordingly records share issue costs related to the future tax liability of the temporary difference arising from the renunciation. As a result, share capital is



reduced and future income tax liabilities are increased by the estimated tax benefits when renounced by the Company to the investors, except to the extent that the Company has unused tax benefits on loss carryforwards and tax pools in excess of book value available for deduction against which a valuation allowance has been provided. In these circumstances, the future tax liability reduces the valuation allowance, if any, and the reduction is recognized in earnings.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and 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.

3. CONCENTRATE AWAITING SETTLEMENT

Concentrate awaiting settlement is comprised of:

	2006	2005
Concentrate awaiting settlement, gross	\$ 88,034	\$ 41,819
Refining and smelter treatment charges	(5,984)	(4,366)
Concentrate awaiting settlement, net	\$ 82,050	\$ 37,453

The gross value of concentrate awaiting settlement represents the value of all PGMs and base metals from production shipped to and received by the third-party smelters between June and December 2006, including 129,496 ounces of palladium (2005 - including 65,905 ounces of palladium).

All of the concentrate awaiting settlement is from two domestic customers at December 31, 2006 (2005 - two domestic customers). No reserves for doubtful accounts have been established. In the opinion of management, full realization will occur on all such receivables.

4. INVENTORIES

Inventories consist of the following:

	2006	2005
Concentrate	\$ 3,782	\$ 502
Supplies	10,382	8,097
	\$ 14,164	\$ 8,599

5. MINING INTERESTS

(a) Mining interests are comprised of the following:

	2006	2005
Plant and equipment, at cost	\$ 362,151	\$ 355,532
Underground mine development, at cost	43,015	30,784
Accumulated amortization and impairment charges	277,397	249,043
	127,769	137,273
Equipment under capital lease, at cost	14,076	14,076
Accumulated amortization and impairment charges	3,991	2,245
	10,085	11,831
Mining leases and claims, royalty interest, and development, at cost	82,561	82,561
Accumulated amortization and impairment charges	73,798	72,142
	8,763	10,419
Mining interests, net	\$ 146,617	\$ 159,523



(b) Amortization expense is comprised of:

	2006	2005	2004
Capital assets (including plant and equipment, and equipment under capital lease)	\$ 28,422	\$ 17,384	\$ 32,149
Mining leases and claims, royalty interest, exploration and development costs	1,681	913	4,147
	\$ 30,103	\$ 18,297	\$ 36,296

(c) During the fourth quarters of 2006 and 2005, the Company tested its long-lived assets, including tangible mineral interests and plant and equipment for impairment, and reflected an impairment charge of nil in 2006 (2005 – nil).

In accordance with the Company's accounting policy, the Company recorded the 2004 impairment charge of \$108,000 as the difference between the carrying value of the mineral interests and the fair value of the mineral interests measured using a discounted cash flow analysis over the remaining life of LDI. The key assumptions utilized by the Company in its life-of-mine discounted cash flow model were: expected long-term average price of palladium of US\$275 per ounce, gold of US\$375 per ounce; platinum of US\$650 per ounce, copper of US\$0.90 per pound and nickel of US\$3.50 per pound; life-of-mine discount rate of 5%; expected additional capital expenditures of \$56,000; and an average life-of-mine foreign exchange rate of Cdn\$1.34 to US\$1.00.

(d) Mining interests in the amount of nil (2005 - \$30,784) are not subject to amortization as these costs relate to underground mine development work currently in progress.

6. MINE RESTORATION DEPOSIT

The Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the "Ministry"), has established a trust fund (the "Fund") pursuant to the Company's mine closure plan for eventual clean-up and restoration of the mine site. The mine closure plan calls for a total amount of \$7,802 to be accumulated in the Fund.

Commencing in February 2001, the Fund, controlled by the Ministry, started to accumulate through monthly deposits of \$100. At December 31, 2006, the Company had \$8,041 (2005 - \$7,247) on deposit with the Ministry including accrued interest of \$511. All current amounts required have been contributed as at December 31, 2006. 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. The estimated asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

7. DEFERRED FINANCING COSTS

	2006	2005
Financing costs	\$ 1,610	\$ 716
Accumulated amortization	648	62
	\$ 962	\$ 654



8. OBLIGATIONS UNDER CAPITAL LEASES

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments:

	2006	2005
2006	\$ -	\$ 2,709
2007	2,422	2,380
2008	2,166	2,138
2009	1,775	1,761
2010	473	472
Total minimum lease payments	6,836	9,460
Amounts representing interest at rates from 3.5% - 8.3%	621	919
Present value of minimum lease payments	6,215	8,541
Less current portion	2,104	2,323
	\$ 4,111	\$ 6,218

9. CONVERTIBLE NOTES PAYABLE

	2006
Series I convertible notes (principal amount US\$35 million, maturing August 1, 2008)	\$ 32,048
Series II convertible note (principal amount US\$13.5 million, maturing December 1, 2008)	13,162
	45,210
Less current portion	(22,148)
	\$ 23,062

On March 29, 2006, the Company issued US\$35,000 (Cdn\$41,037) aggregate principal amount of Series I convertible notes (the "Series I Notes") due August 1, 2008 through a private placement of convertible notes and common share purchase warrants. The offering (the "Offering") consisted of up to US\$58,500 principal amount of notes which were issuable in three tranches. The Offering was to Kaiser-Francis Oil Company (Kaiser-Francis) and an institutional investor (the "Purchasers"). The Offering is governed by a securities purchase agreement dated March 24, 2006 (the "SPA") between the Company and the Purchasers.

The Series I Notes are convertible into 2,873,563 common shares of the Company at any time by the holder at the initial conversion price of US\$12.18 per share. Warrants exercisable to purchase 1,436,782 common shares were issued with the Series I Notes, each warrant being exercisable to purchase one common share at an initial exercise price of US\$13.48 until March 29, 2010.

The Company, at its option, had the right to sell to Kaiser-Francis a Series II Note (a second tranche) in the principal amount of up to US\$13,500 on or before June 30, 2006, which would be used to repay the loan under the existing Kaiser-Francis credit facility (refer to note 11). On June 23, 2006, the Company exercised this right and issued to Kaiser-Francis a Series II Note in the principal amount of US\$13,500 (Cdn\$15,176), due December 1, 2008. The Series II Note is convertible into 1,108,374 common shares of the Company at any time by the holder at the initial conversion price of US\$12.18 per share. Warrants exercisable to purchase 554,187 common shares were issued with the Series II Notes, with each warrant being exercisable to purchase one common share at an initial exercise price of US\$13.48 until June 23, 2010.

The Purchasers had the option to acquire an additional US\$10,000 principal amount of notes (a third tranche) on or before December 31, 2006. The Purchasers elected not to exercise this option.

The Series I Notes and II Note bear interest at a rate of 6.5% per annum payable bi-monthly, commencing on June 1, 2006 and August 1, 2006, respectively. The Series I Notes and II Note are repayable in nine equal installments commencing April 1, 2007 and August 1, 2007, respectively. The interest payments



and/or repayment amounts may be paid to each Purchaser, at the Purchaser's option, in any combination of cash and/or common shares. If common shares are issued for interest payments or in repayment of the convertible notes they will be issued at a 10% discount from the weighted average trading price of the common shares on the AMEX for the five consecutive trading days immediately prior to applicable payment date. The Company has the right to defer any principal repayment in cash until a later principal repayment date. There is no limit on the length of the deferral, other than it cannot be deferred later than the final maturity date. The Company must give five days notice of its intention to defer payment.

Commencing June 29, 2007 for Series I and September 23, 2007 for Series II, if the weighted average trading price of the common shares for each of any twenty-five consecutive trading days is 150% or more of the conversion price, the Company will have the right to force the Purchasers to convert all or any of the outstanding principal amount of the convertible notes at the conversion price.

The convertible notes contain customary covenants, including restrictions on the Company incurring debt, payment of dividends or obligations for or involving the payment of money in excess of certain restricted amounts. The convertible notes are unsecured but contain customary anti-dilution protection as well as adjustments in the event that the Company issues common shares or securities convertible into common shares at a purchase price per common share less than the conversion price. The warrants contain similar anti-dilution protection.

Under Canadian GAAP, the components of the convertible notes must be bifurcated and accounted for separately as debt and equity instruments. The warrants are separable from the notes and are accounted for as an equity instrument. The Series I proceeds received were allocated to the debt and equity components of the notes and to the initial warrants on a relative fair value basis as follows: US\$20,558 to the debt, US\$8,808 to the equity component and US\$5,634 to the warrants. The Series II Note proceeds were allocated as follows: US\$9,578 to the debt, US\$2,312 to the equity component and US\$1,610 to the warrants. In addition, a liability (the "Equity Premium") was recognized for the holders' option to receive common shares, in lieu of cash, at a 10% discount to the five day weighted trading price, as described above, for interest and principal payments. The Company accretes the carrying value of the convertible notes and the Equity Premium such that at each installment payment date, the carrying value of the convertible notes and the Equity Premium will be equal to the face value of the convertible notes and the liability related to the Equity Premium. The Company recorded accretion expense of \$10,090 during 2006 of which \$2,523 represented the accretion relating to the Equity Premium which was included in the carrying value of the convertible notes payable as at December 31, 2006.

The fair value of the debt was determined based on the future payments of principal and interest for a debt instrument of comparable maturity and credit quality, excluding any conversion option by the holder. The Series I Notes carry an effective interest of 42%. The Series II Note carries an effective interest rate of 28%.

The conversion option or equity component of the convertible notes was valued using a Binomial model. The fair value of the warrants was determined based on the Black-Scholes option pricing model. The models used in the valuation of the components of the convertible debt contain certain subjective assumptions, changes of which can cause significant variation in the estimated fair value of the debt and equity components of the convertible notes.

The issue costs of \$2,364 have been allocated pro-rata to the debt (\$1,398) and equity components (\$589) of the Series I Notes and II Note and to the associated warrants (\$377) on a relative fair value basis. The financing costs related to the debt components are being amortized on an effective yield basis over the term of the convertible notes.



10. LONG-TERM DEBT

	2006	2005
Equipment finance company credit facility consisting of Cdn\$6,000 and US\$10,000 (2005 – Cdn\$8,000 and US\$14,000) loans	\$ 17,654	\$ 24,324
Less current portion	6,662	6,664
	\$ 10,992	\$ 17,660

On June 28, 2004, the Company entered into a US\$20,000 and Cdn\$10,000 senior credit facility with an equipment finance company. The US\$20,000 credit facility is repayable in equal quarterly installments of US\$1,000 commencing on September 30, 2004 and has a final maturity on June 30, 2009. The Cdn\$10,000 credit facility is repayable in equal quarterly installments of Cdn\$500 commencing February 24, 2005 and has a final maturity of November 24, 2009. The credit facility has an interest margin of 2.5% over 30-day LIBOR rate. In return for granting the loan, the lender received a first priority security in all of the Company's existing and future assets excluding its production leases and claims. The credit facility allows in certain circumstances, full repayment of outstanding loans at any time during the term of the facility.

11. KAISER-FRANCIS CREDIT FACILITY

At the time the Company entered into its senior credit facility (see Note 10), certain terms under the US\$20,000 non-revolving credit facility with Kaiser-Francis Oil Company ("Kaiser-Francis") were amended. The final maturity date was extended to June 30, 2006 from May 31, 2005 and the interest rate was reset based upon the 30-day LIBOR rate plus 2.50%. Amounts not drawn under the loan were subject to a standby fee payable quarterly at 0.125% per annum. The Company paid on closing a commitment fee of 0.75% of the total commitment (US\$150). In connection with the loan, the Company granted Kaiser-Francis a security interest in all of the assets of the Company and a pledge of the LDI shares. The security interests in all of the assets of the Company were subordinated to the security interests of the senior credit facility (note 10). The Kaiser-Francis credit facility due to mature June 30, 2006 was repaid on June 23, 2006 pursuant to the terms of the Series II convertible note issued on that date (also refer to note 9). As at December 31, 2006 the outstanding loan from this facility was nil (2005 – US\$11,500; Cdn\$13,407).

On October 12, 2006, the Company received from Kaiser-Francis a \$US5,000 short-term working capital loan maturing December 31, 2006. The interest rate under the loan is a 30-day LIBOR rate plus 2.5%. The Company paid a commitment fee of US\$38 and amounts not drawn under the loan are subject to a standby fee of 0.125% per annum. In connection with the loan, the Company granted to Kaiser-Francis a first priority security interest in the inventory and receivables of the Company. On December 13, 2006 the maturity date was extended to March 31, 2007, with no other changes in terms. The Company paid a commitment fee of US\$25 for the extension. As at December 31, 2006, the outstanding loan was \$US5,000 (Cdn\$5,827) - (2005 – nil). The loan agreement includes customary representations, warranties and covenants, including a covenant by the Company not to pay dividends or make any other payment to shareholders while the loan is outstanding. The loan agreement also provides for customary events of default.

12. RELATED PARTY TRANSACTIONS AND COMMITMENTS

Kaiser-Francis is the controlling shareholder of the Company. In addition to the related party transactions with Kaiser-Francis disclosed in notes 9 and 11, the Company has the following related party transaction:

In 2005, a now former director of the Company received a fee of \$218, (2004 - \$581) in connection with the negotiations related to the Palladium Sales Contract entered into by the Company in 2000 (note 15(a)). The contract was negotiated at arms-length prior to such person becoming a director of the Company. The Palladium Sales Contract expired on June 30, 2005, and no further fees are payable in connection with this contract.



13. COMMON SHARE CAPITAL AND COMMON SHARE PURCHASE WARRANTS

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of special shares, issuable in series, including 10,000,000 Series "A" preferred shares.

(a) Common shares and common share purchase warrants:

The changes in issued common share capital and common share purchase warrants for the year are summarized below:

	2006		2005	
	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	52,197,217	\$ 325,592	51,709,075	\$ 322,904
Common shares issued:				
Pursuant to stock options exercised	130,755	910	118,759	697
Fair value of stock options exercised	-	166	-	287
To Group Registered Retirement Savings Plan participants	107,563	1,085	156,383	1,140
For interest payments on convertible notes payable	242,158	1,974	-	-
Private placement (net)	270,000	3,045	213,000	2,503
Tax effect of flow-through shares	-	(1,067)	-	(1,939)
Common shares issued, end of year	52,947,693	\$ 331,705	52,197,217	\$ 325,592
Common shares purchase warrants – Note 13(b)				
Issued pursuant to terms of Series I convertible notes, net of issue costs	1,436,782	6,238	-	-
Issued pursuant to terms of Series II convertible notes, net of issue costs	554,187	1,800	-	-
	1,990,969	\$8,038	-	-
Balance, end of year		\$ 339,743		\$ 325,592

(b) Common share purchase warrants:

Pursuant to the terms of the securities purchase agreement governing the issue of the convertible notes payable, warrants to purchase 1,990,969 common shares were issued and are outstanding as follows:

	Number of Warrants	Exercise Price	Expiry Date
	1,436,782	US\$13.48	March 29, 2010
	554,187	US\$13.48	June 23, 2010

(c) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan, which all employees can participate in at their option. The Company is required to make matching contributions to a maximum of \$5 per employee per annum. The Company's matching contribution can be made either in cash or treasury shares of the Company. During 2006 the Company contributed 107,563 shares with a fair value of \$1,085, (2005 – 156,383 shares with a fair value of \$1,140).

(d) Private Placement

On June 23, 2006, the Company completed a private placement of 270,000 flow-through common shares. The gross proceeds of \$3,375 must be spent on Canadian exploration expenses prior to December 31, 2007. As at December 31, 2006, the Company has spent \$1,634 on Canadian exploration expenses as defined in Section 66 of the Income Tax Act (Canada).



On April 21, 2005, the Company completed a private placement of 213,000 flow-through common shares. The gross proceeds of \$2,503 were spent on Canadian exploration expenses as defined in Section 66 of the Income Tax Act (Canada) prior to December 31, 2006.

On July 9, 2004, the Company completed a private placement of 270,000 flow-through common shares. The gross proceeds of \$4,050 were spent on Canadian exploration expenses prior to December 31, 2005.

Under the terms of the flow through common share issues, the tax attributes of the related expenditures will be renounced to investors and the share capital will be reduced and future income tax liabilities will be increased by the estimated income tax benefits renounced by the Company to the investors. The tax attributes for the 2005 expenditures were renounced in 2006, and those from 2004 were renounced in 2005.

(e) Corporate Stock Option Plan

The Company has adopted, and the shareholders have approved, the Corporate Stock Option Plan (the "Plan"), under which eligible directors, officers, employees and consultants of the Company are entitled to receive options to acquire common shares. The Plan is administered by the Compensation Committee, a subcommittee of the Board of Directors, which determines the number of options to be issued, the exercise price (which may not be lower than the closing price of the Company's common shares on the Toronto Stock Exchange ("TSX") on the day prior to the date of grant) and 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 a limited time period should the optionee cease to be an "Eligible Person" as set forth in the conditions of the Plan. Options granted since December 2001 vest as to 1/3 on each of the first three anniversary dates of the date of grant. Prior to December 2001, options granted under the Plan vested as to 1/3 on the date of grant and 1/3 on each of the first two anniversary dates.

The maximum number of common shares available for option grants shall not exceed 2,700,000, being approximately 5.1% of the outstanding common shares or such greater number of common shares as may be determined by the Board of Directors, and approved if required, by the shareholders of the Company and by any relevant stock exchange or other regulatory authority. As at December 31, 2006, 534,057 options (2005 - 461,308 options) were available to be granted under the Plan.

The following summary sets out the activity in outstanding stock options:

	2006		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	563,638	\$ 10.43	825,610	\$ 9.88
Granted	65,000	8.15	100,000	9.75
Exercised	(130,755)	6.96	(118,759)	5.87
Cancelled	(137,750)	13.15	(243,213)	10.51
Outstanding, end of year	360,133	\$ 10.24	563,638	\$ 10.43
Options exercisable at end of year	166,432	\$ 10.70	265,571	\$ 11.09



The following table summarizes information about the Company's stock options outstanding at December 31, 2006:

Exercise Price	Expiry Dates	Options Outstanding at Dec. 31, 2006	Options Exercisable at Dec. 31, 2006
\$ 3.42	April 7, 2011	5,000	5,000
\$ 4.75	February 27, 2011	7,500	7,500
\$ 7.85	August 26, 2014	30,000	-
\$ 8.40	June 20, 2014	35,000	-
\$ 8.83	December 14, 2013	10,000	3,333
\$ 9.67	November 30, 2013	40,000	13,333
\$ 9.76	November 1, 2012	15,000	10,000
\$ 10.00	November 27, 2013	50,000	16,667
\$ 10.01	June 6, 2010	6,000	6,000
\$ 11.90	June 23, 2012	161,633	104,599
		360,133	166,432

Prior to January 1, 2003, the Company did not recognize compensation expense for stock options. Had compensation expense for options granted in 2002 under the Company's stock option plan been determined based on the fair value at the grant dates consistent with the fair value based method of accounting for stock-based compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2006	2005	2004
Net loss as reported	\$ (34,109)	\$ (53,611)	\$ (92,110)
Stock-based compensation	-	-	160
Pro forma net loss	\$ (34,109)	\$ (53,611)	\$ (92,270)
Pro forma basic and diluted loss per share	\$ (0.65)	\$ (1.03)	\$ (1.80)

The fair value of options granted in 2006 has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 4.05 % (2005 - 3.78%; 2004 - 3.7%), expected dividend yield of nil (2005 - nil; 2004 - nil), expected volatility of 56% (2005 - 55%; 2004 - 55%), and expected option life of 4 years (2005 - 4 years; 2004 - 4 years). The estimated fair value of the options is expensed over the option's vesting period, which is 3 years. The weighted average fair market value of options granted in 2006 was \$3.78 (2005 - \$4.51; 2004 - \$5.43). Compensation expense related to the Plan for the year ended December 31, 2006 was \$561 (2005 - \$582; 2004 - \$573).

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

	2006	2005	2004
Net loss available to common shareholders	\$ (34,109)	\$ (53,611)	\$ (92,110)
Weighted average number of shares outstanding	52,562,939	52,006,548	51,379,542
Effect of dilutive securities stock options	-	-	-
Weighted average diluted number of shares outstanding	52,562,939	52,006,548	51,379,542
Diluted net loss per share	\$ (0.65)	\$ (1.03)	\$ (1.79)

The effect of stock options has not been included in the determination of diluted loss per share for 2006, 2005 or 2004, because to do so would be antidilutive.



At December 31, 2006, there were 6,172,671, (2005 – 290,571) equity instruments convertible to common shares. These have been excluded from the calculation of diluted net loss per share because to do so would have been antidilutive. These equity instruments could potentially dilute basic earnings per share in the future.

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

Effective December 14, 2005, the Company adopted a 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 means a unit equivalent in value to the fair market value of a common share of the Company on the date of the award. 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. On each relevant full vesting date of awarded restricted share units, the participant will receive a lump sum cash payment equivalent to the market value of the equivalent number of common shares. The value of each award is charged to compensation expense over the period of vesting and a corresponding liability is established on the balance sheet. The compensation expense and liability are adjusted to reflect the changes in market value of the equivalent number of common shares during the vesting period.

As at December 31, 2006, 33,333 (2005 – 25,000) restricted share units have been granted and are outstanding at a weighted average value of \$9.09 (2005 – \$9.64) per unit and \$180 (2005 – \$6) has been charged to compensation expense. The market value of the restricted share units as at December 31, 2006 is \$8.87 (2005 – \$9.81) per unit.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the obligations under capital 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 the convertible notes approximate their carrying value due to the interest rate implicit in the convertible notes approximating interest rates available at this time for similar convertible notes payable. The carrying amounts of all other financial instruments on the balance sheet approximate fair value due to their short-term maturities. As at December 31, 2006, the unrealized loss on the fair value of the Company's outstanding forward commodity sales contracts was nil (2005 – US\$240).

15. COMMITMENTS

(a) Palladium Sales Contract

In 2000, the Company entered into a contract (the "Palladium Sales Contract") whereby the Company hedged the price of 100% of its palladium production. Under the Palladium Sales Contract the sales price was based on the monthly average spot price for palladium, as determined by the London Metal Exchange P.M. fix, for the month prior to the month that the metal was received by the customer, but the price was no less than US\$325 per ounce for 100% of the metal received and no more than US\$550 per ounce for 50% of the metal received. For the remaining 50% of the metal received, there was no maximum price. The Palladium Sales Contract's term commenced effective July 1, 2000 and expired on June 30, 2005. For palladium delivered after June 30, 2005, the Company entered into palladium sales contracts that provided for the delivery of palladium at the monthly average price in the month prior to delivery based on the London PM fix price or spot price on the day of delivery. These contracts expired on December 31, 2005 and currently the Company is selling its monthly palladium production into the spot market.

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

The Company is required to pay a royalty to SPG equal to 5% of the Net Cash Proceeds, as defined in the agreement from mining operations until the expiration of the Lac des Iles leases.



(c) Operating Leases and Other Purchase Obligations

As at December 31, 2006, the Company had outstanding operating lease commitments and other purchase obligations of \$1,714 and \$1,352, respectively (2005 - \$1,053 and \$5,175) all of which had maturities of less than four years.

(d) Flow-through shares

To satisfy its commitments pursuant to the issuance of flow-through shares, the Company is required to spend \$3,375 of qualifying Canadian exploration expenses, as defined in the Income Tax Act (Canada), by December 31, 2006 (2005 - \$2,503).

16. REVENUE FROM METAL SALES

	2006	2005	2004
Palladium	\$ 75,644	\$ 43,398	\$ 113,788
Nickel	33,300	16,041	25,735
Platinum	24,436	17,144	21,476
Gold	9,844	6,568	10,665
Copper	14,825	8,284	10,945
Other metals	1,151	1,171	2,595
	\$ 159,200	\$ 92,606	\$ 185,204

The Company sells all of its concentrate to one customer (2005 – two customers) under the terms of an agreement. The customer has agreed to smelt and refine all of the Company's concentrate through to April 30, 2007. The Company is currently in negotiations with the customer to extend the agreement.

17. CONTINGENCIES

- (a) The Company is a defendant in an action by another mining company commenced in 1991 claiming actual damages in the amount of \$20,000, punitive and exemplary damages in the amount of \$5,000, and a declaration that the Company held the Compania Minerales de Copan, S.A. de C.V. ("Copan") property in trust for the plaintiff. This action relates to a predecessor company of the Company and has been inactive for many years. No provision has been made in the accounts as at December 31, 2006 or 2005 for any possible loss from this action as management of the Company believes it has a valid defense and it has been indemnified by SPG regarding this action. In addition, certain stock options are claimed to be held by employees of Copan. These options have not been included in note 13(e) as the Company has been indemnified by SPG regarding such matters.
- (b) The Company has filed a claim with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. During 2004, the Company received \$7,148 as an interim payment against this claim and has included this amount in income from mining operations. The Company is pursuing the balance of its insurance claim and will record any additional recovery in income if and when received.
- (c) From time to time, the Company is involved in other litigation, investigations, or proceedings related to claims arising out of its operations in the ordinary course of business. In the opinion of the Company's management, these claims and lawsuits in the aggregate, even if adversely settled, will not have a material effect on the consolidated financial statements.



18. INCOME TAXES

The provision for income and mining taxes differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of approximately 36%.

	2006	2005	2004
Income tax recovery using statutory income tax rates	\$ (12,822)	\$ (21,524)	\$ (35,406)
Increase (decrease) in taxes resulting from:			
Write down of mining interests not tax benefited	-	-	35,694
Resource allowance	133	3,354	6,439
Non-taxable portion of capital gains	(76)	(162)	(2)
Losses not tax benefited	11,002	16,556	389
Increase in valuation allowance on assets previously recognized	-	-	2,525
Losses incurred in foreign entities, taxed at a lower rate	701	-	-
Benefit of income tax losses not previously recognized	-	-	(437)
Federal large corporations taxes	-	339	465
Ontario mining taxes	(195)	(1,654)	(7,979)
Other	(152)	209	102
Income tax expense (recovery)	\$ (1,409)	\$ (2,882)	\$ 1,790

The details of the Company's income tax expense are as follows:

	2006	2005	2004
Current income tax expense (recovery):			
Income taxes	\$ (360)	\$ (15)	\$ 102
Mining taxes	(310)	80	580
Federal large corporations taxes	-	339	465
	\$ (670)	\$ 404	\$ 1,147
Future income tax expense (recovery):			
Income taxes	(854)	(1,552)	9,202
Mining taxes	115	(1,734)	(8,559)
	\$ (739)	\$ (3,286)	\$ 643
	\$ (1,409)	\$ (2,882)	\$ 1,790



Future tax assets (liabilities) consist of the following temporary differences:

	2006	2005
Current future income tax asset:		
Cash and cash equivalents	\$ -	\$ 526
Valuation allowance	-	(346)
Net future income tax asset, current	\$ -	\$ 180
Long-term future income tax asset:		
Mining interests, net	\$ 38,185	\$ 42,238
Deferred financing costs	414	26
Mine restoration obligation	2,532	2,780
Future mining tax liability	101	45
Other assets	199	213
Non-capital loss carry-forwards	13,363	10,413
Ontario corporate minimum tax credits	327	327
Capital loss carry-forwards	847	927
Valuation allowance	(55,089)	(55,565)
Net future income tax asset, long-term	879	1,404
Future income tax liability, long-term:		
Long-term debt	(289)	(441)
Convertible notes payable	40	-
Kaiser-Francis credit facility	(4)	(859)
Obligations under capital leases	(72)	(104)
Net future income tax liability, long term	(325)	(1,404)
Net future income tax asset, long-term	\$ 554	\$ -
Future income tax liability, current:		
Inventories	(147)	-
Crushed and broken ore stockpiles	(399)	-
Deferred financing costs	(8)	(180)
Future income tax liability, current	\$ (554)	\$ (180)
Future mining tax liability, current:		
Inventories	(40)	-
Crushed and broken ore stockpiles	(109)	-
Future mining tax liability, current	\$ (149)	\$ -
Future mining tax liability, long-term:		
Mining interests, net	(1,499)	(1,301)
Provision for mine closure costs	420	428
Mine restoration obligation	698	671
Future mining tax liability, long-term	\$ (381)	\$ (202)

At December 31, 2006, the Company had capital loss carry-forwards of approximately \$5,100 (2005 - \$5,100), which are available to reduce capital gains of future years.

At December 31, 2006, the Company and its subsidiary had non capital losses of approximately \$37,500 (2005 - \$28,200), of which \$28,200 expires in 2015 and \$9,300 expires in 2026. None of the benefit from these losses has been recognized in the financial statements.



19. STATEMENT OF CASH FLOWS

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

	2006	2005	2004
Cash provided by (used in):			
Concentrate awaiting settlement	\$ (44,597)	\$ 30,806	\$ 26,351
Inventories and stockpiles	(3,727)	3,484	1,786
Other assets	(258)	(729)	(229)
Accounts payable and accrued liabilities	5,009	(3,839)	2,613
Taxes payable	(531)	(135)	(790)
	\$ (44,104)	\$ 29,587	\$ 29,731

(b) Cash outflows during the year for interest and income taxes were as follows:

	2006	2005	2004
Interest paid on long-term debt	\$ 2,319	\$ 2,477	\$ 1,854
Interest paid on obligations under capital leases	592	339	111
Income and mining taxes paid	\$ 291	\$ 699	\$ 436

(c) On June 23, 2006, the Company, in a non cash transaction, issued a Series II convertible note in the principal amount of US\$13,500 to Kaiser-Francis to repay the US\$13,500 outstanding under the credit facility with Kaiser-Francis, due to mature on June 30, 2006 (also refer to Note 9).

(d) The Series I and II convertible notes bear interest at a rate of 6.5% per annum payable bi-monthly, commencing on June 1, 2006 and August 1, 2006, respectively. The interest payments may be paid to each Purchaser, at the Purchaser's option, in any combination of cash and/or common shares. During 2006, in a series of non cash transactions, the Purchasers elected to receive common shares in settlement of their interest expense in the amount of \$1,974 (2005 - nil).

(e) During 2006, mining interests were acquired at an aggregate cost of \$19,384 (2005 - \$41,998; 2004 - \$33,058) of which nil (2005 - \$6,583; 2004 - \$4,330) were acquired by means of capital leases.

20. SUBSEQUENT EVENTS

(a) On January 19, 2007 the Company entered into a palladium and platinum agreement with Auramet Trading, LLC ("Auramet"), a precious metals merchant, providing for the sale of an average of 10,000 ounces of palladium and 500 ounces of platinum per month. The Company may not request Auramet to purchase metals after June 15, 2008 and all sales and payments prior to that date are required to be settled by December 31, 2008. Under the terms of the agreement the Company may receive advance payments not exceeding, at any time, an aggregate maximum of US\$25,000.

The purchase price may be fixed or provisional, determined in the case of fixed by: (i) Auramet's current market bid price at the time of the transaction, and/or (ii) market limit orders, as defined under the terms of the agreement, by the Company to Auramet that have been concluded; and in the case of provisional, the afternoon fixing of the London Bullion Marketing Association immediately preceding the purchase. In each case such pricing will reflect the forward value corresponding to the scheduled delivery date. Advance payments to the Company may not exceed specified values of fixed and provisionally priced platinum and palladium. Provisional prices must be fixed prior to the scheduled delivery date for such precious metals. Each advance payment will be subject to a discount equal to LIBOR plus 1.9% per annum for the period between the date the advance payment is made and the scheduled delivery date. Upon the delivery of the precious metals to Auramet, Auramet will pay to the Company the difference between the advance payment and the purchase price.



To secure the obligations of the Company under the Agreement, the Company has granted to Auramet a security interest, among other things, in the concentrates (including the precious and base metals contained therein) mined at the Lac des Iles mine, together with the proceeds arising from the sale of the concentrate, and, by way of security, an assignment of its smelting and refining agreement.

The first advance payment was used to repay a bridge loan from the Company's major shareholder and subsequent advance payments will be used to finance working capital requirements.

(b) On February 27, 2007, the Company completed a private placement of 550,000 Common Shares on a flow-through basis at \$11.00 per Common Share. The gross proceeds of \$6,050 must be spent on Canadian exploration expenses prior to December 31, 2008.

21. COMPARATIVE FIGURES.

Certain of the prior years' figures have been reclassified to conform to the presentation adopted in 2006.