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NORTH AMERICAN PALLADIUM LTD

FORM 6-K
(Report of Foreign Issuer)

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Sector	Basic Materials
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SECURITIES AND EXCHANGE COMMISSION

Form 6-K

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

For the month of August, 2013 **Commission File Number: 1-15142**

NORTH AMERICAN PALLADIUM LTD.

(Name of Registrant)

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

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

Form 20-F ☐ Form 40-F ☒

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

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

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

Yes ☐ Assigned File No. _____No ☒

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

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

SIGNATURES

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

NORTH AMERICAN PALLADIUM LTD.

Date: August 8, 2013

By: /s/ Tess Lofsky
Tess Lofsky
Vice President, General Counsel &
Corporate Secretary

EXHIBIT INDEX

Exhibit	Description of Exhibit
1	2013 Q2 – Management's Discussion and Analysis
2	2013 Q2 – Financial Statements
3	News Release – "North American Palladium Announces Second Quarter 2013 Results and Provides Corporate Update on New Production Opportunities"

Exhibit 1

North American Palladium Ltd.

Management's Discussion and Analysis

INTRODUCTION

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

The following is management's discussion and analysis of the financial condition and results of operations ("MD&A") to enable readers of the Company's consolidated financial statements and related notes to assess material changes in financial condition and results of operations for the three and six months ended June 30, 2013, compared to those of the respective periods in the prior year. This MD&A has been prepared as of August 7, 2013 and is intended to supplement and complement the consolidated financial statements and notes thereto for the three and six months ended June 30, 2013 (collectively, the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. Readers are encouraged to review the Financial Statements in conjunction with their review of this MD&A and the most recent Form 40-F/Annual Information Form on file with the U.S. Securities and Exchange Commission ("SEC") and Canadian provincial securities regulatory authorities, available at www.sec.gov and www.sedar.com, respectively.

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

FORWARD-LOOKING INFORMATION

Certain information contained in this MD&A constitutes 'forward-looking statements' within the meaning of the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The words 'expect', 'potential', 'believe', 'anticipate', 'contemplate', 'target', 'plan', 'may', 'will', 'intend', 'estimate' and similar expressions identify forward-looking statements. Forward-looking statements in this MD&A include, without limitation: information as to our strategy, plans or future financial or operating performance, such as the Company's expansion plans including the LDI mine expansion, project timelines, production plans, projected cash flows or expenditures, operating cost estimates, cash cost estimates, proposed mining methods and rates other statements that express management's expectations or estimates of future performance. The Company cautions the reader that such forward-looking statements involve known and unknown risk factors that may cause the actual results to be materially different from those expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to: the possibility that metal prices and foreign exchange rates may fluctuate, inherent risks associated with development, exploration, mining and processing including risks to the LDI mine expansion timeline, environmental hazards, uncertainty of mineral reserves and resources, the risk that the Company may not be able to obtain sufficient financing to fund current capital needs including to fund the expansion of the Lac des Iles mine, the possibility that the Lac des Iles mine may not perform as planned, changes in legislation, regulations or political and economic developments in Canada and abroad, employee relations, risks related to the availability of skilled labour, litigation and the risks associated with obtaining necessary licenses and permits. For more details on these and other risk factors see the Company's most recent Form 40-F/Annual Information Form on file with the SEC and Canadian provincial securities regulatory authorities. Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this MD&A, which may prove to be incorrect, include, but are not limited to: that metal prices and exchange rates between the Canadian and United States dollar will be consistent with the Company's expectations, that there will be no material delays affecting operations or the timing of ongoing development projects, that there will be no material delays related to commissioning equipment, that prices for key mining and construction supplies, including labour costs, will remain consistent with the Company's expectations, and that the

Company's current estimates of mineral reserves and resources are accurate. The forward-looking statements are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

CAUTIONARY NOTE TO U.S. INVESTORS CONCERNING MINERAL RESERVES AND RESOURCES

Mineral reserve and mineral resource information contained herein has been calculated in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* , as required by Canadian provincial securities regulatory authorities. Canadian standards differ significantly from the requirements of the SEC, and mineral reserve and mineral resource information contained herein is not comparable to similar information disclosed in accordance with the requirements of the SEC. While the terms "measured", "indicated" and "inferred" mineral resources are required pursuant to National Instrument 43-101, the SEC does not recognize such terms. U.S. investors should understand that "inferred" mineral resources have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. In addition, U.S. investors are cautioned not to assume that any part or all of NAP's mineral resources constitute or will be converted into reserves. For a more detailed description of the key assumptions, parameters and methods used in calculating NAP's mineral reserves and mineral resources, see NAP's most recent Annual Information Form/Form 40-F on file with Canadian provincial securities regulatory authorities and the SEC.

OUR BUSINESS

NAP is an established precious metals producer that has been operating its flagship LDI mine located in Ontario, Canada since 1993. LDI is one of only two primary producers of palladium in the world, and is currently undergoing a major expansion to increase production and reduce cash costs per ounce.

The Company is expanding the underground LDI mine to transition from mining via ramp access to mining via shaft while utilizing bulk mining methods. Through the utilization of the shaft and bulk mining methods, operations are expected to benefit from increased mining rates and decreased operating costs, transforming LDI into a low cost producer with a rising production profile.

The Company has significant exploration potential near the LDI mine, where a number of growth targets have been identified, and is engaged in an exploration program aimed at increasing its palladium reserves and resources. As an established palladium-platinum group metal ("PGM") producer with excess mill capacity on a permitted property, NAP has potential to convert exploration success into production and cash flow on an accelerated timeline.

NAP trades on the TSX under the symbol PDL and on the NYSE MKT under the symbol PAL.

HIGHLIGHTS

OPERATIONAL HIGHLIGHTS	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Mining				
Tonnes ore mined	**433,580**	504,497	**974,274**	1,036,924
Palladium head grade (g/t)	**2.8**	3.3	**3.0**	3.3
Milling				
Tonnes ore milled	**483,266**	528,068	**986,851**	1,048,012
Palladium head grade (g/t)	**3.1**	3.4	**3.2**	3.4
Palladium recovery (%)	**80.7**	77.3	**80.4**	77.3
Payable production				
Palladium (oz)	**35,428**	40,017	**74,082**	81,777
Platinum (oz)	**2,780**	2,930	**5,622**	5,528
Gold (oz)	**2,844**	2,643	**5,845**	5,389
Nickel (lb)	**430,629**	397,262	**822,135**	789,559
Copper (lb)	**798,468**	691,096	**1,500,391**	1,326,720
Realized palladium price per ounce (US$)	**$ 719**	$ 622	**$ 724**	$ 646
Cash cost per ounce palladium sold (US$) [1]	**$ 564**	$ 429	**$ 524**	$ 404

FINANCIAL HIGHLIGHTS ($000s except per share amounts)	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Revenue	**$ 33,213**	$40,563	**$ 80,303**	$82,143
Expenses				
Production costs	**25,701**	27,948	**54,642**	53,342
Smelting, refining and freight	**3,406**	3,760	**7,208**	6,735
Royalty	**892**	1,471	**3,401**	3,065
Depreciation and amortization	**7,004**	4,905	**13,089**	8,697
Income (loss) from mining operations	**(4,215)**	2,381	**909**	10,206
Exploration	**2,192**	2,764	**7,032**	5,948
General and administration	**2,186**	3,161	**5,099**	6,464
Foreign exchange loss (gain)	**4,495**	(258)	**5,317**	(39)
Interest expense and other costs	**15,359**	1,257	**16,618**	2,283
Earnings				
Loss from continuing operations	**(26,268)**	(1,903)	**(31,625)**	(1,756)
Loss from continuing operations per share	**$ (0.15)**	$ (0.01)	**$ (0.17)**	$ (0.01)
Loss and comprehensive loss	**(26,268)**	(3,053)	**(29,116)**	(3,981)
Loss per share	**$ (0.15)**	$ (0.02)	**$ (0.16)**	$ (0.02)
Adjusted net (loss) income [1]	**(5,116)**	1,337	**(5,007)**	4,887
EBITDA [1]	**(3,905)**	4,259	**(1,918)**	9,244
Adjusted EBITDA [1]	**3,050**	6,765	**10,382**	15,133
Capital spending, continuing operations	**27,805**	32,072	**65,873**	69,282

FINANCIAL CONDITION

($000s)	**As at June 30 2013**	As at December 31 2012
Net working capital	**$ 26,691**	$ 32,563
Cash balance	**44,809**	20,168
Shareholders' equity	**228,900**	246,900
Total debt	**211,774**	130,395

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 23-24.*

- In the second quarter of 2013, 433,580 tonnes at an average grade of 2.8 g/t palladium were mined compared to 504,497 tonnes at an average palladium grade of 3.3 g/t in the prior year.
- The mill processed 483,266 tonnes of ore at an average palladium head grade of 3.1 grams per tonne and a recovery of 80.7% to produce 35,428 ounces of payable palladium in the second quarter of 2013.
- Revenue decreased to $33.2 million in the second quarter of 2013 primarily due to lower quantities of payable palladium and by-product metal sold.
- Production costs decreased to $25.7 million in the second quarter of 2013 from $27.9 million in the prior year period primarily due to fewer tonnes mined and milled and a concentrate inventory movement partially offset by higher cost per tonne mined and milled.
- In the second quarter of 2013, capital expenditures from continuing operations totaled $27.8 million with $24.4 million spent on the LDI mine expansion, excluding $3.5 million of capitalized interest, and an additional $4.3 million spent primarily on the tailings management facility.
- In June 2013, the Company:

  (i) closed a US$130 million secured term loan bearing interest at 15% per annum and due June 7, 2017;

  (ii) repaid $72.0 million of existing senior secured notes;

  (iii) extended its US$60 million revolving operating line of credit to July 2014;

  (iv) issued approximately 8.7 million of flow-through common shares for net proceeds of approximately $9.6 million.
- During the second quarter of 2013, the Company incurred $15.4 million of financing related costs including an $11.0 million loss on extinguishment of debt and $2.3 million of financing costs and had a $4.5 million foreign exchange loss on US$ denominated debt.
- In July 2013, the Company issued approximately 8.6 million of flow-through common shares at a price of $1.164 per share for net proceeds of approximately $9.6 million.
- During the second quarter of 2013, the Company made steady progress advancing the shaft sinking and critical construction components of its mine expansion. The shaft development remains on schedule with production from the shaft expected by the beginning of the fourth quarter of 2013.

PALLADIUM OPERATIONS –OPERATING, CAPITAL EXPENDITURES & FINANCIAL RESULTS

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

Operating Results

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Ore mined (tonnes)				
Underground				
Roby	**—**	173,069	**143,037**	343,386
Offset	**131,606**	35,323	**234,225**	84,943
	131,606	208,392	**377,262**	428,329
Surface				
Open pit	**247,954**	206,965	**538,323**	487,635
High grade stockpile	**54,020**	4,810	**54,020**	10,175
Low grade stockpile	**—**	84,330	**4,669**	110,785
	301,974	296,105	**597,012**	608,595
Total	**433,580**	504,497	**974,274**	1,036,924
Mined ore grade (Pd g/t)				
Underground				
Roby	**—**	5.3	**4.2**	5.4
Offset	**4.4**	4.6	**4.2**	4.8
	4.4	5.2	**4.2**	5.3
Surface				
Open pit	**2.3**	2.3	**2.4**	2.1
High grade stockpile	**1.5**	1.8	**1.5**	1.8
Low grade stockpile	**—**	1.0	**1.0**	1.0
	2.1	1.9	**2.3**	1.9
Average	**2.8**	3.3	**3.0**	3.3
Milling				
Tonnes of ore milled	**483,266**	528,068	**986,850**	1,048,012
Palladium head grade (g/t)	**3.1**	3.4	**3.1**	3.4
Palladium recoveries (%)	**80.7**	77.3	**80.4**	77.3
Tonnes of concentrate produced	**4,380**	4,390	**8,882**	8,958
Total cost per tonne milled	**$ 53**	$ 52	**$ 55**	$ 52
Payable production				
Palladium (oz)	**35,428**	40,017	**74,082**	81,777
Platinum (oz)	**2,780**	2,930	**5,622**	5,528
Gold (oz)	**2,844**	2,643	**5,845**	5,389
Nickel (lbs)	**430,629**	397,262	**822,135**	789,559
Copper (lbs)	**798,468**	691,096	**1,500,391**	1,326,720
Cash cost per ounce of palladium sold (US$) [1]	**$ 564**	$ 429	**$ 524**	$ 404

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 23-24.*

Mining

Ore mined at LDI during the second quarter of 2013 consisted of 433,580 tonnes at an average grade of 2.8 g/t palladium compared to 504,497 tonnes at an average palladium grade of 3.3 g/t in the prior year. The decrease in tonnage mined in 2013 was primarily due to fewer tonnes from the Roby zone, with no mining activity in that zone during the second quarter of 2013, partially offset by more tonnes mined at the Offset zone and the open pit as well as the processing of more high grade stockpile material. The average grade of ore mined decreased primarily due to not mining the higher grade Roby zone in the second quarter of 2013 as well as lower grades of ore mined for all other deposits and stockpiles compared with the prior year. The ore mined in the Offset zone in the second quarter of 2013 was at grades anticipated by the Company for that section of the ore body.

Ore mined at LDI during the six months ended June 30, 2013, consisted of 974,274 tonnes at an average grade of 3.0 g/t palladium compared to 1,036,924 tonnes at an average palladium grade of 3.3 g/t in the prior year. The decrease in tonnage mined in 2013 was primarily due to fewer tonnes from the Roby zone and the low grade stockpile partially offset by more tonnes mined at the Offset zone, the open pit and the high grade stockpile. The average grade of ore mined decreased in the first half of 2013 primarily due to fewer tonnes mined in the Roby zone as well as lower or similar grades mined at all other deposits and stockpiles compared with the prior year.

The open pit and Roby deposits were largely mined out of readily available mineralized material at the end of the second quarter of 2013. Both deposits have potential economic mineralized material available for future processing; however, an economic justification has not yet been completed and the Company does not currently have this potential material included in its mine plan.

Milling

During the second quarter of 2013, the LDI mill processed 483,266 tonnes of ore at an average palladium head grade of 3.1 grams per tonne and a recovery of 80.7% to produce 35,428 ounces of payable palladium (2012 – 528,068 tonnes milled, average palladium head grade of 3.4 grams per tonne, palladium recovery of 77.3%, produced 40,017 ounces of payable palladium).

During the six months ended June 30, 2013, the LDI mill processed 986,851 tonnes of ore at an average palladium head grade of 3.2 grams per tonne and a recovery of 80.4% to produce 74,082 ounces of payable palladium (2012 – 1,048,012 tonnes milled, average palladium head grade of 3.4 grams per tonne, palladium recovery of 77.3%, produced 81,777 ounces of payable palladium).

The higher mill recovery in both the second quarter and first six months of 2013 compared to 2012 was primarily due to improvements in the mill which increased palladium recovery compared with the prior year despite the lower average palladium head grades processed. Payable metal production was impacted by a new smelter contract which pays a lower percentage of contained metal compared to the contract in the prior year.

Total production costs per tonne milled were $53 and $55 in the second quarter of 2013 and the first six months of 2013 respectively, compared to $52 and $52 per tonne in the corresponding 2012 periods. The increases were primarily due to increased milling costs in 2013 combined with lower tonnages milled compared with the prior periods. As the mill has excess capacity relative to the mining rate, it operates on a two-week on/ two-week off schedule.

Cash Cost per Ounce of Palladium Sold

The cash cost per ounce of palladium sold increased to US$564 [1] in the second quarter of 2013 compared to US$429 [1] per ounce in the prior year. Cash cost per ounce of palladium sold is a non-IFRS measure and the calculation is provided in the Non-IFRS Measures section of this MD&A. The increase in cash cost per ounce of palladium in 2013 was primarily due to lower by-product metal revenues and the effect of fewer payable palladium ounces sold partially offset by decreased production, smelting, refining and freight costs and royalty expense compared with the second quarter of 2012. Please refer to the LDI revenue, production costs, smelting, refining and freight costs and royalty expense sections of this MD&A for additional details.

The cash cost per ounce of palladium sold increased to US$524 [1] in the first six months of 2013 compared to US$404 [1] per ounce in the prior year. The increase in cash cost per ounce of palladium in 2013 was primarily due to increased production, smelting, refining and freight costs, royalty expense, lower by-product metal revenues and the effect of fewer payable palladium ounces sold compared with 2012.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 23-24.*

Capital expenditures

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

In the first six months of 2013, capital expenditures from continuing operations totaled $65.9 million, exclusive of $5.9 million of capitalized interest, compared with $69.3 million in 2012. Of the $65.9 million, $53.7 million was spent on the LDI mine expansion including: $15.3 million on shaft sinking and infrastructure; $13.1 million on level access and vertical development; $10.0 million on surface and underground construction; $3.6 million on procurement; $0.4 million on parts and maintenance; $1.8 million on capitalized exploration expenditures; $6.3 million on general and administration, indirects and equipment charge-backs; and $3.2 million for other development costs. The Company spent an additional $12.2 million on capital which included $9.8 million for the tailings management facility.

Financial Results

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

	Three months ended June 30		Six months ended June 30	
($000s)	**2013**	2012	**2013**	2012
Revenue	**$33,213**	$40,563	**$80,303**	$82,143
Mining operating expenses				
Production costs				
Mining	**18,294**	18,258	**37,739**	37,531
Milling	**7,097**	6,604	**14,770**	12,329
General and administration	**1,337**	1,444	**3,101**	3,134
	26,728	26,306	**55,610**	52,994
Inventory and others	**(1,027)**	1,642	**(968)**	348
	25,701	27,948	**54,642**	53,342
Smelting, refining and freight costs	**3,406**	3,760	**7,208**	6,735
Royalty expense	**892**	1,471	**3,401**	3,065
Depreciation and amortization	**7,004**	4,905	**13,089**	8,697
Loss on disposal of equipment	**425**	98	**1,054**	98
Total mining operating expenses	**$37,428**	$38,182	**$79,394**	$71,937
Income (loss) from mining operations	**$ (4,215)**	$ 2,381	**$ 909**	$10,206

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

Revenue

Revenue is affected by production and sales volumes, commodity prices, currency exchange rates, mill run timing and shipment schedules. Metal sales for LDI are recognized in revenue at provisional prices when delivered to a smelter for treatment or a designated shipping point. Final pricing is determined in accordance with LDI's smelter agreements. In most cases, final pricing is determined two months after delivery to the smelter for gold, nickel and copper and four months after delivery for palladium and platinum. These final pricing adjustments can result in additional revenues in a rising commodity price environment and reductions to revenue in a declining commodity price environment. Similarly, a weakening in the Canadian dollar relative to the U.S. dollar will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues. The Company periodically enters into financial contracts for past production delivered to the smelters to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar. These financial contracts represent 25,000 ounces of palladium as at June 30, 2013 (December 31, 2012 – 55,000 palladium ounces) and mature from July 2013 through October 2013 at an average forward price of US$749 per ounce of palladium (December 31, 2012 – US$640 per ounce). For substantially all of the palladium delivered to the customers under the smelter agreements, the quantities and timing of settlement specified in the financial contracts match final pricing settlement periods. The palladium financial contracts are being recognized on a mark-to-market basis as an adjustment to revenue. The fair value of these contracts at June 30, 2013 was an asset of $2.1 million included in accounts receivable (December 31, 2012 – a liability of $3.2 million included in accounts payable and accrued liabilities).

Revenue for the three months ended June 30, 2013

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume [1]	32,620	2,562	2,625	393,838	732,710	n.a.	n.a.
Realized price (US$) [1]	$ 719	$ 1,489	$ 1,444	$ 6.70	$ 3.29	n.a.	n.a.
Revenue before price adjustment ($000s)	$ 23,793	$ 3,835	$ 3,756	$ 2,712	$ 2,409	$ 76	$ 36,581
Price adjustment ($000s):							
Commodities	(2,226)	(858)	(788)	(374)	(157)	(3)	(4,406)
Foreign exchange	504	193	164	95	81	1	1,038
Revenue ($000s)	$ 22,071	$ 3,170	$ 3,132	$ 2,433	$ 2,333	$ 74	$ 33,213

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

Revenue for the three months ended June 30, 2012

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume [1]	42,285	3,055	2,782	416,422	721,962	n.a.	n.a.
Realized price (US$) [1]	$ 622	$ 1,487	$ 1,606	$ 7.73	$ 3.53	n.a.	n.a.
Revenue before price adjustment ($000s)	$ 26,935	$ 4,573	$ 4,549	$ 3,239	$ 2,596	$ 118	$ 42,010
Price adjustment ($000s):							
Commodities	(426)	(615)	(333)	(92)	(187)	(38)	(1,691)
Foreign exchange	(68)	105	124	46	32	5	244
Revenue ($000s)	$ 26,441	$ 4,063	$ 4,340	$ 3,193	$ 2,441	$ 85	$ 40,563

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

Revenue for the second quarter of 2013 decreased $7.4 million or 18% compared with the same period in 2012 primarily due to lower tonnes and grades of mineralized material mined, resulting in a decrease in sales volumes, combined with a higher volume of concentrate inventory on hand for which revenue has not yet been recognized.

The reduction in sales volumes included the impact of in-transit sales reclassified to inventory in the period. Scheduling of concentrate shipments resulted in concentrate inventories increasing to 484 tonnes at the end of second quarter of 2013 representing approximately $3.0 million of gross revenue that was not recognized in revenue in the second quarter of 2013 compared to 75 tonnes representing approximately $0.4 million of gross revenue in 2012. Commodity and foreign exchange adjustments reduced reported revenue by $1.9 million compared to 2012 primarily due to fewer ounces of palladium hedged in 2013 with 25,000 ounces hedged at June 30, 2013, compared to 91,300 ounces hedged at June 30, 2012. This decrease in hedge coverage resulted in an increased exposure to price and foreign exchange movements for the three months ended June 30, 2013.

Payable palladium and platinum produced decreased by 4,589 ounces and 150 ounces respectively in the second quarter of 2013 compared with the same period in 2012 while payable production increased for gold, nickel and copper. Realized price per ounce increased for palladium while the prices decreased for platinum, gold, nickel and copper in the second quarter of 2013 compared to 2012.

Revenue for the six months ended June 30, 2013

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume [1]	72,380	5,465	5,701	785,344	1,444,987	n.a.	n.a.
Realized price (US$) [1]	$ 724	$ 1,557	$ 1,529	$ 7.09	$ 3.41	n.a.	n.a.
Revenue before price adjustment ($000s)	$ 53,921	$ 8,569	$ 8,748	$ 5,799	$ 4,973	$ 121	$ 82,131
Price adjustment ($000s):							
Commodities	(953)	(620)	(817)	(402)	(241)	(3)	(3,036)
Foreign exchange	317	363	270	130	127	1	1,208
Revenue ($000s)	$ 53,285	$ 8,312	$ 8,201	$ 5,527	$ 4,859	$ 119	$ 80,303

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

Revenue for the six months ended June 30, 2012

	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume [1]	81,233	5,490	5,356	785,816	1,319,488	n.a.	n.a.
Realized price (US$) [1]	$ 640	$ 1,487	$ 1,606	$ 7.73	$ 3.53	n.a.	n.a.
Revenue before price adjustment ($000s)	$ 53,516	$ 8,612	$ 8,927	$ 6,447	$ 4,890	$ 305	$ 82,697
Price adjustment ($000s):							
Commodities	261	439	104	(258)	44	(15)	575
Foreign exchange	(936)	(72)	(48)	(40)	(33)	—	(1,129)
Revenue ($000s)	$ 52,841	$ 8,979	$ 8,983	$ 6,149	$ 4,901	$ 290	$ 82,143

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

Revenue for the first six months of 2013 decreased $1.8 million or 2% compared with the same period in 2012 primarily due to lower tonnes and grades of mineralized material mined resulting in a decrease in sales volumes combined with a higher volume of concentrate inventory on hand for which revenue has not yet been recognized.

The reduction in sales volumes included the impact of in-transit sales reclassified to inventory in the period noted above. Commodity and foreign exchange adjustments reduced reported revenue by $1.3 million compared to 2012 primarily due to fewer ounces of palladium hedged in 2013 with 25,000 ounces hedged at June 30, 2013, compared to 91,300 ounces hedged at June 30, 2012. This decrease in hedge coverage resulted in an increased exposure to price and foreign exchange movements for the six months ended June 30, 2013.

Payable palladium produced decreased 7,695 ounces in the first six months of 2013 compared with the same period in 2012 while payable by-product production increased for platinum, gold, nickel and copper. Realized price per ounce increased for palladium while the prices decreased for platinum, gold, nickel and copper in the first six months of 2013 compared to 2012.

Payable palladium in the first six months of 2013 and a portion of the second quarter of 2013 was impacted by a new smelter contract which included lower accountability rates for the payable metal contained in concentrate compared to the contract that was in effect in the prior period.

Spot Metal Prices* and Exchange Rates

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

	Jun-30 2013	Mar-31 2013	Dec-31 2012	Sep-30 2012	Jun-30 2012	Mar-31 2012	Dec-31 2011	Sep-30 2011
Palladium – US$/oz	**$ 643**	$ 770	$ 699	$ 642	$ 578	$ 651	$ 636	$ 614
Platinum – US$/oz	**$ 1,317**	$ 1,576	$ 1,523	$ 1,668	$ 1,428	$ 1,640	$ 1,381	$ 1,511
Gold – US$/oz	**$ 1,192**	$ 1,598	$ 1,664	$ 1,776	$ 1,599	$ 1,663	$ 1,575	$ 1,620
Nickel – US$/lb	**$ 6.20**	$ 7.50	$ 7.75	$ 8.40	$ 7.46	$ 7.91	$ 8.28	$ 8.30
Copper – US$/lb	**$ 3.06**	$ 3.44	$ 3.59	$ 3.75	$ 3.44	$ 3.83	$ 3.43	$ 3.24
Exchange rate (Bank of Canada) – CDN$1 = US$	**US$ 0.95**	US$ 0.98	US$ 1.01	US$ 1.02	US$ 0.98	US$ 1.00	US$ 0.98	US$ 0.96

* *Based on the London Metal Exchange*

Operating Expenses from Continuing Operations

Production costs

For the quarter ended June 30, 2013, operating expenses were $25.7 million, compared to $27.9 million in the prior year period. The $2.2 million decrease in operating expenses in 2013 was primarily due to fewer tonnes mined and milled partially offset by higher costs per tonne mined and milled.

For the six months ended June 30, 2013, operating expenses were $54.6 million, compared to $53.3 million in the prior year period. The $1.3 million increase in operating expenses in 2013 was primarily due to an increase in mining and milling costs per tonne despite fewer tonnes mined and milled partially offset by a favourable change in inventory levels and insurance amounts received.

Mining costs in the second quarter and first six months of 2013 increased marginally compared to the respective 2012 periods despite 11% and 8% fewer tonnes mined in the second quarter and first six months respectively. The higher mining costs were primarily due to the mix of ore sources and the impact of transitioning into the Offset zone as well as increased costs for power, infill drilling, parts and supplies, labour, restoration costs, nipping, rehabilitation, level maintenance and contractors. In the second quarter and first six months of 2013, $nil and 143,037 tonnes of lower cost Roby zone tonnes were mined respectively compared with 173,069 and 343,386 tonnes in the corresponding respective 2012 periods.

Milling costs increased $0.5 million and $2.4 million in the second quarter and first six months of 2013 respectively despite a reduction in tonnes milled in the respective 2013 period compared to 2012. Mill palladium recovery increased to 80.7% from 77.3% in the second quarter of 2013 compared with 2012 and the cost increase was primarily due to a semi-autogenous mill shell and feed end liner replacement and increased reagent usage partially offset by decreased consumption of grinding media. For the first six months of 2013, mill palladium recovery increased to 80.4% compared to 77.3% in 2012. The increased mill costs were primarily due to the factors noted above plus a $0.9 million semi-autogenous mill liner replacement in the first quarter of 2013.

Inventory and mining costs decreased $2.7 million in the second quarter of 2013 primarily due to a $2.4 million change in concentrate inventory (build-up in 2013 compared to a drawdown in 2012). Inventory and mining costs decreased $1.3 million in the six months ended June 30, 2013 primarily due to a $0.5 million change in inventory and $0.8 million insurance recovery in 2013 related to the water inflows in 2012.

Smelting, refining and freight costs

Smelting, refining and freight costs for the quarter ended June 30, 2013 were $3.4 million compared to $3.8 million in the same period in 2012, a 9% decrease. The decrease over the prior year was primarily due to lower quantities of metals sold, changes in metal prices realized, partially offset by higher smelting and refining charges associated with the current smelter contracts compared to the previous contract and higher freight costs associated with an overseas customer.

Smelting, refining and freight costs for the six months ended June 30, 2013 were $7.2 million compared to $6.7 million in the same period in 2012, a 7% increase. The increase over the prior year was primarily due to changes in metal prices realized, higher smelting and refining charges associated with the current smelter contracts compared to the previous contract and higher freight costs associated with an overseas customer partially offset by lower quantities of palladium sold.

Royalty expense

For the quarter ended June 30, 2013, royalty expense was $0.9 million compared to $1.5 million in the same period in 2012. The decrease was primarily due to the impact of a mining tax charge in 2013, lower quantities of metal sold and higher smelting, refining and freight costs partially offset by higher payable metal prices for palladium.

For the six months ended June 30, 2013, royalty expense was $3.4 million compared to $3.1 million in the same period in 2012. The 11% increase was primarily due to higher payable metal prices for palladium partially offset by lower quantities of palladium sold, higher smelting, refining and freight costs and the impact of a mining tax charge in the second quarter of 2013.

Depreciation and amortization

Depreciation and amortization for the quarter ended June 30, 2013 and the first six months of 2013 was $7.0 million and $13.1 million respectively, compared to $4.9 million and $8.7 million for the respective 2012 periods. The increase over the prior year was primarily due to a significant increase in depreciable assets associated with the LDI mine expansion including the Offset zone and tailings management facilities partially offset by fewer tonnes mined.

OTHER EXPENSES

Exploration

Exploration expenditures for the quarter ended June 30, 2013 were $2.2 million (2012—$2.8 million) exclusive of an additional $0.6 million of Offset zone exploration which was capitalized. Of the $2.2 million expense in 2013, $0.9 million was spent on the Sheriff, North VT Rim, South VT Rim, North LDI and Roby Northeast near mine targets and $0.1 million was spent on greenfields targets including Wakinoo Lake, Demars Lake and Chisamore properties. In the second quarter of 2013, 3,595 metres of exploration drilling was done on near mine targets.

Exploration expenditures for the six months ended June 30, 2013 were $7.0 million (2012—$5.9 million) exclusive of an additional $1.8 million of Offset zone exploration which was capitalized. Of the $7.0 million expense in 2013, $2.9 million was spent on the Sheriff, North VT Rim, South VT Rim, North LDI, South LDI and Roby Northeast near mine targets and $1.2 million was spent on greenfields targets including Wakinoo Lake, Demars Lake, Chisamore and North LDI properties. In the six months ended June 30, 2013, 18,678 metres of exploration drilling was done with 13,738 metres on near mine targets and 4,940 metres on greenfields properties.

Loss on Extinguishment of Debt

In June 2013, in association with a financing, the Company repaid existing senior secured notes and incurred an $11.0 million loss including a $7.2 million debt repayment premium.

Interest expense and other costs

Interest expense and other costs for the second quarter of 2013 and the first six months of 2013 were $4.3 million and $5.6 million respectively, compared to $1.3 million and $2.3 million in the respective 2012 periods. The increases were primarily due to $2.3 million of financing costs and $0.8 million loss on investment in 2013.

Foreign exchange loss (gain)

For the second quarter and first six months of 2013, foreign exchange losses increased by $4.8 million and $5.4 million respectively, primarily due to the impact of exchange rate movements on the US$ denominated senior secured term loan and the credit facility that is denominated in US$.

GOLD OPERATIONS

On March 22, 2013, the Company sold NAP Quebec for gross proceeds of $18.0 million in cash, 1.5 million common shares of Maudore Minerals Ltd. and $1.8 million of receivable inventory amounts. For Financial Statement purposes, NAP Quebec has been treated as a discontinued operation (held for sale) in 2013 and 2012. The Company has recorded $2.5 million income from discontinued operations, including a gain on disposal of discontinued operations of $1.5 million, for the period ended June 30, 2013 compared to a loss from discontinued operations of $2.2 million for the period ended June 30, 2012.

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

SUMMARY OF QUARTERLY RESULTS

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

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**$ 33,213**	$ 47,090	$ 42,368	$ 36,193	$ 40,563	$ 41,580	$ 37,205	$ 32,689
Production costs	**25,701**	28,941	23,937	24,257	27,948	25,394	25,990	22,497
Exploration expense	**2,192**	4,840	5,961	2,604	2,764	3,184	2,390	1,742
Capital expenditures	**27,805**	38,068	41,810	34,088	32,072	37,210	44,446	39,673
Net income (loss) from continuing operations	**(26,268)**	(5,357)	(3,739)	(5,908)	(1,903)	147	(4,343)	356
Cash provided by (used in) operations	**(2,849)**	3,165	39,045	5,174	4,833	7,645	(147)	16,232
Cash provided by financing activities	**51,970**	17,096	2,299	35,280	46,712	6,201	69,433	71
Cash used in investing activities	**(27,805)**	(37,078)	(41,831)	(33,864)	(31,829)	(37,131)	(43,864)	(38,822)
Net income (loss) per share from continuing operations								
- basic	**$ (0.15)**	$ (0.03)	$ (0.02)	$ (0.03)	$ (0.01)	$ 0.00	$ (0.03)	$ (0.00)
- diluted	**$ (0.16)**	$ (0.03)	$ (0.02)	$ (0.03)	$ (0.02)	$ 0.00	$ (0.03)	$ (0.00)
Net income (loss) per share								
- basic	**$ (0.15)**	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.00)
- diluted	**$ (0.16)**	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.01)	$ (0.03)	$ (0.00)
Tonnes milled	**483,266**	503,585	511,226	504,022	528,068	519,944	531,825	442,253
Palladium sold (ounces)	**32,620**	39,760	44,394	36,218	42,285	38,948	35,116	34,524

For the second quarter of 2013 compared to the first quarter of 2013:

- revenues decreased significantly primarily due to fewer tonnes of mineralized material mined and milled with lower palladium grades and a build-up concentrate inventory at the end of the second quarter.
- production costs decreased primarily due to the factors noted above partially offset by increased cost per tonne mined and milled.
- capital expenditures decreased primarily due to lower spending as phase 1 of the Offset zone as the project nears completion
- loss from continuing operations increased primarily due to: $15.4 million of financing related costs including an $11.0 million loss on extinguishment of debt and $2.3 million of financing costs; $4.5 million foreign exchange loss on US$ denominated debt; and, higher losses from mining operations in the second quarter of 2013
- cash provided by financing activities increased primarily due to closing a US$130 million secured term loan and issuing $9.6 million of flow-through common shares in the second quarter partially offset by repayment of existing senior secured debt.

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

($000s)	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Cash provided by (used in) operations prior to changes in non-cash working capital	**$ (3,233)**	$ 5,117	**$ (202)**	$ 11,778
Changes in non-cash working capital	**384**	(284)	**518**	669
Cash provided by (used in) operations	**(2,849)**	4,833	**316**	12,477
Cash provided by financing	**51,970**	46,712	**69,066**	52,913
Cash used in investing	**(27,805)**	(31,829)	**(64,883)**	(68,960)
Increase (decrease) in cash from continuing operations	**21,316**	19,716	**4,499**	(3,570)
Net change in cash attributable to discontinued operations	**—**	(15,066)	**20,142**	(23,949)
Increase (decrease) in cash and cash equivalents	**$ 21,316**	$ 4,650	**$ 24,641**	$(27,519)

Operating Activities

For the quarter ended June 30, 2013, cash used in operations prior to changes in non-cash working capital was $3.2 million, compared to cash provided of $5.1 million in the prior year quarter. The decrease was primarily due to the $24.4 million increase in net loss in 2013 partially offset by a $2.1 million non-cash increase in depreciation and amortization and an $11.0 million loss on refinancing. For the six months ended June 30, 2013, cash used in operations prior to changes in non-cash working capital was $0.2 million, compared to cash provided of $11.8 million in the prior year. The decrease was primarily due to the $29.9 million increase in net loss in 2013 before non-cash adjustments of a $4.4 million increase in depreciation and amortization and an $11.0 million loss on refinancing.

During the second quarter of 2013, changes in non-cash working capital resulted in a source of $0.4 million compared to a use of $0.3 million in the prior year. The decreased use of $0.7 million in the quarter was primarily due to a movement in accounts receivable of $16.6 million partially offset by a movement in accounts payable of $11.9 million. During the six months ended June 30, 2013, changes in non-cash working capital resulted in a source of cash of $0.5 million compared to $0.7 million in the prior year. The change of $1.2 million was primarily due to a movement in accounts receivables of $18.8 million partially offset by a movement in accounts payable of $15.1 million.

Financing Activities and Liquidity

For the quarter ended June 30, 2013, financing activities provided cash of $52.0 million consisting primarily of $131.9 million of senior secure term loan issued and $9.6 million of share issuance less $79.2 million repayment of senior secured notes and $8.8 million from a repayment of the credit facility. This compared to cash provided by financing activities of $46.7 million in the prior year period consisting primarily of $32.9 million of share issuance and a $15.3 million drawdown of the credit facility. For the six months ended June 30, 2013, financing activities provided cash of $69.1 million consisting primarily of $131.9 million of senior secured term loan issued, $9.6 million of common share issuance and $14.2 million from a drawdown on the credit facility less a $79.2 million repayment of senior secured notes and $5.9 million for interest paid. This compared to cash provided by financing activities of $52.9 million in the prior year period consisting primarily of $32.9 million of common share issuance, $11.2 million in capital leases and $15.3 million drawdown of the credit facility partially offset by $4.0 million interest paid on long-term debt and repayment of $2.6 million of capital leases obligations.

Investing Activities

For the quarter ended June 30, 2013, investing activities used $27.8 million (2012—$31.8 million) of cash primarily due to additions to mining interests of $27.8 million (2012—$32.1 million). For the six months ended June 30, 2013, investing activities used $64.9 million (2012—$69.0 million) of cash primarily due to additions to mining interests of $65.9 million (2012—$69.3 million). Refer to the capital expenditure section of this MD&A for additional details.

Liquidity and Capital Resources

As at June 30, 2013, the Company had cash and cash equivalents of $44.8 million compared to $20.2 million as at December 31, 2012. The increase was due primarily to the sources and uses of cash noted above. The funds are invested in short term interest bearing deposits at a major Canadian chartered bank.

The Company has, subject to a borrowing base cap, a US$60.0 million credit facility that is secured by certain of the Company's accounts receivables and inventory that may be used for working capital and general corporate purposes and is due July 4, 2014. As at June 30, 2013, the borrowing base calculation limited the credit facility to a maximum of US$37.9 million and was fully utilized.

The Company has $11.4 million of finance leases funding equipment for the LDI mine expansion. Please also see the contractual obligations below for additional commitments.

The Company's anticipated operating cash flows and existing cash resources are expected to be sufficient to fund capital expenditures relating to the shaft construction anticipated for the remainder of 2013 and as a result the Company will does not expect to need to raise additional funds for these expenditures. While the Company has operations that generate revenue, it has not yet achieved consistently profitable operations and incurred an adjusted net loss of $5.0 million for the six month period ended June 30, 2013. The Company's ability to continue operations and exploration and development activities is dependent upon the Company funding the capital expenditures required to continue the LDI mine expansion to the end of 2013. The achievement of this is dependent on a number of variables including, but not limited to, metal prices, operational costs, capital expenditures, timely transition to mining by shaft and profitable operations of the LDI mine expansion once complete. Adverse changes in any of these variables may require the Company to seek additional financing.

In July 2013, the Company issued approximately 8.6 million of flow-through common shares at a price of $1.164 per share for net proceeds of approximately $9.6 million. In June 2013, the Company issued approximately 8.7 million of flow-through common shares at a price of $1.155 per share for net proceeds of approximately $9.6 million. The Company is required to spend the aggregate gross proceeds of $20.0 million on eligible exploration and mine development expenditures, which expenditures must be renounced to investors in 2013.

In June 2013, holders of 60,000 of the Company's 72,000 palladium warrants exercised their warrants. In settlement of the warrants, the Company issued approximately 0.6 million common shares at an average price of approximately $1.11 per share in June and paid approximately $1.7 million in cash in July. As at August 7, 2013, 12,000 palladium warrants remained outstanding.

In June 2013, the Company completed a US$130 million secured term loan financing that bears interest at 15% per annum and is due June 7, 2017. A portion of the proceeds from the term loan were used to repay existing senior indebtedness. The loan is secured by first priority security on the fixed assets and second priority security on accounts receivable and inventory. The Company has the option to accrue interest during the first two years of the loan; in which case, the interest rate on the loan and accrued interest would increase by 4%. The loan contains covenants typical of this type of facility including senior debt to EBITDA ratios, minimum tangible net worth requirements and capital expenditure limits.

In June 2013, the Company extended its US$60 million revolving operating line of credit by an additional year to July 4, 2014. The credit facility is secured by a first priority security on the Company's accounts receivables and inventories and a second priority security on all other assets.

In November 2012, the Company issued 2.4 million flow-through common shares at a price of $1.65 per share for net proceeds of $3.6 million. The Company is required to spend the gross proceeds of $4.0 million on eligible exploration and mine development expenditures, which expenditures were renounced to investors for the 2012 tax year. As at June 30, 2013, the full gross proceeds had been spent.

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

During the second quarter of 2012, LDI signed a three-year smelting and refining contract for the majority of the mine's concentrate. This new contract has higher smelting and refining charges than the previous contract, but has a shorter payment period, which has enabled the Company to reduce its investment in working capital.

Contractual Obligations

Contractual obligations are comprised as follows:

As at June 30, 2013	Payments Due by Period			
($000s)	Total	1-3 Years	3-5 Years	5+ Years
Finance lease obligations	$11,409	$ 7,071	$ 4,338	$ —
Operating leases	5,636	5,089	547	—
Purchase obligations	62,239	62,239	—	—
	$79,284	$74,399	$ 4,885	$ —

In addition to the above, the Company also has asset retirement obligations at June 30, 2013 in the amount of $14.7 million for the LDI mine. The Company obtained letters of credit of $14.1 million as financial surety for these future outlays. As a result, $0.6 million of funding is required prior to or upon closure of these properties.

Contingencies and Commitments

Please refer to notes 16 and 19 of the Company's Financial Statements.

Related Party Transactions

There were no related party transactions for the period ended June 30, 2013.

OUTSTANDING SHARE DATA

As of August 7, 2013, there were 196,781,376 common shares of the Company outstanding. In addition, there were options outstanding pursuant to the Amended and Restated 2013 Corporate Stock Option Plan entitling holders thereof to acquire 3,642,499 common shares of the Company at a weighted average exercise price of $2.83 per share. In conjunction with $72.0 million of convertible debentures issued in 2011 and repaid in June 2013, a palladium warrant consisting of 0.35 of an ounce of palladium at a strike price of US$620 per ounce was issued with each $1,000 convertible debenture representing an aggregate of 25,200 ounces of palladium. As at August 7, 2013, 12,000 palladium warrants were outstanding representing 4,200 ounces. On the exercise of the palladium warrants, in certain circumstances the Company has the option of settling the warrants with either cash or common shares. Assuming a June 30, 2013 exercise date, the Company estimates that the number of common shares which would have been required to settle the remaining 12,000 outstanding palladium warrants representing 4,200 ounces was approximately 0.3 million common shares.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

a. Going Concern

The Financial Statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2013, the Company had a cash balance of $44.8 million and a working capital surplus of approximately $26.7 million and raised an additional $9.6 million of equity in July 2013. During the quarter ended June 30, 2013, the Company restructured its debt borrowings to extend the maturity date of its borrowings and extended the maturity date of its credit facility to July 2014. While the Company has operations that generate revenue, it has not yet achieved consistently profitable operations and incurred an adjusted net loss of $5.0 million for the six month period ended June 30, 2013. The Company's ability to continue operations and exploration and development activities is dependent upon the Company funding the capital expenditures required to continue the LDI mine expansion to the end of 2013. The achievement of this is dependent on a number of variables including, but not limited to, metal prices, operational costs, capital expenditures, timely transition to mining by shaft and profitable operations of the LDI mine expansion once complete. Adverse changes in any of these variables may require the Company to seek additional financing. Accordingly, these conditions could result in a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. The Financial Statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern.

b. Use of estimates

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

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

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

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

c. Impairment assessments of long-lived assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its "value in use", defined as the discounted present value of the future cash flows expected to arise from its continuing use and its ultimate disposal, and its "fair value less costs to sell", defined as the best estimate of the asset's selling price less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

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

d. Depreciation and amortization of mining interests

Mining interests relating to plant and equipment, mining leases and claims, royalty interests, and other development costs are recorded at cost with depreciation and amortization provided on the unit-of-production method over the estimated remaining ounces of palladium to be produced based on the proven and probable reserves or, in the event that the Company is mining resources, an appropriate estimate of the resources mined or expected to be mined.

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

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

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

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

e. Revenue recognition

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

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

f. Asset retirement obligations

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

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

The liability for each mine site is accreted over time and the accretion charges are recognized as a finance cost in the Consolidated Statements of Operations and Comprehensive Loss. The liability is subject to re-measurement at each reporting date based on changes in discount rates and timing or amounts of the costs to be incurred. Changes in the liability, other than accretion charges, relating to mine rehabilitation and restoration obligations, which are not the result of current production of inventory, are added to or deducted from the carrying value of the related asset retirement cost in the reporting period recognized. If the change results in a reduction of the obligation in excess of the carrying value of the related asset retirement cost, the excess balance is recognized as a recovery through profit or loss in the period.

Adoption of New Accounting Standards

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

IAS 1 Presentation of Financial Statements

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

IAS 19 Employee Benefits

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

Scope of a Reporting Entity

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

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosures of Interests in Other Entities

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

IAS 27 Consolidated and Separate Financial Statements

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

IFRS 13 Fair Value Measurement

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

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

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

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

New Standards and Interpretations Not Yet Adopted

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

IFRS 9 Financial Instruments: Classification and Measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is at fair value through profit or loss. An update to IFRS 9 includes guidance on financial liabilities and derecognition of financial instruments. This standard and the related update are effective for years beginning on or after January 1, 2015.

IAS 32 Financial Instruments: Presentation

This standard is amended to clarify requirements for offsetting of financial assets and financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014.

RISKS AND UNCERTAINTIES

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

Going Concern Risk – The Company's ability to continue operations and exploration and development activities (including the LDI mine expansion) as a going concern is dependent upon the Company funding the capital expenditures required to continue the LDI mine expansion to the end of 2013. There can be no assurance that, if the Company requires additional funding, that the Company will be able to raise additional capital or obtain sufficient financing or that any such financing would be available in a timely manner or on terms favourable to the Company.

Liquidity Risk – The Company may be exposed to liquidity risk, which is the risk that the Company will not be able to meet its financial obligations as they become due. The Company incurred an adjusted loss of $5.0 million for the six months ended June 30, 2013 and has incurred net losses for each of the four immediately preceding quarters. While the Company had a working capital surplus of approximately $26.7 million as at June 30, 2013 and raised an additional $9.6 million of equity in July 2013, achievement of its goals is dependent on a number of variables including, but not limited to, metal prices, operational costs, capital expenditures, timely transition to mining by shaft and profitable operations of the LDI mine expansion once complete. Adverse changes in any of these variables may require the Company to seek additional financing.

Financing Risk – The Company's ability to secure future financing is depending on numerous factors, many of which are outside of the Company's control. Inability or failure to obtain additional capital or generate sufficient cash flows to satisfy its funding requirements could have a material adverse impact on the Company's financial conditions, operations

and ability to grow, including delays or indefinite postponements to the LDI mine expansion and the Company's ability to repay its credit facility when it becomes due. If the Company is unable to repay its debts as they come due or is in breach of its covenants, the lender would be entitled to enforce the related security agreement by taking possession of the pledged collateral. Alternatively, the Company would have to refinance the debt, which refinancing could be at higher interest rates and may require the Company to comply with more onerous covenants which could restrict its business operations.

INTERNAL CONTROLS

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable.

For the quarter ended June 30, 2013, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

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

Internal Control over Financial Reporting

For the quarter ended June 30, 2013, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal controls over the financial reporting that occurred during the most recent period ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, management performs regular internal reviews and conducts an annual evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

OTHER INFORMATION

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

NON-IFRS MEASURES

This MD&A refers to cash cost per ounce of palladium, adjusted net income, EBITDA and adjusted EBITDA which are not recognized measures under IFRS. Such Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Management uses these measures internally. The use of these measures enables management to better assess performance trends. Management understands that a number of investors, and others who follow the Company's performance, assess performance in this way. Management believes that these measures better reflect the Company's performance and are better indications of its expected performance in future periods. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The following tables reconcile these non-IFRS measures to the most directly comparable IFRS measures:

Cash Cost Per Ounce of Palladium

The Company uses this measure internally to evaluate the underlying operating performance of the Company for the reporting periods presented. The Company believes that providing cash cost per ounce allows the ability to better evaluate the results of the underlying business of the Company.

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

Reconciliation of Palladium Cash Cost per Ounce

	Three months ended June 30		Six months ended June 30	
($000s except ounce and per ounce amounts)	**2013**	2012	**2013**	2012
Production costs including overhead	**$25,701**	$27,948	**$54,642**	$53,342
Smelting, refining and freight costs	**3,406**	3,760	**7,208**	6,735
Royalty expense	**892**	1,471	**3,401**	3,065
Mine restoration costs, net of insurance recoveries	**(268)**	(734)	**49**	(734)
Operational expenses	**29,731**	32,445	**65,300**	62,408
Less by-product metal revenue	**11,142**	14,122	**27,018**	29,302
	$18,589	$18,323	**$38,282**	$33,106
Divided by ounces of palladium sold	**32,620**	42,285	**72,380**	81,233
Cash cost per ounce (CDN$)	**$ 570**	$ 433	**$ 529**	$ 408
Average exchange rate (CDN$1 – US$)	**0.99**	0.99	**0.99**	0.99
Cash cost per ounce (US$), net of by-product credits	**$ 564**	$ 429	**$ 524**	$ 404

Adjusted net income

The Company uses this measure internally to evaluate the underlying operating performance of the Company for the reporting periods presented. Providing adjusted net income allows the reader to evaluate the results of the underlying business of the Company.

Adjusted net income is a Non-IFRS financial measure, which excludes the following from loss: exploration; loss (gain) from discontinued operations; mine start-up costs and closure costs; asset impairment charges and insurance recoveries; mine restoration costs due to flood and retirement payments; foreign exchange loss (gain); loss on refinancing; loss in investments held for trading; and, financing costs.

	Three months ended June 30		Six months ended June 30	
($000s)	**2013**	2012	**2013**	2012
Net loss and comprehensive loss for the period	**$(26,268)**	$(3,053)	**$(29,116)**	$(3,981)
Exploration	**2,192**	2,764	**7,032**	5,948
(Income) loss from discontinued operations	**—**	1,150	**(2,509)**	2,225
Mine restoration costs, net of insurance recoveries	**268**	734	**(49)**	734
Foreign exchange loss (gain)	**4,495**	(258)	**5,317**	(39)
Loss on extinguishment of debt	**11,035**	—	**11,035**	—
Financing costs	**2,318**	—	**2,399**	—
Loss on investments held for trading	**844**	—	**844**	—
Adjusted net (loss) income	**$ (5,116)**	$ 1,337	**$ (5,007)**	$ 4,887

Adjusted EBITDA

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

EBITDA excludes the impact of the cost of financing activities and taxes, and the effects of changes in operating working capital balances, and therefore is not necessarily indicative of operating profit or cash flow from operations as determined under IFRS.

Other companies may calculate EBITDA differently. Adjusted EBITDA is a Non-IFRS financial measure, which excludes the following from loss: income and mining tax expense; interest expense and other costs; depreciation and amortization; exploration; loss (income) from discontinued operations; mine start-up and closure costs; asset impairment charges and insurance recoveries; one-time costs (mine restoration costs due to flood and retirement payments); and, foreign exchange loss (gain).

	Three months ended June 30		Six months ended June 30	
($000s)	**2013**	2012	**2013**	2012
Loss and comprehensive loss from continuing operations for the period	**$(26,268)**	$(1,903)	**$(31,625)**	$ (1,756)
Interest expense and other costs	**4,324**	1,257	**5,583**	2,283
Loss on extinguishment of debt	**11,035**	—	**11,035**	—
Depreciation and amortization	**7,004**	4,905	**13,089**	8,697
EBITDA	**$ (3,905)**	4,259	**$ (1,918)**	9,224
Exploration	**2,192**	2,764	**7,032**	5,948
Mine restoration costs, net of insurance recoveries	**268**	734	**(49)**	734
Foreign exchange loss (gain)	**4,495**	(258)	**5,317**	(39)
Adjusted EBITDA	**$ 3,050**	$ 6,765	**$ 10,382**	$15,133

Exhibit 2

North American Palladium Ltd.

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

	Notes	June 30 2013	December 31 2012
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 44,809**	$ 20,168
Accounts receivable	**5**	**46,602**	53,922
Inventories	**6**	**14,825**	15,388
Other assets	**7**	**7,617**	8,448
Assets of disposal group classified as held for sale	**4**	**—**	29,814
Total Current Assets		**113,853**	127,740
Non-current Assets			
Mining interests	**8**	**399,462**	343,492
Total Non-current Assets		**399,462**	343,492
Total Assets		**$ 513,315**	$ 471,232
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	**10**	**$ 52,582**	$ 58,474
Credit facility	**5,22**	**29,281**	15,089
Current portion of obligations under finance leases	**11**	**2,308**	3,717
Provisions	**12**	**—**	1,000
Taxes payable		**874**	874
Current derivative liability	**13**	**2,117**	3,952
Liabilities of disposal group classified as held for sale	**4**	**—**	12,071
Total Current Liabilities		**87,162**	95,177
Non-current Liabilities			
Income taxes payable		**2,352**	2,352
Asset retirement obligations	**9**	**14,716**	15,214
Obligations under finance leases	**11**	**9,101**	9,956
Long-term debt	**13**	**171,084**	101,633
Total Non-current Liabilities		**197,253**	129,155
Shareholders' Equity			
Common share capital	**14**	**787,987**	776,632
Stock options and related surplus		**8,886**	9,125
Equity component of convertible debentures, net of issue costs	**13**	**6,931**	6,931
Contributed surplus		**8,873**	8,873
Deficit		**(583,777)**	(554,661)
Total Shareholders' Equity		**228,900**	246,900
Total Liabilities and Shareholders' Equity		**$ 513,315**	$ 471,232

Nature of operations and going concern – Note 1

Commitments and contingencies – Notes 16 and 19

Subsequent events – Notes 13, 14(c), and 22

See accompanying notes to the consolidated financial statements

North American Palladium Ltd.

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

	Notes	Three months ended June 30		Six months ended June 30	
		2013	2012	**2013**	2012
Revenue	**17**	**$ 33,213**	$ 40,563	**$ 80,303**	$ 82,143
Mining operating expenses					
Production costs		**25,701**	27,948	**54,642**	53,342
Smelting, refining and freight costs		**3,406**	3,760	**7,208**	6,735
Royalty expense		**892**	1,471	**3,401**	3,065
Depreciation and amortization		**7,004**	4,905	**13,089**	8,697
Loss on disposal of equipment		**425**	98	**1,054**	98
Total mining operating expenses		**37,428**	38,182	**79,394**	71,937
Income (loss) from mining operations		**(4,215)**	2,381	**909**	10,206
Other expenses					
Exploration		**2,192**	2,764	**7,032**	5,948
General and administration		**2,186**	3,161	**5,099**	6,464
Interest and other income	**18**	**(2,179)**	(2,640)	**(1,532)**	(2,694)
Interest expense and other costs	**18**	**4,324**	1,257	**5,583**	2,283
Loss on extinguishment of long-term debt	**13**	**11,035**	—	**11,035**	—
Foreign exchange loss (gain)		**4,495**	(258)	**5,317**	(39)
Total other expenses		**22,053**	4,284	**32,534**	11,962
Loss from continuing operations before taxes		**(26,268)**	(1,903)	**(31,625)**	(1,756)
Income and mining tax expense		**—**	—	**—**	—
Loss and comprehensive loss from continuing operations for the period		**$ (26,268)**	$ (1,903)	**$ (31,625)**	$ (1,756)
Income (loss) and comprehensive income (loss) from discontinued operations for the period	**4**	**—**	(1,150)	**2,509**	(2,225)
Loss and comprehensive loss for the period		**$ (26,268)**	$ (3,053)	**$ (29,116)**	$ (3,981)
Loss per share					
Basic		**$ (0.15)**	$ (0.02)	**$ (0.16)**	$ (0.02)
Diluted	**14(e)**	**$ (0.16)**	$ (0.03)	**$ (0.17)**	$ (0.04)
Loss from continuing operations per share					
Basic		**$ (0.15)**	$ (0.01)	**$ (0.17)**	$ (0.01)
Diluted		**$ (0.16)**	$ (0.02)	**$ (0.18)**	$ (0.03)
Income (loss) from discontinued operations per share					
Basic and diluted		**—**	$ (0.01)	**$ 0.01**	$ (0.01)
Weighted average number of shares outstanding					
Basic	**14(e)**	**179,520,041**	170,644,946	**178,491,155**	166,784,892
Diluted	**14(e)**	**179,633,511**	170,651,251	**178,601,618**	166,811,263

See accompanying notes to the 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 June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Cash provided by (used in)					
Operations					
Net loss from continuing operations for the period		**$ (26,268)**	$ (1,903)	**$ (31,625)**	$ (1,756)
Operating items not involving cash					
Depreciation and amortization		**7,004**	4,905	**13,089**	8,697
Accretion expense		**945**	1,024	**1,899**	1,564
Deferred income and mining tax expense (recovery)		**—**	(187)	**—**	911
Loss on extinguishment of debt		**11,035**	—	**11,035**	—
Share-based compensation and employee benefits		**62**	865	**475**	1,620
Unrealized foreign exchange loss		**3,903**	—	**3,903**	—
Other		**86**	413	**1,022**	742
		(3,233)	5,117	**(202)**	11,778
Changes in non-cash working capital	**20**	**384**	(284)	**518**	699
		(2,849)	4,833	**316**	12,477
Financing Activities					
Issuance of common shares and warrants, net of issue costs		**9,613**	32,904	**9,613**	32,904
Credit facility	**5**	**(8,808)**	15,287	**14,192**	15,287
Repayment of senior secured notes	**13**	**(79,200)**	—	**(79,200)**	—
Net proceeds of senior secured term loan	**13**	**131,941**	—	**131,941**	—
Capital lease facility		**—**	—	**—**	11,239
Repayment of obligations under finance leases	**11**	**(258)**	(1,109)	**(1,573)**	(2,555)
Interest paid		**(1,318)**	(370)	**(5,907)**	(3,962)
		51,970	46,712	**69,066**	52,913
Investing Activities					
Additions to mining interests (net)		**(27,805)**	(32,072)	**(65,873)**	(69,282)
Proceeds on disposal of mining interests (net)		**—**	243	**990**	322
		(27,805)	(31,829)	**(64,883)**	(68,960)
Increase (decrease) in cash from continuing operations		**21,316**	19,716	**4,499**	(3,570)
Net change in cash attributable to discontinued operations	**4**	**—**	(15,066)	**20,142**	(23,949)
Increase (decrease) in cash and cash equivalents		**21,316**	4,650	**24,641**	(27,519)
Cash and cash equivalents, beginning of period		**23,493**	18,695	**20,168**	50,864
Cash and cash equivalents, end of period		**$ 44,809**	$ 23,345	**$ 44,809**	$ 23,345

See accompanying notes to the consolidated financial statements

North American Palladium Ltd.

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

	Notes	Number of shares	Capital stock	Stock options	Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
Balance, January 1, 2012	**14**	162,851,432	$740,888	$7,859	$ —	$ 8,873	$(488,624)	$ 268,996
Common shares issued:								
Private placement of flow-through shares, net of issue costs		11,300,000	32,904	—	—	—	—	32,904
Premium on issuance of flow-through shares		—	(1,356)	—	—	—	—	(1,356)
Stock based compensation:								
Stock-based compensation expense	**14(b)**	235,389	622	1,113	—	—	—	1,735
Net loss and comprehensive loss for the period ended June 30, 2012		—	—	—	—	—	(3,981)	(3,981)
Balance, June 30, 2012		174,386,821	$773,058	$8,972	$ —	$ 8,873	$(492,605)	$ 298,298
Balance, January 1, 2013	**14**	177,127,833	$776,632	$9,125	$ 6,931	$ 8,873	$(554,661)	$ 246,900
Common shares issued:								
Settlement of obligation relating to production targets	**12**	709,220	1,000	—	—	—	—	1,000
Settlement of NAP Quebec disposal costs	**4**	203,800	300	—	—	—	—	300
Private placement of flow-through shares, net of issue costs	**14(c)**	8,668,009	9,613	—	—	—	—	9,613
Premium on issuance of flow-through shares		—	(910)	—	—	—	—	(910)
Warrants:								
Palladium warrants exercised	**13**	574,738	638	—	—	—	—	638
Stock based compensation:								
Stock-based compensation expense	**14(b)**	527,977	714	(239)	—	—	—	475
Net loss and comprehensive loss for the period ended June 30, 2013		—	—	—	—	—	(29,116)	(29,116)
Balance, June 30, 2013		187,811,577	$787,987	$8,886	$ 6,931	$ 8,873	$(583,777)	$ 228,900

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

The Company also owned NAP Quebec Mines Ltd. ("NAP Quebec"), consisting of the Vezza gold mine and Sleeping Giant mill located north of Val D'or, Quebec. At December 31, 2012, the Company was committed to a plan to market and sell its gold division assets ("Disposal Group") through the sale of the shares of its wholly-owned subsidiary NAP Quebec and on March 22, 2013, the Company completed the sale of NAP Quebec resulting in the disposition of all Gold Division assets.

The condensed interim consolidated financial statements for the Company as at June 30, 2013 and for the three and six month periods ended June 30, 2013, include the Company and its subsidiary LDI (collectively referred to as the "Company").

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2013, the Company had a cash balance of $44.8 million and a working capital surplus of approximately $26.7 million. During the quarter ended June 30, 2013, the Company restructured its debt borrowings to extend the maturity date of its borrowings and extended the maturity date of its credit facility to July 2014. While the Company has operations that generate revenue, it has not yet achieved consistently profitable operations and incurred a net loss from continuing operations in the six month period ended June 30, 2013. The Company's ability to continue operations and exploration and development activities (including the LDI mine expansion) is dependent upon the Company's funding the capital expenditures required to continue the LDI expansion to the end of 2013. The achievement of this is dependent on a number of variables including, but not limited to, metal prices, operational costs, capital expenditures, timely transition to mining by shaft and profitable operation of the LDI mine expansion once complete. Adverse changes in any of these variables may require the Company to seek additional financing. The availability of sources of additional financing in the future cannot be assured at this time. Accordingly, these conditions have resulted in a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. The condensed interim consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of Compliance

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

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

Basis of Measurement

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

(i) Accounts receivable and related derivative instruments are measured at fair value.

(ii) Financial instruments at fair value through profit or loss are measured at fair value.

(iii) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of New Accounting Standards

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

IAS 1 Presentation of Financial Statements

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

IAS 19 Employee Benefits

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

Scope of a Reporting Entity

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

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosures of Interests in Other Entities

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

IAS 27 Consolidated and Separate Financial Statements

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

IFRS 13 Fair Value Measurement

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

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

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

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

New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments: Classification and Measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is at fair value through profit or loss. An update to IFRS 9 includes guidance on financial liabilities and derecognition of financial instruments. This standard and the related update are effective for years beginning on or after January 1, 2015.

IAS 32 Financial Instruments: Presentation

This standard is amended to clarify requirements for offsetting of financial assets and financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On March 22, 2013, the Company divested of its interest in its gold division through the disposal of all of the shares of its wholly-owned subsidiary, NAP Quebec. At December 31, 2012, management was committed to a plan to sell the gold division and an active program to locate a buyer and complete the plan had been initiated. As a result, the Company has presented the consolidated financial statements to segregate the gold division as discontinued operations and related financial assets and liabilities held for sale from those balances relating to the Company's continuing operations as at December 31, 2012 and for the period to March 22, 2013.

Assets and liabilities held for sale

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

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

[1] Maudore Minerals Ltd. issued 1.5 million of its common shares ("MAO" on the TSXV) as consideration towards the purchase price. These shares are subject to a 4 month hold period which ends July 22, 2013.

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

On May 22, 2013, in accordance with contractual terms, the Company elected to issue 203,800 common shares for the settlement of $0.3 million of transaction costs related to the sale of the gold division.

Gold assets impairment charge

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

Net income from discontinued operations

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Revenue	**$ —**	$ 2	**$ 225**	$ 3,004
Mining operating expenses				
Production costs (recovery)	**—**	—	**(292)**	2,157
Smelting, refining and freight costs	**—**	2	**—**	5
Depreciation and amortization	**—**	26	**10**	170
Gain on disposal of equipment	**—**	(287)	**—**	(366)
Gold mine closure, care and maintenance costs	**—**	274	**—**	1,351
Total mining operating expenses (recovery)	**—**	15	**(282)**	3,317
Income (loss) from mining operations	**—**	(13)	**507**	(313)
Other expenses				
Exploration	**—**	1,205	**151**	2,024
General and administration	**—**	(4)	**(34)**	22
Other income	**—**	(3)	**(18)**	(22)
Interest expense and other costs	**—**	39	**24**	67
Total other expenses	**—**	1,237	**123**	2,091
Income (loss) before taxes	**—**	(1,250)	**384**	(2,404)
Income and mining tax recovery	**—**	100	**596**	179
Income (loss) and comprehensive income (loss) for the period before disposal	**$ —**	$ (1,150)	**$ 980**	$(2,225)
Gain on disposal of gold division	**—**	—	**1,529**	—
Income (loss) and comprehensive income (loss) for the period	**$ —**	$ (1,150)	**$2,509**	$(2,225)

Cash flows from discontinued operations

Cash flows related to NAP Quebec have been segregated from continuing operations. Net cash flows provided by (used in) discontinued operations consist of the following:

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Cash flow provided by (used in):				
Operations	**$ —**	$ (4,162)	**$ 6,133**	$ (7,055)
Financing	**—**	(302)	**301**	(36)
Investing	**—**	(8,674)	**14,239**	(16,388)
Net cash provided by (used in) discontinued operations	**$ —**	$(13,138)	**$20,673**	$(23,479)
Opening cash held by discontinued operations	**—**	(1,387)	**553**	71
Closing cash held by discontinued operations	**—**	(541)	**(1,084)**	(541)
Net change in cash attributable to discontinued operations	**$ —**	$(15,066)	**$20,142**	$(23,949)

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	At June 30 2013	At December 31 2012
Accounts receivable	**$ 44,461**	$ 53,922
Unrealized gain on financial contracts [1]	**2,141**	—
Accounts receivable	**$ 46,602**	$ 53,922

[1] As at June 30, 2013, a total of 25,000 ounces of past palladium production delivered and sold to a smelter, was priced using forward prices for the month of final settlement at an average price of US$749 per ounce (December 31, 2012 – 55,000 ounces at an average price of US$640 per ounce). Refer to note 10.

Accounts receivable represents the value of all platinum group metals ("PGMs"), gold and certain base metals contained in LDI's concentrate shipped for smelting and refining, using the June 30, 2013 forward metal prices for the month of final settlement, and for which significant risks and rewards have transferred to third parties.

All of the accounts receivable are due from two customers at June 30, 2013 (December 31, 2012 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amount due will be fully collected. The Company is not economically dependent on its customers, refer to note 17.

Accounts receivable and inventories of concentrate, crushed and broken ore have been pledged as security against a credit facility with a Canadian chartered bank, which matures July 4, 2014, and which is to be used for working capital liquidity and general corporate purposes. The maximum that can be utilized under the facility is the lesser of US$60.0 million and the Company's borrowing base, which as of June 30, 2013 was US$37.9 million (refer to note 22). Under the credit facility, as of June 30, 2013, the Company utilized US$14.6 million for letters of credit, primarily for reclamation deposits and has drawn down US$27.9 million ($29.3 million). During the three months ended June 30, 2013, the Company made net repayments of US$9.4 million ($8.6 million), and US$12.7 million ($14.2 million) was drawn down during the six months ended June 30, 2013.

6. INVENTORIES

Inventories consist of the following:

	At June 30 2013	At December 31 2012
Supplies [1]	**$ 10,338**	$ 10,633
Concentrate inventory [2]	**3,318**	1,587
Crushed and broken ore stockpiles [2,3]	**1,169**	3,168
Total	**$ 14,825**	$ 15,388

[1] For 2012, gold and supplies inventory relating to discontinued operations amounting to $7,257 has been reclassified as held for sale. Refer to note 4.
[2] This portion of inventories has been pledged as security on the Company's credit facility. Refer to note 5.
[3] Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing.

All inventory amounts are carried at cost for the periods presented.

Supplies inventory of $6,183 (2012—$7,044) were recognized as an expense during the quarter ended June 30, 2013 and $14,229 during the six months ended June 30, 2013 (2012—$14,599).

7. OTHER ASSETS

Other assets consist of the following:

	At June 30 2013	At December 31 2012
Prepaids	**$ 598**	$ 1,375
Sales taxes receivable	**3,960**	7,065
Investments [1]	**810**	—
Other [2]	**2,249**	8
	$ 7,617	$ 8,448

[1] On March 22, 2013, the Company sold its investment in NAP Quebec. A portion of the proceeds on the sale was equity-settled by the purchaser. Refer to note 4. For investments in shares of unrelated publicly listed companies, for which such holdings do not constitute a significant influence, the Company has elected to classify the investments as held-for-trading for accounting purposes. Such investments are stated at fair value through profit or loss based on the closing market price of the investee's common stock on the last trading day on or before the Company's reporting date. Any gain or loss in the value of the investments is recognized in the condensed interim consolidated statements of operations and comprehensive loss. The fair value of the investments at initial recognition was $1,410 and was $810 at June 30, 2013.

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

8. MINING INTERESTS

Mining interests are comprised of the following:

	Plant and equipment	Underground mine development [1]	Equipment under finance lease [2]	Mining leases and claims, royalty interest, and development	Total
Carrying amounts					
As at December 31, 2012	$ 37,322	$ 278,883	$ 15,568	$ 11,719	$343,492
As at June 30, 2013	**$ 49,848**	**$ 327,834**	**$ 10,592**	**$ 11,188**	**$399,462**

[1] For the six months ended June 30, 2013, $5,885 (year ended December 31, 2012—$7,999) of interest costs on long-term debt was capitalized to mining interests.

[2] In 2012 the Company entered into a leasing arrangement by way of a sale-leaseback as the equipment had been previously purchased. As the equipment had a net book value of $10.5 million, the net amount of $0.8 million has been included in Obligations under finance leases, to be amortized over the 5 year lease term as a credit to depreciation and amortization. Refer to note 11.

Asset restrictions and contractual commitments

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

9. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION DEPOSITS

At June 30, 2013, the changes in asset retirement and the related mine restoration deposit are as follows:

	At June 30 2013
Asset retirement obligation ("ARO"), beginning of period – continuing operations	**$ 15,214**
Change in discount rate	**(625)**
Accretion expense	**127**
Asset retirement obligation, end of period – continuing operations	**$ 14,716**

Property	Expected timing of cash flows	Asset retirement obligation	Mine closure plan requirement	Letter of credit outstanding	Undiscounted asset retirement obligation
Continuing Operations:					
LDI mine [1]	2020	$ 14,716	$ 14,055	$ 14,055	$ 17,319

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

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

	At June 30 2013	At December 31 2012
Continuing Operations:		
Inflation	**2.00**	2.00
Market risk	**5.00**	5.00
Discount rate	**2.17**	1.63

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	At June 30 2013	At December 31 2012
Accounts payable and accrued liabilities	**$ 52,582**	$ 55,238
Unrealized loss on financial contracts [1]	**—**	3,236
Accounts payable and accrued liabilities	**$ 52,582**	$ 58,474

[1] As at June 30, 2013, a total of 25,000 ounces of past palladium production delivered and sold to a smelter, was priced using forward prices for the month of final settlement at an average price of US$774 per ounce (December 31, 2012 – 55,000 ounces at an average price of US$640 per ounce). Refer to note 5.

11. LEASES

At the respective reporting dates, the Company was party to the following lease arrangements:

FINANCE LEASES (OBLIGATIONS UNDER FINANCE LEASES)

The Company leases production equipment under a number of finance lease agreements. Some leases provide the Company with the option to purchase the equipment at a beneficial price. The leased equipment secures the lease obligations. The net carrying amount of leased plant and equipment at each reporting date is summarized in Note 8 under the category of equipment under finance leases.

The following is a schedule of future minimum lease payments under finance leases together with the present value of the net minimum lease payments at each reporting date:

	June 30, 2013			December 31, 2012		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 2,843**	**$ 535**	**$ 2,308**	$ 4,374	$ 657	$ 3,717
Between one and five years	**9,927**	**826**	**9,101**	10,963	1,007	9,956
	$12,770	**$1,361**	**$11,409**	$15,337	$1,664	$13,673
Less current portion			**2,308**			3,717
			$ 9,101			$ 9,956

OPERATING LEASES

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

	At June 30	At December 31
	2013	2012
Less than one year	**$ 3,040**	$ 2,761
Between one and five years	**2,596**	3,960
More than five years	**—**	—
	$ 5,636	$ 6,721

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Minimum lease payments expensed	**$ 904**	$ 446	**$ 1,130**	$ 693

12. PROVISIONS

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

13. LONG-TERM DEBT

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

	At June 30 2013	At December 31 2012
Senior secured term loan	**$135,961**	$ —
Senior secured notes	—	67,211
Convertible debentures	**35,123**	34,422
	$171,084	$ 101,633

Senior secured term loan

On June 7, 2013, the Company closed a US$130 million senior secured term loan financing which bears interest at 15% per annum and is due June 7, 2017. The loan is secured by first priority security on the fixed assets and second priority security on accounts receivable and inventory. NAP has the option to accrue interest during the first two years of the loan; in which case, the interest rate on the loan and accrued interest would increase by 4%. The loan contains covenants including senior debt to EBITDA ratios, which become effective in the first quarter of 2014, minimum tangible net worth requirements and capital expenditure limits which became effective June 7, 2013.

At closing, the Company exercised an option to defer a commitment fee of US$3.9 million for a period of up to two years. As a result, the balance of the commitment fee was added to the principal outstanding with interest on the outstanding fee compounding monthly until repaid.

In addition to the term loan and the commitment fee included in the principal, the loan agreement also includes provision for the payment of an exit fee equal to 5% of term loan principal settlements at the time of repayment. Interest on the loan is recorded at an effective interest rate of 16.7%.

Senior secured notes

On June 7, 2013, the debt component of the senior secured notes was fully repaid using the proceeds from the senior secured term loan. The total payment amounted to $80.5 million and included settlement of the principal outstanding of $72.0 million, accrued interest of $1.3 million, and a redemption premium of $7.2 million. The repayment resulted in the recognition of a loss on extinguishment of $11.0 million.

The palladium warrants originally issued with the senior secured notes were not included in the settlement payment. A total of 72,000 warrants were issued which entitle the holders to purchase 0.35 ounces of palladium at a purchase price of US$620 per ounce (the “Strike Price”), anytime up to October 4, 2014. If exercised, the Company will pay the warrant holder an amount equal to the average of the U.S dollar palladium afternoon fixing price per ounce on the London Platinum and Palladium Market for the ten trading days prior to the exercise date less the Strike Price, multiplied by 0.35. The Company has the option, subject to certain conditions, to pay the amount owing in common shares priced at a 7% discount to the volume weighted average price on the Toronto Stock Exchange for the five trading days prior to the date of exercise.

During June 2013, a total of 13,000 palladium warrants were exercised, resulting in a settlement payable of $0.6 million. The Company elected to apply the equity-settlement option, resulting in the issuance of 574,738 common shares.

An additional 47,000 palladium warrants were subsequently exercised resulting in a $1.7 million cash settlement in July 2013.

The derivatives relating to the outstanding palladium warrants are recorded at fair value through profit or loss at each reporting date. At June 30, 2013 and December 31, 2012, the outstanding palladium warrants and related options were valued using a binomial model which included the following key assumptions:

	June 30 2013	December 31 2012
Market price of palladium	**US$ 643**	US$ 699
Strike price	**US$ 620**	US$ 620
Volatility [1]	**24%**	30%
Risk free rate	**1.20%**	1.14%
Expected life (in years)	**1.26**	1.76

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

The value of the derivative liability is $2.1 million at June 30, 2013 ($4.0 million – December 31, 2012).

Convertible Debentures

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

14. SHAREHOLDERS' EQUITY

(a) Authorized and Issued Capital Stock

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

(b) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan ("RRSP Plan"), in which both union and non-union eligible employees can participate at their option. Union employees are entitled to an employer contribution of either: (a) $1.00 for each $1.00 contribution up to a maximum of 5% of base salary for employees who have been employed for 6-18 months (maximum $2,500 per year); or (b) $2.00 for each $1.00 contribution up to a maximum of 10% of base salary for employees who have been employed for greater than 18 months (maximum $5,000 per year). Non-union employees are entitled to an employer contribution equal to 3% of base salary plus an employer matching contribution of up to a maximum of 2% of base salary for employees who have been employed for greater than 90 days. The Company contributions are made either in cash or treasury shares of the Company on a quarterly basis. The maximum number of common shares available for grant shall not exceed 3,000,000 common shares of the Company. If the matching contribution is made in treasury shares, the price per share issued is the 5-day volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") preceding the end of the quarter. During the three months ended June 30, 2013, the Company contributed 282,626 shares with a fair value of $410 (2012 – 125,882 shares with a fair value of $339) and for the six months ended June 30, 2013, 527,977 shares with a fair value of $714 (2012 – 235,389 shares with a fair value of $622) were contributed.

(c) Flow-through share offerings

On June 7, 2013, the Company entered into a subscription agreement in respect of a fully subscribed private placement of flow-through shares, for aggregate gross proceeds to the Company of approximately $20 million, with the intention to issue these shares in two tranches, in each case at a 2% premium to the relevant market price (defined as the simple average of the five daily VWAPs on the TSX for the five trading day period ending on the fourth trading day prior to each tranche's closing date).

On June 19, 2013, the Company completed the first tranche with the issuance of 8,668,009 flow-through common shares at a price of $1.155 per share for net proceeds of $9.6 million. The Company is required to spend the gross proceeds of $10.0 million on eligible exploration and mine development expenditures, which are expected to be renounced to investors for the 2013 tax year. As at June 30, 2013, $nil was spent, with the remaining $10.0 million expected to be spent by December 31, 2013.

On July 23, 2013, the Company completed the second tranche with the issuance of 8,590,328 flow-through common shares at a price of $1.164 per share for net proceeds of $9.6 million. The Company is required to spend the gross proceeds of $10.0 million on eligible exploration and mine development expenditures, which are expected to be renounced to investors for the 2013 tax year. The $10.0 million is expected to be spent by December 31, 2013.

(d) Corporate Stock Option Plan

The maximum number of common shares available for grant shall not exceed 8,000,000 common shares of the Company. As at June 30, 2013, 5,357,501 options (December 31, 2012 – 5,291,051 options) were available to be granted under the Plan.

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

	June 30, 2013		December 31, 2012	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Outstanding, beginning of period	**4,207,249**	**$ 3.68**	3,644,583	$ 4.43
Granted	**1,000,000**	**$ 1.14**	1,772,000	$ 2.82
Cancelled	**(1,540,000)**	**$ 4.07**	(720,000)	$ 4.34
Expired	**(24,750)**	**$ 1.85**	(489,334)	$ 5.14
Outstanding, end of period	**3,642,499**	**$ 2.83**	4,207,249	$ 3.68
Options exercisable at end of period	**1,957,509**	**$ 3.48**	2,335,591	$ 3.88

No options were exercised during the six months ended June 30, 2013 or during the six months ended June 30, 2012.

The following table summarizes information about the Company's stock options outstanding at June 30, 2013:

Exercise price range	**Average remaining contractual life (years)**	**Options Outstanding at June 30, 2013**	**Options Exercisable at June 30, 2013**
$1.14-2.50	5.45	2,198,333	750,000
$2.51-3.00	3.56	406,667	246,672
$3.01-6.00	4.31	624,999	561,667
$6.01-8.87	2.39	412,500	399,170
	4.59	**3,642,499**	**1,957,509**

The fair value of options granted during the six months ended June 30, 2013 and the year ended December 31, 2012 have been estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	June 30 2013	December 31 2012
Awards granted	**1,000,000**	**1,772,000**
Weighted average fair value of awards	**$ 0.58**	**$ 1.24**
Pre-vest forfeiture rate	**21%**	**13%**
Grant price	**$ 1.14**	**$ 2.82**
Market price	**$ 1.12**	**$ 2.53**
Volatility [1]	**65%**	**65%**
Risk free rate	**1.28%**	**1.25%**
Dividend yield	**0%**	**0%**
Expected life (in years)	**4.5**	**4.4**

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

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Net loss available to common shareholders	**$ (26,268)**	$ (3,053)	**$ (29,116)**	$ (3,981)
Effect of dilutive securities	**(2,146)**	(2,411)	**(1,197)**	(2,411)
Adjusted net loss available to common shareholders	**$ (28,414)**	$ (5,464)	**$ (30,313)**	$ (6,392)
Weighted average number of shares outstanding	**179,520,041**	170,644,946	**178,491,155**	166,784,892
Effect of dilutive securities	**113,470**	6,305	**110,463**	26,371
Weighted average diluted number of shares outstanding	**179,633,511**	170,651,251	**178,601,618**	166,811,263
Diluted net loss per share	**$ (0.16)**	$ (0.03)	**$ (0.17)**	$ (0.04)

For the three and six months ended June 30, 2013, the effect of the conversion of outstanding palladium warrants has been included in the diluted net loss per share calculation. The effect of stock options and convertible debentures have not been included in the determination of diluted loss per share because to do so would be anti-dilutive. The maximum adjustment to the weighted average number of shares outstanding at June 30, 2013 from such anti-dilutive exercise or conversion was 14,663,384 shares.

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

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

As at June 30, 2013, 765,552 (December 31, 2012 – 237,871) restricted share units had been granted and were outstanding at an aggregate value of $414 (December 31, 2012 – $253).

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

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Registered retirement savings plan	**$ 410**	$ 281	**$ 676**	$ 518
Common share stock options	**(352)**	576	**(205)**	1,091
Restricted share units	**(64)**	(37)	**161**	168
	$ (6)	$ 820	**$ 632**	$1,777

15. FINANCIAL INSTRUMENTS

Fair Values

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

Cash and cash equivalents are stated at fair value. The carrying value of other assets, and trade accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of the obligations under finance leases approximate their carrying value due to the interest rate implicit in the leases approximating interest rates available at this time for similar lease terms. The fair value of RSUs, which are included in accounts payable and accrued liabilities, are determined as described in note 14(f).

Derivatives

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

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

The Company enters into financial contracts to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar for past production already sold. For substantially all of the palladium delivered to the customers under the smelter agreements, the quantities and timing of settlement specified in the financial contracts matches final pricing settlement periods. The palladium financial contracts are being recognized on a mark-to-market basis as an adjustment to revenue.

The fair value of the derivative liability relating to the 2011 long term debt issuance primarily relates to the value of palladium warrants and related conversion options. These derivative instruments are valued using a binomial model.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The fair values of the non-derivative financial liabilities as of June 30, 2013 are the senior secured term loan ($142.9 million), convertible debentures ($43.0 million) and finance leases ($11.4 million).

Fair Value Hierarchy

The table below details the assets and liabilities measured at fair value at June 30, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Aggregate Fair Value
Financial assets				
Cash and cash equivalents	$ 44,809	$ —	$ —	$ 44,809
Accounts receivable (note 5)	—	44,461	—	44,461
Fair value of financial contracts* (note 5)	—	2,141	—	2,141
Financial liabilities				
RSU liabilities* (note 14(f))	—	(414)	—	(414)
Fair value of current derivative liability	—	(2,117)	—	(2,117)
Net carrying value	$ 44,809	$ 44,071	$ —	$ 88,880

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

16. COMMITMENTS

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

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

(b) Operating Leases and Other Purchase Obligations

As at June 30, 2013, the Company had outstanding operating lease commitments and other purchase obligations of $5.6 million and $62.2 million, respectively (December 31, 2012 – $6.7 million and $84.9 million, respectively) all of which had maturities of less than five years.

(c) Letters of Credit

As at June 30, 2013, the Company had outstanding letters of credit of $15.4 million, consisting of $14.4 million for various mine closure deposits and $1.0 million for a regulated energy supplier (December 31, 2012—$17.3 million outstanding letters of credit, consisting of $16.3 million for various mine closure deposits and $1.0 million for a regulated energy supplier)

17. REVENUE FROM METAL SALES

	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2013							
Three months ended June 30							
Revenue – before pricing adjustments	**$36,581**	**$23,793**	**$3,835**	**$3,756**	**$2,712**	**$2,409**	**$ 76**
Pricing adjustments:							
Commodities	(4,406)	(2,226)	(858)	(788)	(374)	(157)	(3)
Foreign exchange	1,038	504	193	164	95	81	1
Revenue – after pricing adjustments	**$33,213**	**$22,071**	**$3,170**	**$3,132**	**2,433**	**$2,333**	**$ 74**
2012							
Three months ended June 30							
Revenue – before pricing adjustments	$42,010	$26,935	$4,573	$4,549	$3,239	$2,596	$118
Pricing adjustments:							
Commodities	(1,691)	(426)	(615)	(333)	(92)	(187)	(38)
Foreign exchange	244	(68)	105	124	46	32	5
Revenue – after pricing adjustments	$40,563	$26,441	$4,063	$4,340	$3,193	$2,441	$ 85

	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2013							
Six months ended June 30							
Revenue – before pricing adjustments	**$82,131**	**$53,921**	**$8,569**	**$8,748**	**$5,799**	**$4,973**	**$121**
Pricing adjustments:							
Commodities	(3,036)	(953)	(620)	(817)	(402)	(241)	(3)
Foreign exchange	1,208	317	363	270	130	127	1
Revenue – after pricing adjustments	**$80,303**	**$53,285**	**$8,312**	**$8,201**	**$5,527**	**$4,859**	**$119**
2012							
Six months ended June 30							
Revenue – before pricing adjustments	$82,697	$53,516	$8,612	$8,927	$6,447	$4,890	$305
Pricing adjustments:							
Commodities	575	261	439	104	(258)	44	(15)
Foreign exchange	(1,129)	(936)	(72)	(48)	(40)	(33)	—
Revenue – after pricing adjustments	$82,143	$52,841	$8,979	$8,983	$6,149	$4,901	$290

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

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

18. INTEREST AND OTHER COSTS (INCOME)

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Interest expense and other costs				
Interest on finance leases	**$ 187**	$ 224	**$ 371**	$ 431
Asset retirement obligation accretion	**65**	72	**127**	134
Accretion expense on long-term debt	**880**	952	**1,772**	1,430
Loss on investments	**844**	—	**844**	—
Financing costs	**2,318**	—	**2,399**	—
Interest expense	**30**	9	**70**	288
	$ 4,324	$ 1,257	**$ 5,583**	$ 2,283
Interest and other income				
Realized and unrealized gain on palladium warrants	**$(2,147)**	$(2,316)	**$(1,197)**	$(2,287)
Gain on renouncement of flow-through expenditures	**—**	(263)	**(276)**	(263)
Interest income	**(32)**	(61)	**(59)**	(144)
	$(2,179)	$(2,640)	**$(1,532)**	$(2,694)
	$ 2,145	$(1,383)	**$ 4,051**	$ (411)

19. CONTINGENCIES

From time to time, the Company is involved in litigation, investigations, or proceedings related to claims arising in the ordinary course of business. The Company considers its provisions for outstanding and pending legal claims to be adequate. The final outcome with respect to actions outstanding or pending as at June 30, 2013 cannot be predicted with certainty. Significant contingencies not disclosed elsewhere in the condensed interim consolidated financial statements, for which there has been no material change in the three month period ended June 30, 2013, are as follows:

(a) B.R. Davidson Claim

In 2000, LDI and B.R. Davidson Mining & Development Ltd. (“Davidson”) entered into a construction contract whereby Davidson agreed to construct an expanded tailings management facility at the LDI Mine. LDI declared Davidson to be in default of the contract on February 2, 2001 and made a demand under a performance bond issued by AXA Pacific Insurance Company (“AXA”). Davidson was the principal named in the bond and the indemnitors were Davidson, Atikokan Ready Mix Ltd., Blaine R. Davidson, Bruce R. Davidson and Marlene Davidson. AXA commenced an action against the indemnitors. All of the indemnitors other than Marlene Davidson commenced a third party action against LDI, LDI’s engineers, and LDI’s bond broker. The third party action is for $10.9 million in the event that the construction contract is enforced or approximately $3 million in the event the construction contract is not enforced plus other damage claims for between $10 and $15 million plus costs and interest. LDI has a counterclaim against Davidson for $10.7 million in liquidated damages for breach of contract. LDI has approximately $2.6 million in principal and interest judgments against Davidson related to subtrade liens. A pre-trial was held in January 2013 and the matter has now been set down for trial starting in October 2014. At this stage, it is not possible for the Company to estimate the outcome of the third party action and counterclaim and accordingly the Company has not recorded any provisions related to this action within these condensed interim consolidated financial statements at June 30, 2013.

(b) Class Action

In 2011, the Company became aware that a statement of claim had been filed with the Ontario Superior Court of Justice against the Company and two of its officers regarding a potential class action lawsuit. The statement of claim sought permission of the court to commence a class action proceeding for alleged misrepresentations in the Company's public disclosure. In 2012, a fresh Statement of Claim was filed increasing the amount of the claim to $100 million. In December 2012, the plaintiffs filed a motion of record for certification and for leave. The Company has retained legal counsel and intends to vigorously defend the potential claim. At this stage, it is not possible for the Company to estimate the outcome of the potential action and accordingly, the Company has not recorded any associated provisions within its consolidated financial statements at June 30, 2013.

20. OTHER DISCLOSURES

Statement of Cash flows

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Cash provided by (used in):				
Accounts receivable	**$ 11,428**	$(5,188)	**$ 7,320**	$(11,446)
Inventories	**1,715**	1,189	**563**	(817)
Other assets	**334**	767	**831**	3,966
Accounts payable and accrued liabilities	**(10,946)**	906	**(6,999)**	8,138
Other financial liabilities	**(2,147)**	—	**(1,197)**	—
Taxes payable	**—**	2,042	**—**	858
	$ 384	$ (284)	**$ 518**	$ 699

21. SEGMENT INFORMATION

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

22. SUBSEQUENT EVENTS

Subsequent to June 20, 2013, the following transactions took place.

Repayment of Credit Facility

On July 15, 2013, the Company determined its borrowing base as at June 30, 2013 had declined to $37.9 million and repaid $4.6 million of its credit facility. Refer to note 5.

Cash Settlement of Palladium Warrant Exercise

On July 15, 2013, the Company paid $1.7 million relating to the exercise of 47,000 palladium warrants. Refer to note 13.

Flow-through Common Shares

On July 23, 2013, the Company issued 8,590,328 flow-through common shares at a price of $1.164 per share for net proceeds of $9.6 million. The Company is required to spend the gross proceeds of $10.0 million on eligible exploration and mine development expenditures, which expenditures are expected to be renounced to investors for the 2013 tax year. The $10.0 million is expected to be spent by December 31, 2013. Refer to note 14(c).

Exhibit 3

North American Palladium Ltd.

NEWS RELEASE

North American Palladium Announces Second Quarter 2013 Results and Provides Corporate Update on New Production Opportunities

All figures are in Canadian dollars except where noted.

Toronto, Ontario, August 8, 2013 – North American Palladium Ltd. ("NAP" or the "Company") (TSX: PDL) (NYSE Amex: PAL) today announced the operating, development, and financial results for the second quarter ended June 30, 2013 and provided a corporate update on new production opportunities.

Q2, 2013 Summary

- Produced 35,428 ounces of payable palladium at the Lac des Iles ("LDI") mine at a cash cost per ounce [(1)] of US$564, bringing the six month total to 74,082 ounces at a cash cost per ounce [(1)] of US$524.
- Realized palladium selling price of US$719 per ounce, giving a palladium operating margin of US$155 per ounce, or US$5.5 million.
- Revenue of $33.2 million, impacted by decreased sales volumes, which were adversely affected by a late mill run in June, representing approximately $3.0 million of gross revenue that was not recognized due to the delay.
- Adjusted EBITDA [(1)] of $3.0 million.
- Invested $33.2 million in capital expenditures at the LDI mine inclusive of capitalized interest and capital leases (of which $27.6 million was invested in the LDI mine expansion), bringing the six month total spent to $72.5 million.
    - Capital expenditure budget adjusted to up to approximately $130 million for 2013.

Corporate Update Summary

- Phase I shaft development remains on schedule, with production from the shaft expected by the beginning of the fourth quarter of 2013.
- New potential production opportunities identified at LDI that would be lower cost alternatives to Phase II, allowing NAP to potentially defer Phase II capital spending without compromising production growth to 250,000 ounces by 2015.

"The Company had a productive second quarter, accomplishing several corporate targets that have positioned our LDI mine for continued growth and a return to profitability by next year," said Phil du Toit, President and Chief Executive Officer.

"Looking at the three critical focus points, we made progress in the areas of optimizing operations, advancing the shaft, and identifying low cost growth opportunities. Although still in transition, LDI delivered better than expected production results with a notable improvement in our operating trends. The shaft, which to us represents the path towards a return to profitability, remains within forecast and on schedule for utilization in the fourth quarter. Moreover, our ongoing focus on cost savings identified potential low cost production alternatives that may allow us to defer Phase II development capital spending without compromising production growth to 250,000 ounces by 2015."

www.nap.com

Lac des Iles Operations

Q2, 2013 Production

In the second quarter of 2013, the Company's LDI mine produced 35,428 ounces of payable palladium at a total cash cost of US$564 per ounce [(1)]. For the six month period ended June 30, 2013, the Company produced 74,082 ounces of payable palladium at a total cash cost of US$524 per ounce [(1)].

As expected, cash costs in the second quarter were higher due to increased operating costs related to the longer haulage distance via the ramp from the Offset Zone, decreased metal prices of the by-product metals, and higher underground mining costs due to the transition into the new ore body. Cash costs in the third quarter are expected to remain around the range of what they were in the second quarter and are expected to decrease in the fourth quarter when operations are transitioned to the shaft.

During the second quarter, 433,580 tonnes of ore were mined at LDI, of which 131,606 tonnes came from underground sources (with an average palladium grade of 4.4 grams per tonne), and 301,974 tonnes came from surface sources (with an average palladium grade of 2.1 grams per tonne). During the second quarter, the LDI mill processed 483,266 tonnes of ore at a combined average palladium mill head grade of 3.1 grams per tonne, at an 80.7% palladium recovery rate, and at a total cost of $53 per tonne milled.

Although production in the second quarter was slightly better than anticipated, LDI remains in a state of transition, and as previously cautioned in the May 6, 2013 news release, the Company's production plans are expected to be challenged during the transition period. The Company continues to actively source opportunities to augment 2013 production, and has launched a number of initiatives to mitigate the transitional risks.

Q2, 2013 Development Update

Capital expenditures in the second quarter amounted to $33.2 million, of which $27.6 million was invested in the LDI mine expansion (including $3.5 million of capitalized interest) and $4.3 million was spent primarily on the tailings management facility ("TMF"). For the six month period ended June 30, 2013, capital expenditures were $72.5 million, including an investment of $59.3 million in the LDI mine expansion (including $5.9 million of capitalized interest) and $12.2 investment in other sustaining capital expenditures at LDI (including $9.8 million investment in the TMF).

Management estimates that capital expenditures in 2013 will total up to approximately $130 million (including the mine expansion, the TMF upgrade, other sustaining capital expenditures, and capitalized interest). This number will be refined by the end of the third quarter when the analysis of the alternative targets is completed and a decision has been made on the potential deferral of Phase II.

The Company's Phase I expansion, which entails sinking a shaft to approximately 825 metres below surface and setting up the required infrastructure to mine the underground Offset Zone, is on schedule and nearing completion in the coming months. The shaft sinking recently reached

a depth of 786 metres below surface, representing 95% completion of the total 825 metres planned as part of Phase I. Concurrent with the shaft sinking, work is being completed on the shaft steel installation, as well as the loading and spill pockets. Development of the Offset Zone is also on track to provide sufficient ore feed via the shaft in the fourth quarter of 2013.

During the second quarter, the Company strengthened its project team at the mine site by retaining a leading engineering and project implementation contractor to assist with project management of the Phase I development. With the development work progressing on schedule, the Company remains well positioned to start utilizing the shaft for underground production by the beginning of the fourth quarter in 2013.

Corporate Update

Potential New Production Opportunities

In the second quarter of 2013, the Company embarked on a strategic review of LDI's production and development plans. This review focused on identifying production opportunities that maximize net present value and cash flows while minimizing capital expenditure requirements.

The review identified several prospective exploration targets at LDI that could potentially represent lower cost alternatives to Phase II, whereby NAP would be able to defer Phase II capital spending without compromising production growth. Although indications are still preliminary, these alternatives could potentially increase production volumes and reduce operating costs with significantly lower capital expenditure requirements than would be required to deepen the shaft as part of Phase II development.

If deemed viable, starting in 2014 the strategy would encompass augmenting underground production from the Offset Zone (as conceived under Phase I), with some alternative production sources that could potentially increase annual palladium production up to 250,000 ounces by 2015, at reduced cash costs per ounce.

Some targets that are currently being actively assessed and/or advanced include:

- Near-term production opportunities from the North VT Rim and the lower, north Roby Zone stope. The North VT Rim deposit, which outcrops near the northeast end of the Roby Zone open pit, was drilled off in the fourth quarter of 2012 and in the first quarter of 2013. A small pit-grade resource has been identified at the western end of the North VT Rim that could potentially be mined using a surface "box cut" mining method. Furthermore, an additional stope in the lower, northern part of the Roby Zone has been delineated that could potentially be developed.
- Extensions of the Roby Zone, including the high grade part of the zone to the south and northeast, and a lower grade resource in the footwall of the Roby Zone, are being investigated. Collectively, these extensions could contribute meaningful reserve and resource gains that could increase utilization of existing infrastructure.
- Potential also exists for a southeastern extension of the upper part of the Offset Zone, located between the shaft and the Sheriff Zone. This upper-level target was identified through a review of existing drill hole data. This target is ideally situated close to the shaft and existing infrastructure and could potentially provide a new source of supplemental mill feed through the shaft to augment Phase I production.

The location of these targets is illustrated in the appendix of this news release.

The sequencing of when each target could be brought into production is currently being assessed through validation and conversion drilling, resource estimation, engineering studies and economic analysis, to be followed by detailed development planning. Where required, permitting applications and independent reports will be commissioned. The Company will have a better understanding of the production parameters of these targets by the end of the third quarter, and intends to provide periodic updates as major milestones are reached on each initiative.

Review of Sub-Level Block Caving Mining Method

As part of the ongoing initiative to maximize the value of NAP's assets, the Company is also reviewing the viability of changing its mining method for certain deposits from long-hole stoping to sub-level block caving. The sub-level block caving method, which appears to be amenable to the shape of the Offset Zone ore body, is essentially a mass mining method that would reduce development and mining costs while increasing mining volumes.

The Company recently engaged an external engineering firm to assist with the analysis of the viability of converting certain LDI deposits to the sub-level block caving mining method. It is anticipated that the internal engineering review will be completed by the end of the third quarter of 2013, and depending on the outcome of that review, the Company would proceed with a test block, likely in the first half of 2014. If the test is successful, implementation could commence later in 2014.

Exploration

In the second quarter, NAP invested $2.8 million in exploration and infill drilling, of which $0.6 million was capitalized in connection with the LDI mine expansion. To date, as at June 30, 2013, NAP's total investment in exploration and infill drilling amounts to $8.8 million, of which $1.8 million was capitalized in connection with the LDI mine expansion.

During the second quarter, 28 holes were drilled at LDI totaling 6,191 metres, for a total of 159 holes and 37,639 metres drilled to date as at June 30, in 2013. Drilling in the second quarter was predominately focused on infill work on the Phase I Offset Zone, definition work on the western part of the north VT Rim target, and extension target at the southern end of the Offset Zone (below the 735-metre mine level).

A results driven drilling program will be conducted in the third quarter focusing on validating the upper Offset Zone southeast extension target and the Roby Zone northeast extension target, as noted above. Four surface rigs are currently operating at LDI, and the Company expects to complete its 25,000-metre drill program in September. An exploration update is planned for later in August.

The Company plans to release its mineral reserve and resource estimate update before the end of January of 2014 in order to include the results from both the 2013 drill program and the ongoing engineering and cost analysis work on the highest priority alternative/supplemental mining options that are currently being assessed.

Financial Results [2]

Revenue for the second quarter was $33.2 million compared to $40.6 million in the second quarter of 2012. The decrease in revenue was primarily due to the impact of lower production and decreased sales volumes, which was adversely affected by a late mill run in June, representing approximately $3.0 million of gross revenue that was not recognized. Loss from mining operations was $4.2 million, compared to income of $2.4 million in the same quarter last year. During the second quarter, the Company realized a palladium selling price of US$719 per ounce.

Net loss for the quarter was $26.3 million or $0.15 per share compared to a net loss of $3.1 million or $0.02 per share in the same quarter last year. Net loss in the second quarter of 2013 was adversely impacted by an $11 million loss on extinguishment of past debt, $2.3 million financing costs, and $4.5 million foreign exchange loss on US dollar denominated debt. Adjusted net loss [1] (which excludes exploration costs, income and losses from discontinued operations, and mine restoration costs net of insurance recoveries) was $5.1 million in the second quarter, compared to adjusted net income [1] of $1.3 million in the same quarter last year. Reducing the adjusted net loss for the delayed concentrate shipments would result in an adjusted net loss of approximately $3.8 million or $0.02 per share.

EBITDA [1] was negative $3.9 million for the second quarter, compared to positive $4.3 million in the same quarter last year. Adjusted EBITDA [1] (which excludes interest expenses and other costs, depreciation and amortization, exploration, and mine restoration costs net of insurance recoveries) was $3.1 million in the second quarter, compared to $6.8 million in second quarter last year.

During the second quarter, the Company completed a US$130-million senior secured debt financing with Brookfield Partners Inc., the private equity group of Brookfield Asset Management Inc., and recently closed $20 million of private placements in flow-through shares. The net proceeds of the financings were used to repay the previous $72-million senior secured notes (including the related redemption premium), with the remainder to be used to fund capital expenditures and certain CEE eligible expenditures at the LDI mine.

As at June 30, 2013, the Company had a cash balance of $44.8 million and $26.7 million in net working capital. Including the recently closed second $10-million tranche related to the flow-through financing, the pro-forma cash position at June 30, 2013 was $54.4 million. The Company believes that its current balance sheet, together with cash flow from operations, provides sufficient financial resources to complete Phase I of its LDI mine expansion.

Upcoming Milestones

As management continues to advance its review of LDI's long-term production and development plans, the Company intends to provide updated information on its ongoing initiatives on both a quarterly and periodic basis, with more definitive updates to be provided around the following timeframes:

- Commencement of production via the shaft: targeted for the beginning of the fourth quarter, with a public update to follow later in the fourth quarter of 2013;
- Update on long-term development strategy, detailing viability of certain production targets as an alternative to Phase II: targeted for the fourth quarter of 2013;

- Update on viability of the sub-level block cave mining method: targeted for the fourth quarter of 2013; and
- Update to LDI's estimated mineral reserves and resources: targeted by the end of January 2014.

Q2 2013 Conference Call & Webcast Details

Date:	Thursday, August 8, 2013
Time:	8:30 a.m. ET
Webcast:	www.nap.com
Live Call:	1-416-644-3417 or 1-877-974-0446 (ID: 4633640)
Replay:	1-416-640-1917 or 1-877-289-8525 (ID: 4633640, followed by # sign)

The conference call replay will be available for 30 days after the live event. An archived audio webcast of the call will also be posted to NAP's website.

Technical Information and Qualified Persons

This news release was prepared under the supervision of Kevin Small, P.Eng., Director of Technical Services, and David Peck, Ph.D., P.Geo., Head of Exploration for the Company, who are Qualified Persons as defined by National Instrument 43-101. Additional information can be found in NAP's Form 40-F/Annual Information Form on file with the US Securities and Exchange Commission and Canadian provincial securities regulatory authorities, available at www.sec.gov and www.sedar.com, respectively. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

About North American Palladium

NAP is an established precious metals producer that has been operating its flagship Lac des Iles mine (LDI) located in Ontario, Canada since 1993. LDI is one of only two primary producers of palladium in the world, and is currently undergoing a major expansion to increase production and reduce cash costs per ounce. The Company's shares trade on the NYSE MKT under the symbol PAL and on the TSX under the symbol PDL.

For further information please contact:

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

(2) NAP's condensed interim consolidated financial statements for the second quarter ended June 30, 2013 are available in the Appendix of this news release. These financial statements should be read in conjunction with the notes and management's discussion and analysis available at www.nap.com, www.sedar.com, and www.sec.gov.

Cautionary Statement on Forward Looking Information

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

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

Appendix:

Figure 1: Plan view of the deposits near the LDI mine under review for production potential:

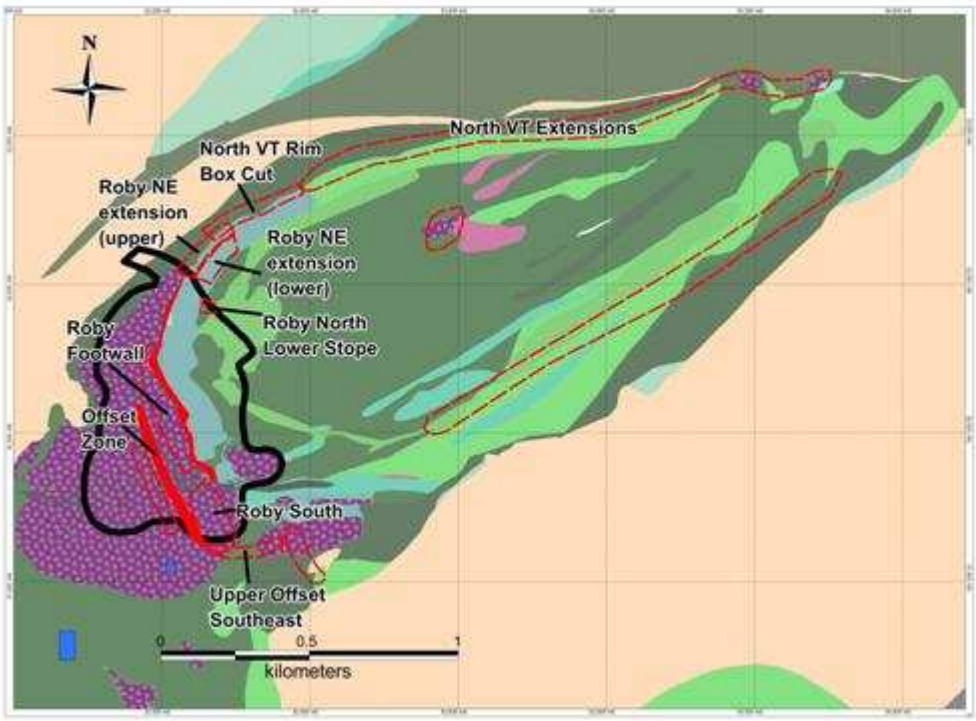
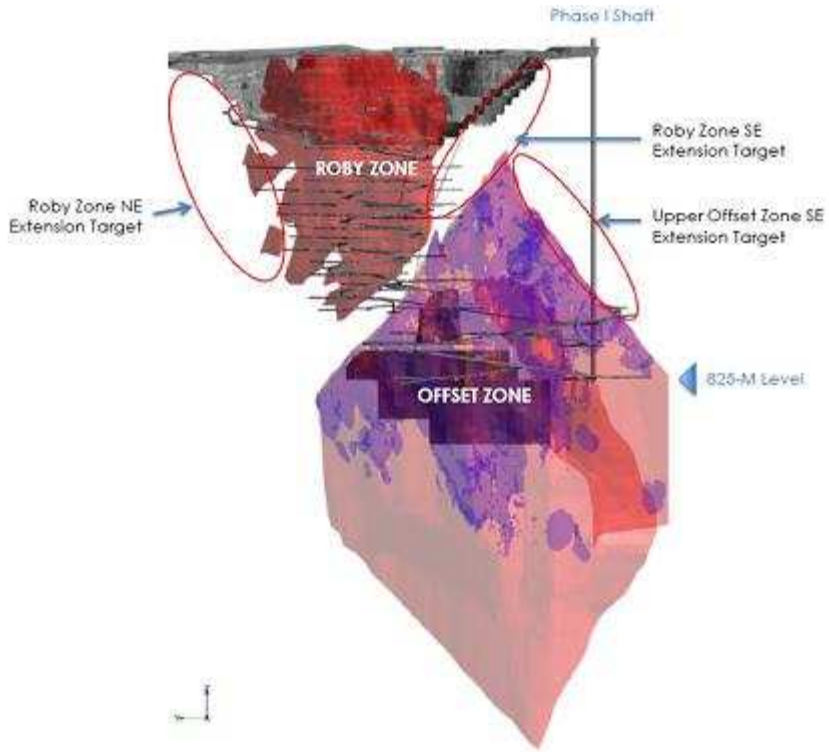


Figure 2: Long section looking northeast, showing exploration targets for potential Roby Zone southeast and northeast extensions, and the upper Offset Zone south east extension:



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

	June 30 2013	December 31 2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 44,809**	$ 20,168
Accounts receivable	**46,602**	53,922
Inventories	**14,825**	15,388
Other assets	**7,617**	8,448
Assets of disposal group classified as held for sale	**—**	29,814
Total Current Assets	**113,853**	127,740
Non-current Assets		
Mining interests	**399,462**	343,492
Total Non-current Assets	**399,462**	343,492
Total Assets	**$ 513,315**	$ 471,232
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 52,582**	$ 58,474
Credit facility	**29,281**	15,089
Current portion of obligations under finance leases	**2,308**	3,717
Provisions	**—**	1,000
Taxes payable	**874**	874
Current derivative liability	**2,117**	3,952
Liabilities of disposal group classified as held for sale	**—**	12,071
Total Current Liabilities	**87,162**	95,177
Non-current Liabilities		
Income taxes payable	**2,352**	2,352
Asset retirement obligations	**14,716**	15,214
Obligations under finance leases	**9,101**	9,956
Long-term debt	**171,084**	101,633
Total Non-current Liabilities	**197,253**	129,155
Shareholders' Equity		
Common share capital	**787,987**	776,632
Stock options and related surplus	**8,886**	9,125
Equity component of convertible debentures, net of issue costs	**6,931**	6,931
Contributed surplus	**8,873**	8,873
Deficit	**(583,777)**	(554,661)
Total Shareholders' Equity	**228,900**	246,900
Total Liabilities and Shareholders' Equity	**$ 513,315**	$ 471,232

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Revenue	**$ 33,213**	$ 40,563	**$ 80,303**	$ 82,143
Mining operating expenses				
Production costs	**25,701**	27,948	**54,642**	53,342
Smelting, refining and freight costs	**3,406**	3,760	**7,208**	6,735
Royalty expense	**892**	1,471	**3,401**	3,065
Depreciation and amortization	**7,004**	4,905	**13,089**	8,697
Loss on disposal of equipment	**425**	98	**1,054**	98
Total mining operating expenses	**37,428**	38,182	**79,394**	71,937
Income (loss) from mining operations	**(4,215)**	2,381	**909**	10,206
Other expenses				
Exploration	**2,192**	2,764	**7,032**	5,948
General and administration	**2,186**	3,161	**5,099**	6,464
Interest and other income	**(2,179)**	(2,640)	**(1,532)**	(2,694)
Interest expense and other costs	**4,324**	1,257	**5,583**	2,283
Loss on extinguishment of long-term debt	**11,035**	—	**11,035**	—
Foreign exchange loss (gain)	**4,495**	(258)	**5,317**	(39)
Total other expenses	**22,053**	4,284	**32,534**	11,962
Loss from continuing operations before taxes	**(26,268)**	(1,903)	**(31,625)**	(1,756)
Income and mining tax expense	**—**	—	**—**	—
Loss and comprehensive loss from continuing operations for the period	**$ (26,268)**	$ (1,903)	**$ (31,625)**	$ (1,756)
Income (loss) and comprehensive income (loss) from discontinued operations for the period	**—**	(1,150)	**2,509**	(2,225)
Loss and comprehensive loss for the period	**$ (26,268)**	$ (3,053)	**$ (29,116)**	$ (3,981)
Loss per share				
Basic	**$ (0.15)**	$ (0.02)	**$ (0.16)**	$ (0.02)
Diluted	**$ (0.16)**	$ (0.03)	**$ (0.17)**	$ (0.04)
Loss from continuing operations per share				
Basic	**$ (0.15)**	$ (0.01)	**$ (0.17)**	$ (0.01)
Diluted	**$ (0.16)**	$ (0.02)	**$ (0.18)**	$ (0.03)
Income (loss) from discontinued operations per share				
Basic and diluted	**—**	$ (0.01)	**$ 0.01**	$ (0.01)
Weighted average number of shares outstanding				
Basic	**179,520,041**	170,644,946	**178,491,155**	166,784,892
Diluted	**179,633,511**	170,651,251	**178,601,618**	166,811,263

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Cash provided by (used in)				
Operations				
Net loss from continuing operations for the period	**$ (26,268)**	$ (1,903)	**$ (31,625)**	$ (1,756)
Operating items not involving cash				
Depreciation and amortization	**7,004**	4,905	**13,089**	8,697
Accretion expense	**945**	1,024	**1,899**	1,564
Deferred income and mining tax expense (recovery)	**—**	(187)	**—**	911
Loss on extinguishment of debt	**11,035**	—	**11,035**	—
Share-based compensation and employee benefits	**62**	865	**475**	1,620
Unrealized foreign exchange loss	**3,903**	—	**3,903**	—
Other	**86**	413	**1,022**	742
	(3,233)	5,117	**(202)**	11,778
Changes in non-cash working capital	**384**	(284)	**518**	699
	(2,849)	4,833	**316**	12,477
Financing Activities				
Issuance of common shares and warrants, net of issue costs	**9,613**	32,904	**9,613**	32,904
Credit facility	**(8,808)**	15,287	**14,192**	15,287
Repayment of senior secured notes	**(79,200)**	—	**(79,200)**	—
Net proceeds of senior secured term loan	**131,941**	—	**131,941**	—
Capital lease facility	**—**	—	**—**	11,239
Repayment of obligations under finance leases	**(258)**	(1,109)	**(1,573)**	(2,555)
Interest paid	**(1,318)**	(370)	**(5,907)**	(3,962)
	51,970	46,712	**69,066**	52,913
Investing Activities				
Additions to mining interests (net)	**(27,805)**	(32,072)	**(65,873)**	(69,282)
Proceeds on disposal of mining interests (net)	**—**	243	**990**	322
	(27,805)	(31,829)	**(64,883)**	(68,960)
Increase (decrease) in cash from continuing operations	**21,316**	19,716	**4,499**	(3,570)
Net change in cash attributable to discontinued operations	**—**	(15,066)	**20,142**	(23,949)
Increase (decrease) in cash and cash equivalents	**21,316**	4,650	**24,641**	(27,519)
Cash and cash equivalents, beginning of period	**23,493**	18,695	**20,168**	50,864
Cash and cash equivalents, end of period	**$ 44,809**	$ 23,345	**$ 44,809**	$ 23,345