

NORTH AMERICAN PALLADIUM LTD  
Form 40-F/A  
June 05, 2007

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Amendment No. 1

to

## FORM 40-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission File Number 1-15142

## North American Palladium Ltd.

(Exact name of Registrant as specified in its charter)

**Canada**

(Province or other Jurisdiction  
of Incorporation or Organization)

**1099**

(Primary Standard Industrial  
Classification Code Number)

**Not Applicable**

(I.R.S. Employer  
Identification No.)

**130 Adelaide Street West**

**Suite 2116, Toronto, Ontario**

**M5H 3P5**

**(416) 360-7590**

(Address and telephone number of Registrants' principal executive offices)

**CT Corporation System**

**111 Eighth Avenue**

**New York, NY 10011**

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(212) 894-8940

(Name, address (including zip code) and telephone number

(including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| Title Of Each Class         | Name of each Exchange<br>On Which Registered: |
|-----------------------------|---|
| Common Shares, No Par Value | American Stock Exchange                       |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

For annual reports, indicate by check mark the information filed with this Form:

Annual information form  Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by this annual report.

**The Registrant had 52,947,693 Common Shares**

**outstanding as at December 31, 2006**

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the filing number assigned to the registrant in connection with such Rule.

Yes  No

No  Yes

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

No  Yes

**EXPLANATORY NOTE**

North American Palladium Ltd. (the Registrant ) is filing this Amendment No. 1 to the Registrant's Annual Report on Form 40-F because the Registrant has filed a Revised Annual Information Form. The Revised Annual Information Form has been filed in order to correct errors on page 10 relating to the effect of certain Common Share issuances on the Initial Conversion Price of the Convertible Notes and the Initial Exercise Price of the Warrants and on page 18 to correct errors relating to the Registrant's earn-in rights on the Haines-Conacher properties.

**DOCUMENTS FILED UNDER COVER OF THIS FORM**

|              |   |
|--------------|---|
| Document No. | Revised Annual Information Form for the fiscal year ended December 31, 2006, dated March 30, 2007 |
| 1:           | and amended and restated June 4, 2007.  |
| 2            |   |

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**UNDERTAKING AND CONSENT TO SERVICE OF PROCESS**

**A. Undertaking**

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

**B. Consent to Service of Process**

The Registrant has previously filed with the Commission a Form F-X in connection with its Common Shares, no par value.

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**SIGNATURE**

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**NORTH AMERICAN PALLADIUM LTD.**

Dated: June 4, 2007

By: /s/ James D. Excell  
By: James D. Excell  
Title: President and Chief Executive Officer

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**EXHIBIT INDEX**

| <b>Number</b> | <b>Document</b>  |
|---------------|--|
| 31.           | Certification of CEO and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.           | Certification of CEO and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 6             |  |

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**SIGNATURE**

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**NORTH AMERICAN PALLADIUM LTD.**

Dated: June 4 , 2007

/s/ G. Fraser B. Sinclair

By:

G. Fraser B. Sinclair

Title:

Chief Financial Officer

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**NORTH AMERICAN PALLADIUM LTD.**

**REVISED ANNUAL INFORMATION FORM**

FOR THE YEAR ENDED DECEMBER 31, 2006

DATED MARCH 30, 2007

AMENDED AND RESTATED JUNE 4, 2007

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*EXPLANATORY NOTE: This annual information form has been revised to correct errors on page 10 relating to the effect of certain Common Share issuances on the Initial Conversion Price of the Convertible Notes and the Initial Exercise Price of the Warrants and on page 18 to correct the Corporation's earn-in rights on the Haines-Conacher properties.*

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual information form ( AIF ) contains forward-looking statements within the meaning of the *U.S. Private Securities Litigation Reform Act of 1995* and the securities legislation of certain of the provinces of Canada. Forward-looking statements are necessarily based on estimates and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. These estimates and assumptions are inherently subject to significant business, economic and competitive uncertainties, many of which, with respect to future events, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by the Corporation, or on its behalf.

In making the forward-looking statements in this AIF, the Corporation has applied numerous material factors and assumptions, including, but not limited to:

- the assumption that the operation of, and production and processing from, the underground mine in conjunction with the open pit mine will remain viable operationally and economically;
- financing is available on reasonable terms;
- the assumption that the advice the Corporation has received from its consultants and advisors relating to matters such as mineral reserves and mineral resources, environmental requirements and certain legal proceedings is reliable and correct and, in particular, that the models, dilution strategies and mining recovery estimates used to calculate mineral reserves and mineral resources are appropriate and accurate;
- the assumption that the Corporation will be able to negotiate the renewal of/or enter into a new smelting and refining agreement(s) and
- the assumption that the Corporation's plans for sustainable recoveries from the Lac des Iles Mine, for further exploration at the Lac des Iles Mine and surrounding region and for exploration in Finland can proceed as expected.

The words expect, anticipate, estimate, may, will, should, intend, believe, target, budget, plan, projection, strategy and are intended to identify forward-looking statements in this AIF. Information concerning mineral reserve and mineral resource estimates also may be considered forward-looking statements, as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed.

In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this AIF should not be considered as a representation by the Corporation or any other person that its objectives or plans will be achieved. Numerous factors could cause the Corporation's actual results to differ materially from those in the forward-looking statements, including the following, which are discussed in greater detail under the Risk Factors section herein:

- inability to meet production volumes or operating cost goals;
  - inaccurate resource and reserve estimates;
  - inherent risks associated with mining and processing operations;
  - failure to maintain production levels for underground mining operations;
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- failure of the exploration program to increase reserves;
- competition from other mining companies;
- interruption of operations at the Lac des Iles Mine;
- termination or failure to renew smelting agreement(s);
- volatility in metal prices;
- changes in the United States/Canadian dollar exchange rate;
- failure to renew the collective agreement on acceptable terms when it expires;
- costs of complying with current and future environmental regulation;
- costs of complying with other current and future governmental regulation;
- competition from other suppliers of platinum group metals;
- development of new technology leading to reduced demand for palladium;
- loss of key personnel;
- defaults under credit facilities; and
- hedging activities.

These factors should be considered carefully, and readers should not place undue reliance on the Corporation's forward-looking statements. The Corporation undertakes no obligation to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date of this AIF or to reflect the occurrence of unanticipated events, except as required by law.

#### **METRIC CONVERSION TABLE**

| Imperial             | Metric                 |
|----------------------|------------------------|
| 1 troy ounce         | 31.103 grams           |
| 1 ton, short         | 0.907 tonnes           |
| 1 troy ounce per ton | 34.286 grams per tonne |
| 1 foot               | 0.305 metres           |
| 1 mile               | 1.609 kilometres       |
| 1 acre               | 0.405 hectares         |

#### **OTHER INFORMATION**

All dollar amounts referred to herein are in Canadian dollars unless stated otherwise. Unless otherwise indicated, all financial information included herein has been prepared in accordance with Canadian generally accepted accounting principles ( Canadian GAAP ), which may differ from United States generally accepted accounting principles ( U.S. GAAP ).

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Descriptions of mineral reserve and mineral resource estimates included herein under Canadian standards may not be comparable to similar information made public by U.S. companies subject to reporting and disclosure requirements of the United States Securities and Exchange Commission. See Mineral Reserve and Resource Estimates Note to U.S. Shareholders herein.

The information in this AIF is presented as at March 20, 2007 unless otherwise indicated.

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## **CORPORATE STRUCTURE**

North American Palladium Ltd. (the Corporation) is the successor to Madeleine Mines Ltd., a company incorporated under the *Québec Mining Companies Act* by letters patent dated February 2, 1968. In January 1992: (i) Madeleine Mines Ltd. was amalgamated with a wholly owned Québec subsidiary of 2750538 Canada Inc., a company incorporated under the *Canada Business Corporations Act* by articles of incorporation dated September 12, 1991; (ii) the amalgamated company was wound up into 2750538 Canada Inc.; and (iii) 2750538 Canada Inc. changed its name to Madeleine Mines Ltd. By articles of amendment dated July 24, 1993, Madeleine Mines Ltd. changed its name to North American Palladium Ltd. The Corporation has one operating subsidiary, Lac des Iles Mines Ltd. (LDI), incorporated under the *Canada Business Corporations Act*, and wholly owned by the Corporation. Unless otherwise indicated, all references in this AIF to the Corporation include North American Palladium Ltd., together with its wholly-owned subsidiary, Lac des Iles Mines Ltd. The Corporation has two additional subsidiaries, North American Palladium Finland Oy and North American Palladium Arctic Services Oy, both Finnish corporations which are wholly-owned (see Arctic Platinum Project).

The Corporation's registered office is at Suite 2116, 130 Adelaide Street West, Toronto, Ontario M5H 3P5, telephone: (416) 360-7590, fax: (416) 360-7709. The Corporation's mining operations are situated approximately 85 kilometres northwest of Thunder Bay at Lac des Iles, in northern Ontario. The postal address is P.O. Box 10547, Thunder Bay, Ontario P7B 6T9, telephone: (807) 448-2000, fax: (807) 448-2001.

## **GENERAL DEVELOPMENT OF THE BUSINESS AND DESCRIPTION OF THE BUSINESS**

The following description of the Corporation's business includes many geological terms that may not be familiar to the reader. For a description of the meaning of some of these terms, please see the Glossary of Terms included in this AIF.

### **Overview**

The following contains forward-looking statements about the Corporation's business. Reference should be made to Special Note Regarding Forward-Looking Statements on page 1 and for a description of material factors that could cause the Corporation's actual results to differ materially from the forward-looking statements in the following, please see Risk Factors commencing at page 25.

The Corporation owns and operates an open pit and underground mine known as the Lac des Iles Mine and a processing plant with a design capacity of 15,000 tonnes per day. The mining and processing operation produces by flotation a palladium rich concentrate that also contains platinum, gold, copper and nickel. The concentrate is delivered to the Sudbury smelter operations of Xstrata Limited (formerly Falconbridge Limited) (Xstrata) and then further processed at its refining operations in Kristiansand, Norway.

In late 2003 the Corporation commissioned a feasibility study in response to scoping studies and a pre-feasibility study that indicated a higher grade sub-vertical ore body located directly beneath the open pit was viable as an underground mine. The feasibility study confirmed that an underground operation was economically viable operating concurrently with the open pit to provide a blended higher grade mill feed.

The development of the underground mine commenced in the second quarter of 2004. Maintaining access to the original mine portal for the underground mining operations was difficult during 2005, as a result of pit blasts that obstructed the open pit ramp and ultimately limited underground access. The access

problem was resolved by extending the main underground ramp to provide continuous access to the underground operation that was above the active open pit areas. Capital costs for the underground development were \$36 million for direct and indirect costs (on budget). Mining equipment accounted for an additional \$10 million of capital costs and the Corporation is financing this equipment through a vendor lease program. The Corporation began full production from the underground operations on April 1, 2006 and effective this date the production from the underground operations has been reflected in the operating results of the Corporation. The underground production for the nine months ended December 31, 2006 averaged 2,245 tonnes per day with an average palladium grade of 5.96 grams per tonne. During the fourth quarter of 2006, underground production was 2,418 tonnes per day, with an average palladium grade of 6.42 grams per tonne.

#### Lac des Iles Mine

The Lac des Iles property consists of four mining leases from the Government of Ontario numbered 104108 to 104111, inclusive, comprising 85 single unit mining claims and covering an aggregate of 1,469.57 hectares. The mining leases are dated September 1, 2006 and expire on August 31, 2027. In addition to the mining leases, the Corporation holds mining claims covering approximately 15,058.1 hectares within a 425 kilometre radius of the Lac des Iles Mine.

The Lac des Iles Mine and surrounding property are located approximately 85 kilometres northwest of the City of Thunder Bay, Ontario. Paved road access is provided by Ontario Provincial Highway 527, followed by 15 kilometres of an all weather gravel road, maintained by the Corporation. Approximately 90% of the employees reside in the Thunder Bay area.

#### Open Pit Mining Operations

The following table sets forth information concerning the production from the Lac des Iles Mine open pit operation for each of the five years ended December 31, 2006:

|                                   | 2006       | 2005       | 2004       | 2003       | 2002       |
|-----------------------------------|------------|------------|------------|------------|------------|
| Ore mined (tonnes)                | 3,926,911  | 3,705,555  | 4,574,134  | 4,396,847  | 7,250,963  |
| Waste mined (tonnes)              | 8,888,037  | 11,619,658 | 12,275,889 | 10,164,806 | 9,828,552  |
| Total mined (tonnes)              | 12,814,948 | 15,325,213 | 16,850,023 | 14,561,653 | 17,079,515 |
| Stripping ratio                   | 2.26:1     | 3.14:1     | 2.68:1     | 2.31:1     | 1.36:1     |
| Average daily production (tonnes) | 35,109     | 41,987     | 46,038     | 39,895     | 46,793     |

The Corporation mines ore and waste from the open pit using conventional hydraulic 25 cubic metre and 19 cubic metre shovels, 190 tonne trucks, 187 millimetre blast hole drills and a fleet of conventional ancillary equipment. Mine waste is stockpiled outside of design pit limits.

In 2006, total tonnes mined from the open pit amounted to 12.8 million tonnes or approximately 35,000 tonnes per day of combined ore and waste compared to 15.3 million tonnes or 42,000 tonnes per day in 2005. Ore production for 2006 totalled 3.9 million tonnes grading 1.63 grams per tonne of palladium compared to 3.7 million tonnes grading 1.72 grams of palladium per tonne in 2005.

During 2006 the waste to ore strip ratio decreased to 2.26:1 compared to 3:14 in 2005. The waste to ore strip was higher in 2005 because of the development of the Phase 4 pit.

At the end of 2006, the broken ore stockpile consisted of 609,998 tonnes grading 1.81 grams of palladium per tonne containing approximately 35,000 ounces of palladium compared to 714,589 tonnes grading 1.78 grams of palladium per tonne containing approximately 41,000 ounces of palladium at the end of 2005.

During the first quarter of 2006, the ultimate pit design implemented in 2004 was changed to an interim pit design that addressed previously disclosed south pit wall instability issues. The Corporation engaged an independent geotechnical consultant to review the slope stability issues and his recommendations were used by P&E Mining Consultants in designing a reconfigured open pit. The Corporation then commenced a detailed review of its life-of-mine operating plan for the Lac des Iles Mine. As a result of the review a revised mine plan has been adopted and the carrying value of the Corporation's mining interests have been reviewed based upon this revised mine plan. The Corporation's management believes, as at December 31, 2006, an impairment charge and a corresponding reduction in the carrying value of its mining interests is not required.

### **Underground Mining Operations**

The underground portion of the Roby deposit is a continuation to depth of the Roby High Grade Zone that forms the core of the Roby open pit reserves. The underground deposit lies below the ultimate pit bottom of the Roby open pit at an elevation of 209 metres above sea level, and extends to a depth of 170 metres below sea level, for a total dip length of 444 metres.

Full production in the underground mine commenced April 1, 2006 and in the nine months ended December 31, 2006, the underground mine produced at the average rate of 2,245 tonnes of ore per day at an average head grade of 5.96 grams of palladium per tonne.

Mobile equipment for the underground mine, for the Corporation and its contractors includes three electric hydraulic jumbo drills, two longhole drills, two 6 cubic metre scooptrams, two 8.4 cubic metre scooptrams, three 60 tonne trucks and two 40 tonne trucks, along with other service and support equipment.

The chosen mining method is sublevel retreat longitudinal longhole stoping with no fill. The mining block interval is 70 metres floor to floor including a 15 metre to 25 metre sill pillar below each haulage level. Stopes are 45 metres to 55 metres high by the width of the orebody. Total intake ventilation for the mine is designed to be 205 cubic metres per second. There is one intake ventilation raise/secondary egress situated outside the ultimate open pit limits and air exhausts up the main ramp.

Work is currently being conducted using the Corporation's workforce and contractors. The Corporation is endeavouring to replace contractors with its own employees; however, there is significant competition for skilled underground miners. The Corporation will continue to use contractors for production mining as it seeks to attract underground miners to the operation. Blasthole drilling and underground development work will continue to be conducted by contractors.



## Milling Operations

The concentrator produces a palladium rich concentrate that is shipped off-site for final processing. See Smelting and Refining Agreements . The following table set forth the tonnes milled and the metal production of the concentrate for each of the five years ended December 31, 2006:

| Year | Milled<br>(tonnes) | Concentrate<br>(tonnes) | Palladium<br>(troy ozs) | Platinum<br>(troy ozs) | Gold<br>(troy ozs) | Copper<br>(lbs) | Nickel<br>(lbs) |
|------|--------------------|-------------------------|-------------------------|------------------------|--------------------|-----------------|-----------------|
| 2006 | 4,570,926          | 29,483                  | 237,338                 | 22,308                 | 17,237             | 5,155,588       | 2,721,042       |
| 2005 | 4,780,599          | 30,698                  | 177,167                 | 18,833                 | 14,308             | 5,514,670       | 2,353,227       |
| 2004 | 5,298,544          | 45,652                  | 308,931                 | 25,128                 | 25,679             | 7,836,183       | 4,320,970       |
| 2003 | 5,159,730          | 36,869                  | 288,703                 | 23,742                 | 23,536             | 7,142,674       | 4,070,785       |
| 2002 | 4,851,621          | 27,179                  | 219,325                 | 19,180                 | 16,030             | 5,295,486       | 2,763,654       |

The concentrator facility used at the mine has a design capacity of 15,000 tonnes per day. Ore is crushed in a gyratory crusher and conveyed to a coarse ore stockpile. With the commissioning of the secondary crusher in 2004, all of the coarse ore was crushed in the secondary crusher and the finer material was fed to the SAG mill. In 2005, modifications were made to the secondary crusher, including the installation of a grizzly to enable the operators to control the amount of coarse ore processed by the secondary crusher. The ore is ground to a nominal P80 (the size of an opening through which 80% of the product will pass) of 74 microns in a conventional semi-autogenous mill/ball mill/pebble crusher (SABC) circuit. The ground ore feeds a flotation circuit that is comprised of rougher/scavengers, four stages of cleaning and includes a regrind circuit. The flotation circuit in the old concentrator is currently connected to the new concentrator to provide additional cleaner flotation capacity. The final concentrate is thickened and dewatered using two pressure filters. Tailings are contained in the existing tailings impoundment facility which is required to be expanded on an annual basis, throughout the life of the mine.

The concentrator processed 4,570,926 tonnes of ore or 12,523 tonnes per calendar day in 2006 at an average palladium head grade of 2.18 grams per tonne and an average palladium recovery of 74.0%. The concentrator throughput was 4,780,599 tonnes of ore in 2005 at an average palladium grade of 1.66 grams per tonne and an average palladium recovery of 69.6%. The Corporation produced 237,338, 177,167 and 308,931 ounces of palladium in 2006, 2005 and 2004, respectively. Palladium production increased in 2006 primarily as a result of improved head grade due to the production from the underground mine. Recoveries were affected primarily by higher head grade, as well as the ongoing process of improving the throughput and availability of the mill by addressing and systematically resolving previously identified issues. These included flotation circuit improvements, implementation of proactive preventative maintenance programs, changes made to the mill flow sheet, reagent mix and the quality of recycled water.

Production costs per tonne of ore milled were \$24.60 in 2006, \$20.78 in 2005 and \$19.43 in 2004. Cash costs, which include direct and indirect operating costs, smelting, refining, transportation and sales costs, royalties, net of credits for by-products, were US\$201 per ounce of palladium in 2006, US\$359 per ounce of palladium in 2005 and US\$159 per ounce of palladium in 2004. The decrease in the unit cash costs was caused by a combination of improved head grades and metal recoveries, which led to a 34% increase in palladium production to 237,338 ounces in 2006 compared to 177,167 ounces in 2005, combined with the 70% increase in revenue from by-product metals. In addition, throughout the year there was a decrease in the open pit waste to ore strip ratio to 2.26:1 in 2006, compared to 3.14:1 in 2005. However, there continues to be pressure on costs, particularly steel, tires, power and diesel fuel.

### **Facilities and Infrastructure**

In addition to the concentrator, the mining operation includes an assay laboratory, a warehouse, electrical shop, a three bay truck shop to service the larger haul trucks, an operations camp, a water treatment plant, a propane storage facility, a fuel storage area and an electrical substation. Power is delivered to the site by a 65 kilometre power line, which ties directly into the northwestern Ontario power grid.

The present tailings management facility ( TMF ) has been operating since 1990. Until 1998, the dams were primarily constructed as water retaining dams, comprising rock fill, filters and glacial till or high density polyethylene facing. In 1998 and 1999, dams at the north end of the facility were raised using rock fill and tailings. Further TMF expansion commenced in 2000 and was designed to accommodate successive lifts when required to store the tailings produced over the mine life. The dams have been raised and are constructed of non-reactive waste rock two inch minus crushed rock and geotextile. The TMF is an industrial waste impoundment, where erosion is minimized, runoff is managed, water is returned to the concentrator as needed and excess water is stored until it can be treated and released. The design of the operation provides for closure and reclamation of the facility.

### **Metal Sales**

During 2006 all palladium production was sold into the spot market with one or more commodity dealers and manufacturers.

On January 19, 2007, LDI entered into a platinum and palladium purchase agreement with Auramet Trading LLC. See Financing Platinum and Palladium Purchase Agreement .

The Corporation enters into forward commodity sales contracts on its by-product metal production from time to time to hedge the effect of changes in certain metal prices on the Corporation s revenues. During 2006, however, the Corporation chose to sell all of its by-product metal production into the spot market.

### **Royalty Agreement**

Production from the Lac des Iles Mine is subject to a royalty agreement with The Sheridan Platinum Group Inc. and John Patrick Sheridan (together referred to as the Sheridan Group ). Under the agreement, the Corporation is obligated to pay to the Sheridan Group a royalty equal to 5% of net cash proceeds received from concentrates and other products produced at the Lac des Iles Mine. The term net cash proceeds is defined in the royalty agreement generally as the net proceeds of sale receivable by LDI from the production and sale of concentrates from the Lac des Iles Mine, after deducting the costs of sampling, assaying, transporting and insuring the concentrate; smelter, processing and refining charges and penalties (excluding LDI s own processing costs) and all applicable taxes and royalties that must be paid in respect of the mining operations. Under the royalty agreement, the Sheridan Group may elect, and has elected, to receive payment of the royalty, in respect of palladium and platinum, in kind rather than in cash and, in respect of other metals, the Sheridan Group has elected to receive cash. All mining operations at the Lac des Iles Mine are located on the mining leases and are covered by the royalty agreement.

### **Smelting and Refining Agreement**

The Corporation has a smelting and refining agreement with Xstrata pursuant to which Xstrata purchases the Corporation s concentrates and settles in cash or, at the Corporation s option, makes available to the Corporation the refined palladium, platinum and gold at Xstrata s refining facilities in Kristiansand, Norway. The agreement expires on April 30, 2007 and a renewal is currently being negotiated. However,

in certain circumstances, such as default of performance, insolvency or ceasing to carry on business, the agreement can be terminated by the party not in default, insolvent or ceasing to carry on business. The agreement can be suspended in the event of a force majeure.

The Corporation had an agreement with Inco Limited (now CVRD Inco Limited) ( Inco ), which expired on November 30, 2005. Under the terms of the agreement, Inco purchased the Corporation's concentrates and settled in cash or, at the Corporation's option, made available to the Corporation the refined palladium and platinum at Inco's Acton Refinery in London, England.

**Financing**

***Senior Credit Facilities***

On June 28, 2004, the Corporation entered into a US\$20 million and a \$10 million senior credit facility (the Senior Credit Facilities ) with a leading equipment finance company. These facilities are fully drawn. The US\$20 million credit facility is repayable in equal quarterly instalments of US\$1 million which commenced on September 30, 2004 and has a final maturity on June 30, 2009. The \$10 million credit facility is repayable in equal quarterly instalments of \$500,000 which commenced on February 24, 2005 and has a final maturity of November 24, 2009. The Senior Credit Facilities have an interest margin of 2.5% over the 30-day LIBOR rate and the lender has a first priority security in all of the Corporation's existing and future assets excluding its production leases and claims. The Senior Credit Facilities allow, in certain circumstances, full repayment of outstanding amounts drawn at any time during their respective terms.

***Kaiser-Francis Credit Facilities***

In December 2001, Kaiser-Francis Oil Company ( Kaiser-Francis ) provided a US\$20 million non-revolving credit facility to finance the Corporation's working capital requirements. In the second quarter of 2004, the Kaiser-Francis credit facility was extended to June 30, 2006 as part of a debt restructuring plan. Interest was based upon the 30-day LIBOR rate plus 2.50% and there was a stand-by fee of 0.125% per annum. In connection with the loan, the Corporation granted Kaiser-Francis a security interest in the assets of the Corporation, including a pledge of the LDI shares. The security interest was subordinated to the security interests of the senior credit facility. This credit facility was repaid on June 23, 2006 pursuant to the terms of the Series II convertible note issued on that date (see Convertible Note Financing below).

On October 12, 2006, the Corporation obtained from Kaiser-Francis a \$US5 million short-term working capital loan maturing December 31, 2006. The interest rate under the loan was the 30-day LIBOR rate plus 2.5%. The Corporation paid a commitment fee of US\$38,000 and amounts not drawn under the loan were subject to a standby fee of 0.125% per annum. In connection with the loan, the Corporation granted to Kaiser-Francis a first priority security interest in the inventory and receivables of the Corporation. On December 13, 2006 the maturity date was extended to March 31, 2007, with no other changes in terms. The Corporation paid a commitment fee of US\$25,000 for the extension. As at December 31, 2006, the outstanding loan was \$US5 million. The loan was repaid on March 7, 2007 (see Platinum and Palladium Purchase Agreement below).

The amount payable to Kaiser-Francis for interest, standby fees and guarantee fees on these facilities was \$551,000 in 2006 compared to \$836,000 in 2005. As at December 31, 2006, US\$5 million was drawn on the facilities. Kaiser-Francis holds approximately 50% of the outstanding Common Shares of the Corporation.

*Convertible Note Financing*

On March 28, 2006, the Corporation announced the execution of a securities purchase agreement dated March 24, 2006 (the Securities Purchase Agreement ) relating to the private placement of up to US\$58.5 million principal amount of convertible notes (the Convertible Notes ) together with common share purchase warrants (the Warrants ) exercisable to purchase, for four years from the date of their issuance, 50% of the number of Common Shares underlying the Convertible Notes. Under the terms of the Securities Purchase Agreement, on March 29, 2006 the Corporation issued a Series I Convertible Note in the principal amount of US\$17.5 million to each of Kaiser-Francis and IP Synergy Finance Inc. ( IPSF and, collectively with Kaiser-Francis, the Holders ). On June 23, 2006, the Corporation issued a Series II Convertible Note in the principal amount of US\$13.5 million to Kaiser-Francis

The Series I Convertible Notes were initially convertible into 2,873,563 Common Shares representing an effective price of US\$12.18 per share (the Initial Conversion Price ). The Series II Convertible Note was initially convertible, at the Initial Conversion Price, into 1,108,374 Common Shares. The Initial Conversion Price is equal to 113% of the Initial Market Price. For the purposes of the Convertible Notes, the Initial Market Price is US\$10.78, being the five day weighted average trading price of the Common Shares on the American Stock Exchange (the AMEX ) immediately preceding March 24, 2006. In addition, Warrants exercisable to purchase 1,436,782 Common Shares (the Series I Warrants ) were issued with the Series I Convertible Notes, and common share purchase warrants exercisable to purchase 554,187 Common Shares (the Series II Warrants ) were issued with the Series II Convertible Note. Each Warrant is exercisable to purchase one Common Share at an initial exercise price (the Initial Exercise Price ) of US\$13.48. The Initial Exercise Price of the Warrants is equal to 125% of the Initial Market Price.

The Series I Convertible Notes bear interest at a rate of 6.5% per annum, payable bi-monthly, commencing on June 1, 2006. The Series II Convertible Note bears interest at a rate of 6.5% per annum, payable bi-monthly, commencing on August 1, 2006. The Series I Convertible Notes are to be repaid in nine equal instalments which will commence on April 1, 2007. The Series II Convertible Note is to be repaid in nine equal instalments which will commence on August 1, 2007. The interest payments and/or principal repayment amounts may be paid to each Holder, at such Holder's option, in any combination of cash and/or Common Shares. Common Shares issued for interest payments or in repayment of the Convertible Notes will be issued at a 10% discount from the weighted average trading price of the Common Shares on the AMEX for the five consecutive trading days immediately prior to the applicable payment date. The Corporation has the right to defer any principal repayment in cash until a later principal repayment date. There is no limit on the length of the deferral, other than it cannot be deferred later than the final maturity date. The Company must give five days notice of its intention to defer payment.

Commencing June 29, 2007, in respect of the Series I Convertible Notes, and September 23, 2007, in respect of the Series II Convertible Note, if the weighted average trading price of the Common Shares on the AMEX for each of any twenty-five consecutive trading days is at least 150% of the Initial Conversion Price, the Corporation will, subject to certain conditions, have the right to force the Holders to convert all or any of the outstanding principal amount of the Series I Convertible Notes or the Series II Convertible Note, respectively, at the then conversion price.

The Convertible Notes contain customary covenants, including restrictions on the Corporation incurring debt, payment of dividends or obligations for or involving the payment of money in excess of certain restricted amounts. The Convertible Notes also contain customary anti-dilution protection (including full

protection for dividends) as well as adjustments in the event that the Corporation issues Common Shares or securities convertible into Common Shares at a purchase price (the Effective Price ) per Common Share less than the Conversion Price. In such event, the conversion price will be reduced to the Effective Price, provided that the adjusted conversion price cannot be less than US\$9.12 (adjusted as prescribed in the Convertible Notes). Notwithstanding the foregoing, no adjustment is required in certain specified events, including Common Shares issued (i) pursuant to the exercise of stock options or in connection with the Corporation's share purchase plan, (ii) with favourable flow-through tax treatment relating to Canadian exploration expenses under the *Income Tax Act* (Canada), or (iii) in connection with certain transactions involving a merger or acquisition of an entity, business or assets.

The Warrants contain anti-dilution protection similar to that of the Convertible Notes. In the event that the Corporation issues Common Shares or securities convertible into Common Shares at an Effective Price per Common Share less than the exercise price of the Warrants, the exercise price of the Warrants will be reduced to the Effective Price provided that the adjusted exercise price cannot be less than US\$10.73 (adjusted as prescribed in the Warrants). The Warrants contain the same exceptions to the anti-dilution provisions as the exceptions to the adjustment of the Conversion Price of the Convertible Notes set out in the previous paragraph.

The Securities Purchase Agreement also provided the Holders with an option to acquire a third tranche of US\$10 million principal amount of convertible notes (the Series III Convertible Notes ) on or before December 31, 2006, with each Holder entitled to acquire one-half. If either Holder determined not to acquire its entire allotment of the Series III Convertible Notes, the other Holder was entitled to purchase the balance. Warrants were also to be issued in connection with the Series III Convertible Notes. The Holders elected not to exercise their option to acquire the Series III Convertible Notes.

On June 21, 2006, the shareholders of the Corporation approved the issuance of all of the Common Shares issuable to the Holders in connection with the Convertible Notes.

If a Holder elects to receive interest payments or principal repayments on the Series I Convertible Notes or Series II Convertible Note in Common Shares and the Corporation is, for any reason, unable to issue such Common Shares, the interest payment or principal repayment will be made in cash. If a Holder is restricted in its ability to receive Common Shares upon conversion of the Series I Convertible Notes or Series II Convertible Note, the Holder may require the Corporation to pay cash to such Holder in an amount equal to the number of Common Shares which such Holder was not permitted to receive (the Excess Shares ) multiplied by the average of the weighted average trading price of the Common Shares on the AMEX for each of the five trading days immediately prior to the date of the payment, upon which the Corporation will have no further obligation to issue such Excess Shares. If a Holder is restricted in its ability to receive Common Shares upon exercise of Series I or Series II Warrants, the Corporation will be required to pay cash to such Holder in an amount equal to the binomial option pricing model of the applicable Warrant with respect to the portion of such Warrant which is unexercisable.

To date, the Holders have elected to receive all interest payable under the Convertible Notes in Common Shares. For the year ended December 31, 2006, the Corporation issued 242,159 Common Shares to the Holders in payment of interest due under the Convertible Notes. An additional 68,138 Common Shares were issued in payment of interest for the two month period ended February 1, 2007.

#### ***Private Placement***

On February 27, 2007 the Corporation completed a private placement of 550,000 flow through common shares at \$11.00 per share for gross proceeds of \$6.05 million. The underwriter of the private placement

was Dundee Securities Corporation which received a 6% commission. The gross proceeds will be used to expedite work on the Shebandowan Project.

#### ***Platinum and Palladium Purchase Agreement***

On February 5, 2007, the Corporation announced that LDI had entered into a platinum and palladium purchase agreement dated as of January 19, 2007 (the Auramet Agreement) with Auramet Trading, LLC (Auramet), a precious metals merchant, providing for the purchase and sale of an average of 10,000 ounces of palladium and 500 ounces of platinum per month. The Corporation is a guarantor of LDI's obligations under the Auramet Agreement. LDI may not request any purchase and sale after June 15, 2008 and all sales and payment therefor are required to be settled by December 31, 2008. LDI may receive advance payments not exceeding, at any time, an aggregate maximum of US\$25 million.

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

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

The first advance payment was made on March 7, 2007 and was used to repay a bridge loan from the Corporation's major shareholder and subsequent advance payments will be used to finance working capital requirements.

#### **Collective Agreement with Hourly Workers**

Following mediation during 2006, the Corporation entered into a new collective agreement with United Steelworkers of America, Local 9422. The new collective agreement is for a three year term and expires on February 23, 2009.

#### **Mineral Properties**

##### **Lac Des Iles**

##### ***Regional Geology***

The Lac des Iles area is underlain by Archean-age rocks of the Superior Province of the Canadian Shield which are overlain and intruded by rocks of the Proterozoic-age Southern Province. The Superior Province can be subdivided into areas of plutonic, granite-greenstone, metasedimentary and gneissic rocks. The Southern Province consists of a blanket of sedimentary rocks extensively intruded by gabbroic magma.

In the Archean, mafic to ultramafic intrusions scattered throughout northwestern Ontario host, or have the potential to host, platinum group metal mineralization. Platinum group metal mineralization of Proterozoic age is also known to occur in northwestern Ontario.

In the Lac des Iles area, the Lac des Iles Intrusive Complex is one of many platinum group metal-bearing, mafic to ultramafic, intrusions that define a circular feature (of speculative origin) with a diameter of 30 kilometres. The 30-square kilometre Lac des Iles Intrusive Complex consists of three separate magma chambers partially separated by tonalite septum. The ultramafic North Lac des Iles Intrusive Complex is centered on Lac des Iles. The gabbroic Mine Block Intrusion and Camp Lake Intrusion occur south of Lac des Iles. The Camp Lake Intrusion is a relatively homogeneous hornblende gabbro and contains minor base metal sulphides and platinum group metals. The Mine Block Intrusion to the north is complex in structure, texture and composition, and contains abundant platinum group metal mineralization. The most significant occurrences of platinum group metal (PGM) mineralization are in the Mine Block Intrusion and are the Roby, Twilight, Baker and Creek zones. The Roby and Twilight zones are the only defined areas of economic mineralization on the Lac des Iles property.

### ***Mine Block Intrusion Geology***

The Roby zone is a breccia zone, currently measuring 950 metres long, 815 metres wide and 1500 metres deep, and remains open at depth. Platinum group metal mineralization is associated with pyroxenite, gabbro and gabbro in areas that have been invaded and brecciated by copper-nickel-platinum group metal-bearing melanogabbro, which also generated abundant pegmatitic gabbro. The PGM mineralization typically contains from a trace to 5% pyrrhotite, chalcopyrite, pyrite and pentlandite. The platinum group metals include vysotskite, isomerticite, kotulskite, sperrylite, merenskyite and palladium arsenide. Similar breccia textured mineralization occurs at other locations within the intrusive complex.

The Roby zone contains two distinct types of mineralization separated by a zone of sheared and mineralized pyroxenite that trends north-northwest. North of the shear zone, the North Roby ore is hosted by varitextured gabbro and gabbro that strikes northeast and dips to the east-southeast variably at 45 to 60 degrees. This mineralization tends to be sulphide-poor. Southwest of the shear zone the breccia ore (the Breccia Ore ) is hosted by a heterolithic gabbro breccia with abundant pegmatitic and varitextured gabbro. From the pyroxenite contact, the grades diminish gradually to the west. This zone of Breccia Ore typically contains 2% to 5% sulphides. The pyroxenite is well mineralized and contains high grade ore associated with intense alteration. The Main High Grade Zone occurs at the eastern boundary of the central portion of the Roby Zone and extends below the economic limits of the Roby pit. This near vertical planar zone has a strike length exceeding 350 metres with thickness averaging 12 metres and is ideal for exploitation by underground mining methods. It is continuous to a depth of 675 metres where it is truncated and offset to the west by a fault. Below this fault, the faulted extension known as the Offset High Grade zone has been traced to a depth of 1,200 metres, over a strike length of 600 metres, and remains open down plunge and to a large degree down dip. As well, a second mineralized zone, known as the Footwall Roby Zone, has been located on the footwall side, and in immediate proximity to the Offset High Grade Zone.

The Twilight zone lies 50 to 70 metres east of the east boundary of the Roby zone. The Baker zone is located one kilometre east of the Roby zone and the Creek Zone is located less than two kilometres from the Roby Zone.

### ***Exploration***

In 2006, exploration drilling on the Offset High Grade Zone totalled 5,662.5 metres in 8 drill holes that were wedged from previously completed drill holes. The drilling was conducted by Bradley Brothers



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Limited and supervised by employees of the Corporation. The Offset High Grade Zone has now been intersected over a 700 metre vertical height and approximately 600 metres along strike.

The results from the drilling program carried out in 2006 were announced in two press releases dated June 20, 2006 and September 14, 2006 and are summarized in tabular form below:

| Hole ID  | (metres)     |         | Interval | (grams per tonne) |          | Gold  | % Nickel | % Copper |
|----------|--------------|---------|----------|-------------------|----------|-------|----------|----------|
|          | From         | To      |          | Palladium         | Platinum |       |          |          |
| 05-006W2 | 1021.35      | 1096.00 | 74.65    | 7.231             | 0.465    | 0.622 | 0.145    | 0.153    |
|          | incl 1024.00 | 1064.00 | 40.00    | 10.375            | 0.648    | 0.968 | 0.210    | 0.223    |
| 05-006W3 | 1043.70      | 1069.00 | 25.30    | 7.606             | 0.557    | 0.645 | 0.161    | 0.123    |
|          | incl 1053.00 | 1066.00 | 13.00    | 10.244            | 0.658    | 0.724 | 0.155    | 0.103    |
| 05-006W4 | 1068.00      | 1164.00 | 96.00    | 6.310             | 0.429    | 0.454 | 0.162    | 0.153    |
|          | incl 1068.00 | 1081.35 | 13.35    | 15.194            | 0.754    | 1.003 | 0.153    | 0.230    |
| 05-006W5 | 1050.00      | 1070.00 | 20.00    | 6.610             | 0.526    | 0.394 | 0.130    | 0.144    |
|          | incl 1114.00 | 1127.00 | 13.00    | 7.369             | 0.326    | 0.264 | 0.134    | 0.097    |
| 05-016W1 | 986.60       | 995.00  | 8.40     | 6.268             | 0.518    | 0.794 | 0.230    | 0.349    |
|          | and 1012.75  | 1060.00 | 47.25    | 5.083             | 0.339    | 0.400 | 0.181    | 0.217    |
|          | incl 1024.00 | 1038.20 | 14.20    | 8.600             | 0.424    | 0.250 | 0.090    | 0.159    |
|          | and 1083.00  | 1094.00 | 11.00    | 7.337             | 0.384    | 0.222 | 0.055    | 0.081    |
| 05-016W2 | 965.75       | 975.15  | 9.40     | 9.560             | 0.669    | 0.769 | 0.273    | 0.269    |
|          | and 982.00   | 994.00  | 12.00    | 5.381             | 0.373    | 0.322 | 0.090    | 0.217    |
| 05-016W3 | 1021.00      | 1071.00 | 50.00    | 6.446             | 0.465    | 0.360 | 0.096    | 0.077    |
|          | incl 1021.00 | 1048.00 | 27.00    | 8.198             | 0.585    | 0.387 | 0.100    | 0.072    |
|          | incl 1021.00 | 1033.00 | 12.00    | 10.197            | 0.690    | 0.338 | 0.091    | 0.069    |
| 05-016W4 | 1066.60      | 1216.50 | 149.90   | 5.372             | 0.384    | 0.456 | 0.175    | 0.180    |
|          | incl 1066.60 | 1080.50 | 13.90    | 10.281            | 0.741    | 0.947 | 0.300    | 0.274    |
|          | and 1127.00  | 1151.00 | 24.00    | 7.306             | 0.493    | 0.753 | 0.193    | 0.216    |

Exploration for 2007 at Lac des Iles is expected to focus on completion of sufficient drilling so as to allow upgrading of the mineral resources contained in the upper portion of the Offset High Grade Zone and the Footwall Roby Zone into Measured and Indicated mineral resource categories. The drilling program is expected to commence in the second quarter of 2007. The mineral resources will then be re-estimated using all available information. This work is expected to be completed in the fourth quarter of 2007.

#### ***Mineral Reserve and Mineral Resource Estimates***

The following contains forward-looking statements about the Corporation's mineral reserve and mineral resource estimates. Reference should be made to "Special Note Regarding Forward-Looking Statements" on page 1 and for a description of material factors that could cause the Corporation's actual results to differ materially from the forward-looking statements in the following, please see "Risk Factors" commencing at page 3.

The mineral resource and mineral reserve estimates prepared by the Corporation conform to the definitions adopted by the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Reserves - Definitions and Guidelines adopted by the CIM Council on August 20, 2000 which classifies resources into measured, indicated and inferred confidence categories and classifies reserves as proven and probable. These mineral resource and mineral reserve estimates are disclosed in compliance with National Instrument 43-101 Standards Of Disclosure For Mineral Projects ("National Instrument 43-101").

#### ***Note to U.S. Shareholders***

The Corporation is required under Canadian law (National Instrument 43-101 of the Canadian securities administrators) to report mineral reserves and resources using the classification system set out in the CIM Standards for Mineral Resources and Mineral Reserves (as amended on December 11, 2005). These guidelines establish definitions for the reporting of mineral resources and mineral reserves in Canada. These definitions have not been adopted for use in the United States by the Securities and Exchange Commission (the "SEC").

The CIM definitions of proven and probable reserves are substantially similar to the definitions of proven and probable reserves as set out Industry Guide No. 7 under the U.S. Securities Act of 1933, as amended. In addition, Canadian law requires disclosure of mineral resources if such resources are material to the company. While the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are recognized by Canadian securities administrators, they are not defined terms under the standards in the United States. As such, the information contained in this AIF (and in particular the sections entitled "Mineral Reserves" and "Mineral Resources") concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to reporting and disclosure requirements of the SEC. "Measured mineral resources", "Indicated mineral resources" and "inferred mineral resources" have variable amounts of uncertainty as to their existence and as to their economic and technical viability. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category. Investors are cautioned not to assume that all or any part of the mineralization classified in these categories will ever be reclassified as reserves.

#### ***Mineral Reserves***

Mineral reserves are presently defined on a palladium-only basis for the open pit and underground mines. The deposit is polymetallic by nature, with economically recoverable credits for platinum, gold, copper,

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nickel and cobalt. A significant portion of revenue is derived from palladium, averaging about 48% of revenues in 2006.

The following table sets forth the estimated open pit reserves at the Lac des Iles Mine as at December 31, 2006:

| <b>Reserves</b>           | <b>Tonnes<br/>(000)</b> | <b>Palladium<br/>(g/t)</b> | <b>Platinum<br/>(g/t)</b> | <b>Gold<br/>(g/t)</b> | <b>Copper<br/>(%)</b> | <b>Nickel<br/>(%)</b> | <b>Palladium<br/>(000 oz)</b> | <b>Platinum<br/>(000 oz)</b> |
|---------------------------|-------------------------|----------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-------------------------------|------------------------------|
| Proven                    | 6,853                   | 2.353                      | 0.221                     | 0.188                 | 0.072                 | 0.085                 | 518                           | 49                           |
| Proven Stockpiles         | 604                     | 1.772                      | 0.195                     | 0.156                 | 0.058                 | 0.076                 | 34                            | 4                            |
| Probable                  | 2,616                   | 2.060                      | 0.215                     | 0.173                 | 0.075                 | 0.087                 | 173                           | 18                           |
| Total Proven and Probable | 10,073                  | 2.242                      | 0.218                     | 0.182                 | 0.072                 | 0.085                 | 725                           | 71                           |

The following table sets forth the estimated underground reserves at the Lac des Iles Mine as at December 31, 2006:

| <b>Reserves</b>           | <b>Tonnes<br/>(000)</b> | <b>Palladium<br/>(g/t)</b> | <b>Platinum<br/>(g/t)</b> | <b>Gold<br/>(g/t)</b> | <b>Copper<br/>(%)</b> | <b>Nickel<br/>(%)</b> | <b>Palladium<br/>(000 oz)</b> | <b>Platinum<br/>(000 oz)</b> |
|---------------------------|-------------------------|----------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-------------------------------|------------------------------|
| Proven (Stockpile)        | 5.68                    | 5.844                      | 0.380                     | 0.439                 | 0.103                 | 0.106                 | 1                             | 0.07                         |
| Probable                  | 2,695                   | 6.580                      | 0.400                     | 0.330                 | 0.070                 | 0.080                 | 570                           | 35                           |
| Total Proven and Probable | 2,701                   | 6.578                      | 0.400                     | 0.330                 | 0.070                 | 0.080                 | 571                           | 36                           |

Notes:

1. The Mineral Reserves for the underground mine were prepared under the supervision of Mr. David Penna, P. Geo and by Dr. Will Bawden, Ph. D., P. Eng. Mr. Penna holds the position of Senior Geologist at LDI while Dr. Bawden is independent of LDI and the Corporation.
2. The dilution factors were taken from the Technical Report disclosing the results of the Feasibility Study for Underground Mining as prepared by Mssrs. Graham Clow and David Rennie of Roscoe Postle and Associates (2004), a copy of which is available on SEDAR.
3. The mineral reserves are calculated at a cut-off grade of 4.5 grams of palladium per tonne for the underground mine, assuming an average long-term palladium price of US\$325 per ounce and includes by-product metal credits.
4. The palladium and platinum metal ounces are on a contained basis without adjustment for processing or smelting recoveries.

See Note to U.S. Shareholders above.

### **Mineral Resources**

The following table sets forth the estimated open pit resources at the Lac des Iles Mine as at December 31, 2006:

| <b>Resources</b>             | <b>Tonnes<br/>(000)</b> | <b>Palladium<br/>(g/t)</b> | <b>Platinum<br/>(g/t)</b> | <b>Gold<br/>(g/t)</b> | <b>Copper<br/>(%)</b> | <b>Nickel<br/>(%)</b> | <b>Palladium<br/>(000 oz)</b> | <b>Platinum<br/>(000 oz)</b> |
|------------------------------|-------------------------|----------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-------------------------------|------------------------------|
| Measured                     | 8,259                   | 1.671                      | 0.222                     | 0.126                 | 0.062                 | 0.078                 | 444                           | 59                           |
| Measured (Stockpile)         | 12,045                  | 0.963                      | 0.122                     | 0.081                 | 0.034                 | 0.055                 | 373                           | 47                           |
| Indicated                    | 4,726                   | 1.608                      | 0.215                     | 0.113                 | 0.058                 | 0.076                 | 244                           | 33                           |
| Total Measured and Indicated | 25,030                  | 1.318                      | 0.173                     | 0.102                 | 0.048                 | 0.067                 | 1,061                         | 139                          |
| Inferred                     |                         |                            |                           |                       |                       |                       |                               |                              |

1. The Mineral Resources for the open pit mine were prepared under the supervision of Mr. David Penna, P. Geo., who holds the position of Senior Geologist at LDI.
2. The mineral resources are calculated at a cut-off grade of 1.1 grams of palladium per tonne for the open pit, assuming an average long-term palladium price of US\$325 per ounce and includes by-product metal credits.
3. Mineral resources are in addition to Mineral Reserves. Resources which are not reserves do not have demonstrated economic viability.
4. The open pit reserves are reported as grade-diluted blocks but are stated on an in-situ basis.
5. The palladium and platinum metal ounces are on a contained basis without adjustment for processing or smelting recoveries.

The following table sets forth the estimated underground resources for the Roby High Grade Zone at the Lac des Iles Mine as at December 31, 2006:

| <b>Resources</b> | <b>Tonnes<br/>(000)</b> | <b>Palladium<br/>(g/t)</b> | <b>Platinum<br/>(g/t)</b> | <b>Gold<br/>(g/t)</b> | <b>Copper<br/>(%)</b> | <b>Nickel<br/>(%)</b> | <b>Palladium<br/>(000 oz)</b> | <b>Platinum<br/>(000 oz)</b> |
|------------------|-------------------------|----------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-------------------------------|------------------------------|
| Indicated        | 1,337                   | 7.65                       | 0.44                      | 0.37                  | 0.07                  | 0.08                  | 329                           | 19                           |
| Inferred         |                         |                            |                           |                       |                       |                       |                               |                              |

Notes:

1. The Mineral Resources for the underground mine were prepared under the supervision of Mr. David Penna, P. Geo., who holds the position of Senior Geologist at LDI.

2. Mineral resources are in addition to Mineral Reserves. Resources which are not reserves do not have demonstrated economic viability.
3. Mineral resources are calculated at a cut-off grade 4.5 grams of palladium per tonne for the underground mine, assuming an average long-term palladium price of US\$325 per ounce and includes by-product metal credits. The cut-off grades reflect the current estimated life-of-mine costs of mining and processing, in conjunction with smelting and transportation costs consistent with current contracts.
4. The palladium and platinum metal ounces are on a contained basis without adjustment for processing or smelting recoveries.

The following table sets forth the estimated Offset High Grade Zone resources at the Lac des Iles Mine as at February 23, 2007:

| Resources | Tonnes<br>(000) | Palladium<br>(g/t) | Platinum<br>(g/t) | Gold<br>(g/t) | Copper<br>(%) | Nickel<br>(%) | Palladium<br>(000 oz) | Platinum<br>(000 oz) |
|-----------|-----------------|--------------------|-------------------|---------------|---------------|---------------|-----------------------|----------------------|
| Indicated | 3,239           | 5.45               | 0.38              | 0.39          | 0.121         | 0.133         | 568                   | 40                   |
| Inferred  | 12,794          | 5.25               | 0.38              | 0.37          | 0.108         | 0.124         | 2,160                 | 156                  |

Notes:

1. Richard E. Routledge, M.Sc., P. Geo. of Scott Wilson Roscoe Postle Associates ( Scott Wilson RPA ) is a qualified person under NI 43-101 and prepared the Offset High Grade Zone resource estimate.
2. Resources are in addition to reserves. Resources which are not reserves do not have demonstrated economic viability.
3. Mineral resources are calculated at a cut-off grade of 3.6 grams of palladium equivalent per tonne for the Offset High Grade Zone, assuming an average long-term palladium price of US\$300 per ounce and includes by-product metal credits (platinum = US\$875 per ounce, gold = US\$500 per ounce, copper = US\$1.50 per pound and nickel = \$US7.00 per pound) . Palladium Equivalent = Pd (g/t) + 2.49 x Pt (g/t) + 1.38 x Au (g/t) + 2.72 x Cu (%) + 7.35 x Ni (%).
4. The palladium and platinum metal ounces are on a contained basis without adjustment for processing or smelting recoveries.
5. Mineral resources are stated on a combined basis of the Offset High Grade Zone and the Roby Footwall Zone.

See Note to U.S. Shareholders

#### Environmental Matters

The expansion of operations at the Lac des Iles Mine in 2000 and 2001 involved amending the then existing closure plan under the *Mining Act* (Ontario), which included an increase in the amount of financial assurance required by the Ministry of Northern Development and Mines ( MNDM ). The closure plan and financial assurance agreement were submitted to the MNDM in April 2001. Under the financial assurance agreement, the Corporation is required to provide financial assurance of \$7.8 million payable in installments of \$100,000 per month over six years. As at December 31, 2006, the Corporation had approximately \$8.0 million on deposit with the MNDM.

The Corporation has designed the expanded operations so as not to infringe on any navigable waters or fish habitat. Consequently, management believes no federal approvals or permits are required pursuant to either the *Navigable Waters Protection Act* or the *Fisheries Act*. In addition, because federal approvals are not required, an environmental assessment under the *Environmental Assessment Act* should not be necessary. However, if production increases beyond 15,000 tonnes per day, federal permits may be necessary. This would trigger an environmental assessment which may be in the form of a comprehensive study.

Minimum permitting and approvals were required for the underground mine as it is an extension of the much larger and higher impact open pit operations. The current Land Use Permit was expanded by the Ministry of Natural Resources to accommodate the additional parking lot, camp facilities and a portion of the tailings management facility. Notices of material change regarding the extension of the mine underground and the east waste dump were submitted to the MNDM and an amendment to the Certificate of Approval (Air) for the secondary crusher and underground operations were submitted to and approved by the Ministry of the Environment.

An amendment to the closure plan for the extension of the mine underground was submitted to the MNDM on December 7, 2005. The closure costs for the combined open pit and underground mine were reviewed by an independent engineering firm which determined that the estimate of \$7.8 million was sufficient.

### **Haines-Conacher (Shebandowan) Properties**

On December 3, 2003, the Company entered into an option and joint venture agreement with Inco Limited (now CVRD Inco Limited) on the Haines-Conacher properties which surrounds the past producing Shebandowan mine. The agreement was subsequently amended March 31, 2006 to include the mine. The Haines-Conacher properties are located approximately 80 kilometres southwest of Thunder Bay. In order to earn a 50% interest in the property, the Corporation must make cash payments aggregating \$200,000 and incur exploration expenditures of \$3 million on or before March 31, 2008. Under certain conditions, CVRD Inco Limited may exercise a back-in right to increase its interest from 50% to 60%.

Nickel-copper-PGM mineralization at Shebandowan occurs as stringer, breccia and massive sulphides that are hosted within highly altered and deformed ultramafic bodies which have been interpreted as basaltic komatiites. In the immediate area around the Shebandowan mine, two significant ultramafic units have been recognized, a Northern or Main unit which was the principle host to the nickel-copper mineralization at Shebandowan and a South unit.

As a follow up to a short 4-hole, diamond drill program totalling 584 metres in length in 2005 around the historic D Zone located approximately 1,500 metres west of the old mine workings, the Corporation completed an eighty-three hole drill campaign in 2006 totalling 12,511 metres in length. This was an expansion of the originally proposed fifteen hole program that focused on testing an area west of the Number 1 Shaft immediately to the west and along strike of the Shebandowan mine containing the West Zone and Road Zone. The initial results of this drilling program were disclosed in a press release dated September 12, 2006. The drilling program was completed in late December, 2006 with final checking of the data from the internal Quality Control procedures nearing completion.

Encouraging intersections encountered in the South unit (including 20.1 metres grading 1.93% nickel, 1.02% copper, 0.94 g/t palladium, 0.18 g/t platinum, 0.16 g/t gold and 0.05% cobalt from one hole) warrant further investigation. An infill drill program for the West and Road Zones was initiated around

the higher grade intercepts to enable a reliable resource estimate to be completed on the West, Road and D Zones, in addition to the verification of all historic data.

Composite drill core samples have been submitted to SGS Lakefield for preliminary metallurgical test work to examine the amenability of processing Shebandowan mineralization through the Lac des Iles concentrator. A Technical Report prepared in compliance with the requirements of National Instrument 43-101 which will disclose the results of the mineral resource estimate at Shebandowan is expected to be available in the first half of 2007.

Management believes that the mining and trucking to the Lac des Iles mill of small tonnages daily of the high nickel-in-sulphide type mineralization from Shebandowan could have beneficial impacts on the cash flow and the life of mine of the Lac des Iles Mine. To date, the Corporation has spent \$1.9 million on exploration on the properties. Inco retains the right to increase its interest from 40% to 60%, exercisable in the event that a feasibility study on the properties defines a significant nickel deposit, by funding the feasibility study implementation costs equal to 200% of the Corporation's total expenditures.

### **Shakespeare Property**

On September 29, 2005 the Corporation and Ursa Major Minerals Corporation ( URSA ) entered into an option and joint venture agreement to evaluate and explore a nickel, copper and PGE property known as the Shakespeare property located 120 kilometres west of the city of Sudbury, Ontario. The property is hosted within the Nipissing aged Shakespeare Intrusive.

The agreement provided that the Corporation could acquire a 60% undivided interest in URSA's interest in the Shakespeare property and become the operator by making payments to URSA aggregating \$1.5 million, making a production decision and securing the project financing for commercial production.

In March 2006, URSA presented to the Corporation the completed feasibility study on a contemplated open-pit mine and 4,500 tonne per day concentrator. Although the feasibility study was positive, the rate of return indicated in the study did not meet the Corporation's investment criteria and, consequently, the Corporation terminated its involvement in the project in September 2006.

### **Arctic Platinum Project**

On March 24, 2006, the Corporation entered into an agreement (the Acquisition Agreement ) with Gold Fields Exploration B.V. ( GFBV ) and Gold Fields Finland Oy ( GFF ) providing for the acquisition by the Corporation of approximately 50% of GFF and, in certain circumstances, a 60% interest in GFF and settled the terms of a shareholders agreement (the Shareholders Agreement ) under which the Corporation and GFBV will hold their shares of GFF if the Corporation acquires an interest in GFF. The Corporation will be the project operator. GFF owns platinum group metal properties in Finland known as the Arctic Platinum Project ( APP ). During the option period the Corporation will further explore and investigate the development of a mining operation at the APP.

In order to exercise the option, on or before August 31, 2008 the Corporation must: (i) complete a rescoping and exploration program; (ii) complete a feasibility study; (iii) make a production decision and prepare the initial formal development proposal and associated budget based on the feasibility study; (iv) incur expenditures of US\$12.5 million on the APP; and (v) issue 7,381,636 Common Shares to GFBV in order to earn a 50% interest or 9,227,033 Common Shares to earn a 60% interest. The Corporation will advance the earn-in expenditures to the APP through North American Palladium Finland Oy, its wholly-owned subsidiary.

The APP covers several advanced stage exploration properties including the Konttijarvi and Ahmavaara open pit projects, together known as the Suhanko Project, that were the subject of a feasibility study (the 2005 Feasibility Study ) prepared by Gold Fields in 2005. The exploration target at Suhanko is for bulk tonnage, disseminated to locally semi massive base metals and platinum group elements occurring near the base of the Konttijarvi-Suhanko Intrusive.

The APP also includes the nearby Narkaus and the Penikat Projects, both of which host significant platinum group and base metal mineralization.

The Corporation commenced work on the APP late in the first quarter of 2006. Three drills were mobilized into the Narkaus area to commence exploration and infill drilling on the Siika Kama, Kuohunki and Nutturalampi targets and 49 holes totalling 8,716 metres were completed and the results from this program were released on October 30, 2006. At Suhanko, which was the subject of the 2005 Feasibility Study, updated resource models are underway. The Corporation has engaged Aker Kvaerner ASA to complete the rescoping study and P&E Mining Consultants Inc. to conduct the open pit designs and optimization. The Corporation expects the results of the re-scoping study to be released in a Technical Report, prepared in compliance with Canadian National Instrument 43-101 in the second quarter of 2007.

## **DIVIDENDS**

The Corporation has not paid any dividends to date on its Common Shares. In addition, the payment of dividends on the Common Shares is restricted under the terms of the Securities Purchase Agreement (see Financing Convertible Note Financing ). Accordingly, it is not anticipated that the Corporation will pay any dividends on its Common Shares in the near future. The actual timing, payment and amount of any dividends will be determined by the board of directors from time to time based upon, among other things, cash flow, results of operations and financial condition, the need for funds to finance ongoing operations and such other business considerations as the board of directors may consider relevant.

## **CAPITAL STRUCTURE**

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of special shares, issuable in series. There are no special shares outstanding.

The Corporation's directors may, by resolution, fix the number of shares in, the designation of, and determine the rights, privileges, restrictions and conditions attaching to, each series of special shares. The special shares of each series rank on a parity with the special shares of any other series in respect of dividends or the return of capital. The holders of special shares are entitled to receive, in priority to the holders of common shares and the shares of any other class ranking junior to the special shares, as and when declared by the directors, dividends in the amounts specified or determinable in accordance with the provisions of the series of which such special shares form a part. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, before any amount is paid to the holders of Common Shares or shares of any other class ranking junior to the special shares, the holders of special shares shall be entitled to receive, to the extent provided for with respect to such series, an amount equal to the price at which such shares were issued, such premium, if any, as has been provided for with respect to such series, and all unpaid cumulative dividends or declared and unpaid non-cumulative dividends. The special shares of any series may also be given such other preferences over the Common Shares and any other class of shares ranking junior to the special shares as may be determined in the case of such series. The holders of special shares are not entitled to vote separately as a class and the holders of any series of special shares are not entitled to vote separately as a series except as required by the *Canada Business Corporations Act*.



Each Common Share entitles the shareholder to one vote at all meetings of shareholders other than meetings at which only the holders of another class or series of shares are entitled to vote. Each Common Share entitles the holder thereof, subject to the prior rights of the holders of the special shares, to receive any dividends declared by the board of directors and the remaining property of the Corporation upon dissolution.

**MARKET FOR SECURITIES**

The Common Shares are listed on the Toronto Stock Exchange under the symbol PDL and on the American Stock Exchange under the symbol PAL .

The following table sets out the reported high and low closing prices and aggregate trading volume of the Common Shares on the TSX for the periods indicated:

|                    | High     | Low     | Volume    |
|--------------------|----------|---------|-----------|
| <b>2006</b>        |          |         |           |
| January            | \$ 13.00 | \$ 9.70 | 1,505,791 |
| February           | 14.60    | 10.90   | 2,140,121 |
| March              | 14.88    | 10.82   | 1,979,853 |
| April              | 14.54    | 11.89   | 1,383,671 |
| May                | 12.85    | 9.22    | 1,847,910 |
| June               | 10.30    | 7.76    | 828,066   |
| July               | 10.13    | 7.62    | 645,969   |
| August             | 8.95     | 7.27    | 631,942   |
| September          | 9.51     | 7.52    | 471,755   |
| October            | 9.50     | 7.83    | 401,057   |
| November           | 10.95    | 8.59    | 927,969   |
| December           | 10.22    | 8.50    | 846,554   |
| <b>2007</b>        |          |         |           |
| January            | 9.71     | 7.98    | 1,045,100 |
| February           | 9.86     | 8.80    | 980,300   |
| March 1 - March 20 | 9.17     | 7.81    | 682,100   |

**DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to the directors and executive officers of the Corporation:

| Name and municipality of residence                   | Position(s) held | Principal occupation            | Director since |
|--|------------------|---------------------------------|----------------|
| Michael P. Amsden, P.Eng. (4)<br>Oakville, Ontario   | Director         | Retired senior mining executive | April 1995     |
| Steven R. Berlin, C.P.A.(1)(2)(3)<br>Tulsa, Oklahoma | Director         | Part-time consultant            | February 2001  |

| Name and municipality of residence                                 | Position(s) held                             | Principal occupation   | Director since |
|--|--|--|----------------|
| C. David A. Comba (1)(4)<br>Toronto, Ontario                       | Director                                     | Graduate geologist and retired executive                       | March 2006     |
| André J. Douchane(4)<br>Sante Fe, New Mexico                       | Chairman and director                        | Consultant   | April 2003     |
| Robert J. Quinn (1)(2)(3)<br>Kingwood, Texas                       | Director                                     | Director, Quinn & Brooks LLP,                                  | June 2006      |
| Gregory J. Van Staveren, C.A., C.P.A (1)(2)(3)<br>Toronto, Ontario | Director                                     | Strategic financial consultant                                 | February 2003  |
| William J. Weymark<br>West Vancouver, British Columbia             | Director                                     | President and Chief Executive Officer, Vancouver Wharves Ltd., | January 2007   |
| James D. Excell<br>Kelowna, British Columbia                       | President and Chief Executive Officer        | Officer of the Corporation                                     |                |
| Michael C. Thompson, F.C.C.A.<br>Thunder Bay, Ontario              | Manager Administration and Senior Controller | Officer of the Corporation                                     |                |
| David Passfield<br>Ajax, Ontario                                   | Vice President, Operations                   | Officer of the Corporation                                     |                |
| Reno Pressacco<br>Oakville, Ontario                                | Vice President Exploration                   | Officer of the Corporation                                     |                |

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- (1) Member of the Audit Committee
  - (2) Member of the Compensation Committee
  - (3) Member of the Governance and Nominating Committee
  - (4) Member of the Technical Committee

The term of office for each director expires at each annual meeting of shareholders.

Each director or officer listed above has held the same principal occupation during the past five years except as described below:

Mr. Berlin, prior to January 2006, was a Vice President of Kaiser-Francis Oil, the Corporation's principal shareholder. Prior to January 30, 2004, he was also Chief Financial Officer and Treasurer of PetroCorp Incorporated, an oil and natural gas company. Mr. Berlin is the nominee of Kaiser-Francis, which has advised the Corporation that it intends to vote the Common Shares which it owns in favour of his re-election as a director at the 2007 annual meeting of shareholders.

Mr. Comba, prior to May 2005, was an industry association executive.

Mr. Douchane, prior to January 2006, was President and Chief Executive Officer of the Corporation and, prior to April 2002, was President of Management Inc., a management consulting firm. In January 2007, Mr. Douchane was appointed President and CEO of Starfield Resources Inc.

an exploration and development company in Nunavut.

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Mr. Excell, prior to December 31, 2005, was President of Narego Solutions Inc., a consulting company that provides strategic planning services to junior mining companies and, prior to January 2004, was President and Chief Operating Officer of EKATI Diamond Mine, operated by BHP Billiton Diamonds Inc. BHP Billiton Diamonds Inc., a diamond mining company, is part of the BHP Billiton Group, a diversified resource company.

Mr. Passfield, prior to October 2, 2006 was Vice President and General Manager of Grande Cache Coal Corporation, an operating metallurgical coal mining company located in Alberta, Canada. Prior to May 2005 he was Manager, Mining for Diavik Diamond Mines Inc., a subsidiary of Rio Tinto plc., which operates the Diavik Diamond Mine in the Northwest Territories.

Mr. Pressacco, prior to February 19, 2007, was Senior Geologist with Micon International Limited, a consulting firm that provides full services to the mining industry world-wide. Prior to October 2003, Mr. Pressacco maintained a private practice, providing geological services to mining companies operating in northeastern Ontario and, prior to February 2003, was Senior Geologist with Agrium Inc, Kapuskasing Phosphate Operations which provided concentrates of rock phosphate as feedstock for the preparation of phosphate fertilizer.

The number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, by all directors and senior officers of the Corporation is 29,286, which is less than 1% of the Common Shares issued and outstanding.

#### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Mr. Berlin was a director of Ozark Airlines, Inc., doing business as Great Plains Airlines, Inc. ( Great Plains ), which filed a voluntary Bankruptcy Petition under Chapter 11 of the United States Bankruptcy Code in an Oklahoma court on January 23, 2003. Mr. Berlin resigned from the board of directors of Ozark Airlines on December 14, 2004. Ozark Airlines filed a motion to convert the bankruptcy to Chapter 7, which was granted by the Court on March 11, 2005.

#### **Conflicts of Interest**

There are potential conflicts to which the directors of the Corporation are subject in connection with the business and operations of the Corporation. The individuals concerned are governed in any conflicts or potential conflicts by applicable law. As of the date hereof, the following directors and officers of the Corporation hold positions with other companies that explore for or produce platinum group metals or have other business interests which may potentially conflict with the interests of the Corporation.

Mr. Berlin is the nominee of Kaiser-Francis, the Corporation's principal shareholder, on the board of directors of the Corporation. Kaiser-Francis has also been a lender to the Corporation (see Financings ).

Mr. Douchane was appointed President and CEO of Starfield Resources Inc., a TSX Venture exchange listed company in January 2007. Starfield Resources is focused on exploration and development of its 100% owned Ferguson Lake nickel-copper-cobalt-palladium-platinum property located in Nunavut.

Mr. Comba is a director of First Nickel Inc., a TSX listed company, which operates the Lockerby Mine in Sudbury, Ontario, a nickel, copper and cobalt producer with platinum group credits and is actively exploring for nickel deposits in Sudbury and Timmins, Ontario.

## LEGAL PROCEEDINGS

The Corporation, along with J. Patrick Sheridan, Minerales De Copan and two other individuals, are defendants in an action brought by Cambridge Resources Corp. ( Cambridge ), in the Superior Court of Justice (Ontario). In its amended statement of claim dated September 27, 1991 Cambridge claims damages in the amount of \$20 million, punitive and exemplary damages in the amount of \$5 million, a declaration that the defendants hold any interest in an unidentified mining concession located in Honduras, about forty miles southeast of Tegucigalpa (defined therein as the Mining Property ) on constructive trust for Cambridge, a mandatory order requiring the defendants to deliver up all proceeds, equity interest, security or debenture interest in whatever form relating to the Mining Property, pre-judgment and post-judgment interest and costs. The Corporation filed a statement of defense dated February 7, 1992 which states, among other things, that the Mining Property was previously known to one of the individual defendants to be of insufficient quality to merit commercial development and that, accordingly, the Corporation had declined to proceed any further with the investigation or purchase of the Mining Property. Partial discoveries of certain of the parties were conducted on October 6, 7 and 8, 1993. There have been no further proceedings in the action and it has been dormant for 10 years. No provision in the financial statements has been made in respect of any possible loss from the action as management believes that the Corporation has a valid defence and the Sheridan Group has indemnified the Corporation.

The Corporation has filed a claim with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. During 2004, the Corporation received \$7,148,000 as an interim payment against this claim and has included this amount in income from mining operations. The Corporation is pursuing the balance of its insurance claim and will record any additional recovery in income if and when received.

From time to time, the Corporation is involved in other litigation, investigations or proceedings related to claims arising out of its operations in the ordinary course of business. In the opinion of the Corporation's management, these claims and lawsuits in the aggregate, even if adversely settled, will not have a material effect on the consolidated financial statements of the Corporation.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer, shareholder owning, directly or indirectly, or exercising control or direction over, 10% or more of the voting securities of the Corporation or any associate or affiliate of any of the foregoing has or had a material interest, direct or indirect in any transaction since January 1, 2006 that has materially affected or will materially affect the Corporation, except as follows:

1. Kaiser-Francis is a party to the credit facilities described under Financing Kaiser-Francis Credit Facilities .
2. Kaiser-Francis is a party to the Securities Purchase Agreement described under Financing Convertible Note Financing .

## TRANSFER AGENT

Computershare Investor Services Inc. is the registrar and transfer agent of the Common Shares in Toronto, Ontario, Canada and Computershare Trust Company, Inc. is the registrar and co-transfer agent for the Common Shares in Golden, Colorado, United States.

## MATERIAL CONTRACTS

The Senior Credit Facilities, the Securities Purchase Agreement and the Platinum and Palladium Purchase Agreement described in the section titled "Financings", and the Acquisition Agreement described under "Arctic Platinum Properties" are the only contracts that are material to the Corporation and are still in effect.

## INTERESTS OF EXPERTS

Scott Wilson RPA was engaged to prepare the mineral resource estimate for the Offset High Grade Zone as at February 23, 2007. Neither of Mr. Routledge or Scott Wilson RPA owned securities of the Corporation when the services were provided and no securities of the Corporation were issued to Mr. Routledge or to Scott Wilson RPA as compensation for their services in connection with the mineral reserve and resource estimates.

KPMG LLP, the external auditors of the Corporation, prepared the Auditor's Report to the Shareholders of North American Palladium Ltd. with respect to the consolidated financial statements of the Corporation as at December 31, 2004, 2005 and 2006 and for each of the years then ended. KPMG LLP is independent in accordance with the auditors' rules of professional conduct of Ontario, and has complied with the United States Securities and Exchange Commission's rules on auditor independence.

## RISK FACTORS

The Corporation's securities are subject to the following risks. If any of the risks occur, the Corporation's business, operating results and financial condition could be materially adversely affected, the trading price of the Common Shares could decline and all or part of any investment may be lost.

*The Corporation cannot assure that it will meet its goals for production and operating costs and if it does not, its operating results will be adversely affected.*

Planned production levels and operating costs are estimated based on the Corporation's experience in operating its mine. These estimates are subject to numerous uncertainties, many of which are beyond the Corporation's control. The Corporation cannot make assurances that its actual production levels will not be substantially lower than its estimates or that its operating costs will not be materially higher than anticipated.

*If mineral resource and mineral reserve estimates are not accurate, production may be less than estimated which would adversely affect the Corporation's financial condition and results of operations.*

Mineral resource and mineral reserve estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, which may prove unreliable, and assumptions about operating costs and metal prices. The Corporation cannot be certain that the mineral resource or mineral reserve estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals. Future production could differ dramatically from such estimates for the following reasons:

- mineralization or formations at the mine could be different from those predicted by drilling, sampling and similar examinations;
- declines in the market price of palladium or by-product metals may render the mining of some or all of the reserves uneconomic;
- changes in the life-of-mine plan and/or ultimate pit design; and

- the grade of ore may vary significantly from time to time and the Corporation cannot give any assurances that any particular quantity of metal will be recovered from the reserves.

The occurrence of any of these events may cause the Corporation to adjust the mineral resource or mineral reserve estimates or change its mining plans, which could negatively affect the Corporation's financial condition and results of operation. Moreover, short-term factors, such as the need for additional development of the ore body or the processing of new or different grades, may impair its profitability in any particular accounting period.

*The risks and hazards associated with mining and processing may increase costs and reduce profitability in the future.*

Mining and processing operations involve many risks and hazards, including among others:

- environmental hazards;
- mining and industrial accidents;
- metallurgical and other processing problems;
- unusual and unexpected rock formations;
- pit slope failures;
- flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature;
- mechanical equipment and facility performance problems; and
- unavailability of materials, equipment and personnel.

These risks could result in, among other things:

- damage to, or destruction of, the Corporation's properties or production facilities;
- personal injury or death;
- environmental damage;
- delays in mining;
- increased product costs;
- asset write downs;
- monetary losses; and
- possible legal liability.

The Corporation cannot be certain that its insurance will cover the risks associated with mining or that it will be able to maintain insurance to cover these risks at affordable premiums. The Corporation might also become subject to liability for pollution or other hazards against which it cannot insure or against which the Corporation may elect not to insure because of premium costs or other reasons. Losses from such events may

increase costs and decrease profitability.

*If the Corporation fails to maintain projected production levels for its underground mining operations, its ability to generate revenue and profits will be adversely affected.*

The Corporation's future prospects will be negatively affected if the underground mine fails to maintain projected production levels. Unforeseen conditions or developments could arise during the operation of the underground mine which would increase operating costs and adversely affect the Corporation's ability to generate revenue and profits. These events may include, among others:

- shortages of equipment, materials or labour;

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- delays in delivery of equipment or materials;
- labour disruptions;
- adverse weather conditions or natural disasters;
- unanticipated increases in costs of labour, supplies and equipment;
- accidents; and
- unforeseen engineering, design, environmental or geological problems.

*Future exploration at Lac des Iles Mine or elsewhere may not result in increased reserves, which would prevent the Corporation from sustaining its targeted production levels.*

The Corporation conducts exploration programs at and surrounding the Lac des Iles Mine with the objective of increasing its mineral resources and mineral reserves. Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Corporation discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals. There is no assurance that current or future exploration programs will result in any new economically viable mining operations or yield new reserves to replace and expand current reserves at the Lac des Iles Mine. In the event that new mineral resources or mineral reserves are not discovered, the Corporation may not be able to sustain production beyond 2010 or earlier.

*The Corporation faces strong competition from other mining companies for the acquisition of new properties.*

Mines have limited lives and, as a result, the Corporation continually seeks to replace and expand its reserves through the acquisition of new properties. In addition, there is a limited supply of desirable mineral lands available in areas where the Corporation would consider conducting exploration and/or production activities. Because the Corporation faces strong competition for new properties from other mining companies, many of which have greater financial resources than it, the Corporation may be unable to acquire attractive new mining properties on terms acceptable to it.

*The Corporation depends on a single mine to generate revenues and, if mining operations are interrupted, the Corporation's business will suffer.*

All of the Corporation's revenues are derived from its mining operations at the Lac des Iles Mine, which is the Corporation's only mine and the only place it has reserves. If there is an interruption in operations at the Lac des Iles Mine, or if the Corporation can no longer extract ore from this mine for any reason, the Corporation's business will suffer significantly. In addition, any adverse condition affecting mining conditions at the Lac des Iles Mine could have a material adverse effect on the Corporation's financial performance and results of operations until such time as the condition is remedied.

*The Corporation is dependent on a third party for smelting and refining its palladium and if the third party is unable to accommodate the Corporation's smelting and refining requirements or the existing contract is terminated or not renewed the Corporation's ability to generate revenues could be harmed.*

The Corporation has a smelter agreement with Xstrata which provides for the smelting and refining of the principal metals contained in the concentrates produced at Lac des Iles Mine. The existing agreement with Xstrata expires on April 30, 2007. The agreement with Xstrata can be terminated in certain circumstances, such as default of performance. The inability to renew this agreement under similar terms or the termination of the agreement could have a material adverse affect on the Corporation's financial

performance and results of operations until such time as alternative smelting and refining arrangements can be made or alternative purchasers of the Corporation's concentrates can be found.

*The Corporation's vulnerability to changes in metal prices may cause the Common Share price to be volatile and may affect the Corporation's operations and financial results.*

The Corporation's primary source of revenue is the sale of palladium. In fiscal 2006, sales of palladium accounted for approximately 48% of the Corporation's revenues. Historically, changes in the market price of palladium have significantly impacted the Corporation's profitability and Common Share price. The Corporation's financial results are very sensitive to external economic criteria related to the palladium price. A major risk will arise if there is a significant weakening of the U.S. dollar combined with a prolonged period of lower palladium prices. Many factors beyond the Corporation's control influence the market price of palladium. These factors include:

- global supply and demand;
- availability and costs of metal substitutes;
- speculative activities;
- international political and economic conditions; and
- production levels and costs in other platinum group metal-producing countries, particularly Russia and South Africa.

Economic and political events in Russia could result in declining market prices. If Russia disposes of substantial amounts of palladium, platinum, rhodium, ruthenium, osmium and iridium, which are referred to as platinum group metals, from stockpiles or otherwise, the increased supply could reduce the market prices of palladium and platinum and adversely affect the Corporation's profitability and Common Share price. Russia's economic problems make Russian stockpiles difficult to predict and the risk of sales from stockpiles more significant.

*Since the Corporation's revenues are in United States dollars and expenditures are in Canadian dollars, the Corporation is subject to fluctuations in exchange rates between the United States and Canadian dollars.*

Currency fluctuations may affect cash flow since the Corporation's production currently is sold in United States dollars, whereas the Corporation's administration, operating and exploration costs are incurred in Canadian dollars. Exploration costs and other property costs will also be incurred in Euros. Significant long term fluctuations in relative currency values could adversely affect the Corporation's results of operations. In particular, the Corporation may be adversely affected by a significant strengthening of the Canadian dollar against the United States dollar. In addition, the Corporation's financial results are sensitive to fluctuations in the exchange rate. A major risk will arise if there is a significant weakening of the U.S. dollar combined with a prolonged period of lower palladium spot prices.

*The Corporation's inability to renew its collective agreement on acceptable terms upon its expiry in February 2009 could have a material adverse affect on the Corporation.*

The Corporation's collective agreement with the United Steel Workers of America, the union representing the employees at the Lac des Iles mine (other than employees at or above the rank of foreman, safety coordinator, surveyors, dispatchers, technical staff and office, clerical and security personnel), will expire in February 2009. The inability to renew the agreement on acceptable terms could have a material adverse affect on the Corporation, including the affect of work stoppages or strikes on the results of operations and financial performance of the Corporation.

*The Corporation is subject to extensive environmental legislation and the costs of complying with these regulations may be significant.*

Environmental legislation relating to land, air and water affects nearly all aspects of the Corporation's operations. This legislation requires the Corporation to obtain various operating licenses and also imposes standards and controls on activities relating to the exploration, development and production of palladium and associated metals. The cost of obtaining operating licenses and abiding by standards and controls on its activities may be significant. Further, if the Corporation fails to obtain or maintain such operating licenses or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Corporation may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results.

The Corporation will be responsible for all costs of closure and reclamation at the Lac des Iles Mine. Under applicable environmental legislation, the Corporation had to establish a trust fund to prepare for closure and reclamation. The current amended mine closure plan requires \$7.8 million for clean-up and restoration of the mine site. The trust fund, maintained by the Ontario Ministry of Northern Development and Mines, is designed to collect \$7.8 million through instalments of \$100,000 per month. The money in the trust fund will become available to the Corporation as the mine closure is completed. At February 20, 2007, approximately \$8.0 million including accrued interest was on deposit in the trust fund. Development of the underground mine as planned required an amendment to the existing closure plan and may result in an increase in the amount of financial assurance required by the Ontario Ministry of Northern Development and Mines. The actual amount needed for the closure of the Lac des Iles Mine may be materially more than the original estimate. Changes in the Province of Ontario mining regulations may require the Corporation to provide a letter of credit or other financial instrument as security for the closure of the Lac des Iles Mine.

*Changes in environmental legislation could increase the costs of complying with applicable regulations and reduce levels of production.*

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Corporation's financial condition and results of operation. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues currently under review by environmental agencies include reducing or stabilizing air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Corporation to predict their impact. The Corporation anticipates capital expenditures and operating expenses will increase as a result of compliance with the introduction of new and more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean up orders, imposition of penalties, liability for related damages and the loss of operating permits. The Corporation cannot give assurances that it will at all future times be in compliance with all federal and provincial environmental regulations or that steps to bring the Corporation into compliance would not have a negative effect on its financial condition and results of operation.

*Compliance with current and future government regulations may cause the Corporation to incur significant costs and slow its growth.*

The Corporation's activities are subject to extensive Canadian federal and provincial laws and regulations governing matters relating to mine safety, occupational health, labour standards, prospecting, exploration,

production, exports and taxes. Compliance with these and other laws and regulations could require the Corporation to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have a harmful effect on the Corporation. The Corporation cannot make assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

*The Corporation is required to obtain and renew governmental permits in order to conduct mining operations, which is often a costly and time-consuming process.*

In the ordinary course of business, the Corporation is required to obtain and renew governmental permits for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Corporation's efforts to obtain and renew permits are contingent upon many variables not within the Corporation's control including the interpretation of applicable requirements implemented by the permitting authority and aboriginal consultation. The Corporation may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what the Corporation expects. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine, which could adversely affect the Corporation's revenues and future growth.

*The Corporation faces competition with other larger suppliers of platinum group metals and from potential new sources of platinum group metals.*

The Corporation competes with other suppliers of platinum group metals, many of which are significantly larger than it is and have access to greater mineral reserves and financial resources than it does. In addition, new mines may open which would increase supply of palladium and platinum. Furthermore, in certain industrialized countries an industry has developed for the recovery of platinum group metals from scrap sources, mostly from spent automobile and industrial catalysts. The Corporation may not be successful in competing with these existing and emerging platinum group metal producers.

*The development of new technology or new alloys could reduce the demand for palladium and platinum.*

The development of a substitute alloy or synthetic material which has catalytic characteristics similar to platinum group metals would result in a decrease in demand for palladium and platinum. Furthermore, the development by the automobile industry of automobiles that do not use catalytic converters could reduce the demand for palladium and platinum. Demand might also be reduced by manufacturers in such industries as automobiles, electronics and dentistry finding substitutes for palladium. The dentistry and electronics industries have already experienced advances in new technology which use base metals as a substitute for palladium in certain component parts. High prices for palladium would create an incentive for the development of substitutes. Any such developments could have a material adverse effect on the Corporation's financial condition and results of operations.

*If the Corporation loses key personnel or is unable to attract and retain additional personnel, the Corporation's mining operations and prospects could be harmed.*

The Corporation is dependent upon the services of a small number of members of senior management including James D. Excell, the President and Chief Executive Officer. The Corporation's current mining operations and its future prospects depends on the experience and knowledge of these individuals. The

Corporation does not maintain any key man insurance. The loss of one or more of these individuals could have a material adverse effect on the Corporation's mining operations.

*The Corporation's credit facilities have events of default, some of which are beyond the Corporation's control.*

The Corporation has borrowed funds under its credit facilities to finance its operations. The credit facilities and the Convertible Notes contain certain events of default, some of which are beyond the Corporation's control, the occurrence of which could require the Corporation to pay back immediately all amounts borrowed under the credit facilities.

*The Corporation's hedging activities or its decision not to hedge could expose it to losses.*

From time to time, the Corporation engages in hedging activities in connection with the metals it produces, such as forward sales contracts and commodity put and call option contracts, to partially offset the risk of declines in metal prices on its operating results. While these hedging activities may protect the Corporation against low metal prices, they may also limit the price it can receive on hedged products. As a result, the Corporation may be prevented from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract. In addition, the Corporation may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

The Audit Committee charter is set out commencing at page 34.

### **Composition of the Audit Committee**

The Committee is comprised of Gregory J. Van Staveren (Chairman), David Comba, Robert Quinn and Steven R. Berlin. Mr. Van Staveren, Mr. Comba and Mr. Quinn are independent as such term is defined in Multilateral Instrument 52-110 Audit Committees (MI 52-110). Mr. Berlin is not a voting member of the audit committee and serves in the capacity of an observer. Mr. Berlin is not considered independent, as that term is defined by virtue of the fact that prior to January 1, 2006, Mr. Berlin served as an executive officer of Kaiser Francis Oil Registrant, which owns approximately 50% of the outstanding common shares of the Corporation. Mr. Berlin does satisfy the requirements of Rule 10A-3 under the Exchange Act. Further, Mr. Berlin is a certified public accountant and has considerable experience in corporate finance.

### **Relevant Education and Experience**

Each of the members of the Committee is financially literate. Each of Mr. Van Staveren and Mr. Berlin satisfies the criteria required for the financial expert and Mr. Van Staveren is designated as the audit committee financial expert. Mr. Van Staveren is a chartered accountant and a certified public accountant. He was Chief Financial Officer of Martinrea International Inc. an automotive parts manufacturer from February 1998 to September 2001 and currently provides strategic financial services to companies. Prior to February 1998, Mr. Van Staveren was a partner with KPMG LLP.

Mr. Berlin is a certified public accountant and, prior to January 1, 2006, was a Vice President of Kaiser-Francis and prior to December 2004 was Co-Chief Financial Officer of Kaiser-Francis. Mr. Berlin also

served as Chief Financial Officer and Treasurer of PetroCorp Incorporated, an oil and gas company prior to January 2004.

Both Mr. Comba and Mr. Quinn have extensive management experience with extensive focus in the mining sector

#### **Reliance on Certain Exemptions**

As noted above, the Corporation is relying on the exemption contained in section 3.5 (*Death, Disability or Resignation of Audit Committee Member*) of MI 52-110 in connection with Mr. Berlin's current membership on the Audit Committee.

#### **Audit Committee Pre-Approval Policies and Procedures**

All audit and non-audit services performed by the Corporation's external auditors are pre-approved by the Audit Committee.

#### **External Auditor Service Fees**

##### *Audit Fees*

The aggregate fees billed by KPMG LLP (KPMG), the Corporation's external auditors for the fiscal years ended December 31, 2006 and 2005, for professional services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements for that year were \$442,160 and \$329,640, respectively.

##### *Audit-Related Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2006 and 2005 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Registrant's financial statements engagements for that year were \$185,714 and \$30,820, respectively.

##### *Tax Fees*

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2006 and 2005 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were \$39,503 and \$12,075, respectively. Tax services provided included preparation of corporate tax returns and review of tax provisions.

##### *All Other Fees*

Other products and services provided included accounting support. The aggregate fees billed by KPMG for the fiscal years ended December 31, 2006 and 2005 for products and services provided by KPMG, other than the services reported in the preceding three paragraphs, were \$nil and \$nil, respectively.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's management proxy circular. As well, additional financial

information is provided in the Corporation's annual financial statements for the year ended December 31, 2006 and management's discussion and analysis of operations and financial results.

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## AUDIT COMMITTEE CHARTER

### 1. Composition

- a) The Audit Committee shall consist of a minimum of three directors of the Corporation.

The Audit Committee shall be comprised entirely of independent directors, as such term is defined by applicable laws and related rules and regulations, and rules of relevant stock exchanges (collectively referred to as *Applicable Laws*). For clarity, US *Applicable Laws* means those applicable to foreign private issuers.

Notwithstanding the foregoing sentence, a member is exempt from the independence requirements if permitted by *Applicable Laws*. The appointment of the non-independent director shall be disclosed in the next proxy circular mailed to shareholders. If there is reliance on curing provisions, notice shall be given to the stock exchanges immediately upon learning of the circumstances that resulted in the non-compliance.

- b) A quorum for the transaction of business at all meetings of the Audit Committee shall be a majority of members.

### 2. Qualifications and Experience

At the time of appointment or within a reasonable period of time following appointment, each member of the Committee must be financially literate, having the ability to read and understand a set of financial statements that present the breadth and level of complexity or accounting issues that are generally comparable to the breadth and complexity of the issues that can be reasonably be expected to be raised by the Corporation's financial statements.

- a) At least one member (the *financial expert*) of the Committee must have:

- i. An understanding of financial statements and accounting principles used by the Corporation to prepare its financial statements;
  - ii. The ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
  - iii. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities;
  - iv. An understanding of internal controls and procedures for financial reporting; and
  - v. An understanding of audit committee functions.
- b) The financial expert must have acquired the foregoing attributes through one or more of the following:
- i. Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;



- ii. Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- iii. Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- iv. Other relevant experience.

**3. Mandate and Responsibilities**

The Audit Committee shall:

- a) Review and assess the adequacy of the Audit Committee Charter on an annual basis;
- b) Meet with the Corporation's external auditors as necessary and before the submission of the audited annual financial statements to the Board and communicate to external auditors that they are ultimately accountable to the Board and the Audit Committee as representatives of shareholders;
- c) Review the annual financial statements of the Corporation and management's discussion and analysis and recommend the financial statements for approval to the Board;
- d) Review and approve interim financial statements of the Corporation and management's discussion and analysis prior to filing with the securities regulatory authorities and delivery to shareholders;
- e) Obtain explanations from management on all the significant variances between comparative reporting periods and, in respect the annual financial statements, question management and the external auditor regarding the significant financial reporting issues discussed during the fiscal period and the method of resolution;
- f) Be responsible for:
  - i. Ensuring that a written statement is obtained from the external auditor describing all relationships between the external auditor and the Corporation;
  - ii. Discussing with the external auditor any disclosed relationships or services that may impact the objectivity and independence of the external auditor; and
  - iii. Determining that the external auditors have a process in place to address the rotation of the lead partner and other audit partners serving the account as required under Canadian independence standards and the SEC independence rules, as applicable to foreign private issuers;
- g) Assess the performance of the external auditors and recommend to the Board annually or as they may otherwise determine a duly qualified external auditor to be nominated (for appointment or retention) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation;
- h) Review the plan and scope of the audit to be conducted by the internal (if any) and external auditors of the Corporation;
- i) Approve, or recommend to the Board for approval, the compensation of the external auditors;

- j) Directly oversee the work of the external auditors, including reviewing the Corporation's critical accounting policies and practices, material alternative accounting treatments and material written communications between the external auditors and management, and the resolution of disagreements between management and the external auditor regarding financial reporting;
- k) Pre-approve all audit and permitted non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors or the external auditors of the Corporation's subsidiary, in accordance with Applicable Laws;
- l) Review all post-audit or management letters containing the recommendations of the external auditor and management's response or follow-up of any identified weakness;
- m) Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with external auditors;
- n) Review all annual and interim earnings press releases;
- o) Determine that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, other than disclosure in the Corporation's financial statements, management's discussion and analysis and earnings press releases, and periodically assess the adequacy of these procedures;
- p) Establish procedures for:
  - i. The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - ii. The confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- q) Enquire as to the adequacy of the Corporation's system of internal controls;
- r) Review and approve all related party transactions;
- s) Review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation;
- t) Have such other duties, powers and authorities, consistent with the provisions of the *Canada Business Corporations Act*, as the Board may, by resolution, delegate to the Audit Committee from time to time.

#### 4. Authority

The Audit Committee shall have the authority:

- a) For the purpose of performing their duties, of inspecting all of the books and records of the Corporation and its affiliates and of discussing such accounts and records and any matters relating to the financial position or condition of the Corporation with the officers and internal (if any) and external auditors of the Corporation and its affiliates;
- b) To engage independent counsel and other advisors as it determines necessary to carry out its duties;

- c) To set and pay the compensation for any advisors employed by the Audit Committee, including without limitation, compensation to any public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation;
- d) To set and pay the ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties; and
- e) To communicate directly with the internal (if any) and external auditors.

**5. Proceedings**

The following shall apply to the proceedings of the Audit Committee.

- a) The business of the Audit Committee shall be transacted either at meetings thereof or by conference telephone or other communications facilities that permit all persons participating in the meeting to hear each other, or by resolution in writing. All questions at a meeting shall be decided in accordance with the vote of a majority of those present and the Chairman of the meeting shall not have a second or casting vote.
- b) A resolution in writing signed by all members of the Audit Committee entitled to vote on that resolution at a meeting of the Audit Committee shall be as valid as if it had been passed at a duly called and constituted meeting. Such resolutions in writing may be in one or more counterparts, all of which, when taken together, shall be deemed to constitute one resolution.
- c) The Audit Committee Chairman shall periodically report to the Board of Directors on the activities of the Audit Committee.
- d) The external auditor of the Corporation shall, at the expense of the Corporation, be entitled to attend and be heard at or may be invited to any meeting of the Audit Committee.
- e) The external auditor and senior management shall have the opportunity or may be invited to meet separately with the Audit Committee.
- f) The minutes of the proceedings of the Audit Committee and any resolutions in writing shall be kept in a book provided for that purpose which shall always be open for inspection by any director of the Corporation.

## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this document.

**ball mill** means a rotary grinding mill which uses metal balls to reduce ore to a fine particle size.

**breccia** means a textural description of a rock which is composed of angular rock fragments.

**catalyst** is a substance which, when present in small amounts, modifies the rate or efficiency of a chemical reaction of other substances without being consumed in the process.

**catalytic converter** means a pollution control device, fitted to the exhaust systems of vehicles powered by internal combustion engines. This device contains platinum, palladium and sometimes rhodium, which assist in the conversion (oxidation) of carbon monoxide and hydrocarbons into carbon dioxide and water.

**concentrate** means a product containing the valuable metal and from which most of the waste material in the ore has been removed.

**concentrator or processing plant** means a plant or facility which processes ore brought from the mine and removes most of the valuable mineral or metal from the ore and discards most of the barren portion of the ore as tailings.

**cut-off grade** is determined by the following formula parameters: estimates over the relevant period of mining costs, ore treatment costs, general and administrative costs, refining costs, royalty expenses, process and refining recovery rates and PGMs prices.

**diamond drilling** means rotary drilling using diamond impregnated bits to produce a solid continuous core sample of the underlying rock.

**feasibility study** means a program to establish whether a mineral deposit can be successfully mined considering technical and economic parameters.

**flotation circuit** means a series of flotation tanks or cells which recover metal by means of flotation. Flotation is a milling process by which some mineral particles are induced to float and others to sink. The valuable minerals are thereby concentrated and separated from the worthless waste.

**gabbro** means a dark, coarse-grained intrusive rock usually composed of angular rock fragments.

**gabbroonorite** means a type of gabbro which contains the mafic minerals clinopyroxene (Ca-Mg rich silicate) and orthopyroxene (Mg-rich silicate).

**grade** means a particular quantity of ore or mineral relative to other constituents, in a specified quantity of rock.

**head grade** means the quantity of valuable mineral or metal contained in each ton of ore delivered to the concentrator.

**indicated mineral resource** means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as

outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed. See Note to U.S. Shareholders .

**inferred mineral resource** means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. See Note to U.S. Shareholders .

**intrusion/intrusive** means a mass of igneous rock that was injected and solidified within the earth's crust.

**iridium** means hard, brittle, silver-white platinum group metal used for pen tips, jewelery, resistance wiring, electronic contacts and electrodes.

**mafic rocks** means rocks composed of 40 to 90% mafic minerals. (PGM deposits are usually hosted in mafic and untramafic intrusive rocks).

**measured mineral resource** means that part of a mineral resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity. See Note to U.S. Shareholders .

**mineral reserve** means the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. See Note to U.S. Shareholders .

**mineral resource** means a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. See Note to U.S. Shareholders .

**mineralization** means the concentration of metals and their chemical compounds within a body of rock.

**net smelter return royalty** means a royalty based on the gross proceeds received from the sale of minerals less the cost of smelting, refining, freight and other related costs.

**open pit** means a mine worked at the surface.

**ore** means a mixture of valuable and worthless minerals from which at least one of the minerals can be mined and processed at an economic profit.

**osmium** means a rare, hard white metal.

**ounce** or **oz.** is a unit of weight measure. In the precious metals industry a troy ounce is equal to one-twelfth part of a pound or 31.103 grams.

**overburden** means unconsolidated material that overlies a mineral deposit and must be removed prior to mining.

**palladium** means a white, ductile, malleable precious metal that does not tarnish at normal temperatures. Wide applications range from electronics, dentistry, jewelry and automotive catalytic converters.

**PGMs** means **Platinum Group Metals**. Platinum Group Metals include platinum, palladium, rhodium, ruthenium, osmium and iridium. All PGMs have catalytic qualities and resist corrosion and are chemically inert over a wide range of temperatures.

**probable mineral reserve** means the economically mineable part of an indicated, and in some circumstances a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. See Note to U.S. Shareholders .

**professional association**, for the purposes of the definition of a qualified person below, means a self-regulatory organization of engineers, geoscientists or both engineers and geoscientists that

- (a) has been given authority or recognition by statute;
- (b) admits members primarily on the basis of their academic qualifications and experience;
- (c) requires compliance with the professional standards of competence and ethics established by the organization; and
- (d) has disciplinary powers, including the power to suspend or expel a member.

**proven mineral reserve** means the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified. See Note to U.S. Shareholders .

**pyroxenite** means an ultramafic rock which predominantly contains the mafic mineral pyroxene (Mg-rich silicate).

**qualified person** means an individual who

- (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these;
- (b) has experience relevant to the subject matter of the mineral project and the technical report; and
- (c) is a member in good standing of a professional association.

**rhodium** means a silver-white metal of the platinum family resistant to tarnishing and used as an electrode posit, or alloyed with platinum to manufacture thermocouples.

**SAG mill** means a semi-autogenous grinding mill. A SAG mill is one in which steel balls are added to the mill charge to supplement the grinding capabilities of the larger pieces of ore.

**strip ratio** means the ratio of units of waste material required to be removed to facilitate the mining of one unit of economic material.

**tailings** means that portion of the ore which remains after the valuable minerals have been extracted. **tailings impoundment** means a containment area constructed to hold tailings.

**ton** means a short ton, equivalent to 2,000 pounds.

**tonne** means a metric measure consisting of 2,204.6 pounds or 1,000 kilograms.

**ultramafic** means rocks composed of greater than 90% mafic minerals. (PGM deposits are usually hosted in mafic and ultramafic intrusive rocks.)

**waste** means barren rock in a mine, or mineralized material that is too low in grade to be mined and milled at a profit.