North American Palladium Ltd.

2015 ANNUAL REPORT

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Management's Discussion and Analysis

INTRODUCTION

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

The following is management's discussion and analysis of the financial condition and results of operations ("MD&A") to enable readers of the Company's consolidated financial statements and related notes to assess material changes in financial condition and results of operations for the year ended December 31, 2015, compared to those of the respective periods in the prior year. This MD&A has been prepared as of February 22, 2016 and is intended to supplement and complement the consolidated financial statements and notes thereto for the year ended December 31, 2015 (collectively, the "Financial Statements"), which have been prepared in accordance with International Accounting Standards ("IFRS") as issued by the IASB. Readers are encouraged to review the Financial Statements in conjunction with their review of this MD&A..

Dr. David Peck, the Company's Vice President, Exploration and a Qualified Person under National Instrument 43-101, has reviewed and approved all technical items disclosed in this MD&A.

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

FORWARD-LOOKING INFORMATION

Certain information contained in this MD&A constitutes 'forward-looking statements' within the meaning of the 'safe harbor' provisions of the Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995 . All statements other than statements of historical fact are forward-looking statements. The words 'planned', 'preliminary', 'expect', 'potential', 'believe', 'anticipate', 'contemplate', 'target', 'may', 'will', 'could', 'would', 'intend', 'estimate' and similar expressions identify forward-looking statements. Forward-looking statements included in this MD&A include, without limitation: information as to our strategy, plans or future financial or operating performance such as statements with respect to project timelines, production plans, projected cash flows or expenditures, operating cost estimates, mining methods, expected mining and milling rates, metal price and foreign exchange rates and other statements that express management's expectations or estimates of future performance. The Company cautions the reader that such forward-looking statements involve known and unknown risk factors that may cause the actual results to be materially different from those expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to: the risk that the LDI mine may not perform as planned, the possibility that commodity prices and foreign exchange rates may fluctuate, the possibility that the Company may not be able to generate sufficient cash to service its indebtedness and may be forced to take other actions, the risk the Company may not be able to continue as a going concern, the possibility the Company will require substantial additional financing, events of default on its indebtedness, hedging could expose it to losses, competition, the possibility title to its mineral properties will be challenged, dependency on third parties for smelting and refining, inherent risks associated with development, exploration, mining and processing including risks related to tailings capacity and ground conditions, the risks associated with obtaining necessary licenses and permits, environmental hazards, uncertainty of mineral reserves and resources, changes in legislation, regulations or political and economic developments in Canada and abroad, employment disruptions including in connection with collective agreements between the Company and unions and litigation. For more details on these and other risk factors see the Company's most recent Annual Information Form, which can be found on SEDAR at www.sedar.com.

Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this MD&A, which may prove to be incorrect, include, but are not limited to: that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, that metal prices and exchange rates between the Canadian and United States dollar will be consistent with the Company's expectations, that there will be no material delays affecting operations or the timing of ongoing projects, that prices for key mining and construction supplies, including labour costs, will remain consistent with the Company's expectations, and that the Company's current estimates of mineral reserves and resources are accurate. The forward-looking statements are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

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

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

OUR BUSINESS

NAP is an established precious metals producer that has been operating its LDI mine located in Ontario, Canada since 1993.

The Company recently expanded the underground LDI mine and has transitioned from ramp access to shaft access while utilizing the long hole open stope mining method. In the second quarter of 2015, the Company entered into a three year collective agreement with its hourly employees. The term of this agreement is June 1, 2015 to May 31, 2018.

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

NAP trades on the TSX under the symbol PDL and on the OTC Market under the symbol PALDF.

OPERATING AND FINANCIAL HIGHLIGHTS

Financial results in this MD&A are expressed in millions of Canadian dollars, except share and per share amounts. References to cash cost per ounce of palladium, EBITDA, or adjusted EBITDA, represent Non-IFRS measures. Please refer to Non-IFRS Measures on pages 20-21.

The Company finished fiscal year ("FY") 2015 with a net loss of $216.4 ,which included:

- A loss from mining operations of $15.2 primarily due to decreased revenue resulting from declining metal prices, lower production volumes, and increased operating expenses, partially offset by a weaker Canadian dollar;
- $39.5 foreign exchange loss impacted by the US$ denominated credit facility and the US$ denominated senior secured term loan that was converted to equity in the third quarter of 2015 ("Q3 2015");
- $5.5 of mine restoration costs and mitigation costs relating to the water balance event that occurred in May 2015;
- $31.0 of non-cash depreciation and amortization;
- $28.3 non-cash loss on Recapitalization; and
- $66.8 change in the carrying amount of senior secured debt that was converted to equity in Q3 2015.

Adjusted EBITDA was $13.5, a decrease of $36.5 compared to FY 2014.

As a result of lower production volumes in March 2015 combined with higher operating expenses, a decline in palladium prices and weakening of the Canadian dollar, which impacted the minimum shareholders' equity and leverage ratio covenants, on April 15, 2015 the Company entered into an agreement with Brookfield aimed at significantly reducing the Company's debt and enhancing the Company's liquidity. Subsequent to a comprehensive strategic review which include the potential sale of the Company, on August 6, 2015 the Company completed a recapitalization transaction (the "Recapitalization") in which a 92% ownership in NAP was acquired by Brookfield Capital Partners Ltd. ("Brookfield") which reduced the carrying value of the Company's debt by $359.8. On September 15, 2015 the Company completed an issuance of 8.6 million common shares by way of a Rights Offering which raised cash proceeds of $49.6, net of transaction costs, to fund working capital. Proceeds from the Rights Offering were also used to repay the US$25.0 bridge loan with Brookfield, apart from a nominal amount. The common shares, both issued and outstanding, were consolidated on the basis of one common share in the capital of the Company for every 400 existing common shares, resulting in 58.1 million shares outstanding at the end of FY 2015 as compared to 386.5 million shares at the end of FY 2014. At the end of FY 2015, the Company had total debt of $47.1 compared to $281.7 at the end of FY 2014.

Persistence of weak metal prices, since Q1 2015, led the Company to reduce its workforce at the end of Q3 2015, stop blending low-grade surface stockpiled ore with the higher grade underground ore and return to a 14-day on/14-day off operating schedule for the mill. The FY 2015 results were also adversely impacted by a 7-week mill shutdown in May and June 2015 due to water balance issues that required a controlled release of water to the environment under the oversight of the Ontario Ministry of the Environment and Climate Change. These two events negatively impacted tonnes of ore processed and ounces of payable palladium produced, even though mill head grade was 19% higher than FY 2014. Total ounces of payable palladium produced was 166,785, which was on the upper end of the Company's revised 2015 guidance.

LDI OPERATING & FINANCIAL RESULTS

Operations at LDI consist of an underground mine accessed via shaft and ramp, an open pit (currently inactive), a substantial low-grade surface stockpile and a mill with a processing capacity of approximately 15,000 tonnes per day. The primary underground deposits on the property are the Offset and Roby zones. During FY 2015, the mill operated at approximately 60% of capacity, with the exception of the periods between May 8 to June 26, when the mill was shut down due to a temporary lack of capacity in our water management facilities following the spring runoff, and in the fourth quarter when the mill operated on a 14-day on/14-day off schedule. These periods of reduced production render direct comparisons between 2015 and 2014 operational results less informative.

Results of Operations

The key operating results for FY 2015 and FY 2014 and for the fourth quarter of FY 2015 and FY 2014 are set out in the following table.

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Ore mined (tonnes)				
Underground	**341,763**	380,994	**1,532,050**	1,225,547
Surface	**115,519**	643,281	**779,937**	1,411,476
Total	**457,282**	1,024,275	**2,311,987**	2,637,023
Mined ore grade (Pd g/t)				
Underground	**5.3**	4.1	**4.4**	4.4
Surface	**1.4**	1.0	**1.1**	1.1
Average	**4.3**	2.2	**3.3**	2.6
Milling				
Tonnes of ore milled	**388,536**	1,080,299	**2,135,915**	2,684,782
Palladium head grade (g/t)	**4.3**	2.3	**3.2**	2.7
Palladium recoveries (%)	**81.8**	81.2	**82.8**	82.4
Tonnes of concentrate produced	**4,265**	7,686	**20,784**	21,519
Production cost per tonne milled, before mine restoration and mitigation costs	**$78**	$53	**$ 67**	$ 49
Payable production				
Palladium (oz)	**40,341**	59,771	**166,785**	174,194
Platinum (oz)	**2,441**	4,845	**12,295**	13,072
Gold (oz)	**2,591**	3,850	**10,484**	11,607
Nickel (lbs)	**277,912**	580,955	**1,297,664**	1,677,820
Copper (lbs)	**524,694**	1,033,611	**2,519,100**	3,029,525
Cash cost per ounce of palladium sold (US$)[1]	**$ 472**	$ 473	**$ 558**	$ 513

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 20-21.*

Mining

In the three months ended December 31, 2015 ("Q4 2015"), underground ore mined at LDI consisted of 341,763 tonnes (3,715 tonnes per day) at an average palladium grade of 5.3 g/t compared to 380,994 tonnes (4,141 tonnes per day) at an average palladium grade of 4.1 g/t in the three months ended December 31, 2014 ("Q4 2014"). In Q4 2015, 115,519 tonnes of surface feed having an average palladium grade of 1.4 g/t was also delivered to the mill. This amount included low-grade ore from the surface stockpile and slightly higher-grade tailings extracted from the North cell of the TMF. In the same period in 2014, 643,281 tonnes at an average palladium grade of 1.0 g/t was extracted from the surface stockpile. This reduced volume of low-grade ore production was due to the change to a 14-day on/14-day off mill

schedule ("batch processing") in early Q4 2015, prompted by low metal prices. On a combined basis, Q4 2015 featured 55% fewer tonnes of ore mined at a 95% higher palladium grade compared to Q4 2014.

In FY 2015, underground ore mined at LDI consisted of 1,532,050 tonnes (4,197 tonnes per day) at an average palladium grade of 4.4 g/t, an increase of 306,503 tonnes (25%) compared to 1,225,547 tonnes (3,358 tonnes per day) at an average palladium grade of 4.4 g/t in FY 2014. In FY 2015, 779,937 tonnes at an average palladium grade of 1.1 g/t were extracted from the low-grade surface stockpile and North cell tailings compared to 1,411,476 tonnes at an average palladium grade of 1.1 g/t in FY 2014. On a combined basis, 12% fewer tonnes of ore at a 27% higher palladium grade were mined in FY 2015 compared to FY 2014.

Milling

During Q4 2015, the LDI mill processed 388,536 tonnes of feed at an average palladium head grade of 4.3 g/t with an average recovery of 81.8% compared to 1,080,299 tonnes milled at an average palladium head grade of 2.3 g/t with an average recovery of 81.2% in Q4 2014. The year-on-year 64% decrease in tonnes milled is a result of changing to a 14-day on/14-day off operating schedule in early Q4 2015.

During FY 2015, the LDI mill processed 2,135,915 tonnes of ore at an average palladium head grade of 3.2 g/t with an average recovery of 82.8% compared to 2,684,782 tonnes milled at an average palladium head grade of 2.7 g/t with an average recovery of 82.4% in FY 2014.

Payable Production

Payable production for FY 2015 was lower for all payable metals compared to FY 2014. One of the factors contributing to the decrease was the 50 day mill shutdown in May/June 2015 that resulted from water balance issues. Additional factors which affected the decrease in payable production for both FY 2015 and Q4 2015 in comparison to FY 2014 and Q4 2014 were the reversion to a 14-day on/14-day off mill operating schedule in early Q4 2015 and the phasing out of low-grade surface stockpile ore and North cell tailings feed to the mill.

Production Costs per Tonne Milled

Production costs per tonne milled in Q4 2015 and FY 2015 were $78 and $67, respectively, compared to $53 and $49 in the comparable 2014 periods. The increased unit costs were due to increased operating expenses, as described below, combined with decreased production units.

Cash Cost per Ounce of Palladium Sold

Cash cost per ounce of palladium sold is a non-IFRS measure and the calculation is provided in the Non-IFRS Measures section of this MD&A.

The cash cost per ounce of palladium sold was largely unchanged at US$472[1] in Q4 2015 compared to US$473[1] in Q4 2014. The cash cost per ounce of palladium sold increased to US$557[1] in FY 2015 from US$513[1] in FY 2014. This increase in unit cost resulted from reduced payable ounces, increased operating, smelting, refining and freight costs, and lower by-product revenues. The year-on-year cash cost increase was partly offset by favourable movements in the USD/CAD exchange rate and lower royalty costs. Refer to the following sections of this MD&A for additional details: gross revenue, production costs, smelting, refining and freight costs and royalty expense.

[1] *Non-IFRS measure. Please refer to Non-IFRS Measures on pages 20-21.*

Financial Results

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

($millions)	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Revenue	**$ 37.6**	$ 74.4	**$ 193.6**	$ 220.1
Smelting, refining and freight costs	**5.2**	6.7	**21.4**	19.0
Royalty expense	**1.5**	3.0	**7.7**	9.1
Net revenue	**30.9**	64.7	**164.5**	192.0
Mining operating expenses				
Production costs				
Mining	**19.6**	23.2	**84.3**	76.1
Milling	**6.5**	10.7	**34.0**	33.2
General and administration	**4.2**	6.1	**22.4**	20.5
	30.3	40.0	**140.7**	129.8
Inventory and others	**0.1**	0.4	**1.8**	0.9
Total production costs	**30.4**	40.4	**142.5**	130.7
Mine restoration and mitigation costs	**(0.6)**	-	**5.5**	-
Depreciation and amortization	**7.0**	12.3	**31.0**	37.7
Inventory price adjustment	**-**	-	**0.5**	-
Loss on disposal of equipment	**-**	0.3	**0.2**	1.7
Total mining operating expenses	**$ 36.8**	$ 53.0	**$ 179.7**	$ 170.1
Income (loss) from mining operations	**$ (5.9)**	$ 11.7	**$ (15.2)**	$ 21.9

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

Revenue

Revenue is affected by production and resulting sales volumes, commodity prices, currency exchange rates, timing of milling campaigns and concentrate shipment schedules. Metal sales for LDI are recognized in revenue at provisional prices when delivered to a smelter or a designated shipping point. Final pricing is determined in accordance with LDI's smelter agreements. In most cases, final prices are determined two months after delivery for gold, nickel and copper and four months after delivery for palladium and platinum. Final pricing adjustments can result in additional revenues in a rising commodity price environment and reductions to revenue in a declining commodity price environment. Similarly, a weakening in the Canadian dollar relative to the U.S. dollar would have a positive impact on revenues and a strengthening in the Canadian dollar would have a negative impact on revenues.

The Company periodically enters into forward contracts relating to payable metals contained in delivered concentrate. In May 2015, the Company entered into a forward metal pricing derivative contract at US$790 per ounce for 18,300 ounces of palladium relating to the February 2015 production sales. The derivative sales contracts were settled in July 2015.

Revenue by metal is summarized in the following tables:

Revenue for the three months ended December 31, 2015							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume[1]	42,855	2,602	2,756	294,268	555,409	n.a.	n.a.
Realized price (US$) [1]	$ 587	$ 917	$ 1,118	$ 4.43	$ 2.31	n.a.	n.a.
Revenue before price adjustment	$ 33.7	$ 3.1	$ 4.1	$ 1.7	$ 1.6	$ -	$ 44.2
Price adjustment ($millions):							
Commodities	(9.3)	-	(0.1)	(0.2)	(0.1)	-	(9.7)
Foreign exchange	2.6	0.3	0.1	-	0.1	-	3.1
Revenue ($million)	$ 27.0	$ 3.4	$ 4.1	$ 1.5	$ 1.6	$ -	$ 37.6

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

Revenue for the three months ended December 31, 2014							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume[1]	57,256	4,607	3,690	550,090	980,198	n.a.	n.a.
Realized price (US$) [1]	$ 805	$ 1,286	$ 1,238	$ 7.63	$ 3.08	n.a.	n.a.
Revenue before price adjustment	$ 52.7	$ 6.5	$ 5.0	$ 4.4	$ 3.3	$ -	$ 71.9
Price adjustment ($millions):							
Commodities	1.6	(0.3)	0.1	-	(0.1)	-	1.3
Foreign exchange	0.7	0.3	0.1	0.1	0.1	-	1.3
Revenue ($millions)	$ 55.0	$ 6.5	$ 5.2	$ 4.5	$ 3.3	$ -	$ 74.5

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

Revenue for Q4 2015 decreased by $36.9 or 50% compared to Q4 2014 primarily due a 27% decrease in realized palladium price, partially offset by the more favourable foreign exchange rate, and a 25% decrease in palladium sales volumes.

Revenue for the year ended December 31, 2015							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume[1]	169,448	12,543	10,650	1,329,588	2,574,402	n.a.	n.a.
Realized price (US$) [1]	$ 718	$ 1,096	$ 1,180	$ 5.92	$ 2.64	n.a.	n.a.
Revenue before price adjustment	$ 148.3	$ 16.9	$ 15.7	$ 9.2	$ 8.2	$ 0.1	$ 198.4
Price adjustment ($millions):							
Commodities	(13.5)	(1.5)	-	(0.5)	(0.2)	-	(15.7)
Foreign exchange	8.3	1.2	0.7	0.4	0.3	-	10.9
Revenue ($million)	$ 143.1	$ 16.6	$ 16.4	$ 9.1	$ 8.3	$ 0.1	$ 193.6

[2] Sales volumes and prices are per ounce for palladium, platinum and gold and per pound for nickel and copper.

Revenue for the year ended December 31, 2014							
	Palladium	Platinum	Gold	Nickel	Copper	Others	Total
Sales volume[1]	173,887	12,987	11,605	1,644,807	3,019,105	n.a.	n.a.
Realized price (US$) [1]	$ 802	$ 1,384	$ 1,270	$ 7.53	$ 3.11	n.a.	n.a.
Revenue before price adjustment	$ 155.8	$ 19.6	$ 16.1	$ 13.8	$ 10.3	$ 0.1	$ 215.7
Price adjustment ($millions):							
Commodities	2.2	(0.5)	0.2	0.2	(0.3)	-	1.8
Foreign exchange	1.4	0.5	0.3	0.2	0.2	-	2.6
Revenue ($millions)	$ 159.4	$ 19.6	$ 16.6	$ 14.2	$ 10.2	$ 0.1	$ 220.1

(2) Sales volumes and prices are per ounce for palladium, platinum and gold and per pound for nickel and copper.

Revenue for FY 2015 decreased by $26.5 or 12% compared to FY 2014 primarily due to lower sales volumes and realized prices for all metals, partially offset by a 16% favourable movement in the Canadian dollar:US dollar exchange rate.

Spot Metal Prices* and Exchange Rates

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

	Dec-31 2015	Sep-30 2015	Jun-30 2015	Mar-31 2015	Dec-31 2014	Sep-30 2014	Jun-30 2014	Mar-31 2014
Palladium – US$/oz	$ 547	$ 661	$ 677	$ 729	$ 798	$ 775	$ 844	$ 778
Platinum – US$/oz	$ 872	$ 908	$ 1,078	$ 1,129	$ 1,210	$ 1,300	$ 1,480	$ 1,418
Gold – US$/oz	$1,062	$1,114	$1,171	$ 1,187	$ 1,199	$ 1,217	$ 1,315	$ 1,292
Nickel – US$/lb	$ 3.93	$ 4.57	$ 5.30	$ 5.65	$ 6.77	$ 7.49	$ 8.49	$ 7.14
Copper – US$/lb	$ 2.13	$ 2.30	$ 2.61	$ 2.73	$ 2.85	$ 3.03	$ 3.15	$ 3.01
Exchange rate (Bank of Canada) – CDN$1 = US$	US$ 0.72	US$ 0.75	US$ 0.80	US$0.79	US$0.86	US$0.89	US$0.94	US$0.90

** Based on the London Metal Exchange*

Smelting, refining and freight costs

Smelting, refining and freight costs for Q4 2015 were $5.2 compared to $6.7 in Q4 2014, a 22% decrease due to the impact of fewer tonnes of concentrate shipped. For FY 2015, costs were $21.4 compared to $19.0 in FY 2014, a 13% increase primarily due to the impact of a weaker Canadian dollar, as freight, treatment & refining charges are valued in USD.

Royalty expense

For Q4 2015 and FY 2015, royalty expenses were $1.5 and $7.7 compared to $3.0 and $9.1 in Q4 2014 and FY 2014. The decreases in 2015 were primarily due to lower revenues in 2015 compared to the respective 2014 periods.

Production costs

Total production costs in Q4 2015 were $30.4 compared to $40.4 in Q4 2014, a decrease of 25%. This decrease is primarily the result of the mill moving to batch processing in Q4 2015 and the variable costs associated with reduced production. Mining costs decreased by $3.6 (-16%) compared to Q4 2014, whereas milling costs decreased by $4.2 (-39%) compared to Q4 2014 . General and administration costs also decreased by $1.9 (-32%) compared to Q4 2014 primarily due to lower propane costs and a rebate from the Company's principal insurer for substantially improved safety results. Inventory movements further reduced operating costs by $0.4.

Total production costs in FY 2015 were $142.5 compared to $130.7 in FY 2014, an increase of 9%. Mining costs increased by $8.2 (11%) compared to FY 2014 primarily due to increased costs associated with contractors, parts and labour. Milling costs increased slightly by $0.8 (2%) compared to FY 2014 primarily due to increased reagent and power consumption, as well contractor costs. General and administration costs increased $1.9 (9%) compared to FY 2014, primarily due to higher consultant and camp catering costs. Inventory movements further increased production costs by $0.9, which were partially offset by reduced propane prices, lower equipment rentals and reduced consumption of parts and supplies.

Mine restoration and mitigation costs

Mine restoration and mitigation costs had a $0.6 recovery in Q4 2015 resulting from insurance proceeds relating to the water balance event that occurred in May 2015. Total costs for FY 2015 were $5.5 compared to $nil in FY 2014, resulting from the spring 2015 water balance issues.

Depreciation and amortization

Depreciation and amortization for Q4 2015 and FY 2015 were $7.0 and $31.0, respectively, compared to $12.3 and $37.7 in the comparable 2014 periods. The 2015 decrease over the prior year periods was primarily due to lower mineral asset depletion related to reduced production.

OTHER EXPENSES

Exploration

Exploration expenditures for Q4 2015 and FY 2015 was $2.4 and $8.0 compared to $3.1 and $8.3 in 2014 comparable periods. The 2015 exploration program was focused on:

(i) extension drilling in the lower part of the Offset zone below the 1,065 meter level - the known limit of proven and probable reserves;

(ii) extension and resource conversion drilling in the upper Offset zone directly north of active and planned mining stopes;

(iii) delineation of new resources in the upper Offset southeast extension, the shallowest known level of the deposit;

(iv) surface exploration, primarily focused on extending current higher-grade palladium resources adjacent to the Roby pit

In 2015, 27,876 metres of exploration drilling was completed.

General and administration

General and administration expenditures for Q4 2015 was $1.9 compared to $2.3 in Q4 2014. The decrease of $0.4 (-17%) is primarily attributable to the corporate workforce reduction and relocation of the corporate office. Expenditures for FY 2015 were $11.5 compared to $9.6 in FY 2014, an increase of $1.9 (20%). The increase was primarily due to severance payments that occurred in Q3 2015 and in Q4 2015 .

Interest and other income

Interest and other income for Q4 2015 and FY 2015 was $nil and $1.1 compared to $1.1 and $4.7 in the respective 2014 periods. The decreases were primarily due to decreases in fair value changes of warrants associated with the convertible debentures issued in 2014.

Interest costs, prepayment fee and other

Interest costs, prepayment fee and other for Q4 2015 and FY 2015 were $0.5 and $104.0 compared to $10.4 and $49.6 in the respective 2014 periods. The decrease of $ 9.9 for Q4 2015 is due to a decrease in interest expense as a result of the senior secured term loan that was settled as part of the Recapitalization. The year over year increase of $54.4 was primarily due to changes in the carrying value of the senior secured term loan that was settled as part of the Recapitalization transaction that closed in August 2015.

Financing costs

Financing costs for Q4 2015 and FY 2015 were $0.9 and $11.0 compared to $nil and $7.5 in the respective 2014 periods. The 2015 increases were primarily due to financing costs related to the Recapitalization agreement, waiver fees, bridge loan and interim facility financing, while the 2014 amounts primarily related to the issuance of the 2014 convertible debentures.

Foreign exchange loss

Foreign exchange loss for Q4 2015 and FY 2015 was $2.2 and $39.5 respectively compared to $7.8 and $18.3 in the respective 2014 periods. The 2015 and 2014 losses were primarily due to the impact of exchange rate movements on the US$ denominated credit facility and the US$ denominated senior secured term loan that was settled as part of the Recapitalization transaction that closed in August 2015.

Loss on recapitalization

On June 18, 2015, the Company entered into the Recapitalization agreement with Brookfield. On July 30, 2015, the Recapitalization arrangement received shareholder approval and was completed on August 6, 2015, resulting in the cancellation of all outstanding options and warrants and the conversion of certain debt amounts owing to Brookfield, the 2012 and 2014 convertible debentures, and outstanding restricted share units into equity. At the time of the Recapitalization, the Company issued 19,404,572,359 common shares with a fair value of $388.1 to settle debt and other amounts with an aggregate carrying value of $359.8, resulting in a loss on Recapitalization of $28.3 being recorded in the Consolidated Statements of Operations and Comprehensive Loss.

SUMMARY OF QUARTERLY RESULTS

Summary of Quarterly Results

($millions except per share amounts)	**2015**				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$ 37.6**	$ 64.7	$ 27.3	$ 64.0	$ 74.5	$ 46.4	$ 50.5	$ 48.7
Production costs, including mine restoration and mitigation costs	**29.8**	47.3	29.3	41.6	40.5	30.1	30.4	29.7
Exploration expense	**2.4**	1.3	1.8	2.5	3.1	2.5	1.9	0.8
Capital expenditures	**6.5**	12.3	7.8	5.6	9.5	5.8	5.6	2.9
Loss and comprehensive loss	**13.8**	68.5	96.8	37.3	11.3	18.8	9.9	26.7
Cash provided by (used in) operations	**0.6**	(14.0)	6.4	20.7	1.1	8.0	(3.8)	(16.8)
Cash provided by (used in) financing activities	**1.0**	21.2	11.6	(8.8)	0.7	(34.7)	31.6	31.8
Cash provided by (used in) investing activities	**(6.5)**	(12.3)	(7.2)	(5.6)	(9.5)	(5.8)	(5.4)	(2.9)
Net loss per share – basic and diluted[1]	**$ 0.60**	$ 2.18	$ 98.35	$ 38.18	$ 11.70	$ 19.56	$ 11.44	$ 45.86
Tonnes milled	**605,041**	443,312	336,142	751,420	1,080,299	566,494	521,478	516,511
Palladium sold (ounces)	**42,855**	57,490	23,974	45,129	57,256	36,430	40,716	39,485
Realized palladium price (US$/ounce)	**$ 587**	$ 667	$ 758	$ 786	$ 787	$ 860	$ 806	$ 739

[1] *Loss per share amounts for all comparative periods have been restated to reflect the equivalent impact of applying the share consolidation on the basis of one common share for every 400 existing common shares.*

Trends:

- Revenue, production costs, tonnes milled and palladium ounces sold, varied over the last eight quarters as mining has transitioned from the Roby zone underground and the surface open pit to the Offset zone underground and surface stockpiles.
- Realized quarterly average prices for palladium have ranged from US$667 to US$860 per ounce in the last eight quarters while US$ prices for platinum, gold, copper and nickel have generally been declining over the last five quarters.
- The weakening of the Canadian dollar versus the United States dollar that occurred over the past two years generally resulted in higher operating margins.
- Capital expenditures have primarily related to sustaining capital for the last eight quarters, except in Q3 and Q4 2015 when capital expenditures principally related to the expansion of the tailings management facility.
- Cash provided by financing activities in Q2 2015 was primarily due to a US$25 credit facility provided by the senior secured term loan lender was fully utilized in the quarter. The source of funds in Q3 2015 was due to the $49.6 net proceeds received from the Rights Offering, partially offset by the repayment of the US$25 credit facility. The Q1 and Q2 2014 sources were primarily due to the issuance of convertible debentures. The use of funds in Q3 2014 was primarily due to a partial repayment of the senior secured term loan.

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

($millions)	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Cash provided by (used in) operations prior to changes in non-cash working capital	**$ (4.4)**	$ 18.5	**$ (4.4)**	$ 41.7
Changes in non-cash working capital	**5.0**	(17.4)	**18.1**	(53.2)
Cash provided by (used in) operations	**0.6**	1.1	**13.7**	(11.5)
Cash provided by financing activities	**1.0**	0.7	**25.0**	29.4
Cash used in investing activities	**(6.5)**	(9.5)	**(31.6)**	(23.6)
Increase (decrease) in cash and cash equivalents	**$ (4.9)**	$ (7.7)	**$ 7.1**	$ (5.7)

Operating Activities

For Q4 2015, cash used in operations prior to changes in non-cash working capital was $4.4 compared to $18.5 of cash provided in Q4 2014. The decrease of $22.9 was primarily due to a $36.8 decrease in revenue, partially offset by a $10.0 decrease in production costs, a $1.5 decrease in smelting, refining and freight costs, and a decrease in royalty expense of $1.5. For FY 2015, cash used in operations prior to changes in non-cash working capital was $4.4 compared to $41.7 of cash provided in 2014. The decrease of $46.1 was primarily due to an $11.8 increase in production costs, $5.5 increase in mine restoration and mitigation costs, and a $26.5 decrease in revenue.

For Q4 2015, changes in non-cash working capital resulted in a source of cash of $5.0 compared to a use of cash of $17.4 in Q4 2014. The increased source of cash of $22.4 was primarily due to an increase in cash collections of $32.5 in accounts receivable, partially offset by an increase in cash payments of $13.6 in accounts payable and accrued liabilities. For FY 2015, changes in non-cash working capital resulted in a source of cash of $18.1 compared to a use of cash of $53.2 in 2014. The increased source of cash of $71.3 was primarily due to an increase in cash collections of $60.9 in accounts receivable and a decrease in cash payments of $10.2 in accounts payable and accrued liabilities.

Financing Activities and Liquidity

For Q4 2015, financing activities resulted in a source of cash of $1.0 compared to $0.7 in Q4 2014. The slight increase of $0.3 was due to a reduction of interest paid. For FY 2015, financing activities resulted in a source of cash of $25.0 compared to a source of cash of $29.4 in FY 2014. The $4.4 decrease was primarily due to an $10.0 increase in other financing costs, partially offset by $49.6 of net proceeds received from the rights offering, $3.9 net drawdown of credit facilities and a decrease of $13.6 interest paid, compared to $61.2 of net proceeds from convertible debentures issued (that have been converted to equity).

Investing Activities

For the Q4 2015 and FY 2015, investing activities used cash of $6.5 and $31.6 compared to $9.5 and $23.6 in the comparable 2014 periods. The expenditures for both periods were due to additions to mining interests, net of disposals, that are summarized in the following table.

	Three months ended December 31		Year ended December 31	
($millions)	**2015**	2014	**2015**	2014
Underground development	**$ 2.4**	$ 5.8	**$ 11.0**	$ 11.8
Tailings management facility	**1.8**	0.1	**11.8**	1.6
Mill equipment	**0.1**	0.8	**0.9**	1.6
Underground equipment and rebuilds	**2.0**	0.8	**6.4**	4.2
Surface equipment and rebuilds	**0.3**	2.0	**1.5**	3.3
Exploration drift	**-**	-	**-**	1.1
Total additions to mining interests	**$ 6.6**	**$ 9.5**	**$ 31.6**	**$ 23.6**

Liquidity and Capital Resources[1]

	As at December 31	As at December 31
($millions)	**2015**	2014
Cash and cash equivalents	**$ 11.2**	$ 4.1
Total debt	**47.1**	281.7
Shareholders' equity	**448.3**	224.4

[1] *Also see critical accounting policies and estimates, going concern section of this MD&A.*

As at December 31, 2015, the Company had cash and cash equivalents of $11.2 compared to $4.1 as at December 31, 2014. The change from the prior year end is due to the sources and uses of cash as noted above. The funds are deposited with major Canadian chartered banks.

The Company has, subject to a borrowing base cap, a US$60.0 credit facility that is secured by first priority on the Company's accounts receivable and inventory and second priority on the property, plant and equipment and may be used for working capital liquidity and general corporate purposes. In December 2015, the Company extended its US$60 credit facility to November 30, 2017. As at December 31, 2015, the borrowing base calculation limited the credit facility to a maximum of US$34.6 of which was fully utilized including US$11.9 of letters of credit.

The Company's credit facility contains financial covenants which, if not met, would result in an event of default. This loan also includes certain other covenants, including limits on liens, additional debt, payments, material adverse change provisions and cross-default provisions. Certain events of default result in this loan becoming immediately due. Other events of default entitle the lender to demand repayment. The Company was in compliance with all covenants at December 31, 2015.

On December 21, 2015, the senior secured term loan financing with Brookfield was further amended to include the availability of a US$25 term loan financing which bears interest at 10% per annum and is due December 31, 2016, with an option to extend for one additional year at the option of the Company. The loan is secured by first priority security on the fixed assets and second priority security on accounts receivable and inventory. The facility is available in two advances of which US$10 is available immediately until January 31, 2016 and US$15 available in the first quarter of 2016 until December 31, 2016. The loan is prepayable at any time, in whole or in part, without penalty. An advance of US$10.0 was received on January 26, 2016.

The Company is in the process of upgrading its facilities and will continue to incur capital expenditures in the next year. Management has estimated that the Company's existing cash at December 31, 2015 together with cash resources available under the Company's existing financing arrangements may not be sufficient to fund forecasted operating and investing cash requirements in the year ending December 31, 2016. The Company's cash position and covenant compliance is sensitive to a number of variables which cannot be predicted with certainty, including, but not limited to, meeting production targets, metal prices, foreign exchange rates, operational costs and capital expenditures. Even though the Company has the financing noted above in place, in the event that management's assumptions are not realized, the Company believes that additional financing will be required. While the Company is pursuing various financing alternatives, the certainty of completing and additional financing arrangements on terms acceptable to the Company cannot be assured at this time.

The Company has $14.7 of finance leases funding equipment for operations. Please also see the contractual obligations below for additional commitments.

Contractual Obligations

Contractual obligations are comprised as follows:

As at December 31, 2015	Payments Due by Period			
($millions)	Total	1-3 Years	3-5 Years	5+ Years
Credit facility	$ 32.4	$ 32.4	$ -	$ -
Finance lease obligations	14.7	4.9	9.8	-
Operating leases	2.2	0.9	1.3	-
Purchase obligations	1.2	1.2	-	-
	$ 50.5	$ 39.4	$ 11.1	$ -

In addition to the above, the Company has asset retirement obligations at December 31, 2015 in the amount of $16.7 for the LDI mine and contractual obligations reflected in accounts payable. The Company obtained letters of credit of $14.9 related to the asset retirement obligation.

Other Commitments

Please refer to note 16 of the Company's Financial Statements.

Related Party Transactions

Brookfield Asset Management Inc. ("BAM") is a global alternative asset management company. The company owns and operates assets with a focus on property, renewable energy, infrastructure and private equity. The company is listed on the New York, Toronto and Euronext stock exchanges under the symbols BAM, BAM.A and BAMA, respectively. The company was formed by articles of amalgamation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the company is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

On June 18, 2015 the Company entered into the Recapitalization with Brookfield Capital Partners Ltd. ("Brookfield"), a 100% owned subsidiary of BAM, aimed at significantly reducing the Company's debt and enhancing the Company's liquidity.

On July 30, 2015, the Recapitalization received shareholder approval and was completed on August 6, 2015, resulting in conversion of all the outstanding principal amounts owing to Brookfield into equity, other than the Bridge Loan. After giving effect to the Recapitalization, Brookfield held a controlling interest in the Company with a 92% ownership of the common shares outstanding on a fully-diluted basis. The Company's financial results are consolidated and reported as part of the Brookfield Private Equity Funds at September 30, 2015.

On September 15, 2015, the Company undertook a $50 rights offering to raise equity, pursuant to which all shareholders at that time will be able to participate. The rights offering was backstopped by Brookfield. A total of 8,379,613 common shares were purchased under the Rights Offering. Pursuant to the basic subscription privilege, approximately 8.0 million common shares were subscribed for by rightholders, including approximately 7.7 million common shares by Brookfield.

Pursuant to the terms of the backstop agreement dated June 18, 2015, Brookfield and an unrelated party purchased an aggregate of approximately 0.4 million common shares not otherwise purchased by rightholders under the basic subscription privilege and additional subscription privilege (the "Backstop Commitment"). In consideration for the Backstop Commitment, the Company issued 226,131 common shares to Brookfield and 25,126 common shares to the unrelated party valued at $1.5.

Upon completion of the Rights Offering, a total of 58,126,526 common shares are issued and outstanding. Upon completion of the Rights Offering, Brookfield held approximately 53.5 million common shares, representing approximately 92% of the issued and outstanding common shares or substantially the same ownership percentage as prior to the Rights Offering.

On September 18, 2015, the US$25.0 outstanding balance of the Bridge Loan, including accrued interest, was settled in cash, with the exception of a nominal balance for settlement at a later date.

On December 21, 2015, the Company announced financings to fund working capital and capital expenditures for LDI, which included the term loan from Brookfield. The US$25 million term loan financing with Brookfield bears interest at 10% per annum and is due December 31, 2016, with an option to extend for one additional year. The loan is secured by first priority security on the fixed assets and second priority security on accounts receivable and inventory. The facility is available in two advances of which US$10 million is available immediately and US$15 million available until December 31, 2016. The loan is prepayable at any time, in whole or in part, without penalty.

SELECTED ANNUAL INFORMATION

($ millions except for per share amounts)	**2015**	2014	2013
Gross sales revenue	**$ 193.6**	$ 220.1	$153.2
Income (loss) from mining operations	**(15.2)**	21.9	(0.8)
Loss and comprehensive loss	**216.4**	66.7	46.2
Basic loss per share	**$ 9.39**	$ 78.74	$98.71
Diluted loss per share	**$ 9.39**	$ 78.85	$101.00
Net cash provided by (used in) operating activities	**13.7**	(11.5)	6.5
Net cash provided by financing activities	**25.0**	29.4	71.3
Current assets	**81.4**	98.0	69.6
Total assets	**535.3**	550.8	525.8
Long-term liabilities	**26.6**	248.9	59.5
Total liabilities	**87.0**	326.4	313.3
Total capital expenditures	**32.2**	23.8	109.5
Basic weighted-average number of Common Shares outstanding (millions)	**23.1**	0.8	0.5
Number of Common Shares outstanding (millions)	**58.1**	1.0	1.0

OUTSTANDING SHARE DATA

As of February 22, 2016, there were 58,126,526 common shares of the Company outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

a. Going Concern

This MD&A has been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company currently has two committed sources of financing, the credit facility (note 9), which was fully drawn on December 31, 2015, and the US $25 million term loan (notes 11 and 22). The Company utilizes its credit facility as needed to both supplement shortfalls in cash flow from operations and to fund certain capital expenditures. The Company's credit facility contains several financial covenants, which, if not met would result in an event of default. Certain events of default entitle the lender to demand repayment.

The Company is in the process of upgrading its facilities and will continue to incur capital expenditures in the next year. Management has estimated that the Company's existing cash at December 31, 2015 together with cash resources available under the Company's existing financing arrangements may not be sufficient to fund forecasted operating and investing cash requirements in the year ending December 31, 2016. The Company's cash and liquidity position and covenant compliance is sensitive to a number of variables which cannot be predicted with certainty, including, but not limited to, meeting production targets, metal prices, foreign exchange rates, operational costs and capital expenditures. Even though the Company has the financing noted above in place, in the event that management's assumptions are not realized, the Company believes that additional financing will be required. While the Company is pursuing various financing alternatives, the certainty of completing additional financing arrangements on terms acceptable to the Company cannot be assured at this time. Accordingly, these conditions have resulted in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

b. Use of estimates

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

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

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

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

c. Impairment assessments of long-lived assets

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

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

The recoverable amount of an asset or CGU is the greater of its "value in use", defined as the discounted present value of the future cash flows expected to arise from its continuing use and its ultimate disposal, and its "fair value less costs to sell", defined as the best estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount.

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

d. Depreciation and amortization of mining interests

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

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

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

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

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

e. Revenue recognition

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

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

f. Asset retirement obligations

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

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

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

Adoption of New Accounting Standards

There have been no new accounting standards adopted by the Company for the year ended December 31, 2015.

New standards not yet adopted

The following new standards or amendments to standards are not yet effective for the year ended December 31, 2015 or have otherwise not yet been adopted by the Company.

IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization

This pronouncement amends IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets to (i) clarify that the use of a revenue-based depreciation method is not appropriate for property, plant and equipment, and (ii) provide a rebuttable presumption for intangible assets. The amendment is effective for years beginning on or after January 1, 2016. This amendment is not expected to have a material impact on the consolidated financial statements of the Company.

IFRS 15 Revenue from contracts with customers

This new standard on revenue recognition supercedes IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The amendment is effective for years beginning on or after January 1, 2018. The Company is presently evaluating the potential impact of this new standard on the consolidated financial statements of the Company.

IFRS 9 Financial Instruments: Classification and Measurement

On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)) which will replace IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. This includes the introduction of a third measurement category for financial assets – fair value through other comprehensive income.

Special transitional requirements have been set for the application of the new general hedging model.

IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company is presently evaluating the impact of adopting this standard.

OTHER INFORMATION

Additional information regarding the Company is included in the Company's Annual Information Form, available on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

In addition to the risks and uncertainties discussed within the Company's most recent Annual Information Form, the reader should also consider the following risk factors:

Going Concern Risk – Please see the going concern section of this MD&A.

Liquidity Risk – Please see the liquidity and capital resources section of this MD&A.

Financing Risk – Please see the going concern section of this MD&A.

INTERNAL CONTROLS

Disclosure Controls and Procedures

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

For the year ended December 31, 2015, the Chief Executive Officer and Interim Vice President, Finance and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

The disclosure controls and procedures are evaluated annually through regular internal reviews which are carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Interim Vice President, Finance and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Interim Vice President, Finance and Chief Financial Officer concluded that the design and operation of these disclosure controls were effective as of December 31, 2015.

Internal Control over Financial Reporting

For the year ended December 31, 2015, the Chief Executive Officer and Interim Vice President, Finance and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS as issued by the IASB.

There have been no changes in the Company's internal controls over the financial reporting that occurred during the most recent period ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Under the supervision and with the participation of the Chief Executive Officer and the Interim Vice President, Finance and Chief Financial Officer, management performs regular internal reviews and conducts an annual evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated

Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on that evaluation, the Chief Executive Officer and Interim Vice President, Finance and Chief Financial Officer concluded that the design and operation of these internal controls over financial reporting were effective as of December 31, 2015.

NON-IFRS MEASURES

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

The following tables reconcile these non-IFRS measures to the most directly comparable IFRS measures:

Cash Cost Per Ounce of Palladium

The Company uses this measure internally to evaluate the underlying operating performance of the Company for the reporting periods presented. The Company believes that cash cost per ounce is a critical metric for evaluating the results of the underlying business of the Company.

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

The Company's primary operation relates to the extraction of palladium metal. Therefore, all other metals extracted in conjunction with the palladium metal are considered to be a by-product credit for the purposes of the cash cost calculation.

Reconciliation of Palladium Cash Cost per Ounce

($millions except ounce and per ounce amounts)	For the three months ended				For the year ended December 31	
	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	**2015**	**2014**
Production costs including overhead	**$ 30.4**	$ 44.9	$ 25.6	$ 41.6	**$ 142.5**	$ 130.7
Smelting, refining and freight costs	**5.2**	6.8	2.7	6.7	**21.4**	19.0
Royalty expense	**1.5**	2.7	1.0	2.5	**7.7**	9.1
Operational expenses	**37.1**	54.4	29.3	50.8	**171.6**	158.8
Less by-product metal revenue	**10.5**	14.9	7.1	18.0	**50.5**	60.7
	$ 26.6	$ 39.5	$ 22.2	$ 32.8	**$ 121.1**	$ 98.1
Divided by ounces of palladium sold	**42,855**	57,490	23,974	45,129	**169,448**	173,887
Cash cost per ounce (CDN$)	**$ 621**	$ 687	$ 926	$ 727	**$ 715**	$ 564
Average exchange rate (CDN$1 – US$)	**0.76**	0.76	0.81	0.81	**0.78**	0.91
Cash cost per ounce (US$), net of by-product credits	**$ 472**	$ 522	$ 750	$ 589	**$ 558**	$ 513

Adjusted EBITDA

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

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

Other companies may calculate EBITDA differently. Adjusted EBITDA, a non-IFRS financial measure, is defined as net loss and comprehensive loss before the following: change in carrying value of long-term debt; income and mining tax expense; interest and other income; interest costs, prepayment fee and other; financing costs; depreciation and amortization; exploration; foreign exchange loss (gain); loss on Recapitalization; mine restoration and mitigation costs; and, severance payments.

($millions)	For the three months ended				For the year ended December 31	
	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	**2015**	2014
Loss and comprehensive loss for the period	**$ (13.8)**	$ (68.5)	$ (96.8)	$ (37.3)	**$ (216.4)**	$ (66.7)
Interest and other income	**0.1**	(0.1)	(2.4)	1.3	**(1.1)**	(4.7)
Interest costs, prepayment fee and other	**0.5**	10.0	14.8	11.9	**37.2**	49.6
Financing costs	**0.9**	2.2	7.5	0.4	**11.0**	7.5
Depreciation and amortization	**7.0**	10.8	4.6	8.6	**31.0**	37.7
EBITDA	**$ (5.3)**	$ (45.6)	$ (72.3)	$ (15.1)	**$ (138.3)**	$ 23.4
Exploration	**2.4**	1.3	1.8	2.5	**8.0**	8.3
Foreign exchange loss (gain)	**2.1**	19.0	(4.0)	22.4	**39.5**	18.3
Mine restoration and mitigation costs	**(0.6)**	2.4	3.7	-	**5.5**	-
Severance payments	**-**	3.7	-	-	**3.7**	-
Change in carrying value of long-term debt	**-**	-	66.8	-	**66.8**	-
Loss on Recapitalization	**-**	28.3	-	-	**28.3**	-
Adjusted EBITDA	**$ (1.4)**	$ 9.1	$ (4.0)	$ 9.8	**$ 13.5**	$ 50.0

Management's Responsibility

for Financial Statements

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

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

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

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

Toronto, Canada

February 22, 2016

Jim Gallagher

CEO

Tim Hill

Interim CFO

KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of North American Palladium Ltd.

We have audited the accompanying consolidated financial statements of North American Palladium Ltd., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of North American Palladium Ltd. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that North American Palladium Ltd.'s existing available financing arrangements may be insufficient to fund operating and investing cash requirements in the year ending December 31, 2016. These conditions, along with other matters as set forth in note 1 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about North American Palladium Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 22, 2016
Toronto, Canada

North American Palladium Ltd.

Consolidated Balance Sheets

(expressed in millions of Canadian dollars)

	Notes	December 31 2015	December 31 2014
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 11.2**	$ 4.1
Accounts receivable	**4**	**51.4**	75.4
Inventories	**5**	**15.2**	14.9
Other assets	**6**	**3.6**	3.6
Total Current Assets		**81.4**	98.0
Non-current Assets			
Mining interests	**7**	**453.9**	452.8
Total Non-current Assets		**453.9**	452.8
Total Assets		**$ 535.3**	$ 550.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 23.1**	$ 28.8
Credit facility	**9**	**32.4**	36.8
Current portion of obligations under finance leases	**10**	**4.9**	4.6
Current portion of long-term debt	**11**	**-**	7.3
Total Current Liabilities		**60.4**	77.5
Non-current Liabilities			
Income taxes payable		**0.1**	0.1
Asset retirement obligations	**8**	**16.7**	15.8
Obligations under finance leases	**10**	**9.8**	14.2
Long-term debt	**11**	**-**	218.8
Total Non-current Liabilities		**26.6**	248.9
Shareholders' Equity			
Common share capital and purchase warrants	**13**	**1,313.0**	866.4
Stock options and related surplus		**10.3**	9.7
Equity component of convertible debentures, net of issue costs	**11**	**-**	6.9
Contributed surplus		**8.9**	8.9
Deficit		**(883.9)**	(667.5)
Total Shareholders' Equity		**448.3**	224.4
Total Liabilities and Shareholders' Equity		**$ 535.3**	$ 550.8

Nature of operations, going concern, and recapitalization – Note 1

Commitments and contingencies – Notes 16 and 19

Subsequent event – Note 22

See accompanying notes to the consolidated financial statements

On Behalf of the Board of Directors

J. Peter Gordon, Director

Dean Chambers, Director

Consolidated Statements of Operations and Comprehensive Loss

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

	Notes	2015	2014
Revenue	**17**	**$ 193.6**	$ 220.1
Mining operating expenses			
Production costs		**142.5**	130.7
Smelting, refining and freight costs		**21.4**	19.0
Royalty expense		**7.7**	9.1
Depreciation and amortization		**31.0**	37.7
Inventory pricing adjustment	**5**	**0.5**	-
Loss on disposal of equipment		**0.2**	1.7
Mine restoration and mitigation costs		**5.5**	-
Total mining operating expenses		**208.8**	198.2
Income (loss) from mining operations		**(15.2)**	21.9
Other expenses (Income)			
Exploration		**8.0**	8.3
General and administration		**11.5**	9.6
Interest and other income	**18**	**(1.1)**	(4.7)
Interest costs, prepayment fee and other	**18**	**104.0**	49.6
Financing costs		**11.0**	7.5
Foreign exchange loss		**39.5**	18.3
Loss on recapitalization	**1, 13(b)**	**28.3**	-
Total other expenses, net		**201.2**	88.6
Loss before taxes		**(216.4)**	(66.7)
Income tax recovery	**20**	**-**	-
Loss and comprehensive loss for the year		**$ (216.4)**	$ (66.7)
Loss per share			
Basic		**$ (9.39)**	$ (78.74)
Diluted	**13(f)**	**$ (9.39)**	$ (78.86)
Weighted average number of shares outstanding			
Basic	**13(f)**	**23,050,059**	847,045
Diluted	**13(f)**	**23,050,059**	848,361

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

(expressed in millions of Canadian dollars)

	Notes	2015	2014
Cash provided by (used in)			
Operations			
Loss from continuing operations for the year		$ (216.4)	$ (66.7)
Operating items not involving cash			
Depreciation and amortization		31.0	37.7
Inventory pricing adjustment	5	0.5	-
Accretion expense	18	10.6	3.2
Share-based compensation and employee benefits	13(h)	1.0	2.0
Unrealized foreign exchange loss		5.6	15.7
Realized foreign exchange loss on financing activities		31.5	-
Loss on disposal of equipment		0.2	1.7
Interest expense and other		92.3	40.6
Financing costs		11.0	7.5
Loss on recapitalization		28.3	-
		(4.4)	41.7
Changes in non-cash working capital	21	18.1	(53.2)
		13.7	(11.5)
Financing Activities			
Issuance of common shares and warrants, net of issue costs	13(c)	49.6	-
Issuance of convertible debentures, net of issue costs	11	-	61.2
Proceeds of credit facilities	9	54.4	22.0
Repayment of credit facilities	9	(34.6)	(6.1)
Proceeds of bridge loan	11	31.4	-
Repayment of bridge loan	11	(31.4)	-
Settlement of palladium warrants	11	-	(1.1)
Repayment of obligations under finance leases	10	(4.8)	(3.4)
Interest paid		(27.8)	(41.4)
Other financing costs		(11.8)	(1.8)
		25.0	29.4
Investing Activities			
Additions to mining interests, net	7	(32.2)	(23.8)
Proceeds on disposal of mining interests, net		0.6	0.2
		(31.6)	(23.6)
Increase (decrease) in cash		7.1	(5.7)
Cash and cash equivalents, beginning of year		4.1	9.8
Cash and cash equivalents, end of year		$ 11.2	$ 4.1
Cash and cash equivalents consisting of:			
Cash		$ 11.2	$ 4.1
Foreign exchange included in cash balance		$ 0.2	$ 0.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Shareholders' Equity

(expressed in millions of Canadian dollars, except share amounts)

	Notes	Number of shares	Capital stock	Stock options	Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
Balance, January 1, 2013		197,109,924	$ 798.4	$ 9.1	$ 6.9	$ 8.9	$ (600.8)	$ 222.5
Common shares issued:								
Pursuant to conversion of convertible debentures (Tranche 1)	**11**	76,407,816	30.9	-	-	-	-	30.9
Pursuant to conversion of convertible debentures (Tranche 2)	**11**	108,972,404	35.7	-	-	-	-	35.7
Stock based compensation:								
Stock-based compensation	**13(d)(h)**	4,024,633	1.4	0.6	-	-	-	2.0
Net loss and comprehensive loss for the year ended December 31, 2014		-	-	-	-	-	(66.7)	(66.7)
Balance, December 31, 2014		386,514,777	$ 866.4	$ 9.7	$ 6.9	$ 8.9	$ (667.5)	$ 224.4
Common shares issued:								
Pursuant to conversion of debts payable to Brookfield Capital Partners Ltd. ("Brookfield")	**11, 13(b)**	18,214,401,868	364.3	-	-	-	-	364.3
Pursuant to conversion of 2012 convertible debentures	**11, 13(b)**	1,181,002,018	30.5	-	(6.9)	-	-	23.6
Pursuant to conversion of 2014 convertible debentures (Series 1 & 2)	**11, 13(b)**	12,151,926	1.8	-	-	-	-	1.8
Pursuant to conversion of restricted share units	**13(g)**	2,274,717	0.1	-	-	-	-	0.1
Share consolidation (400:1)	**13(b)**	(19,748,767,244)	-	-	-	-	-	-
Pursuant to rights offering, net of issue costs	**13(c)**	8,630,870	49.6	-	-	-	-	49.6
Stock based compensation:								
Stock-based compensation	**13(d)(h)**	1,917,594	0.3	0.6	-	-	-	0.9
Net loss and comprehensive loss for the period ended December 31, 2015		-	-	-	-	-	(216.4)	(216.4)
Balance, December 31, 2015		58,126,526	$ 1,313.0	$ 10.3	$ -	$ 8.9	$ (883.9)	$ 448.3

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS, GOING CONCERN, AND RECAPITALIZATION

North American Palladium Ltd. ("NAP") is domiciled in Canada and was incorporated on September 12, 1991 under the Canadian Business Corporations Act. The address of the Company's registered office is One University Avenue, Suite 402, Toronto, Ontario, Canada, M5J 2P1. The Company's 100%-owned subsidiary is Lac des Iles Mines Ltd. ("LDI").

NAP operates the LDI palladium mine, located northwest of Thunder Bay, Ontario, which started producing palladium in 1993. The Company has transitioned the LDI mine from mining via ramp access to mining via shaft while utilizing bulk mining methods.

The consolidated financial statements for the Company include the Company and its subsidiary (collectively referred to as the "Company").

On August 6, 2015, a 92% ownership in NAP was acquired by Brookfield Capital Partners Ltd. ("Brookfield"). The details of the transaction are noted below. NAP's parent company, Brookfield, is a 100% owned subsidiary of Brookfield Asset Management Inc. ("BAM") which is publicly listed on the New York, Toronto and Euronext stock exchanges. Refer to note 12.

On June 18, 2015 the Company entered into an agreement with Brookfield, its senior secured term loan lender, aimed at significantly reducing the Company's debt and enhancing the Company's liquidity (the "Recapitalization"). On July 30, 2015, the Recapitalization received shareholder approval and was completed on August 6, 2015, resulting in the following:

- Cash settlement of all accrued interest owing to debtors at August 6, 2015 regarding the debt balances noted below immediately prior to conversion of the principal balances under the Recapitalization;
- Conversion of all the outstanding principal amounts owing to Brookfield into equity, other than the bridge loan facility (note 11), resulting in Brookfield owning common shares representing 92% of the common shares outstanding on a fully-diluted basis after giving effect to the Recapitalization, but prior to the rights offering described below;
- Conversion of the outstanding principal relating to the 2012 and 2014 convertible debentures into equity, resulting in holders of convertible debentures owning common shares representing in aggregate 6% of the common shares outstanding on a fully diluted basis after giving effect to the Recapitalization, but prior to the rights offering described below;
- Existing holders of common shares owning 2% of the post-Recapitalization common shares outstanding on a fully diluted basis after giving effect to the Recapitalization, but prior to the rights offering described below;
- The Company's outstanding restricted share units were converted into common shares;
- The Company's outstanding warrants and options were terminated;
- The common shares issued and outstanding were consolidated on the basis of one common share in the capital of the Company for every 400 existing common shares

After completion of the Recapitalization, the Company undertook a $50 rights offering to raise equity, pursuant to which all shareholders at that time were able to participate. The rights offering was backstopped by Brookfield and Polar Securities Inc ("Polar").

Refer to notes 9, 11, 13(b), and 13(c) for additional details regarding the Recapitalization and the rights offering and note 12 for related party disclosures.

These consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company currently has two committed sources of financing, the credit facility (note 9), which was fully drawn on December 31, 2015, and the US $25 million term loan (notes 11 and 22). The Company utilizes its credit facility as needed to both supplement shortfalls in cash flow from operations and to fund certain capital expenditures. The Company's credit facility contains several financial covenants, which, if not met would result in an event of default. Certain events of default entitle the lender to demand repayment.

The Company is in the process of upgrading its facilities and will continue to incur capital expenditures in the next year. Management has estimated that the Company's existing cash at December 31, 2015 together with cash resources available under the Company's existing financing arrangements may not be sufficient to fund forecasted operating and investing cash requirements in the year ending December 31, 2016. The Company's cash and liquidity position and covenant compliance is sensitive to a number of variables which cannot be predicted with certainty, including, but not limited to, meeting production targets, metal prices, foreign exchange rates, operational costs and capital expenditures. Even though the Company has the financing noted above in place, in the event that management's assumptions are not realized, the Company believes that additional financing will be required. While the Company is pursuing various financing alternatives, the certainty of completing additional financing arrangements on terms acceptable to the Company cannot be assured at this time. Accordingly, these conditions have resulted in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of these financial statements, including IAS 1, Presentation of Financial Statements.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 22, 2016.

Basis of Measurement

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

(i) Accounts receivable are measured at fair value.
(ii) Financial instruments at fair value through profit or loss are measured at fair value.
(iii) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

Functional and Presentation Currency

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

Use of Judgments and Estimates

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

(a) Critical judgments

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

Note 8 – Asset retirement obligations and reclamation deposits

(b) Key estimates and assumptions

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

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

(i) The Company's estimates of recoverable amounts of mining interests may be affected due to changes in estimated future cash flows;
(ii) Depreciation and amortization charged in the statement of operations may change or be impacted where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
(iii) Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by all Company's entities for all periods presented in these consolidated financial statements, unless otherwise indicated.

Basis of Consolidation

These consolidated financial statements include the accounts of NAP and its wholly-owned subsidiary.

(a) Business combinations

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

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

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

(b) Subsidiaries

Subsidiaries are entities controlled by NAP. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(c) Transactions eliminated on consolidation

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

Foreign Currency Translations

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

Financial Instruments

(a) Non-derivative financial assets

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

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

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

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. These financial instruments are measured at fair value, and changes therein are recognized in the Consolidated Statements of Operations and Comprehensive Loss. The Company’s accounts receivable from the sale of palladium and by-product metals from the LDI mine primarily represent the material financial instruments which have been recorded at fair value through profit or loss (see note 4).

Financial assets classified as loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method, less any impairment losses. The Company’s loan and receivables are included in other assets (see note 6). Cash and cash equivalents are stated at fair value and include cash on account less outstanding cheques, demand deposits and short-term guaranteed investments with original maturities of three months or less.

(b) Non-derivative financial liabilities

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

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

The Company has the following non-derivative financial liabilities: long-term debt, finance leases, bank overdrafts, credit facilities, and trade and other payables.

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

(c) Derivative financial instruments

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

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

Separable embedded derivatives

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

Other non-trading derivatives

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

Inventories

Concentrate, crushed and broken ore stockpiles are valued at the lower of average production cost (including an allocation of the depreciation of production related assets) and net realizable value. Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing. The amount of stockpiled ore that is not expected to be processed within one year, if any, is shown as a long-term asset. Supplies inventory is valued at the lower of average cost and net realizable value.

Mining Interests

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Where funds used to finance a major project form part of general borrowings, the Company capitalizes interest on those borrowings proportionate to the project funds used.

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within mining operating expenses.

(b) Subsequent costs

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

(c) Depreciation and amortization

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

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

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

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

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

Impairment

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

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

The recoverable amount of an asset or CGU is the greater of its "value in use", defined as the discounted present value of the future cash flows expected to arise from its continuing use and its ultimate disposal, and its "fair value less costs to sell", defined as the best estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount.

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

Mining Interests - Open Pit Mining Costs

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping. Stripping costs generate a future economic benefit by providing (i) access to ore to be mined in the future; (ii) increases the fair value of the mine (or pit) as access to future mineral reserves becomes less costly; and (iii) increases the productive capacity or extends the productive life of the mine (or pit). For production phase stripping costs that are expected to generate a future economic benefit, the current period stripping costs are capitalized as open pit mine development costs.

Stripping costs incurred during the production stage of a pit are accounted for as costs of the inventory produced during the period that the stripping costs were incurred, unless these costs are expected to provide a future economic benefit.

Capitalized open pit mine development costs are depreciated once the open pit has entered production and the future economic benefit is being derived. Capitalized open pit mine development costs are depreciated using the unit of production method over the life of the ore body to which accessibility has been improved by the stripping activity.

Employee benefits

Defined contribution plans

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

Compensation Agreements

Share-based payment transactions

Prior to August 6, 2015, the Company had a stock option plan. The grant date fair value of equity-classified share-based payment awards granted to employees was recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense was adjusted to reflect the number of awards for which the related service were expected to be met, such that the amount ultimately recognized as an expense was based on the number of awards that did meet the related service and non-market performance conditions at the vesting date.

Prior to August 6, 2015, the Company had a Restricted Share Unit ("RSU") plan under which eligible directors, officers and key employees of the Company were entitled to receive awards of restricted share units. Each restricted share unit was equivalent in value to the fair market value of a common share of the Company on the date of the award and a corresponding liability was established on the balance sheet. The value of each award was charged to compensation expense over the period of vesting. At each reporting date, the compensation expense and liability were adjusted to reflect the changes in market value of the liability based on the fair values of RSU's for each vesting period determined using the Black-Scholes model.

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

Provisions

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

(a) Asset Retirement Obligations

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

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

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

(b) Production Obligations

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

Revenue and Accounts Receivable

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

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

Interest expense and other costs and other income

Interest expense and other costs are comprised of interest expense on borrowings, accretion expense, and changes in the fair value of financial assets or liabilities at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

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

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

Income and mining taxes

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

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

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

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

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

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

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

Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share ("EPS") is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the reporting period.

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

For convertible financial instruments classified as debt, the consolidated comprehensive net income (loss) is adjusted to reflect the profit or loss which would have been reported in the period if the debt instrument had been converted immediately at the beginning of the period. These adjustments to profit or loss and the equivalent shares realizable on conversion are not included in the diluted earnings per share calculation when the effect would be anti-dilutive.

Adoption of New Accounting Standards

There have been no new accounting standards adopted by the Company for the year ended December 31, 2015.

New standards and interpretations not yet adopted

The following new standards are not yet effective for the year ended December 31, 2015 or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any; adoption of the standards will have on the disclosures in the Company's consolidated financial statements:

IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization

This pronouncement amends IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets to (i) clarify that the use of a revenue-based depreciation method is not appropriate for property, plant and equipment, and (ii) provide a rebuttable presumption for intangible assets. The amendment is effective for years beginning on or after January 1, 2016. This amendment is not expected to have a material impact on the consolidated financial statements of the Company.

IFRS 15 Revenue from contracts with customers

This new standard on revenue recognition supercedes IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The amendment is effective for years beginning on or after January 1, 2018. The Company is presently evaluating the potential impact of this new standard on the consolidated financial statements of the Company.

IFRS 9 Financial Instruments: Classification and Measurement

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)) which will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. This includes the introduction of a third measurement category for financial assets – fair value through other comprehensive income.

Special transitional requirements have been set for the application of the new general hedging model.

IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company is presently evaluating the impact of adopting this standard.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	At December 31 2015	At December 31 2014
Accounts receivable	**$ 51.4**	$ 75.2
Unrealized gain on financial contracts[1]	**-**	0.2
Accounts receivable	**$ 51.4**	$ 75.4

[1] *As at December 31, 2015, no past palladium production, delivered and sold to a smelter, was priced using forward prices for the month of final settlement (December 31, 2014 – 12,800 ounces of past palladium production at an average price of $942 per ounce). Refer to note 14.*

Accounts receivable represents the value of all platinum group metals ("PGMs"), gold and certain base metals contained in LDI's concentrate shipped for smelting and refining, using the December 31, 2015 forward metal prices and foreign exchange rates applicable for the month of final settlement, and for which significant risks and rewards have transferred to third parties.

All of the accounts receivable are due from three customers at December 31, 2015 (December 31, 2014 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amount due will be fully collected. The Company is not economically dependent on its customers, refer to note 17.

First priority security of accounts receivable, supplies inventory, and inventories of concentrate, crushed and broken ore and second priority security on the plant and equipment have been pledged as security against a credit facility described in note 9.

5. INVENTORIES

Inventories consist of the following:

	At December 31 2015	At December 31 2014
Supplies[1]	**$ 12.1**	$ 11.3
Concentrate inventory[1]	**0.1**	3.1
Crushed and broken ore stockpiles[1,2]	**3.0**	0.5
Total	**$ 15.2**	$ 14.9

[1] *This portion of inventories has been pledged as security on the Company's credit facility. Refer to note 9.*

[2] *Crushed and broken ore stockpiles represent coarse ore that has been extracted from the mine and is available for further processing.*

During the year-ended December 31, 2015, concentrate inventory was written down in the amount of $0.5 to reflect net realizable value (December 31, 2014 - $nil) and has been recorded as an inventory pricing adjustment. No write-downs were recorded for crushed and broken ore stockpile inventories in 2015 or 2014.

Supplies inventory of $33.0 were recognized as an expense during the year ended December 31, 2015 (2014 - $40.3). During the year ended December 31, 2015 the Company recognized a write-down of obsolete supplies inventory in the amount of $0.2 (2014 - $0.8).

6. OTHER ASSETS

Other assets consist of the following:

	At December 31 2015	At December 31 2014
Prepaids	**$ 2.7**	$ 2.0
HST receivable	**0.1**	0.8
Other	**0.8**	0.8
	$ 3.6	$ 3.6

7. MINING INTERESTS

Mining interests are comprised of the following:

	Plant and equipment	Underground mine development	Equipment under finance lease	Mining leases and claims, royalty interest, and development	Total
Cost or deemed cost					
Balance at January 1, 2014	**$ 73.8**	**$ 415.9**	**$ 15.6**	**$ 14.8**	**$ 520.1**
Additions of physical assets	13.1	12.2	8.0	1.1	34.4
Revaluation of ARO assets	1.8	-	-	-	1.8
Reclassification of costs for finance leases maturing in the year	0.5	(1.7)	1.2	-	-
Disposals	(2.1)	(0.7)	(0.1)	-	(2.9)
Balance at December 31, 2014	**$ 87.1**	**$ 425.7**	**$ 24.7**	**$ 15.9**	**$ 553.4**
Additions of physical assets	16.2	16.4	0.9	-	33.5
Revaluation of ARO assets	0.6	-	-	-	0.6
Other reclassifications	(0.9)	0.9	-	-	-
Disposals	(1.1)	(0.4)	(0.1)	-	(1.6)
Balance at December 31, 2015	**$ 101.9**	**$ 442.6**	**$ 25.5**	**$ 15.9**	**$ 585.9**
Depreciation and impairment losses					
Balance at January 1, 2014	**$17.6**	**$38.1**	**$4.2**	**$4.0**	**$63.9**
Depreciation for the year	5.3	29.3	2.3	0.8	37.7
Reclassification for finance leases maturing in the year	0.3	-	(0.3)	-	-
Other reclassifications	(0.2)	0.1	0.1	-	-
Disposals	(0.2)	(0.6)	(0.2)	-	(1.0)
Balance at December 31, 2014	**22.8**	**66.9**	**6.1**	**4.8**	**100.6**
Depreciation for the year	5.5	22.2	3.6	0.6	31.9
Other reclassifications	(0.5)	0.5	-	-	-
Disposals	(0.2)	(0.2)	(0.1)	-	0.5
Balance at December 31, 2015	**27.6**	**89.4**	**9.6**	**5.4**	**132.0**
Carrying amounts					
As at December 31, 2014	**$ 64.3**	**$ 358.8**	**$ 18.6**	**$ 11.1**	**$452.8**
As at December 31, 2015	**$ 74.3**	**$ 353.2**	**$ 15.9**	**$ 10.5**	**$453.9**

Depreciation and amortization

As a result of the finalization of the technical report for the LDI mine, which was filed on March 27, 2015 (amended on April 20, 2015), the Company has revised its estimate of in-situ ounces of palladium used as the denominator for depreciation and amortization of certain of its assets under the unit-of-production method. The revised estimate was based on the inclusion of the proven and probable reserves and measured resources expected to be converted to reserves based on prior conversion rates. This change in estimate has been prospectively applied for all depreciation and amortization calculations effective February 1, 2015.

Asset restrictions and contractual commitments

The Company's assets are subject to certain restrictions on title and property, plant and equipment. Substantially all assets are pledged as security under the Company's credit facility and debt agreements. See notes 9 and 11.

8. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION DEPOSITS

At December 31, 2015, the changes in asset retirement obligations are as follows:

Asset retirement obligations, beginning of year	**$ 15.8**
Change in discount rate and estimated closure costs (note 7)	**0.6**
Accretion expense (note 18)	**0.3**
Asset retirement obligations, end of year	**$ 16.7**

Asset retirement obligations comprised the following as at December 31, 2015:

Property	Expected timing of cash flows	Asset retirement obligation	Mine closure plan requirement	Letter of credit outstanding	Undiscounted asset retirement obligation
LDI mine[1]	2029	$ 16.7	$ 14.6	$ 14.6	$ 20.3

[1] *Including a letter of credit for Shebandowan West project, the total letters of credit outstanding are $14.9 for asset retirement obligations. Refer to notes 9 and 16.*

Asset retirement obligations comprised the following as at December 31, 2014:

Property	Expected timing of cash flows	Asset retirement obligation	Mine closure plan requirement	Letter of credit outstanding	Undiscounted asset retirement obligation
LDI mine[1]	2023	$ 15.8	$ 14.1	$ 14.1	$ 18.4

[1] *Including a letter of credit for Shebandowan West project, the total letters of credit outstanding are $14.4 for asset retirement obligations. Refer to notes 9 and 16.*

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

	At December 31 2015	At December 31 2014
Inflation	**2.00%**	2.00%
Market risk	**5.00%**	5.00%
Discount rate	**1.39%**	1.67%

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

9. CREDIT FACILITIES

Bank Facility

The Company has secured a credit facility with a Canadian chartered bank, which has been extended to November 30, 2017. The amended credit facility is to be used for working capital liquidity and general corporate purposes. The maximum that can be utilized under the facility is the lesser of US$60 and an amount determined by a borrowing base calculation. The amended credit facility contains certain financial covenants, as defined in the agreement, including a current ratio test and evaluations based on earnings before interest, taxes, depreciation and amortization ("EBITDA") that include minimum EBITDA requirements and senior debt to EBITDA ratios. Failure to satisfy these covenant requirements would result in an event of default. The loan also includes other covenants, including material adverse change provisions and cross-default provisions that existed with the senior secured term loan prior to its settlement under the Recapitalization (note 11). Certain events of default result in the credit facility becoming immediately due, while other events of default entitle the lender to demand repayment.

Under the credit facility, as of December 31, 2015, the Company utilized $16.5 (US$11.9) for letters of credit, primarily for reclamation deposits (December 31, 2014 - $15.4 (US$13.3)), and had $32.4 (US$23.4) in borrowings outstanding (December 31, 2014 - $36.8 (US$31.7)).

First priority security of accounts receivable, supplies inventory, and inventories of concentrate, crushed and broken ore and second priority security on the property, plant and equipment have been pledged as security against the credit facility. Refer to note 4.

Brookfield Interim Facility

On April 15, 2015, the Company entered into a US$25 interim credit facility (the "Interim Facility") with Brookfield and utilized the full balance of the available credit. The Interim Facility accumulated interest at 16% per annum and matured on September 15, 2015. All amounts outstanding under the facility were due and payable on that date. A commitment fee of 3% of the Interim Facility amount was capitalized to the principal and interest was accrued at the Interim Facility rate of 16% per annum. The Interim Facility contained a prepayment penalty on the repayment of principal in whole or in part prior to the maturity date. The Interim Facility was accounted for at amortized cost with an effective interest rate of 26.00%.

On August 6, 2015, all amounts owing relating to the Interim Facility were consolidated and settled as part of the amounts owing to Brookfield for the purposes of conversion under the Recapitalization. Refer to note 11.

10. LEASES

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

FINANCE LEASES (OBLIGATIONS UNDER FINANCE LEASES)

The Company leases production equipment under a number of finance lease agreements. Some leases provide the Company with the option to purchase the equipment at a beneficial price. The leased equipment secures the lease obligations. The net carrying amount of leased equipment at each reporting date is summarized in the mining interests under the category of equipment under finance lease. Refer to note 7.

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

	At December 31, 2015			At December 31, 2014		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 5.6**	**$ 0.7**	**$ 4.9**	$ 5.5	$ 0.9	$ 4.6
Between one and five years	**10.4**	**0.6**	**9.8**	15.3	1.1	14.2
	$ 16.0	**$ 1.3**	**$ 14.7**	$ 20.8	$ 2.0	$ 18.8
Less current portion			**4.9**			4.6
			$ 9.8			$ 14.2

OPERATING LEASES

The Company, from time to time, enters into leasing arrangements for production and other equipment under a number of operating leases. These leases are generally short-term in nature and subject to cancellation clauses. The Company periodically reviews the nature of these leases to identify if there have been any significant changes to the terms and use of the items under operating lease which would require reclassification as a finance lease. Any required reclassification is applied prospectively from the date the revised lease terms become effective.

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

	At December 31 2015	At December 31 2014
Less than one year	**$ 0.9**	$ 1.4
Between one and five years	**1.3**	1.4
	$ 2.2	$ 2.8

The total minimum lease payments recognized in expense during each of the stated years are as follows:

	December 31 2015	December 31 2014
Minimum lease payments expensed	**$ 3.0**	$ 3.8

11. LONG-TERM DEBT

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

	At December 31 2015	At December 31 2014
Senior secured term loan[1]	**$ -**	$ 186.4
Convertible debentures (2012)	**-**	37.5
Convertible debentures and warrants (2014 – Tranche 1)	**-**	0.8
Convertible debentures and warrants (2014 – Tranche 2)	**-**	1.4
	-	226.1
Less current portion	**-**	7.3
	$ -	$ 218.8

[1] During 2015, the Company also received debt proceeds relating to a bridge loan facility and waiver fees which were settled in cash and common shares prior to December 31, 2015 with the exception of a nominal balance remaining on the bridge loan facility.

Senior secured term loan

On June 7, 2013, the Company closed a US$130 senior secured term loan financing with Brookfield which accumulated interest at 15% per annum and was due June 7, 2017. The Company also exercised an option to defer a commitment fee of US$3.9 for a period of up to two years. The loan was secured by first priority security on the property, plant and equipment and second priority security on accounts receivable and inventory. The Company had the option to accrue interest during the first two years of the loan; in which case, the interest rate on the loan and accrued interest would increase by 4%. The loan was measured at amortized cost.

Amendments to the loan were made on November 29, 2013 and June 30, 2014 which included certain modifications to the loan, including an additional loan of US$15.0, and an amendment fee of US$8.1. As at December 31, 2014, the senior secured term loan was being amortized at an effective interest rate of 18.74%

The loan contained covenants, including senior debt to earnings before interest, taxes, depreciation and amortization ratios, which became effective in the fourth quarter of 2014, and minimum tangible net worth requirements and capital expenditure limits which became effective June 7, 2013 which, if not met, would result in an event of default. The loan also included certain events of default including breaches of the financial covenants, material adverse changes, limits on liens, additional debt, payments and cross-default provisions. Certain events of default result in the loan becoming immediately due, together with the prepayment fee and penalty interest of 5% above the applicable rate while unpaid, and other events of default entitle the lender to demand repayment of the loan together with the prepayment fee and penalty interest.

At March 31, 2015, the Company received waivers with respect to the minimum shareholders' equity and senior debt to EBITDA ratio covenants, and subsequently received amendments waiving future covenant compliance for the April, May, June and July 2015 compliance tests, subject to certain conditions. During the second quarter of 2015, the Company entered into an agreement to extend the waiver to July 31, 2015, subject to fees in the amount of $3.7 (US$3.0) which were capitalized against the outstanding loan balance.

On June 18, 2015 the Company entered into the Recapitalization with Brookfield aimed at significantly reducing the Company's debt and enhancing the Company's liquidity. In applying the effective interest method in the three months ended June 30, 2015, the Company reassessed its estimated cash flows under the senior secured term loan and recorded an adjustment to the carrying value of the debt of $66.8 to reflect the present value of accelerated interest expense, primarily related to the expected settlement of the prepayment fee.

On July 30, 2015, the Recapitalization received shareholder approval and was completed on August 6, 2015, resulting in the conversion of the outstanding balance of the senior secured term loan into common shares of the Company.

At the time of the Recapitalization, the Company issued 18,214,401,868 common shares with a fair value of $364.3 to settle debt amounts owing to Brookfield relating to the senior secured term loan, interim credit facility, waiver fees, and related make-whole and commitment fees with an aggregate carrying value of $321.1, resulting in a loss on recapitalization of $43.2 being recorded in the Consolidated Statements of Operations and Comprehensive Loss. Refer to notes 1 and 13(b).

On December 21, 2015, the senior secured term loan financing with Brookfield was further amended to include the availability of a US$25.0 term loan financing which bears interest at 10% per annum and is due December 31, 2016, with an option to extend for one additional year at the option of the Company. The loan is secured by first priority security on the plant and equipment and second priority security on accounts receivable and inventory. The facility is available in two advances of which US$10.0 is available immediately until January 31, 2016 and US$15.0 available in the first quarter of 2016 until December 31, 2016. The loan is repayable at any time, in whole or in part, without penalty. An advance of US$10.0 was received on January 26, 2016. Refer to note 22.

Bridge Loan

On June 18, 2015, the Company entered into a US$25.0 bridge loan facility providing temporary working capital support (the "Bridge Loan") with Brookfield. The Bridge Loan accumulated interest at 16% per annum and matured on September 15, 2015. A commitment fee of 3% of the Bridge Loan in the amount of $0.9 (US$0.8) was settled in cash at the inception of the loan. The Bridge Loan contained a prepayment penalty on the repayment of principal in whole or in part prior to the maturity date. On June 19, 2015, the Company received an initial advance in the amount of US$15.0. The final advance in the amount of US$10.0 was received on July 14, 2015. The loan was carried at amortized cost at an effective interest rate of 28.56%.

On September 18, 2015, the US$25.0 outstanding balance of the Bridge Loan, including accrued interest, was settled in cash, with the exception of a nominal balance for settlement at a later date.

Waiver Fees

As a result of the covenant violations which occurred in March 2015, the Company also incurred waiver fees in the amount of US$3.0 which had been included in the outstanding loan balances and are recognized as financing costs in the consolidated statements of operations and comprehensive loss. These waiver fees were consolidated and settled in full as part of the amounts owing to Brookfield for the purposes of conversion under the Recapitalization.

Convertible Debentures (2012)

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

The convertible debentures were compound financial instruments, consisting of the debt instrument and the equity conversion feature. Transaction costs were netted against the debt instrument and equity component based on the pro-rata allocation of the fair value of each instrument at initial recognition. The debt instrument was valued at amortized cost using the effective interest rate method at a discount rate of 10.5%. Of the net proceeds of $40.8, $33.9 had been allocated to long-term debt, and the remaining portion of $6.9 had been allocated to the equity component of the convertible debentures at the time of issuance.

The Recapitalization on August 6, 2015, resulted in the conversion of the outstanding balance of the convertible debentures into common shares of the Company. At the time of the Recapitalization, the Company issued 1,181,002,018 common shares with a fair value of $23.6 to settle the debentures with a carrying value of $38.5, resulting in a gain on recapitalization of $14.9 being recorded in the Consolidated Statements of Operations and Comprehensive Loss. Refer to notes 1 and 13(b).

In conjunction with the conversion of the debentures, the $6.9 relating to the equity component of the convertible debentures was reclassified within equity to capital stock.

Convertible Debentures (2014 – Series 1)

On January 31, 2014 and February 10, 2014, the Company closed a public offering with the aggregate sale of $32.0 gross principal amount of convertible unsecured subordinated debentures (the "2014 Series 1 Debentures") of the Company at a price of $1,000 per Debenture, including approximately 16.8 million common share purchase warrants (the "2014 Series 1 Warrants"). The 2014 Series 1 Debentures were to mature on January 31, 2019, unless redeemed or converted earlier, or unless extended, and accumulated interest at an annual rate of 7.5% payable semi-annually in arrears on January 31 and July 31 of each year. Each 2014 Series 1 Warrant entitled the holder thereof to purchase one common share of the Company at any time before March 28, 2017.

This offering represented the first tranche of the offering. Net proceeds received were $28.5. The conversion price of the 2014 Series 1 Debentures was $0.635 per common share, and the original exercise price of the 2014 Series 1 Warrants was $0.762 per common share. As a result of the completion of the second tranche offering, the anti-dilution clause within the 2014 Series 1 Debentures agreements resulted in an adjustment of the original exercise price for the 2014 Series 1 Warrants to $0.5786 per common share.

Due to the existence of multiple derivatives embedded within the contract, the Company elected to account for the 2014 Series 1 Debentures, the 2014 Series 1 Warrants, and all related derivatives as one instrument at fair value through profit or loss, with changes in fair value being recognized as derivative gains or losses through profit or loss. As a result of this election, transaction costs of $3.5 were expensed as financing costs for the year ended December 31, 2014.

At December 31, 2014, 2014 Series 1 Debentures with an initial face value of $31.7, including accrued interest and make-whole provisions, had been converted into 76,407,816 common shares of NAP.

In the first quarter of 2015, 2014 Series 1 Debentures with an initial face value of $0.3, including accrued interest and make-whole provisions, had been converted into 760,312 common shares of NAP.

The Recapitalization on August 6, 2015, resulted in the conversion of the outstanding balance of the 2014 Series 1 Debentures into common shares of the Company and cancellation of the outstanding 2014 Series 1 Warrants.

Convertible Debentures (2014 – Series 2)

On April 11, 2014 and April 17, 2014, the Company closed a public offering with the aggregate sale of $35.0 gross principal amount of convertible unsecured subordinated debentures (the "2014 Series 2 Debentures") of the Company at a price of $1,000 per Debenture, including approximately 18.9 million common share purchase warrants (the "2014 Series 2 Warrants"). The 2014 Series 2 Debentures were to mature on April 11, 2019, unless redeemed or converted earlier, or unless extended, and accumulated interest at an annual rate of 7.5% payable semi-annually in arrears on March 31 and September 30 of each year. Each 2014 Series 2 Warrant entitled the holders thereof to purchase one common share of the Company at any time before the second anniversary of the date of issue.

This offering represented the second tranche of the offering. Net proceeds received were $32.7. The conversion price of the 2014 Series 2 Debentures was $0.4629 per common share, and the exercise price of the 2014 Series 2 Warrants was $0.5786 per common share.

Due to the existence of multiple derivatives embedded within the contract, the Company elected to account for the 2014 Series 2 Debentures, the 2014 Series 2 Warrants, and all related derivatives as one instrument at fair value through profit or loss, with changes in fair value being recognized as derivative gains or losses through profit or loss. As a result of this election, transaction costs of $2.3 were expensed in the period as financing costs for the year ended December 31, 2014.

At December 31, 2014, 2014 Series 2 Debentures with an initial face value of $33.5, including accrued interest and make-whole provisions, had been converted into 108,972,404 common shares of NAP.

In the first quarter of 2015, 2014 Series 2 Debentures with an initial face value of $0.9, including accrued interest and make-whole provisions, had been converted into 4,497,858 common shares of NAP.

The Recapitalization on August 6, 2015, resulted in the conversion of the outstanding balance of the 2014 Series 2 Debentures into common shares of the Company and cancellation of the outstanding 2014 Series 2 Warrants.

At the time of the Recapitalization, the Company issued 6,893,756 common shares with a fair value of $0.1 to settle the 2014 Series 1 Debentures and 2014 Series 2 Debentures with an aggregate carrying value of $0.1, resulting in no gain or loss on recapitalization being recorded in the Consolidated Statements of Operations and Comprehensive Loss. Refer to notes 1 and 13(b).

12. RELATED PARTY TRANSACTIONS

Brookfield Asset Management Inc. ("BAM") is a global alternative asset management company. The company owns and operates assets with a focus on property, renewable energy, infrastructure and private equity. The company is listed on the New York, Toronto and Euronext stock exchanges under the symbols BAM, BAM.A and BAMA, respectively. The company was formed by articles of amalgamation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the company is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

On June 18, 2015 the Company entered into the Recapitalization with Brookfield Capital Partners Ltd. ("Brookfield"), a 100% owned subsidiary of BAM**,** aimed at significantly reducing the Company's debt and enhancing the Company's liquidity.

On July 30, 2015, the Recapitalization received shareholder approval and was completed on August 6, 2015, resulting in conversion of all the outstanding principal amounts owing to Brookfield into equity, other than the Bridge Loan. After giving effect to the Recapitalization, Brookfield held a controlling interest in the Company with a 92% ownership of the common shares outstanding on a fully-diluted basis. The Company's financial results are consolidated and reported as part of the Brookfield Private Equity Funds at September 30, 2015.

On September 15, 2015, the Company undertook a $50 rights offering to raise equity, pursuant to which all shareholders at that time will be able to participate. The rights offering was backstopped by Brookfield. A total of 8,379,613 common shares were purchased under the Rights Offering. Pursuant to the basic subscription privilege, approximately 8.0 million common shares were subscribed for by rightholders, including approximately 7.7 million common shares by Brookfield.

Pursuant to the terms of the backstop agreement dated June 18, 2015, Brookfield and an unrelated party purchased an aggregate of approximately 0.4 million common shares not otherwise purchased by rightholders under the basic subscription privilege and additional subscription privilege (the "Backstop Commitment"). In consideration for the Backstop Commitment, the Company issued 226,131 common shares to Brookfield and 25,126 common shares to the unrelated party.

Upon completion of the Rights Offering, a total of 58,126,526 common shares are issued and outstanding. Upon completion of the Rights Offering, Brookfield held approximately 53.5 million common shares, representing approximately 92% of the issued and outstanding common shares or substantially the same ownership percentage as prior to the Rights Offering.

On September 18, 2015, the US$25.0 outstanding balance of the Bridge Loan, including accrued interest, was settled in cash, with the exception of a nominal balance for settlement at a later date.

Refer to notes 1, 9, 11, 13(b) and 13(c) for additional disclosures relating to the above transactions.

On December 21, 2015, the Company announced financings to fund working capital and capital expenditures for LDI, which included the Term Loan from Brookfield. Refer to notes 11 and 22.

Transactions with key management personnel

Key management personnel compensation

The Company, prior to the Recapitalization, provided non-cash benefits to directors and executive officers, and contributed to a defined contribution plan on their behalf in addition to regular salaried amounts. Managers and executive officers are entitled to receive stock-based compensation on an annual basis through participation in the Company's group registered retirement savings plan. Prior to August 6, 2015, directors and executive officers were also entitled to incentives issued under the Company's corporate stock option and restricted share unit plans. Refer to note 13.

Summary of key management personnel compensation

	December 31 2015	December 31 2014
Short-term employee benefits	**$ 3.7**	**$ 3.1**
Post employment benefits	**0.1**	**0.1**
Termination benefits	**3.0**	**-**
Share-based payments	**-**	**0.5**
	$ 6.8	**$ 3.7**

13. SHAREHOLDERS' EQUITY

(a) Authorized and Issued Capital Stock

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

(b) Recapitalization

On June 18, 2015, the Company entered into the Recapitalization with Brookfield. On July 30, 2015, the Recapitalization received shareholder approval and was completed on August 6, 2015, resulting in the cancellation of all outstanding options and warrants and the conversion of all amounts owing to Brookfield, other than the Bridge Loan; the 2012 and 2014 convertible debentures; and outstanding restricted share units into equity. Refer to note 11. A fair value of $0.02 per share was assigned for accounting purposes based on the closing price for the Company's common shares in the market for the days immediately preceding and up to the closing date of the Recapitalization. At the time of the Recapitalization, the Company issued 19,404,572,359 common shares with a fair value of $388.1 to settle debt amounts with an aggregate carrying value of $359.8, resulting in a loss on recapitalization of $28.3 being recorded in the Consolidated Statements of Operations and Comprehensive Loss. A total of 19,798,262,900 common shares were outstanding after the Recapitalization on August 6, 2015.

Immediately subsequent to issuance of shares under the Recapitalization, all of the common shares issued and outstanding were consolidated on the basis of one common share in the capital of the Company for every 400 existing common shares. On August 6, 2015, subsequent to the share consolidation, the Company had 49,495,656 common shares outstanding, before inclusion of shares issued in relation to the Rights Offering.

As a result of the Recapitalization, Brookfield acquired 92% of the issued and outstanding common shares of the Company on August 6, 2015.

(c) Rights Offering and Backstop Agreement

On September 15, 2015, the Company completed a Rights Offering. Pursuant to the Rights Offering, each shareholder of record of NAP common shares at the close of business on August 20, 2015 received one right for each common share then held. An aggregate of 49,495,656 Rights were distributed to shareholders pursuant to the rights offering. Every 5.91 rights entitled the holder thereof to purchase one common share at an exercise price of $5.97 per common share thereof to acquire up to 8,379,613 common shares for gross proceeds of $50.0.

The Company also entered into a backstop agreement with Brookfield pursuant to which Brookfield and Polar had, subject to certain terms and conditions, agreed to purchase, in aggregate, all of the common shares which remained unsubscribed for by the holders of the rights at the expiry of the rights offering. The Company incurred fees relating to the backstop (the "Backstop Fees") in the amount of $1.5 that have been recognized as transactions costs which have been netted against common share capital and purchase warrants on the consolidated balance sheets. On closing of the Rights Offering, the Company settled the liability relating to the Backstop Fees with the issuance of 226,131 common shares to Brookfield and 25,126 common shares to Polar, representing a conversion price of $5.97 per common share.

On September 15, 2015, the Company issued 8,630,870 common shares pursuant to the exercise of the rights for cash proceeds of $49.6, net of transaction costs.

Upon completion of the Rights Offering, a total of 58,126,526 common shares are issued and outstanding.

(d) Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan, in which eligible employees can participate in at their option. Union employees are entitled to an employer contribution of either: (a) $1.00 for each $1.00 contribution up to a maximum of 5% of base salary for employees who have been employed for 6-18 months (maximum $2,500 per year); or (b) $2.00 for each $1.00 contribution up to a maximum of 10% of base salary for employees who have been employed for greater than 18 months (maximum $5,000 per year). Non-union employees are entitled to an employer contribution equal to 3% of base salary plus an employer matching contribution of up to a maximum of 2% of base salary for employees who have been employed for greater than 90 days. The Company contributions are made either in cash or treasury shares of the Company on a quarterly basis. If the matching contribution is made in treasury shares, the price per share issued is the 5-day volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") preceding the end of the quarter. During the year ended December 31, 2015, the Company contributed 1,917,594 shares with a fair value of $0.3 (2014 – 4,024,633 shares with a fair value of $1.4), which was equal to the market value of the shares on the contribution date.

(e) Corporate Stock Option Plan

Until August 6, 2015, the Company had a Corporate Stock Option Plan (the "Plan"), under which eligible directors, officers, employees and consultants of the Company could receive options to acquire common shares. The Plan was administered by the Board of Directors, which determined, after considering recommendations made by the Compensation Committee, the number of options to be issued, the exercise price (which was the 5-day volume weighted average trading price of the common shares on the TSX on the trading day prior to the grant date), expiration dates of each option, the extent to which each option was exercisable (provided that the term of an option was not to exceed 10 years from the date of grant), as well as establishing the time period should the optionee cease to be an "Eligible Person" as set forth in the conditions of the Plan. One third of options granted were to vest on each of the first three anniversary dates of the date of grant.

The maximum number of common shares issuable under the Plan, and all other share-based compensation arrangements of the Company, shall not exceed 3.49% of the issued and outstanding shares of the Company (the "cap"). As at December 31, 2014, 1,228,858 options were available to be granted under the Plan.

The completion of the Recapitalization on August 6, 2015 resulted in the cancellation of all outstanding options and termination of the existing corporate stock option plan. Refer to notes 1 and 13(b).

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

	At December 31, 2015		At December 31, 2014	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Outstanding, beginning of period	**5,371,142**	**$ 0.99**	3,359,221	$ 1.91
Granted	**100,000**	**$ 0.16**	2,596,700	$ 0.18
Cancelled/forfeited	**(5,463,642)**	**$ 0.96**	(549,779)	$ 2.29
Expired	**(7,500)**	**$ 8.87**	(35,000)	$ 8.40
Outstanding, end of period	**-**	**$ -**	5,371,142	$ 0.99
Options exercisable at end of period	**-**	**$ -**	1,341,752	$ 2.35

No options were exercised during the years ended December 31, 2015 or December 31, 2014.

The fair value of options granted during the years ended December 31, 2015 and December 31, 2014 have been estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	December 31 2015	December 31 2014
Awards granted	**100,000**	2,596,700
Weighted average fair value of awards	**$ 0.10**	$ 0.09
Pre-vest forfeiture rate	**27%**	27%
Grant price	**$ 0.16**	$ 0.18
Market price	**$ 0.17**	$ 0.17
Volatility[1]	**78%**	76%
Risk free rate	**1.08%**	1.37%
Dividend yield	**0%**	0%
Expected life (in years)	**3.52**	4.2

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

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

	December 31 2015	December 31 2014
Net loss available to common shareholders	**$ 216.4**	$ 66.7
Effect of dilutive securities	**-**	0.2
Adjusted net loss available to common shareholders	**$ 216.4**	$ 66.9
Weighted average number of shares outstanding	**23,050,059**	847,045
Effect of dilutive securities	**-**	1,316
Weighted average diluted number of shares outstanding	**23,050,059**	848,361
Diluted net loss per share	**$ 9.39**	$ 78.86

The Recapitalization included a share consolidation which occurred without a corresponding change in the Company's financial resources. Refer to note 12(b). Therefore, for the purpose of presenting the basic and diluted loss per share for the current and comparative periods, the weighted average number of shares outstanding have been adjusted retrospectively as if the share consolidation had been applied to all of the shares issued and outstanding during years ended December 31, 2015 and December 31, 2014.

For the year ended December 31, 2014, the dilutive effects of the convertible debentures, warrants, restricted share units and stock options have not been included in the determination of diluted loss per share because to do so would be anti-dilutive. As a result of the Recapitalization completed on August 6, 2015, no convertible debentures, warrants, restricted share units or stock options existed at December 31, 2015. Therefore, no dilutive effects remain relating to these instruments.

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

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

The Recapitalization was completed on August 6, 2015, resulting in the conversion of all outstanding RSUs into an equivalent number of common shares. At the time of the Recapitalization, the Company issued 2,274,717 common shares with a fair value of $0.1 to settle the outstanding RSUs with an aggregate carrying value of $0.1, resulting in no gain or loss on recapitalization being recorded in the Consolidated Statements of Operations and Comprehensive Loss. Refer to notes 1 and 13(b).

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

The following table details the components of share-based compensation expense:

	Year ended December 31, 2015	Year ended December 31, 2014
Registered retirement savings plan	**$ 0.3**	$ 1.4
Common share stock options	**0.6**	0.6
Restricted share units	**-**	(0.2)
	$ 0.9	$ 1.8

14. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, currency risk, interest rate risk, commodity price risk and liquidity risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company limits credit risk by entering into business arrangements with high-quality counterparties.

The Company's exposure arises from its cash and cash equivalents and accounts receivable. The Company invests its cash and cash equivalents primarily with major Canadian banks and sells its product to large international companies with strong credit ratings. Historically, the Company has not experienced any losses related to individual customers or HST receivable.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	At December 31 2015	At December 31 2014
Cash and cash equivalents	**$ 11.2**	$ 4.1
Accounts receivable	**51.4**	75.4
	$ 62.6	$ 79.5

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency, interest rate, and commodity price risks.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company is exposed to fluctuations in exchange rates due to revenues, certain of its debt and foreign based suppliers being in foreign currencies. The Company's primary exposure is based upon the movements of the US dollar against the Canadian dollar. The Company's foreign exchange risk management includes, from time to time, the use of foreign currency forward contracts to fix exchange rates on certain foreign currency exposures.

For the Company's foreign exchange transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue, operating costs, and exploration costs on a year-to-year basis. Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than Canadian dollars at the rates of exchange at each balance sheet date, the impact of which is reported as a separate component of revenue or foreign exchange gain or loss in the consolidated statements of operations and comprehensive loss.

The Company is exposed to the following currency risk on cash, accounts receivable, accounts payable and borrowings at December 31, 2015.

	US$
Cash	$ 0.6
Accounts receivable	36.8
Credit facility	(23.4)
	$ 14.0

A 1% strengthening or weakening of the Canadian dollar against the US dollar, assuming that all other variables remained the same, would have resulted in a $0.1 decrease or increase, respectively, in the Company's statement of loss and comprehensive loss for the year ended December 31, 2015.

The Company's revenue is affected by currency exchange rates, such that a weakening in the Canadian dollar relative to the US dollar will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not enter into derivative financial instruments for speculative purposes. The Company does not hold any specific hedging instruments, nor does it hold any short term investments that would be significantly impacted from fluctuations in interest rates. Any interest rate fluctuations realized are expected to be offset by favourable changes in the interest on debt instruments.

A 1% increase or decrease in the interest rate on the Company's credit facility would have resulted in a $0.2 decrease or increase, respectively, in the Company's statement of loss and comprehensive loss for the year ended December 31, 2015.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices. The Company is particularly exposed to fluctuations in commodity prices from its sale of metals. From time to time the Company may enter into forward commodity sales contracts to hedge the effect on revenues of changes in the price of metals it produces. Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales over the term of the hedging contract.

The Company enters into financial contracts to mitigate the smelter agreements' provisional pricing exposure to rising or declining palladium prices and an appreciating Canadian dollar for past production already sold. The total of these financial contracts represent nil ounces as at December 31, 2015 (12,800 ounces as at December 31, 2014). The 2014 contracts matured in February 2015 at an average forward price of $942 per ounce (or US$812 per ounce). For substantially all of the palladium delivered to the customers under the smelter agreements, the quantities and timing of settlement specified in the financial contracts matches final pricing settlement periods. The palladium financial contracts are being recognized on a mark-to-market basis as an adjustment to revenue. The fair value of these contracts at December 31, 2015 was $nil (December 31, 2014 - $0.2 included in accounts receivable).

As at December 31, 2015, the Company's exposure to commodity price is limited to accounts receivable associated with provisional pricing of metal concentrate sales particularly palladium. A 1% strengthening or weakening of the palladium price would have resulted in an approximate $0.1 decrease or increase, respectively, in the Company's loss and comprehensive loss for the year ended December 31, 2015.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's liquidity may be adversely affected by operating performance, a downturn in capital market conditions impacting access to capital markets, or entity-specific conditions. The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, by having adequate available credit facilities, by preparing and monitoring detailed budgets and cash flow forecasts for mining, exploration and corporate activities, and by monitoring developments in the capital markets. Forecasting takes into account the Company's debt financing, covenant compliance and the maturity profile of financial assets and liabilities and purchase obligations. Refer to note 1.

The table below analyzes the Company's financial liabilities which will be settled into relevant maturity groupings based on the remaining balances at December 31, 2015 to the contractual maturity date.

	Total	In less than 1 year	Between 1 year and 3 years	More than 3 years
Accounts payable and accrued liabilities	$ 23.1	$23.1	$ -	$ -
Credit facility	32.4	32.4	-	-
Obligations under finance leases	14.7	4.9	9.8	-

The Company also has asset retirement obligations in the amount of $16.7 that would become payable at the time of the closure of its LDI mine. As the Company issued letters of credit of $14.9 related to these obligations, $1.6 additional funding is required prior to or upon closure of these properties. The letter of credit obligation is not included in the table above. Refer to notes 8 and 9 for additional disclosures regarding these amounts. The majority of the asset retirement costs are expected to be incurred within one year of mine closure. Refer also to note 16.

Fair Values

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, credit facility, current derivative liabilities, obligations under finance leases and long-term debt.

Cash and cash equivalents, accounts receivable, current derivative liabilities, and 2014 Tranche 1 and Tranche 2 debentures and warrants are stated at fair value. The carrying value of other assets and trade accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. The carrying value of the amount outstanding under the credit facility approximates its fair value due to the short period from inception to December 31, 2015.

Derivatives

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

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

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

The derivative liability relating to the palladium warrants issued in connection with the 2011 senior secured note issuance was measured at fair value prior to the maturity and exercise of the warrants in October 2014. Refer to note 11.

Other non-derivative financial liabilities

The fair values of the senior secured term loan, 2012 convertible debentures and finance leases, which are determined for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the estimated market rate of interest at the reporting date. For finance leases the estimated market rate of interest is determined by reference to similar lease agreements.

The fair values of the non-derivative financial liabilities are comprised of the following as at each reporting date:

	At December 31 2015	At December 31 2014
Senior secured term loan	**$ -**	$ 201.0
Convertible debentures (2012)	**-**	45.2
Finance leases	**14.7**	18.8

Fair Value Hierarchy

The table below details the fair values of the assets and liabilities at December 31, 2015:

	Notes	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Aggregate Fair Value**
Financial assets					
Cash and cash equivalents		$ 11.2	$ -	$ -	$ 11.2
Accounts receivable	4	-	51.4	-	51.4
Financial liabilities					
Finance leases		-	14.7	-	14.7
Net carrying value		$ 11.2	$ 36.7	$ -	$ 47.9

* *As detailed in note 5, the asset relating to the mark-to-market on financial contracts is included in the carrying value of accounts receivable on the balance sheet.*

The table below details the fair values of the assets and liabilities at December 31, 2014:

	Notes	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Aggregate Fair Value**
Financial assets					
Cash and cash equivalents		$ 4.1	$ -	$ -	$ 4.1
Accounts receivable	5	-	75.2	-	75.2
Fair value of financial contracts*	5	-	0.2	-	0.2
Financial liabilities					
Senior secured term loan		-	201.0	-	201.0
Convertible debentures (2012)		-	45.2	-	45.2
Finance leases		-	18.8	-	18.8
Fair value of convertible debentures and warrants	12	(0.4)	(1.8)	-	(2.2)
Net carrying value		$ 3.7	$ 338.6	$ -	$ 342.3

15. CAPITAL DISCLOSURE

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as the Company's total shareholders' equity and any outstanding debt. The board of directors does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth.

In order to maintain or adjust the capital structure, the Company may issue new shares, issue new debt or replace existing debt with different characteristics.

16. COMMITMENTS

(a) PGM Royalties Ltd. ("PGMR") Commitment

The Company is required to pay a 5% net smelter royalty to PGMR from mining operations at the Lac des Iles mine. The royalty had been previously payable to Sheridan Platinum Group of Companies ("SPG"). This obligation is recorded as royalty expense.

(b) Operating Leases and Other Purchase Obligations

As at December 31, 2015, the Company had outstanding operating lease commitments and other purchase obligations of $2.2 and $1.2 respectively (December 31, 2014 – $2.8 and $5.1 respectively) the majority of which had maturities of less than five years (see also note 10).

(c) Letters of Credit

As at December 31, 2015, the Company had outstanding letters of credit of $16.5, consisting of $14.9 for various mine closure deposits and $1.6 for a regulated energy supplier (December 31, 2014 - $15.4 outstanding letters of credit, consisting of $14.4 for various mine closure deposits and $1.0 for a regulated energy supplier).

17. REVENUE FROM METAL SALES

	Total	Palladium	Platinum	Gold	Nickel	Copper	Other Metals
2015							
Year ended December 31							
Revenue – before pricing adjustments	**$ 198.4**	**$ 148.3**	**$ 16.9**	**$ 15.7**	**$ 9.2**	**$ 8.2**	**$ 0.1**
Pricing adjustments:							
Commodities	(15.7)	(13.5)	(1.5)	-	(0.5)	(0.2)	-
Foreign exchange	10.9	8.3	1.2	0.7	0.4	0.3	-
Revenue – after pricing adjustments	**$ 193.6**	**$ 143.1**	**$ 16.6**	**$ 16.4**	**$ 9.1**	**$ 8.3**	**$ 0.1**
2014							
Year ended December 31							
Revenue – before pricing adjustments	$ 215.7	$ 155.8	$ 19.6	$ 16.1	$ 13.8	$ 10.3	$ 0.1
Pricing adjustments:							
Commodities	1.8	2.2	(0.5)	0.2	0.2	(0.3)	-
Foreign exchange	2.6	1.4	0.5	0.3	0.2	0.2	-
Revenue – after pricing adjustments	$ 220.1	$ 159.4	$ 19.6	$ 16.6	$ 14.2	$ 10.2	$ 0.1

During 2015, the Company delivered all of its concentrate to five customers (including two customers that received bulk samples) under the terms of the respective agreements (2014 – three customers).

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

18. INTEREST EXPENSE AND OTHER COSTS AND OTHER INCOME

	Note	2015	2014
Interest expense & other costs			
Interest on finance leases		**$ 0.9**	$ 0.6
Asset retirement obligation accretion	**8**	**0.3**	0.4
Accretion expense on long-term debt		**10.3**	2.8
Loss on investments		**-**	0.7
Interest expense		**25.5**	37.3
Change in fair value of palladium warrants		**-**	0.6
Change in fair value of convertible debentures		**0.2**	6.2
Adjustment of carrying value of senior secured term loan	**11**	**66.8**	-
Legal settlement		**-**	1.0
		$ 104.0	$ 49.6
Other income			
Change in fair value of warrants		**(0.7)**	(4.6)
Interest income		**(0.4)**	(0.1)
		(1.1)	(4.7)
		$ 102.9	$ 44.9

19. CONTINGENCIES

From time to time, the Company is involved in litigation, investigations, or proceedings related to claims arising in the ordinary course of business. The Company considers its provisions for outstanding and pending legal claims to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2015 cannot be predicted with certainty.

20. INCOME TAXES

Rate Reconciliation

The provision for income and mining taxes differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of approximately 26.5% (2014 – 26.5%):

	December 31 2015	December 31 2014
Income tax recovery using statutory income tax rates	**$ (57.3)**	$ (17.7)
Increase (decrease) in taxes resulting from:		
Change in unrecognized temporary differences	**45.2**	14.9
Statutory permanent differences	**12.5**	2.6
Difference in statutory tax rates	**(0.4)**	0.2
Income tax (recovery) expense	**$ -**	$ -

Components of Income tax expense

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

	December 31 2015	December 31 2014
Current income tax expense (recovery):		
Current period	**$ -**	**$ -**
Adjustments for prior period	**-**	**-**
Total	**$ -**	**$ -**

Deferred tax liabilities

Deferred income tax liabilities have been offset by deferred income tax assets as follows:

	December 31 2015	December 31 2014
Deferred tax liabilities		
Mining Interests	**$ (8.6)**	$ -
Deferred tax assets		
Non-capital loss carryovers	**$ 8.6**	$ -
Net deferred tax liabilities	**$ -**	$ -

Unrecognized deferred tax assets

Deferred income tax assets have not been recognized in respect of the following items:

	December 31 2015	December 31 2014
Loss carryforwards	**$ 71.2**	$ 97.1
Deductible temporary differences, income taxes	**$ 28.4**	$ 43.6
Deductible temporary differences, mining taxes	**$ 4.6**	$ 3.3

The tax losses not recognized expire as per the amount and years noted below. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits there from.

Income tax attributes

As at December 31, 2015, the Company had the following approximate income tax attributes to carry forward:

	Amount	Expiry Date
Non-capital losses	**$ 317.0**	2027 - 2035
Capital losses	**$ 0.8**	Indefinite
Undepreciated capital cost allowance	**$ 75.7**	Indefinite
Tax basis of mining interests	**$ 296.9**	Indefinite

21. OTHER DISCLOSURES

Statement of Cash flows

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

	2015	2014
Cash provided by (used in):		
Accounts receivable	**$ 24.0**	$ (36.9)
Inventories	**-**	(0.7)
Other assets	**0.9**	2.6
Accounts payable and accrued liabilities	**(6.8)**	(17.0)
Taxes payable	**-**	(1.2)
	$ 18.1	$ (53.2)

22. SUBSEQUENT EVENTS

On January 18, 2016, the Company was formally assessed legal obligations under the Occupational Health and Safety Act relating to charges brought against it by the Ministry of Labour regarding the fatality which occurred in July of 2014 and an instance of damage to equipment on the mine site in February, 2014. As a result, a liability of $0.5 has been included in accounts payable and accrued liabilities on the consolidated balance sheet as at December 31, 2015 and an equivalent expenditure has been recognized in general and administrative costs on the consolidated statements of operations and comprehensive loss.

On January 26, 2016, the Company received the first advance of $10.0 relating to the Brookfield Term Loan. Refer to note 11.

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