NAPALLADIUM

Mining for Clean Air

Annual Report for the Year Ended December 31, 2017

NAP ALLADIUM
Mining for Clean Air

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NAP PALLADIUM
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MESSAGE FROM THE CEO

Since 2015 and the financial restructuring of the company with Brookfield Asset Management ("Brookfield"), the entire North American Palladium ("NAP") team has had a singular focus on turning the Lac des Iles mine into a world class operation. This has involved building the right team, re-engineering of systems and processes and significant capital investment with further support from Brookfield. I am proud to say that in 2017, the vision has become reality, and the Lac des Iles ("LDI") asset has begun to demonstrate its full potential.

The underground mine has undergone a total transformation in the last few years. The majority of production now comes from the sub-level shrinkage mining method (sub-level cave with waste fill introduced from surface) and both the ore handling infrastructure and mobile fleets have been substantially upgraded. Mine planning and the execution of the plan has evolved to a real-time process with full-time mine coordinators operating out of a surface control room, supported by digital technology to track critical equipment and human resources and to manage all of the real-time data. As a result, underground production has almost doubled since 2015 to over 6,200 tonnes per day ("tpd") in the fourth quarter of 2017. LDI mine production is now consistent, reliable and low cost with a fourth quarter unit rate below $38 per tonne of ore delivered to surface; something many did not believe was possible three years ago.

At the beginning of the fourth quarter, milling returned to full-time operations at an average rate of approximately 11,000 tpd. Underground ore is supplemented by lower-grade surface stockpiles, which remain from years of open pit mining. The key restriction to full-time milling has been a lack of tailings capacity. A long-term tailings management strategy has been developed and the initial phases have been permitted and are under construction. With a strong belief in the skill and commitment of the workforce at LDI, we made the decision to self-execute the majority of the bulk rockwork on tailings dam construction. This required the hiring of approximately 60 new employees and the procurement of a fleet of earth moving equipment. The significant dam construction in 2017 was completed under budget, on schedule and to a safety and quality standard not achieved with previous contractors. This success is key to our strategy of lowering overall costs, as we continue to execute on our tailings plan for the next several years.

The successful achievement of these multiple milestones has resulted in strong operational and financial performance in 2017. We produced over 201,000 ounces of palladium at an AISC of US$694 per ounce of palladium produced, beating our guidance in both areas. Operations contributed over $94 million in cash during the year and we re-invested $60 million in capital infrastructure, equipment and mine development, setting operations up for long-term success. We also reduced debt by $23.0 million in 2017, paying attention to the balance sheet as well as operations.

A significant contributor to this success has been the price of palladium. Palladium was the best performer amongst the precious metals last year, surging 56% to just below US$1,100 per ounce at year end. The palladium market has been in fundamental deficit for several years and is forecasted to remain so for years to come. Gross palladium consumption rose by almost 8% in 2017, driven by auto catalyst demand from higher global auto sales, higher emissions standards and a move away from diesel engines in favour gasoline engines, requiring higher palladium content. Primary palladium supply fell 2% during the year, but was balanced out by growth in auto recycling. 2018 is expected to be another record consumption year and the LBMA (London Bullion Market Association) published analysts' forecast average of US$1,080 per ounce for the year.

We have also renewed our focus on long term growth and our exploration expenditures is expected to grow from $5.8 million in 2017 to a planned expenditure of $12.0 million in 2018. We added mineral resources laterally to the existing ore zones at LDI and our technical teams are doing the necessary work to upgrade these resources to mineable reserves. We have several near surface targets within the existing property footprint that will be tested this year and developed several greenfields targets within 30 kms of the site that will also be drilled in 2018. We recently initiated our first drilling program on the Sunday Lake property, which was added to our exploration portfolio last year through an option agreement with partners Impala Platinum Holdings Ltd. and Transition Metals Corp.

In June 2017, we published a 43-101 compliant feasibility study extending the life of mine to 9.5 years at an average of over 4 million tonnes of ore and 220,000 ounces of palladium per year. This plan included a major push back of the existing Roby open pit to access ore that is located near the bottom of the pit. The engineering team has looked at optimization opportunities and has published an internal scoping study. This study suggests the potential for an improved business plan and a longer mine life by mass mining the pit material with underground methods, which includes additional mineral resources currently sterilized by the pit design and additional opportunities at depth. The potential benefits of this approach are significant enough that management and the board have agreed to a 6-month deferral of the pit push back into a 2019 start-up, allowing enough time for the technical teams to complete additional drilling and engineering before a final decision is made.

The whole NAP team and I are most proud of the fact that we achieved all of the great accomplishments noted above with an all-inclusive medical injury frequency in 2017 of 2.7; well below the Ontario mining average. During 2017, one worker out of several hundred employees and contractors lost time because of an injury. Our goal is zero harm and this year's performance indicates great progress towards achieving that objective.

In 2018, our production is expected to increase to between 220,000 and 240,000 ounces of palladium with an overall increase in both surface and underground production. A decrease in costs is also expected, with an AISC of between US$640 and US$660 per ounce of palladium produced.

Our people and our operations are achieving world-class performance in many areas and the best is yet to come.

Jim Gallagher
President & Chief Executive Officer

Management's Discussion and Analysis

CORPORATE OVERVIEW

North American Palladium Ltd. is domiciled in Canada and was incorporated on September 12, 1991 under the Canada Business Corporations Act. The address of the company's registered office is One University Avenue, Suite 402, Toronto, Ontario, Canada, M5J 2P1. The Company is an established precious metals producer that has been operating the Lac des Iles mine located in Ontario, Canada since 1993 through the company's 100%-owned subsidiary, Lac des Iles Mines Ltd.

Located northwest of Thunder Bay, Ontario, the mine produces palladium and by-product metals. In 2013, the Company expanded the underground mine and transitioned from ramp access to shaft access while utilizing the long-hole open stope mining method. The mine presently uses both a ramp and a shaft to access underground operations which currently employs both the long hole open stope and sub-level shrinkage ("SLS") mining methods. Ore from the underground mine is blended with low grade stockpiles on surface to feed the mill. The mill operates on a 24-hour schedule, 7 days a week ("full-time"), transitioning from a 14-day on and 14-day off ("batch processing") schedule in September 2017.

The Company has considerable exploration potential near the Lac des Iles mine, where a number of growth targets on Company properties have been identified, and is engaged in an exploration program aimed at increasing its palladium reserves and resources. As an established precious metals producer on a permitted property, the Company has the potential to convert exploration success into production and cash flow on an accelerated timeline.

North American Palladium Ltd. trades on the Toronto Stock Exchange ("TSX") under the symbol "PDL" and on the OTC Market under the symbol "PALDF".

Collectively, Brookfield Business Partners LP and its affiliates ("Brookfield") indirectly hold approximately 53.5 million common shares of North American Palladium Ltd., representing approximately 92% of the issued and outstanding common shares.

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

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NATURE OF REPORTING

The following is management's discussion and analysis ("MD&A") of the financial condition and results of operations, prepared to enable readers of the Company's consolidated financial statements and related notes to assess material changes in the financial condition and results of operations for the year ended December 31, 2017 ("FY 2017"), compared to those of the respective prior year ended December 31, 2016 ("FY 2016"). This MD&A also provides discussion relating to changes in financial condition and results of operations relating to the three month period ended December 31, 2017 ("Q4 2017"), compared to those of the respective three month period in the prior year ("Q4 2016").

This MD&A has been prepared as of February 21, 2018 and is intended to supplement and complement the consolidated financial statements and notes thereto for the three months and year ended December 31, 2017 (collectively, the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of these financial statements. Readers are encouraged to review the Financial Statements in conjunction with their review of this MD&A.

Unless otherwise noted, all financial results in this MD&A are prepared in accordance with IFRS and are expressed in millions of Canadian dollars, except share and per share amounts, and unit costs per tonne mined and milled. All references to production ounces refer to payable production. Reference is also made to certain measures which management considers to be relevant for assessing business performance, but which do not conform with IFRS (referred to as ''Non-IFRS'' measures). The Non-IFRS measures in this MD&A include: production cost per tonne milled; palladium revenue per ounce sold; cash cost per ounce of palladium sold, net of by-product revenues; Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"); adjusted EBITDA; and All-Inclusive Sustaining Cost ("AISC") amounts calculated per ounce of palladium. Refer to Non-IFRS Measures on pages 32-35.

FORWARD-LOOKING INFORMATION

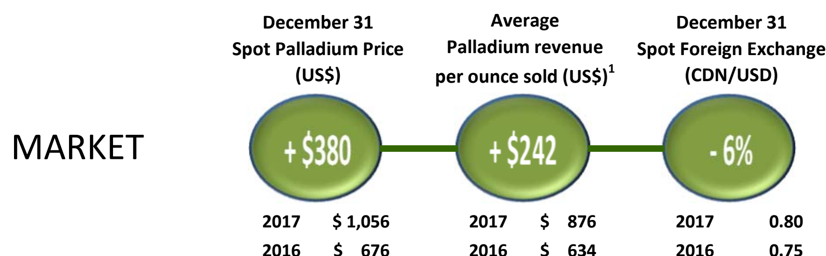
Certain information contained in this MD&A constitutes ‘forward-looking statements’ within the meaning of the ‘safe harbor’ provisions of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. The words ‘planned’, ‘preliminary’, ‘expect’, ‘potential’, ‘believe’, ‘anticipate’, ‘contemplate’, ‘target’, ‘may’, ‘will’, ‘could’, ‘would’, ‘should’, ‘intend’, ‘estimate’ and similar expressions identify forward-looking statements. Forward-looking statements included in this MD&A include, but are not limited to: 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.

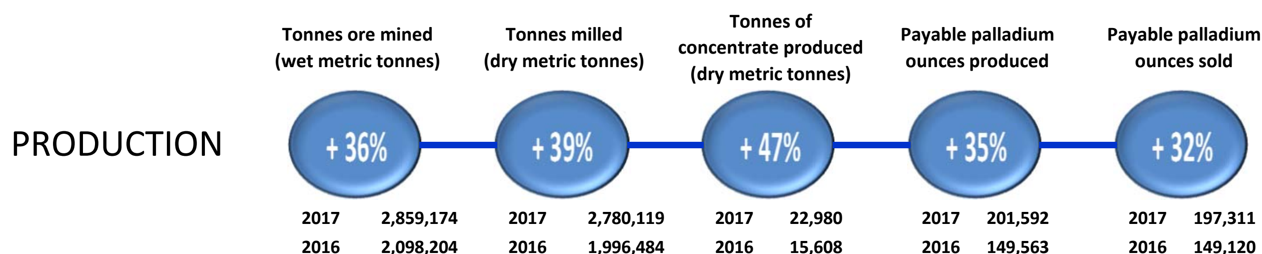
The Company cautions the reader that such forward-looking statements involve known and unknown risk factors that may cause actual results to be materially different from those expressed or implied by forward-looking statements. Such risk factors include, but are not limited to: the risk that the LDI 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, the occurrence of events of default on the Company’s indebtedness, hedging resulting in 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 underground seismic activity, 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.

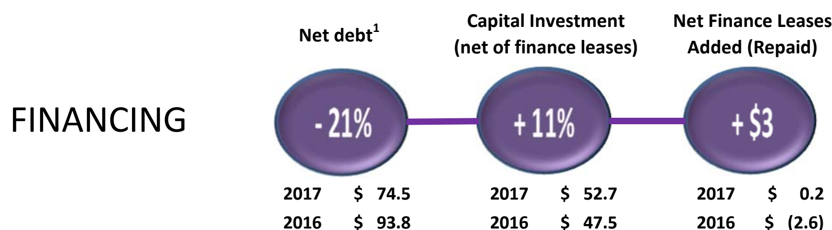
Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this MD&A, which 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 on 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 applicable laws. Readers are cautioned not to put undue reliance on these forward-looking statements.

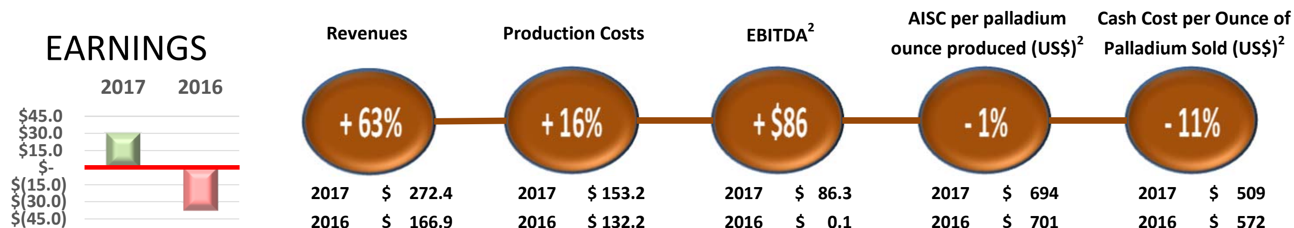
OPERATING AND FINANCIAL OVERVIEW

The following overview sumarizes the increase or decrease in certain IFRS and Non-IFRS measures for the year ended December 31, 2017 in comparison to the year ended December 31, 2016.









1 Net debt is comprised of total debt, net of cash and cash equivalents.

2 Non-IFRS measure. Refer to Non-IFRS Measures on pages 32-35.

2017 YEAR IN REVIEW

The following summarizes certain significant events which have occurred during the year ended December 31, 2017.

Q1 2017

- Conversion to SLS mining method is underway.
- Increase in production drilling and blasting related to transition to SLS mining method contributed to higher mining costs.
- Underground mining production increased 8% to 4,035 tonnes per day at a grade of 4.4 grams per tonne during the quarter.
- The mill processed 458,382 tonnes of ore, producing 40,252 ounces of payable palladium.
- Exploration drilling program deferred to Q2-2017.

Q2 2017

- The Company realized its first profitable quarter since the restructuring in Q3-2015, with reported earnings of $7.9.
- Conversion to SLS mining method was complete.
- Underground production was 455,169 tonnes (5,002 tonnes per day) at an average grade of 3.9 grams per tonne.
- The mill processed 580,265 tonnes of ore, producing 50,222 ounces of payable palladium.
- Self-execution of the tailings management facility ("TMF") project begins.
- 43-101 technical report filed on SEDAR, reflecting an increase of 16% in estimated in-situ ounces of palladium.
- Option agreement for the Sunday Lake property was executed.

Q3 2017

- The Company reported earnings for the second consecutive quarter, with net income of $11.0.
- Underground production was 500,560 tonnes (5,441 tonnes per day) at an average grade of 3.8 grams per tonne.
- Achieved an average daily underground production rate of 6,461 tonnes during the month of September 2017.
- The mill processed 704,287 tonnes of ore, producing 53,118 ounces of payable palladium.

Q4 2017

- A third consecutive profitable quarter was realized, with the Company reporting a net income of $15.2 for the quarter.
- Underground mining production of 578,249 tonnes (6,285 tonnes per day) at an average grade of 3.5 grams per tonne.
- The mill processed 1,037,185 tonnes of ore, producing 58,000 ounces of payable palladium.
- The Company repaid principal of US$15.0 on senior secured term loan that was to mature on December 31, 2017.

FY 2017

- Net income of $30.3 for the year, compared to a net loss of $37.5 in FY 2016.
- Capital additions of $62.5, compared to $50.5 in FY 2016.
- Cash flow from operations of $94.5, compared to cash used in operations of $9.4 for FY 2016.
- Reduction of total debt in the amount of $23.2.
- Average underground production rate of 5,198 tonnes per day, compared to 3,736 tonnes per day for FY 2016.
- The milled processed 2,780,119 tonnes of ore, compared to 1,996,484 tonnes processed in FY 2016.
- Production yielded 201,592 ounces of payable palladium, compared to 149,563 ounces of payable palladium in FY 2016.
- Cummulative production of 201,592 ounces of palladium exceeded guidance of 180,000 to 190,000 ounces.

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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 nameplate processing capacity of 15,000 tonnes per day. The primary underground deposits on the property are the Offset and Roby zones. The mill operated on a 14-day on and 14-day off batch schedule during the first eight months of 2017, transitioning to full-time milling in September 2017. The batch schedule was used throughout the comparative 2016 operating periods. Mill feed included underground ore, supplemented with low-grade ore from the surface stockpile.

Operating Metrics

The key operating results for 2017 and 2016 are set out in the following table.

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Ore mined (wet metric tonnes)[1]				
Underground	**578,249**	405,736	**1,897,114**	1,367,458
Surface	**403,847**	206,413	**962,060**	730,746
Total	**982,096**	612,149	**2,859,174**	2,098,204
Mined ore grade (Pd g/t)				
Underground	**3.5**	3.5	**3.9**	3.8
Surface	**0.9**	1.0	**0.9**	0.9
Milling				
Tonnes milled (dry metric tonnes)	**1,037,185**	583,420	**2,780,119**	1,996,484
Palladium recoveries (%)	**80.4**	82.7	**80.6**	82.3
Palladium concentrate grade (g/t)	**271**	294	**286**	315
Tonnes of concentrate produced	**7,206**	4,414	**22,980**	15,608
Production cost per tonne milled[1]	**$ 42**	$ 62	**$ 57**	$ 67
Payable production				
Palladium (oz)	**58,000**	37,979	**201,592**	149,563
Platinum (oz)	**3,794**	2,832	**12,267**	10,230
Gold (oz)	**3,784**	2,474	**13,295**	9,671
Nickel (lbs)	**-**	217,858	**70,517**	810,111
Copper (lbs)	**789,894**	627,473	**3,123,144**	2,234,976
Palladium sales – payable ounces	**57,323**	39,620	**197,311**	149,120
Palladium revenue per ounce sold (US$)[2]	**$ 1,001**	$ 655	**$ 876**	$ 634
Other results[2]				
AISC per ounce of palladium produced (US$)[2]	**$ 734**	$ 780	**$ 694**	$ 701
Cash cost per ounce of palladium sold (US$)[2]	**$ 463**	$ 641	**$ 509**	$ 572

1 The determination of mined tonnes requires reliance upon various estimates, including estimated load factors assigned to trucks and the shaft skips, density factors assigned to the size of ore being mined, the impact of seasonal conditions, and the variability of the moisture content at the time of extraction.

2 Non-IFRS measure. Refer to Non-IFRS Measures on pages 32-35.

Mining

For Q4 2017, underground ore mined at LDI consisted of 578,249 tonnes (6,285 tonnes per day) at an average palladium grade of 3.5 g/t compared to 405,736 tonnes (4,410 tonnes per day) at an average palladium grade of 3.5 g/t in Q4 2016. In Q4 2017, LDI extracted 403,847 tonnes of surface ore from the low-grade surface stockpile at an average grade of 0.9 g/t (2016 - 206,413 tonnes at an average grade of 1.0 g/t).

The Company realized the benefits of its transition to the SLS mining method in the lower Offset zone in Q3 2017, achieving a milestone record daily production rate of 8,845 tonnes of underground ore in November 2017 and an overall average production rate of 6,396 tonnes per day during the month of December 2017.

For FY 2017, underground ore mined at LDI consisted of 1,897,114 tonnes (5,198 tonnes per day) at an average palladium grade of 3.9 g/t compared to 1,367,458 tonnes (3,736 tonnes per day) at an average palladium grade of 3.8 g/t in FY 2016. For the year ended December 31, 2017, LDI extracted 962,060 tonnes of surface ore from the low-grade surface stockpile at an average grade of 0.9 g/t (2016 - 730,746 tonnes at an average grade of 0.9 g/t). On a combined basis, 36.3% additional tonnes of ore were mined in FY 2017 compared to FY 2016.

Milling

During Q4 2017, the LDI mill processed 1,037,185 dry metric tonnes at an average head grade of 2.3 grams of palladium per tonne and a palladium recovery rate of 80.4%, producing 7,206 tonnes of concentrate with an average grade of 271 grams of palladium per tonne. In comparison, the mill processed 583,420 dry metric tonnes of ore in Q4 2016 at an average palladium head grade of 2.7 grams of palladium per tonne and a palladium recovery rate of 82.7% yielding 4,414 tonnes of concentrate with a palladium concentrate grade of 294 grams of palladium per tonne. The LDI mill transitioned to full-time operation in September 2017.

During FY 2017, the LDI mill processed 2,780,119 dry metric tonnes at an average head grade of 2.9 grams of palladium per tonne and a palladium recovery rate of 80.6%, producing 22,980 tonnes of concentrate with an average grade of 286 grams of palladium per tonne. In comparison, the mill processed 1,996,484 dry metric tonnes of ore in FY 2016 at an average palladium head grade of 3.0 grams of palladium per tonne and a palladium recovery rate of 82.3% yielding 15,608 tonnes of concentrate with a palladium concentrate grade of 315 grams of palladium per tonne.

Payable Production

Palladium production and sales totals differ due to the timing of sales shipments to customer smelters. As a result, ounces may be reflected in inventory in the month of production and recognized as sold in the subsequent month when delivered to smelters.

In Q4 2017, payable palladium production was 58,000 ounces while payable palladium sales were 57,323 ounces in comparison to 37,979 ounces produced and 39,620 ounces sold in Q4 2016. Overall, payable production in Q4 2017 for palladium, platinum, gold, and copper was higher compared to Q4 2016. The increased production is attributed to increased underground production combined with the transition to full-time milling in September 2017. An additional 453,764 tonnes were milled in Q4 2017 in comparison to Q4 2016. Due to a change in smelter contracts, effective January 2, 2017, the Company no longer receives nickel credits in sold concentrate.

In FY 2017, payable palladium production was 201,592 ounces while payable palladium sales were 197,311 ounces in comparison to 149,563 ounces produced and 149,120 ounces sold in FY 2016. Overall, payable production in FY 2017 for palladium, platinum, gold, and copper was higher compared to FY 2016. The increase in underground ore production and the resumption of full-time mill operations in September 2017 resulted in the increase in payable palladium production for FY 2017 compared to that in FY 2016.

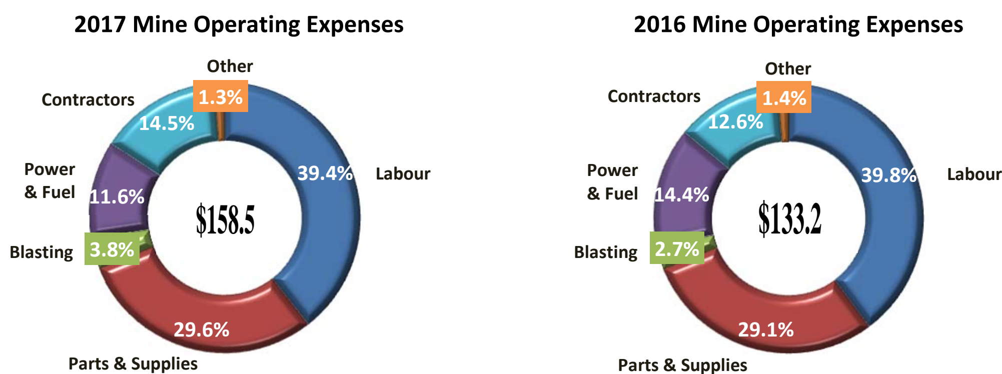
Financial Results

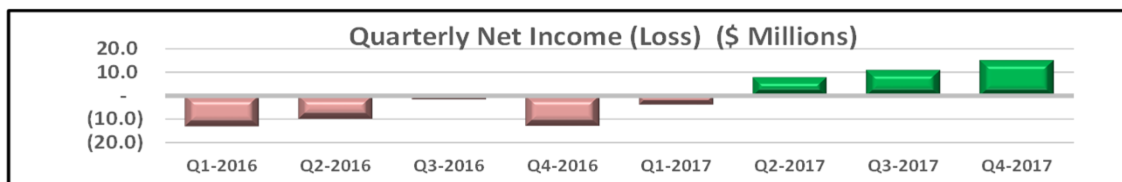
The Company has included income from mining operations as an additional IFRS measure to provide the reader with additional information for the results of the LDI operations. Income from mining operations for the LDI operations is summarized in the following table.

	Three months ended December 31		Year ended December 31	
($millions)	**2017**	2016	**2017**	2016
Revenue	**$ 87.1**	$ 46.0	**$ 272.4**	$ 166.9
Smelting, refining and freight costs	**3.7**	4.8	**12.2**	15.6
Royalty expense	**4.2**	1.8	**12.8**	6.8
Net revenue	**79.2**	39.4	**247.4**	144.5
Mining operating expenses				
Production costs				
Mining	**26.8**	22.5	**99.8**	81.9
Milling	**9.6**	8.3	**34.5**	31.3
General and administration	**6.7**	5.3	**24.2**	20.0
	43.1	36.1	**158.5**	133.2
Inventory and other costs	**(2.9)**	2.5	**(5.3)**	(1.0)
Total production costs	**40.2**	38.6	**153.2**	132.2
Mine restoration and mitigation costs	**-**	-	**-**	0.1
Depreciation and amortization	**11.1**	7.0	**41.3**	30.8
Inventory price adjustment	**-**	0.2	**(0.2)**	1.2
Loss on disposal of equipment	**0.4**	-	**0.8**	0.6
Total mining operating expenses	**51.7**	45.8	**195.1**	164.9
Income (loss) from mining operations	**$ 27.5**	$ (6.4)	**$ 52.3**	$ (20.4)
Net income (loss)	**$ 15.2**	$ (12.9)	**$ 30.3**	$ (37.5)
Net income (loss) per share	**$ 0.26**	$ (0.22)	**$ 0.52**	$ (0.65)
EBITDA[1]	**$ 32.4**	$ (3.9)	**$ 86.3**	$ 0.1
Capital investment, excluding non-cash financing leases	**$ 19.4**	$ 7.1	**$ 60.5**	$ 47.5

1 Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-35.

The breakdown of production costs, before inventory and others costs, for the year ended December 31, 2017 and 2016 are summarized in the charts below.





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Revenue

Revenue is affected by production and resulting sales volumes, commodity prices, currency exchange rates, timing of milling campaigns and concentrate shipment schedules, as well as other variables. Metal sales for LDI are recognized as revenue at provisional prices when the concentrate product is delivered to a smelter or a designated shipping point. Final pricing is determined in accordance with the Company's smelter agreements. In previous years, final prices were generally determined two months after delivery for gold, nickel and copper and four months after delivery for palladium and platinum. In 2017, pursuant to a new smelter agreement, final pricing for gold and copper generally occurs two months after delivery and final pricing for palladium and platinum is determined three months after delivery. 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. Gains and losses on derivative financial instruments used to mitigate metal price risk are recorded on the statement of operations in revenue from metal sales.

Revenue for the three months ended December 31, 2017

	Palladium	Platinum	Gold	Copper	Others[3]	Total
Sales volume[1]	**57,323**	**3,695**	**3,798**	**779,858**	**n.a.**	**n.a.**
Revenue before price adjustment	**$ 76.2**	**$ 4.4**	**$ 6.3**	**$ 3.3**	**$ -**	**$ 90.2**
Price adjustment ($millions):						**-**
Commodities[2]	**(4.1)**	**0.2**	**-**	**0.1**	**-**	**(3.8)**
Foreign exchange[2]	**0.5**	**-**	**0.1**	**0.1**	**-**	**0.7**
Revenue ($millions)	**$ 72.6**	**$ 4.6**	**$ 6.4**	**$ 3.5**	**$ -**	**$ 87.1**

[1] Sales volumes are reported in payable ounces for palladium, platinum and gold and payable pounds for copper.

[2] Pricing adjustments are net of offsetting realized and unrealized gains (losses) on derivative financial contracts.

[3] Due to a change in smelter contracts, effective January 2, 2017, payable nickel is no longer included in smelter settlements.

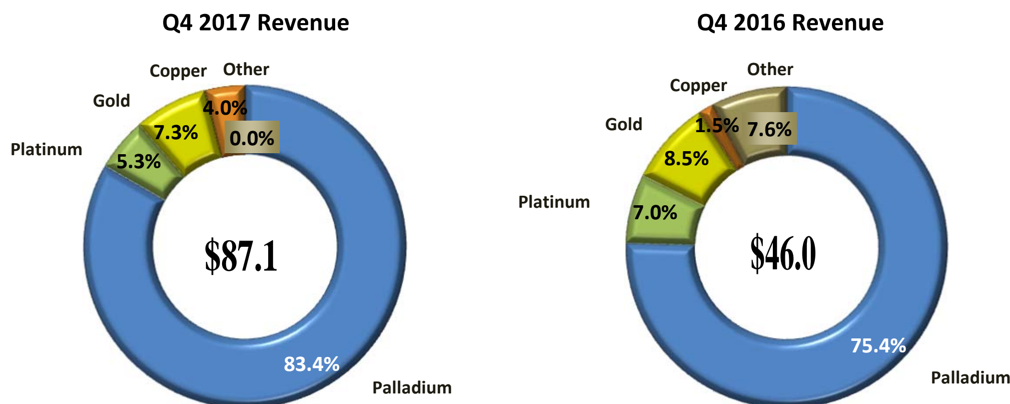
Revenue for the three months ended December 31, 2016

	Palladium	Platinum	Gold	Copper	Others	Total
Sales volume[1]	39,621	2,980	2,586	654,229	n.a.	n.a.
Revenue before price adjustment	$ 36.9	$ 3.6	$ 4.2	$ 0.6	$ 3.5	$ 48.8
Price adjustment ($millions):						
Commodities[2]	(3.7)	(0.5)	(0.3)	-	-	(4.5)
Foreign exchange[2]	1.5	0.1	-	0.1	-	1.7
Revenue ($millions)	$ 34.7	$ 3.2	$ 3.9	$ 0.7	$ 3.5	$ 46.0

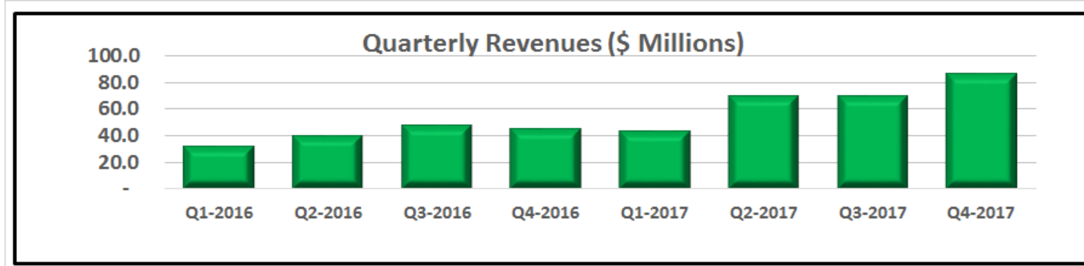
[1] Sales volumes are reported in payable ounces for palladium, platinum and gold and payable pounds for copper.

[2] Pricing adjustments are net of offsetting realized and unrealized gains (losses) on derivative financial contracts.

Revenue for Q4 2017 increased by $41.1 or 89.3% compared to Q4 2016, primarily due to increased palladium prices and an increase in payable palladium sold.



For comparison, the below chart illustrates the quarterly revenues for the period of January 1, 2016 to December 31, 2017.



Revenue for the year ended December 31, 2017

		Palladium		Platinum		Gold		Copper		Others[3]		Total
Sales volume[1]		**197,311**		**11,906**		**13,019**		**3,044,826**		**n.a.**		**n.a.**
Revenue before price adjustment	**$**	**230.7**	**$**	**14.6**	**$**	**21.4**	**$**	**11.3**	**$**	**0.2**	**$**	**278.2**
Price adjustment ($millions):												
Commodities[2]		**(3.1)**		**0.3**		**0.3**		**0.3**		**0.1**		**(2.1)**
Foreign exchange[2]		**(3.0)**		**(0.3)**		**(0.3)**		**(0.1)**		**-**		**(3.7)**
Revenue ($million)	**$**	**224.6**	**$**	**14.6**	**$**	**21.4**	**$**	**11.5**	**$**	**0.3**	**$**	**272.4**

[1] Sales volumes are reported in payable ounces for palladium, platinum and gold and payable pounds for copper.

[2] Pricing adjustments are net of offsetting realized and unrealized gains (losses) on derivative financial contracts.

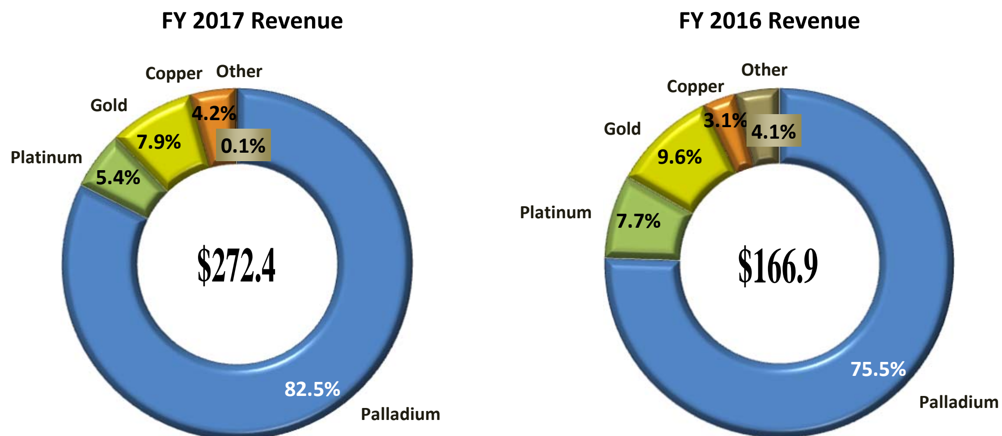
[3] Due to a change in smelter contracts, effective January 2, 2017, payable nickel is no longer included in smelter settlements.

Revenue for the year ended December 31, 2016

		Palladium		Platinum		Gold		Copper		Others		Total
Sales volume[1]		149,120		10,200		9,639		2,225,826		n.a.		n.a.
Revenue before price adjustment	$	123.0	$	13.2	$	16.0	$	5.1	$	6.7	$	164.0
Price adjustment ($millions):												
Commodities[2]		4.3		(0.1)		0.2		-		0.1		4.5
Foreign exchange[2]		(1.3)		(0.2)		(0.1)		-		-		(1.6)
Revenue ($millions)	$	126.0	$	12.9	$	16.1	$	5.1	$	6.8	$	166.9

[1] Sales volumes are reported in payable ounces for palladium, platinum and gold and payable pounds for copper.

[2] Pricing adjustments are net of offsetting realized and unrealized gains (losses) on derivative financial contracts.



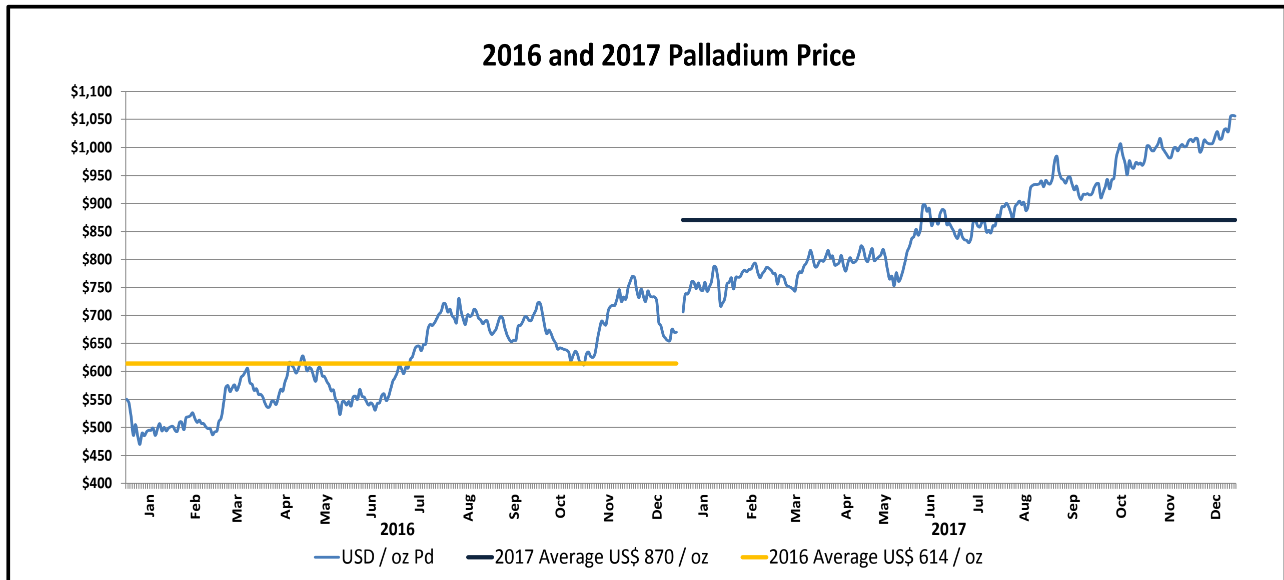
Spot Metal Prices and Exchange Rates*

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

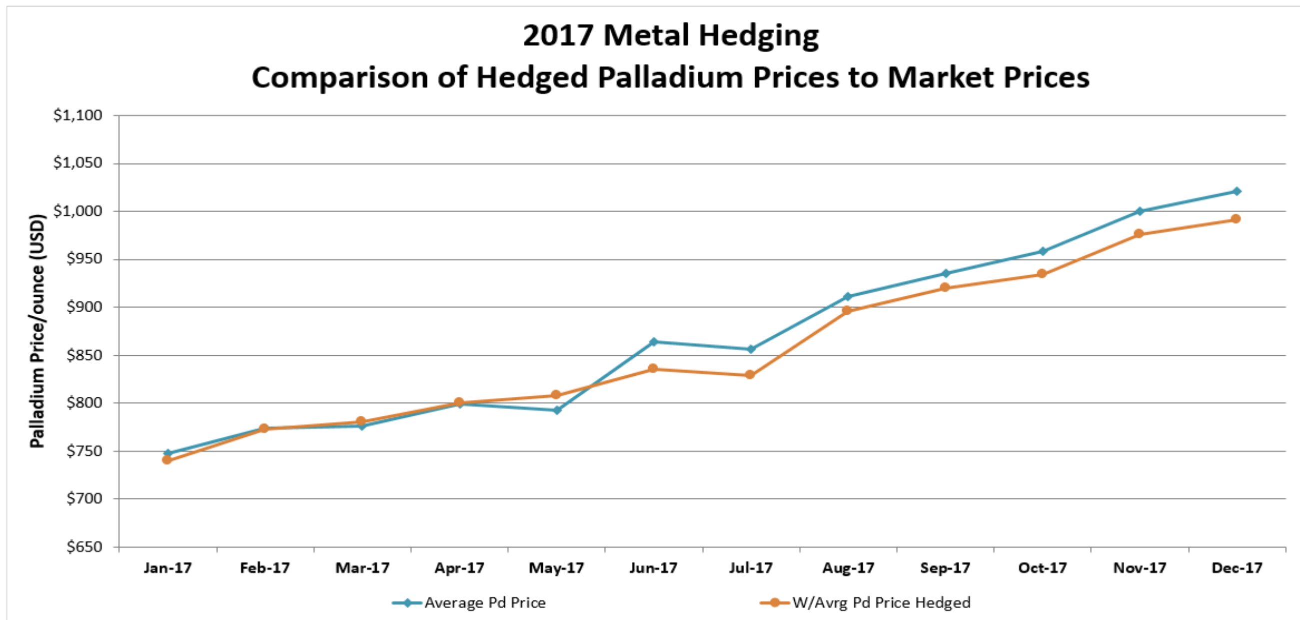
	31-Dec 2017	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016
Palladium – US$/oz	**$1,056**	$935	$841	$798	$676	$722	$589	$569
Platinum – US$/oz	**$927**	$920	$922	$940	$907	$1,034	$999	$976
Gold – US$/oz	**$1,297**	$1,283	$1,242	$1,245	$1,159	$1,323	$1,320	$1,237
Nickel – US$/lb	**$5.56**	$4.80	$4.21	$4.48	$4.54	$4.74	$4.27	$3.75
Copper – US$/lb	**$3.25**	$2.94	$2.68	$2.65	$2.50	$2.19	$2.19	$2.19
Exchange rate (Bank of Canada) CDN$1 = US$	US$ 0.80	US$ 0.80	US$ 0.77	US$ 0.75	US$ 0.75	US$ 0.76	US$ 0.77	US$ 0.77

** Based on the London Metal Exchange as at period ending*

For further comparison, the below chart illustrates the daily and average U.S. denominated palladium metal price for the period of January 1, 2016 to December 31, 2017.

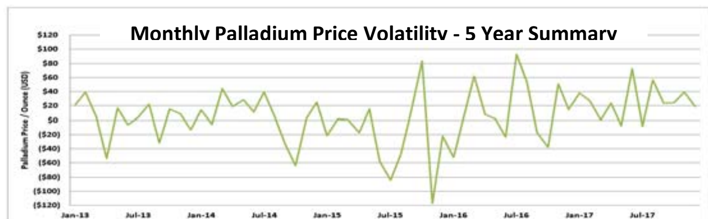


Derivative Forward Sales Contracts



The 2017 fiscal year was a critical transition period for the Company, with the conversion to the SLS mining method and the pending expansion project for the tailings management facility. As a result, management of liquidity and working capital was a priority for the Company.

Historically, palladium pricing has shown considerable volatility. The Company's palladium sales are subject to settlement pricing at quotational periods three months after delivery to the customer smelters, which presents risk to the Company's liquidity. The Company utilizes forward derivative contracts to offset this risk related to market volatility.



These derivative instruments are recorded at fair value through profit or loss. The realized and unrealized gains or losses are recorded against the respective losses and gains from the fair valuation of the underlying accounts receivable to which the derivative contracts relate. The Company does not speculate on market movements, but initiates derivative contracts throughout the month at the time of sale to customer smelters.

	Palladium sales	Derivative contracts	Net Sales
Revenue before price adjustment	$ 230.7	$ -	$ 230.7
Price adjustment:			-
Commodities	21.9	(25.0)	(3.1)
Foreign exchange	(3.6)	0.6	(3.0)
Revenue	$ 249.0	$ (24.4)	$ 224.6

Utilizing financial derivative sales contracts has resulted in realized sales prices that approximate monthly averages. During the second half of the year, tightening in the palladium derivative market increased palladium leasing rates as the price of palladium quickly rose to levels which have not been seen in fifteen years.

Smelting, refining and freight costs

Smelter treatment costs and freight charges are based upon the tonnes of concentrate shipped and sold to smelters, while refining costs are based on payable metal contained in concentrate. Additionally, smelting and refining costs are incurred in U.S. dollars and are positively or negatively impacted by the Canadian dollar/U.S. dollar exchange rate.

Total concentrate shipped in Q4 2017 was 7,049 tonnes compared to 4,617 tonnes shipped in Q4 2016. Smelting, refining and freight costs for the three month period ended December 31, 2017 were $3.7, representing a decrease of 23% compared to $4.8 in the respective three month period in 2016.

Total concentrate shipped in FY 2017 was 22,398 tonnes compared to 15,546 tonnes shipped in FY 2016. Smelting, refining and freight costs for the year ended December 31, 2017 were $12.2, representing a decrease of 22% compared to $15.6 for the year ended December 31, 2016.

The decreased smelter treatment, refining, and freight costs resulted from new smelter agreements and carrier contracts which are effective for the 2017 calendar year.

Due to the timing of its last mill run in the quarter, the Company had 661 tonnes of undelivered concentrate on-hand that was included in inventory at December 31, 2017 compared to 78 tonnes of undelivered concentrate on-hand and included in inventory at December 31, 2016.

Royalty expense

Royalty expense in Q4 2017 was $4.2 compared to $1.8 in Q4 2016, while royalty expenses for FY 2017 were $12.8 compared to $6.8 in FY 2016. The increased royalty costs in the 2017 periods compared to those for 2016 were due to higher net smelter revenues.

Palladium Revenue per Ounce Sold

Palladium revenue per ounce sold ($US) is a Non-IFRS measure, for which the calculation is detailed in the Non-IFRS measures section on pages 32-35 of this MD&A.

The palladium spot price of US$1,056 per ounce at December 31, 2017, was 56% higher than the palladium spot price of US$676 per ounce at December 31, 2016. The average palladium revenue per ounce sold for Q4 2017 was US$1,001 representing a 53% increase compared to the average palladium revenue per ounce sold of US$655 for Q4 2016. Payable palladium ounces sold in Q4 2017 was 45% higher than in Q4 2016.

Average palladium revenue per ounce sold for FY 2017 was US$876 compared to the average palladium revenue per ounce sold of US$634 for FY 2016. Payable palladium ounces sold in FY 2017 was 32% higher than in FY 2016.

The following chart compares the spot palladium price for each reporting period to the respective palladium revenue per ounce sold.

	2017					**2016**				
	Q1	Q2	Q3	**Q4**	**Average**	Q1	Q2	Q3	Q4	Average
Palladium - Spot Price (US$/ounce)	$ 798	$ 841	$ 935	**$ 1,056**	**$ 870**	$ 569	$ 589	$ 722	$ 676	$ 624
Palladium revenue per ounce sold (US$)	$ 812	$ 799	$ 882	**$ 1,001**	**$ 876**	$ 438	$ 611	$ 884	$ 655	$ 634

The average palladium revenue per ounce for Q3 2016 is significantly higher than the related spot price because of a large final pricing adjustment and reduced palladium production during that quarter. These unusual movements in Q3 2016 make the year over year comparison less meaningful.

Production costs

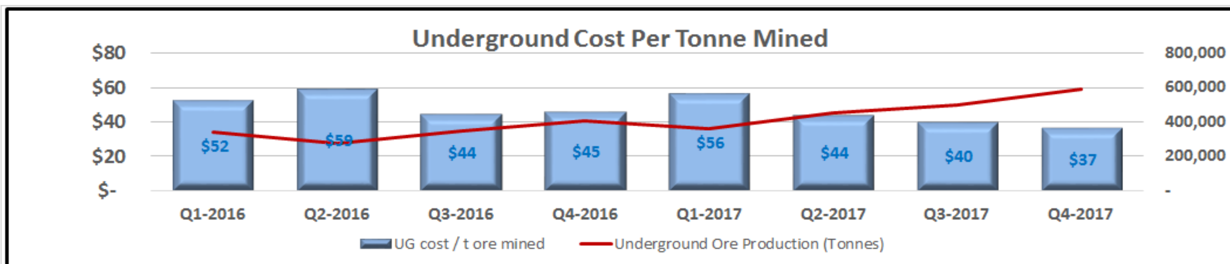
Production costs are comprised of mining costs related to surface and underground operations, milling costs, general and administrative costs, and inventory and other costs.

Surface Operations consist of all costs related to activities regarding the movement of ore and waste on surface, including the movement of stockpiled material.
Underground Operations include all respective costs of production development, extraction, and haulage of ore and waste rock to the surface via both ramp and shaft.
Mill Operations reflect costs related to the crushing and processing of ore to yield saleable palladium concentrate, including the costs related to the maintenance of the tailings management facility.
General and Administrative costs represent costs specific to the mine site that relate to management, human resources, environmental, finance, and information and technology.
Inventory adjustments include the allocation of costs to crushed and broken ore stockpiles and to concentrate inventory.

Total production costs in Q4 2017 were $40.2, an increase of 4% compared to $38.6 in Q4 2016 and total production costs for FY 2017 were $153.2, an increase of 16% compared to $132.2 in FY 2016.

Mining costs

Mining costs in Q4 2017 increased by $4.3 or 19% compared to Q4 2016, whereas mining costs in FY 2017 increased by $17.9 or 22% compared to FY 2016. The increase in costs for the 2017 periods was a result of increased underground production, as well as one-time costs associated with the transition to the SLS mining method in the Offset zone and the development in the B2 zone. As illustrated in the following graph, underground costs, expressed in dollars per metric tonne mined, have declined during 2017 as the underground production rate has increased.



Milling costs

Milling costs in Q4 2017 increased by $1.3 or 16% compared to Q4 2016 due to an increase in labour and parts costs related to maintenance, partially offset by lower power costs in 2017. An additional 453,764 tonnes were milled in Q4 2017 compared to Q4 2016, resulting in a reduced average unit cost to $9 per milled tonne for Q4 2017 compared to $12 per milled tonne in Q4 2016.

Milling costs in FY 2017 increased by $3.2 or 10% compared to FY 2016 due to an increase in labour and parts costs related to maintenance, partially offset by lower power and consumables costs in 2017. An additional 783,635 tonnes were milled in FY 2017 compared to FY 2016, resulting in a reduced average annual unit cost of $14 per milled tonne for FY 2017 compared to $16 per milled tonne in FY 2016.

General and administrative costs

Mine site general and administration costs in Q4 2017 increased by $1.4 or 26% compared to Q4 2016, whereas administration costs in FY 2017 increased by $4.2 or 21% compared to FY 2016. For both the three month period and year ended, the increase in costs in 2017 is primarily due to an increase in consulting fees relating to the publication of a 43-101 technical report and ongoing optimization work on the LDI life of mine plan.

Inventory and other costs

Inventory movements reduced production costs in Q4 2017 by $2.9, which represented a year-on-year $5.4 decrease to production costs when compared to Q4 2016. Inventory movements reduced production costs for FY 2017 by $5.3, which represented a $4.3 year-over-year reduction compared to the decrease in production costs of $1.0 in FY 2016. These variances were due to the impact of production costs allocated to inventory at the end of each time period.

In addition, the following Non-IFRS measures were calculated based on production costs.

Production Costs per Tonne Milled

Production costs per tonne milled is a Non-IFRS measure and the calculation is provided in the Non-IFRS Measures section on pages 32-35 of this MD&A.

Production costs per tonne milled was $42 for Q4 2017 compared to $62 in Q4 2016 and was $57 for FY 2017 compared to $67 for FY 2016. The 2017 figure was influenced by increased costs associated with additional production, as well as one-time costs associated with the transition to the SLS mining method in the Offset zone and the development of the B2 zone.

Cash Cost per Ounce of Palladium Sold, Net of By-Product Revenues

Cash cost per ounce of palladium sold, net of by-product revenues is a Non-IFRS measure. The calculation of cash cost per ounce of palladium sold is provided in the Non-IFRS Measures section on pages 32-35 of this MD&A.

The cash cost per ounce of palladium sold decreased to US$463 in Q4 2017 compared to US$641 in Q4 2016. Although total production costs, net of by-product revenues, decreased nominally in Q4 2017 compared to Q4 2016, a decrease in cash cost per ounce resulted from a year-over-year increase of $3.1 in by-product revenues and a 45% increase in payable palladium ounces sold, which yielded a Canadian dollar cash cost per ounce to $586 in Q4 2017 compared to $858 in Q4 2016. The equivalent U.S. dollar-denominated cash cost difference was also impacted by the strengthening of the Canadian dollar, whereby the average exchange rate (CDN/USD) in Q4 2017 was 0.79, representing a 5% increase compared to 0.75 for Q4 2016.

In FY 2017, the cash cost per ounce of palladium sold decreased to US$509 compared to US$572 in FY 2016. This decrease in unit cost resulted from a year-over-year increase in by-product revenues of $16.7 and an increase of 48,191 payable palladium ounces sold in FY 2017 compared to FY 2016. The net impact yielded a Canadian dollar cash cost per ounce, net of by-product revenues, of $661 in FY 2017 compared to $762 in FY 2016. The average exchange rate (CDN/USD) applied was 0.77 in FY 2017 compared to 0.75 for FY 2016.

AISC per Ounce of Palladium Produced

AISC per ounce of palladium produced is a Non-IFRS measure. The calculation of AISC per ounce of palladium produced is detailed in the Non-IFRS Measures section on pages 32-35 of this MD&A.

The AISC per ounce of palladium produced decreased to US$734 (C$929) for Q4 2017 compared to US$780 (C$1,040) for Q4 2016. The US$46 decrease in unit cost is attributable to increased payable palladium produced in Q4 2017 of 20,021 ounces, partially offset by the strengthening of the Canadian dollar, an increase in operating costs of $4.9, and increased sustaining capital expenditures of $8.9 in Q4 2017 compared to those in Q4 2016.

In FY 2017, the AISC per ounce of palladium produced decreased to US$694 (C$901) compared to US$701 (C$935) for FY 2016. The US$7 decrease is attributable to increased palladium production and additional by-product revenues, offset by increased operating expenses of $19.6 and increased sustaining capital expenditures of $20.4. The total costs per ounce of palladium were partially offset by a 52,029 ounce increase in payable palladium produced in FY 2017 compared to FY 2016, net of the impact from the strengthening of the Canadian dollar to 0.77 in FY 2017 compared to 0.75 in FY 2016.

Depreciation and Amortization

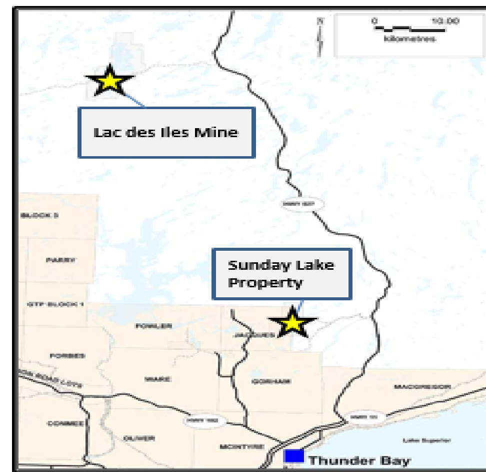
Depreciation and amortization for the three months and year ended December 31, 2017 were $11.1 and $41.3, respectively, compared to $7.0 and $30.8 in the comparable 2016 periods. The 2017 increases over the prior year were primarily due to higher unit-of-production depletion related to higher palladium ounces produced and the effect of gross additions to mining interests during the twelve month period of December 31, 2016 to December 31, 2017.

The technical report for the LDI mine, which was filed to SEDAR on June 7, 2017, provided additional reserves and resources for the LDI mine. As a result, the Company recognized a 16% increase to its estimate of in-situ ounces of palladium used as the denominator for depreciation and amortization of certain 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 June 1, 2017.

OTHER EXPENSES

Exploration

Exploration expenditures for Q4 2017 were $3.1 compared to $0.8 in Q4 2016 while the FY 2017, exploration costs were $5.8 compared to $4.6 in FY 2016. The year-over-year increased costs are attributable to a moderate increase in Greenfields exploration expenditure and the addition of the Sunday Lake Property.



In June 2017, the Company announced the signing of a Definitive Option Agreement with Impala Platinum Holdings Limited and Transition Metals Corp that provides the Company with the exclusive right to acquire a 75% ownership position in the Sunday Lake Project located near Thunder Bay, Ontario. The Sunday Lake Project is host to a recently discovered platinum group metals ("PGM") - copper - nickel sulfide deposit located within 70 km of the Company's Lac des Iles mine.

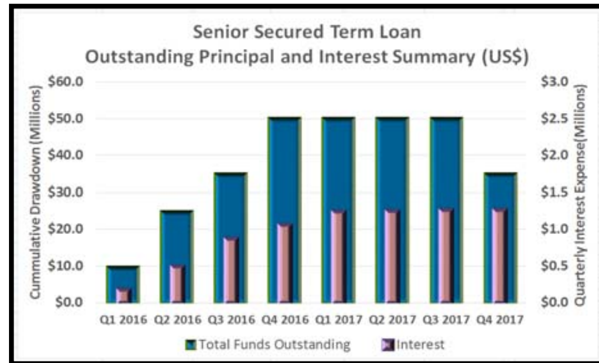
In 2017, mine-site exploration resulted in the validation of the Offset South zone as the top-priority resource gain opportunity as discussed in the Company's October 24th,2017 news release. In addition, drilling results and improved geological models led to the addition of several new targets and upgraded several existing targets. These include extensions to the Mystery, B2 and Sheriff South zones, a large prospective area in the direct footwall to the Offset Zone, and three near surface targets in the eastern part of the Property. Exploration drilling on the southern part of the Property that commenced in H2 2017 and continues this year and is investigating the potential for a southern, near-surface extension to the Roby and Offset zones along the same north-trending feeder structure.

Corporate General and Administration

The Company's corporate general and administration expenses for the three months and year ended December 31, 2017 were $1.7 and $7.4 compared to $1.3 and $5.8 in the comparable prior year periods. The increases are primarily attributable to consulting, legal, and administrative costs associated with financing activities.

Interest Costs and Other

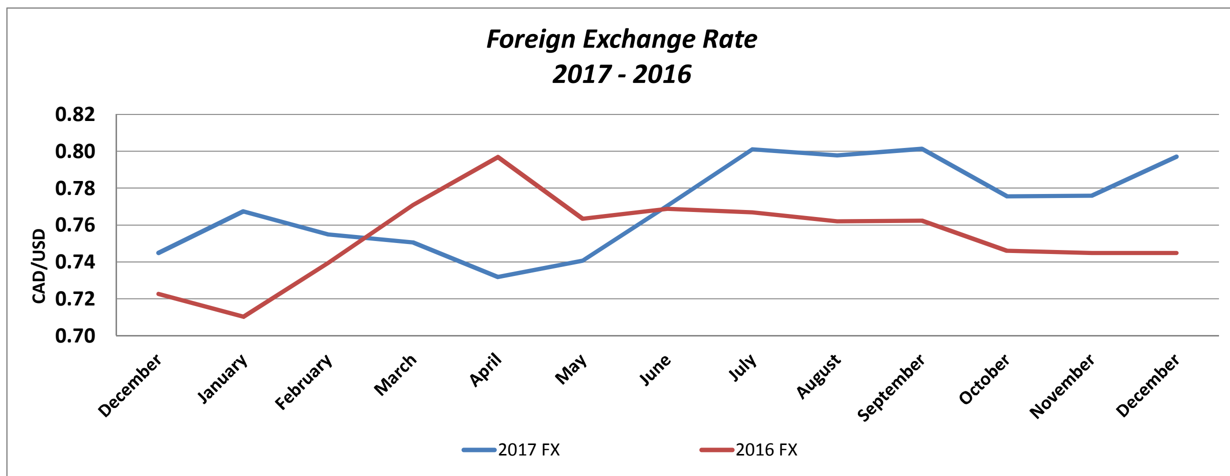
Interest costs and other, net of interest earned and other income, for the three months and year ended December 31, 2017 were $2.2 and $9.8 compared to $1.1 and $5.3 in the comparable prior year periods. The increases are primarily attributable to additional interest costs associated with the senior secured term loan. The drawdown of principal throughout 2016 resulted in increased interest and accretion costs on the debt in 2017 compared to the corresponding periods in 2016 where the US$50.0 senior secured term loan was not yet fully drawn. A repayment of US$15.0 in principal on the senior secured term loan was made on December 22, 2017.



Foreign Exchange Gain

The Company recorded a foreign exchange loss for Q4 2017 of $1.4 compared to a loss of $2.4 in Q4 2016. The variance was due to the impact of exchange rate movements on the Company's U.S. dollar denominated senior secured term loan and credit facility. The Canadian dollar remained relatively stable from Q3 2017 to Q4 2017, resulting in a minimal impact on the translated debt balance, whereas a relative weakening of the Canadian dollar in Q4 2016 contributed to an increase in the debt balance and a corresponding foreign exchange loss. The year-on-year variance was also impacted by the higher U.S. dollar denominated debt balances in the Q4 2016 period.

The foreign exchange gain for FY 2017 was $5.9 compared to a gain of $0.1 in FY 2016. As shown in the chart below, both years experienced an overall strengthening of the Canadian dollar, resulting in gains for both years. The increased carrying value of the U.S. dollar denominated debt, combined with the strengthening Canadian dollar, resulted in an increase in net foreign exchange gains recognized in FY 2017 compared to FY 2016.



FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

($millions)	Three months ended December 31 **2017**	Three months ended December 31 2016	Year ended December 31 **2017**	Year ended December 31 2016
Cash provided by (used in) operations prior to changes in non-cash working capital	**$ 30.3**	$ (2.5)	**$ 78.0**	$ 2.5
Changes in non-cash working capital	**11.7**	(7.5)	**16.3**	(11.9)
Cash provided by (used in) operations	**42.0**	(10.0)	**94.3**	(9.4)
Cash provided by financing activities	**(24.4)**	15.2	**(37.7)**	52.4
Cash used in investing activities	**(19.4)**	0.8	**(60.5)**	(39.2)
Increase (decrease) in cash and cash equivalents	**$ (1.8)**	$ 6.0	**$ (3.9)**	$ 3.8

Operating Activities

Cash provided by operations prior to changes in non-cash working capital for Q4 2017 was $30.3 compared to cash used in operations of $2.5 in Q4 2016. The increase of $32.8 was primarily due to an increase in revenue of $41.1 as a result of increased production combined with higher palladium prices during Q4 2017 and a reduction in smelter charges resulting from a new smelter agreement for 2017. These positive cash flows were partially offset by the year-over-year net increases in production costs of $1.6 and royalty fees of $2.4 in Q4 2017.

Cash provided by operations prior to changes in non-cash working capital for FY 2017 was $78.0 compared to cash provided by operations of $2.5 in FY 2016. The increase of $75.5 was primarily due to an increase in revenue of $105.5 as a result of increased production combined with higher palladium prices during the year and a decrease in smelter costs of $3.4. These positive cash flows were partially offset by the year-over-year increases in production costs of $21.0 and royalty costs of $6.0 compared to those in FY 2016.

Changes to non-cash working capital in Q4 2017 resulted in a source of cash of $11.7 compared to a use of cash of $7.5 in Q4 2016. The $19.2 variance was primarily due to an increase in cash provided by accounts payables and accrued liabilities of $21.2 compared to Q3 2016, which was partially offset by increased cash used for inventories of $5.5 compared to Q4 2016.

Changes to non-cash working capital in FY 2017 resulted in a source of cash of $16.3 compared to a use of cash of $11.9 in FY 2016. The $28.2 variance was primarily due to an increase in cash provided by accounts payables and accrued liabilities of $31.4, combined with a reduction of $2.7 in cash used for other assets, partially offset by increases in cash used for accounts receivable of $4.1 and inventories of $4.3 compared to FY 2016.

Financing Activities and Liquidity

Financing activities in Q4 2017 resulted in a use of cash of $24.4 compared to a source of cash of $15.2 in Q4 2016. The variance in cash from financing activities of $39.6 is primarily due to the Company's of $18.8 repayment against its senior secured term loan compared to a $19.9 drawdown of funds in Q4 2016.

Financing activities in FY 2017 resulted in a use of cash of $37.7 compared to a source of cash of $52.4 in FY 2016. The negative cash flow variance of $90.1 is primarily due to a $18.8 repayment of the senior secured debt in FY 2017 compared to a drawdown of funding in the amount of $65.0 in FY 2016 and an additional $4.0 in repayments of obligations under capital lease in FY 2017 compared to FY 2016. Additional interest charges of $3.3 were also paid in FY 2017 on the higher debt balance as a result of the drawdown of funds in FY 2016.

Investing Activities

Investing activities in Q4 2017 used cash of $19.4 compared to a source of cash of $0.7 in Q4 2016. Investing activities used cash of $60.5 in FY 2017 compared to $39.2 in FY 2016. The expenditures for both periods were due to additions to mining interests net of disposals, which are summarized in the following table.

($millions)	Three months ended December 31 2017	2016	Year ended December 31 2017	2016
Underground development	**$ 3.8**	$ 2.6	**$ 10.7**	$ 7.9
Tailings management facility	**5.7**	1.8	**17.2**	34.8
Mill equipment	**0.7**	0.7	**3.3**	1.2
Equipment and rebuilds	**9.2**	2.0	**21.5**	3.6
Total additions to mining interests before adjustments[1]	**$ 19.4**	$ 7.1	**$ 52.7**	$ 47.5
Payment of accrued capital investment[2]	**-**	(7.8)	**7.8**	(7.8)
Total additions to mining interests	**$ 19.4**	$ (0.7)	**$ 60.5**	$ 39.7
Proceeds on disposal of mining interests, net	**-**	-	**-**	(0.5)
Net additions to mining interests	**$ 19.4**	$ (0.7)	**$ 60.5**	$ 39.2

1 Total additions to mining interests before adjustments excludes non-cash amounts relating to assets acquired under finance leases (Q4 2017 - $1.0, Q4 2016 – $Nil, FY 2017 - $9.8, and FY 2016 - $3.0).
2 Accounts payable and accrued liabilities reported at December 31, 2016 included $7.8 relating to capital costs which had been accrued at year end and were excluded from additions to mining interests due to their non-cash status. At the time of payment in Q1 2017, the related cash outflows were added to cash used for additions to mining interests in investing activities reported on the consolidated statements of cash flows.

Liquidity and Capital Resources [1]

($millions)	At December 31 2017	2016
Cash and cash equivalents	**$ 11.1**	$ 15.0
Total debt	**85.6**	108.8
Shareholders’ equity	**442.5**	411.5

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

As at December 31, 2017, the Company had cash and cash equivalents of $11.1 compared to $15.0 as at December 31, 2016. The variance from the prior year 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 calculation formula, a US$60.0 credit facility that is secured by a first priority charge on the Company's accounts receivable and inventory and by a second priority charge on the Company’s property, plant and equipment. In addition, a first priority charge on non-leased mobile equipment was assigned during Q2 2017 as part of the agreement related to a $6.2 letter of credit utilized during the period as security for power contract commitments and related mine closure plan amendments. The credit facility may be used for working capital and general corporate purposes. In July 2017, the Company extended the term of the US$60 credit facility to June 30, 2018. As at December 31, 2017, the credit facility drawn was US$42.2, including US$18.4 for letters of credit. An additional US$6.8 was available under the facility at December 31, 2017. The subsequent update to the borrowing base calculation on January 15, 2018 increased the maximum borrowing availability to US$57.0, of which US$42.4 was drawn at that time, including US$18.6 for letters of credit, resulting in remaining borrowing availability of US$14.6.

The Company’s credit facility contains financial covenants which, if not met, may result in an event of default. The credit facility also includes, but is not limited to, covenants applicable to limits on liens, additional debt, repayments, material adverse change provisions and cross-default provisions. Certain events of default result in the loan becoming immediately due. Other events of default entitle the lender to demand immediate repayment. The Company was in compliance with all covenants at December 31, 2017.

The senior secured term loan financing provides for the availability of a US$50.0 term loan, of which US$15.0 was repaid on December 22, 2017, prior to maturity on December 31, 2017. The remaining balance of US$35.0 was outstanding at year end and matures on December 31, 2018. The loan is secured by first priority charge on the Company's property, plant and equipment, excluding non-leased mobile equipment assigned under the Company's credit facility, and second priority charge on the Company's accounts receivable and inventory. The loan is repayable at any time, in whole or in part, without penalty and does not contain any financial covenants. The loan includes certain cross-default provisions with the Company's available credit facility.

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, as well as the Company's success in finalizing additional financing arrangements. Adverse changes in any of these variables may have a material impact on the Company's liquidity position.

The Company has $12.2 in finance leases for funding equipment for operations. See the contractual obligations below for additional commitments.

Contractual Obligations

Contractual obligations are comprised as follows:

As at December 31, 2017	Payments Due by Period			
($millions)	Total	1-3 Years	3-5 Years	5+ Years
Credit facility	$ 29.9	$ 29.9	$ -	$ -
Term loan	43.5	43.5	-	-
Finance lease obligations	12.2	12.2	-	-
Operating leases	0.9	0.3	0.6	-
	$ 86.5	$ 85.9	$ 0.6	$ -

In addition to contracted obligations, the Company has asset retirement obligations at December 31, 2017 in the amount of $21.8 for the LDI mine. The Company has letters of credit of $21.2 related to the asset retirement obligation.

Other Commitments

Other commitments relating to a royalty agreement, operating leases and purchase commitments, and the Company's letters of credit also existed at December 31, 2017. Please refer to note 17 of the Company's Financial Statements.

Related Party Transactions

Brookfield Business Partners LP ("BBU") is a limited partnership publicly listed on the New York Stock Exchange (NYSE) and the TSX whose general partner is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM"). An approximate 21% economic interest in BBU by way of limited partnership units was spun off to shareholders of BAM on June 20, 2016 as a special dividend, with subsidiaries of BAM retaining the remaining limited partnership interest in BBU. Collectively, BBU and its affiliates ("Brookfield") indirectly hold approximately 53.5 million common shares, representing approximately 92% of the issued and outstanding common shares of NAP. Prior to June 1, 2016, NAP's parent company was Brookfield Capital Partners ("BCP"), a 100% wholly-owned subsidiary of BAM.

During the three months and year ending December 31, 2017, related party transactions consisted of interest payments of $1.5 and $6.4, respectively, relating to the outstanding senior secured term loan due to BCP and the repayment of US$15.0 ($18.8) in principal that matured at December 31, 2017.

OUTSTANDING SHARE DATA

As of February 21, 2018, 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 had net income of $30.3 and positive cash flow from operations of $94.3, nevertheless the Company presents negative working capital of $24.4 for the year ended December 31, 2017. After cash used in financing activities and used for capital expenditures, the Company had cash balances of $11.1 at December 31, 2017. The Company currently has one available source of financing, a credit facility (note 10), which had available credit of $6.8 at December 31, 2017 and which matures on June 30, 2018. The Company utilizes its credit facility for working capital and general corporate purposes. The Company's credit facility contains several financial covenants, which, if not met could result in an event of default. As at December 31, 2017, the Company was in compliance with all its covenants under the credit facility. The Company closely monitors compliance with its covenants, as any breach of covenant could result in an event of default under the credit facility, which, if not addressed, would entitle the lender to demand immediate repayment. Availability under the credit facility is subject to a borrowing base calculation that relies on certain levels of inventory and accounts receivable balances. Repayments are required in circumstances where the borrowing base is reduced relative to existing debt drawn.

The senior secured term loan (note 12) was fully drawn as at December 31, 2017. In December 2017, US$15.0 of the senior secured term loan matured and was repaid. The remaining principal balance of US$35.0 matures on December 31, 2018. Management expects that cash flows from operations will be sufficient to fund capital expenditures, service debt and to repay the principal debt amounts at maturity. However, the Company's cash and liquidity position and covenant compliance during and beyond the end of 2018 are sensitive to a number of variables that cannot be predicted with certainty, including, but not limited to, renegotiation of the credit facility agreement or the Company's success in finalizing additional financing arrangements, meeting production targets, metal prices, foreign exchange rates, operational costs and capital expenditures, as well as the Company's success in finalizing additional financing arrangements. Adverse changes in any of these variables may have a material impact on the Company's liquidity position. These circumstances represent 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

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; and
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

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 any triggering events have occurred which may indicate potential impairment. Impairment is assessed at the level of cash-generating units ("CGUs"). An impairment loss is recognized 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.

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 future 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 condensed interim consolidated statements of operations and comprehensive loss. The liability is subject to re-measurement at each reporting date based on changes in discount rates and timing or amounts of the costs to be incurred. Changes in the liability, other than accretion charges, relating to mine rehabilitation and restoration obligations, which are not the result of current production of inventory, are added to or deducted from the carrying value of the related asset retirement cost in the reporting period recognized. If the change results in a reduction of the obligation in excess of the carrying value of the related asset retirement cost, the excess balance is recognized as a recovery through profit or loss in the period.

Adoption of New Accounting Standards

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

IAS 7 Statement of Cash Flows – Disclosures Related to Financing Activities
IAS 12 Income Taxes – Deferred Taxes

New standards not yet adopted

The following new standards are not yet effective for the year ended December 31, 2017 or have otherwise not yet been adopted by the Company.

IFRS 2 Share-based payment
IFRS 15 Revenue from contracts with customers
IFRS 9 Financial Instruments: Classification and Measurement
IFRS 16 Leases
IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 23 Uncertainty over Income Tax Treatments

For additional details regarding the nature of the adopted and unadopted standards and any impacts on the Company's reporting, please refer to note 3 of the Company's 2017 consolidated financial statements.

OTHER INFORMATION

Additional information regarding the Company is included in the Company’s annual information form and the 2017 base shelf prospectus, 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:

The Corporation may not be able to continue as a going concern.

Readers are encouraged to refer to the 'Going Concern' disclosures included in the Company's consolidated financial statements and this MD&A.

Sales of a significant number of the Common Shares in the public markets, and the expectation of such sales, could depress the market price of the Company's Common Shares.

The Company's parent holds a 92% ownership in the Company. The remaining 8% of the Company's common shares are actively traded, resulting in higher volatility of Company's share price. As a result, readers of this MD&A are cautioned regarding the potential for significant shifts in the Company's share price that may occur in advance of, or following, material trading activity or equity offerings by the Company.

The Corporation is dependent on third parties for smelting and refining its palladium.

The Company mining and milling operations produce a concentrate material sold to third party smelters. To ensure competitiveness of smelting and refining contracts with third parties, the Company solicits tenders from various smelters in advance of maturity of its smelter agreements. Where possible, the Company looks to secure long-term contracts with multiple smelter locations to mitigate market risk and the risk of potential interruption to sales and related cash flows which may result from interruptions to third party smelting operations.

Forward-looking information may prove inaccurate.

Certain valuations and measurements required consideration of forecast estimates and the use of various assumptions reliant upon factors which are beyond the control of the Company. Please refer to the Company's notice provided on page 5 of this MD&A regarding the use and risks associated with such foward-looking information.

Some additional risk factors discussed elsewhere in this MD&A are as follows:

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, 2017, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

The disclosure controls and procedures are evaluated annually through regular internal reviews which are carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Vice President, Finance and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Vice President, Finance and Chief Financial Officer concluded that the design and operation of these disclosure controls were effective as of December 31, 2017.

Internal Control over Financial Reporting

For the year ended December 31, 2017, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal controls over the financial reporting that occurred during the most recent period ended December 31, 2017 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.

Under the supervision and with the participation of the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, management performs regular internal reviews and conducts an annual evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on that evaluation, the Chief Executive Officer and 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, 2017.

SUMMARY OF QUARTERLY RESULTS

($millions except per share amounts)	2017					2016				
	Q1	Q2	Q3	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
PRODUCTION RESULTS										
Ore mined (tonnes)										
Underground	363,136	455,169	500,560	**578,249**	**1,897,114**	338,807	274,206	348,709	405,736	1,367,458
Surface	77,600	201,543	279,070	**403,847**	**962,060**	40,270	210,671	273,392	206,413	730,746
Total	440,736	656,712	779,630	**982,096**	**2,859,174**	379,077	484,877	622,101	612,149	2,098,204
Mined ore grade (Pd g/t)										
Underground	4.4	3.9	3.8	**3.5**	**3.9**	4.3	3.8	3.3	3.5	3.8
Surface	1.0	1.0	1.0	**0.9**	**0.9**	1.3	1.0	1.0	1.0	1.0
Milling										
Tonnes milled (dry metric tonnes)	458,382	580,265	704,287	**1,037,185**	**2,780,119**	353,601	539,461	520,002	583,420	1,996,484
Palladium recoveries (%)	83	84	82	**80**	**81**	84	83	81	83	82
Palladium concentrate grade (g/t)	295	313	276	**271**	**286**	331	323	305	294	315
Tonnes of concentrate produced	4,496	5,177	6,101	**7,206**	**22,980**	3,773	3,897	3,524	4,414	15,608
Production cost per tonne milled[1]	$ 80	$ 68	$ 56	**$ 42**	**$ 57**	$ 94	$ 59	$ 62	$ 62	$ 67
Payable production										
Palladium (oz)	40,252	50,222	53,118	**58,000**	**201,592**	40,216	38,203	33,165	37,979	149,563
Platinum (oz)	2,342	2,838	3,293	**3,794**	**12,267**	2,552	2,400	2,446	2,832	10,230
Gold (oz)	2,803	2,962	3,746	**3,784**	**13,295**	2,691	2,282	2,224	2,474	9,671
Nickel (lbs)	70,517	-	-	**-**	**70,517**	221,880	198,731	171,643	217,858	810,112
Copper (lbs)	602,644	806,452	924,154	**789,894**	**3,123,144**	511,164	563,920	532,419	627,473	2,234,976
FINANCIAL RESULTS										
Revenue	$ 44.3	$ 70.3	$ 70.7	**$ 87.1**	**$ 272.4**	$ 32.5	$ 39.9	$ 48.5	$ 46.0	$ 166.9
Production costs	31.9	41.1	40.0	**40.2**	**153.2**	31.3	31.5	30.8	38.6	132.2
Mine restoration and mitigation costs (recoveries)	-	-	-	**-**	**-**	-	-	-	0.1	0.1
Exploration expense	0.5	0.9	1.3	**3.1**	**5.8**	1.5	1.3	1.0	0.8	4.6
Capital expenditures (net of non-cash financing leases)	8.5	9.5	15.3	**19.4**	**52.7**	12.9	16.5	11.0	7.1	47.5
Net income (loss) and comprehensive income (loss)	(3.8)	7.9	11.0	**15.2**	**30.3**	(13.1)	(9.9)	(1.6)	(12.9)	(37.5)
Income (loss) per share – basic and diluted	$ (0.07)	$ 0.14	$ 0.19	**$ 0.26**	**$ 0.52**	$ (0.23)	$ (0.17)	$ (0.03)	$ (0.23)	$ (0.65)
Cash provided by (used in) operations	10.7	25.7	15.9	**42.0**	**94.3**	(3.7)	1.5	2.8	(10.0)	(9.4)
Cash provided by (used in) financing activities	8.7	(17.5)	(4.5)	**(24.4)**	**(37.7)**	9.1	14.8	13.3	15.2	52.4
Cash provided by (used in) investing activities	(16.3)	(9.5)	(15.3)	**(19.4)**	**(60.5)**	(12.9)	(16.2)	(8.5)	(1.6)	(39.2)
Palladium sold (ounces)	33,297	53,982	52,709	**57,323**	**197,311**	37,768	38,192	33,540	39,620	149,120
Palladium revenue per ounce sold (US$)[1, 2]	$ 812	$ 799	$ 882	**$ 1,001**	**$ 876**	$ 438	$ 611	$ 884	$ 655	$ 634
Other results[1]										
AISC per ounce of palladium produced (US$)[1]	$ 765	$ 612	$ 688	**$ 734**	**$ 694**	$ 616	$ 674	$ 764	$ 780	$ 701
Cash cost per ounce of palladium sold (US$), net of by-product revenues[1]	$ 627	$ 485	$ 516	**$ 463**	**$ 509**	$ 504	$ 554	$ 603	$ 641	$ 572

1. Non-IFRS measure. Please refer to Non-IFRS Measures on pages 32-35.

2 The average palladium revenue per ounce increase for Q3 2016 is significantly higher than the related spot price because of a large commodity pricing gain and reduced palladium production during that quarter. These unusual movements in Q3 2016 make the year over year comparison less meaningful.

OUTLOOK

During the three month period ending December 31, 2017, underground production at LDI averaged 6,285 tonnes per day. A new underground production record of 8,845 tonnes per day was achieved in November, 2017. This higher level of output reflects the initiation of production from several additional mining areas in the upper part of the LDI mine, including the B2 zone, and the continued success of the SLS mining method in the lower part of the LDI mine.

Payable production for the year ended December 31, 2017 was 201,592 ounces, which exceeded the Company's guidance of between 180,000 and 190,000 ounces. The annual average AISC was US$694 per ounce of payable palladium produced.

In 2018, the Company expects production of between 230,000 to 240,000 payable ounces of palladium at an AISC of US$640 to US$660, assuming a USD/CAD exchange rate of 1.24.

NAP is committed to increasing the value of its Lac des Iles operation through exploration success. The Company maintains a three-tiered exploration strategy that encompasses:

1. Mineral Reserves replacement on the LDI Mine Property through extension and conversion drilling adjacent to the principal Mineral Reserves and mining areas.
2. Mineral Resource additions (both underground and at surface) on other parts of the LDI Mine Property through exploration drilling, supported by geophysical and geochemical surveys.
3. Delineation of new Mineral Resources on other LDI suite intrusions in the immediate vicinity of the mill.

NAP's northwestern Ontario PGE greenfields properties comprise over 43,000 hectares of land covering several discrete mafic to ultramafic intrusive bodies, all believed to be related to the same magmatic event that formed the LDI deposits some 2.68 billion years ago. All of the greenfields properties are registered or under option to Lac des Iles Mines Ltd. (LDIM) and occur within 50 km of the LDI mill. Discovery of new PGE resources stemming from a sustained investment into PGE greenfields exploration remains a strategic priority for the Company. Many of the greenfields properties are already known to host near-surface occurrences of palladium mineralization having strong similarities to the main mineralized zones at LDI.

In 2018, the Company intends to invest $12.0M in exploration. A six month program of surface and borehole geophysical surveying and diamond drilling was initiated at the Sunday Lake property in October, 2017. A total of 8,000 metres of drilling are planned for this program, which is focused on extending and infilling the known mineralization and identifying new areas of mineralization on the property. Additionally, LDI exploration will focus on adding inferred resources to the Offset South, Mystery Zone and B2 Zone extension targets and confirming the potential for resource gains in the Offset footwall and two or more near surface targets. A total of 32,000m of drilling are planned including 26,000m of underground drilling and 6,000m of surface drilling.

NAP ALLADIUM
Mining for Clean Air

NON-IFRS MEASURES

This MD&A refers to production cost per tonne milled, palladium revenue per ounce sold, cash cost per ounce of palladium sold, EBITDA, adjusted EBITDA, and AISC amounts calculated per ounce of palladium produced, 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 also assess performance in this way. Management believes that these measures reflect the Company's performance and provide 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:

Production Costs per Tonne Milled

Production costs per tonne milled provides the cost of producing and shipping concentrate to customers and is computed as follows:

	2017					2016				
	Q1	Q2	Q3	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Production costs	$ 31.9	$ 41.1	$ 40.0	**$ 40.2**	**$ 153.2**	$ 31.3	$ 31.5	$ 30.8	$ 38.6	$ 132.2
Deduct:										
Inventory adjustments	4.7	(1.8)	(0.5)	**2.9**	**5.3**	1.9	0.3	1.2	(2.4)	1.0
On-site mining, general & administration costs	36.6	39.3	39.5	**43.1**	**158.5**	33.2	31.8	32.0	36.2	133.2
Divide by:										
Tonnes milled (dry metric tonnes)	458,382	580,265	704,287	**1,037,185**	**2,780,119**	353,601	539,461	520,002	583,420	1,996,484
Production cost per tonne milled	$ 80	$ 68	$ 56	**$ 42**	**$ 57**	$ 94	$ 59	$ 62	$ 62	$ 67

Palladium Revenue Per Ounce Sold

Palladium revenue per ounce sold represents the palladium revenue, after pricing and foreign exchange rate adjustments, per payable ounce of palladium that is recognized in revenue in each period. The measure provides a correlation between the estimated proceeds from the sale of the company's primary metal at current market prices and the Company's Non-IFRS measure for AISC per ounce of palladium produced.

The calculation for palladium revenue per payable ounce sold is as follows:

	2017					2016				
	Q1	Q2	Q3	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Revenue after pricing adjustments	$ 44.3	$ 70.3	$ 70.7	**$ 87.1**	**$ 272.4**	$ 32.5	$ 39.9	$ 48.5	$ 46.0	$ 166.9
Deduct:										
By-product metal revenue	(8.7)	(12.0)	(12.6)	**(14.5)**	**(47.8)**	(9.5)	(10.0)	(10.0)	(11.4)	(40.9)
Palladium revenue	$ 35.6	$ 58.3	$ 58.1	**$ 72.6**	**$ 224.6**	$ 23.0	$ 29.9	$ 38.5	$ 34.6	$ 126.0
Divide by:										
Payable ounces of palladium sold	33,297	53,982	52,709	**57,323**	**197,311**	37,768	38,192	33,540	39,620	149,120
Palladium revenue per ounce sold (CDN$)	$ 1,069	$ 1,080	$ 1,102	**$ 1,267**	**$ 1,138**	$ 609	$ 783	$ 1,148	$ 873	$ 845
Average exchange rate (CAD/USD)	0.76	0.74	0.80	**0.79**	**0.77**	0.72	0.78	0.77	0.75	0.75
Palladium revenue per ounce sold (US$)[1]	$ 812	$ 799	$ 882	**$ 1,001**	**$ 876**	$ 438	$ 611	$ 884	$ 655	$ 634

1 The average palladium revenue per ounce increase for Q3 2016 is significantly higher than the related spot price because of a large commodity pricing gain and reduced palladium production during that quarter. These unusual movements in Q3 2016 make the year over year comparison less meaningful.

NAPALLADIUM
Mining for Clean Air

Cash Cost Per Ounce of Palladium Sold

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 of palladium sold 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, milling, processing concentrate, general and administration and royalty costs, but are exclusive of depreciation, amortization, reclamation, capital and exploration costs. The cash cost per ounce calculation is reduced by deducting 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. 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 by-products for the purposes of the cash cost calculation. 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.

	2017					2016				
	Q1	Q2	Q3	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Production costs	$ 31.9	$ 41.1	$ 40.0	**$ 40.2**	**$ 153.2**	$ 31.3	$ 31.5	$ 30.8	$ 38.6	$ 132.2
Smelting, refining and freight costs	2.1	3.2	3.2	**3.7**	**12.2**	3.3	3.9	3.6	4.8	15.6
Royalty expense	2.2	3.0	3.4	**4.2**	**12.8**	1.3	1.7	2.0	1.8	6.8
Operational expenses	$ 36.2	$ 47.3	$ 46.6	**$ 48.1**	**$ 178.2**	$ 35.9	$ 37.1	$ 36.4	$ 45.2	$ 154.6
Deduct: By-product metal revenue	(8.7)	(12.0)	(12.6)	**(14.5)**	**(47.8)**	(9.5)	(10.0)	(10.0)	(11.4)	(40.9)
	$ 27.5	$ 35.3	$ 34.0	**$ 33.6**	**$ 130.4**	$ 26.4	$ 27.1	$ 26.4	$ 33.8	$ 113.7
Divided by: Payable ounces of palladium sold	33,297	53,982	52,709	**57,323**	**197,311**	37,768	38,192	33,540	39,620	149,120
Cash cost per ounce (CDN$), net of by-product credits	$ 825	$ 656	$ 645	**$ 586**	**$ 661**	$ 700	$ 710	$ 783	$ 858	$ 762
Average exchange rate (CAD/USD)	0.76	0.74	0.80	**0.79**	**0.77**	0.72	0.78	0.77	0.75	0.75
Cash cost per ounce of palladium (US$), net of by-product revenues	$ 627	$ 485	$ 516	**$ 463**	**$ 509**	$ 504	$ 554	$ 603	$ 641	$ 572

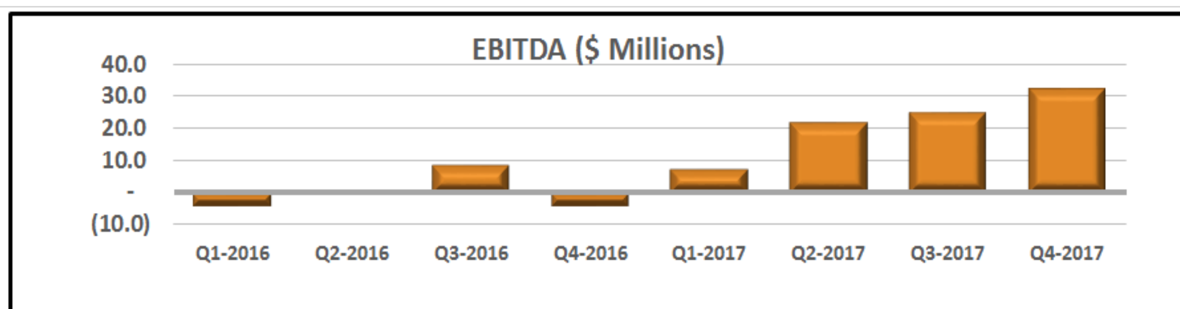
EBITDA and adjusted EBITDA

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, as well as 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 income (loss) and comprehensive income (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); mine restoration and mitigation costs; and severance payments.

	2017					2016				
	Q1	Q2	Q3	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Income (loss) and comprehensive income (loss) for the period	$ (3.8)	$ 7.9	$ 11.0	**$ 15.2**	**$ 30.3**	$ (13.1)	$ (9.9)	$ (1.6)	$ (12.9)	$ (37.5)
Interest and other income	-	(0.1)	-	**(0.1)**	**(0.2)**	(0.8)	-	-	(0.2)	(1.0)
Interest costs, prepayment fee and other	2.6	2.6	2.5	**2.3**	**10.0**	1.0	1.9	2.1	1.3	6.3
Financing costs	0.3	0.2	0.5	**0.7**	**1.7**	0.2	-	0.4	0.9	1.5
Income taxes	-	-	-	**3.2**	**3.2**	-	-	-	-	-
Depreciation and amortization	8.1	11.2	10.9	**11.1**	**41.3**	8.5	7.5	7.8	7.0	30.8
EBITDA	$ 7.2	$ 21.8	$ 24.9	**$ 32.4**	**$ 86.3**	$ (4.2)	$ (0.5)	$ 8.7	$ (3.9)	$ 0.1
Exploration	0.5	0.9	1.3	**3.1**	**5.8**	1.2	1.3	1.0	0.8	4.3
Foreign exchange loss (gain)	(0.6)	(2.5)	(4.2)	**1.4**	**(5.9)**	(3.2)	0.3	0.4	2.4	(0.1)
Mine restoration and mitigation costs	-	-	-	**-**	**-**	0.1	-	-	-	0.1
Severance payments	-	-	-	**-**	**-**	0.3	-	-	-	0.3
Change in carrying value of long-term debt	(0.3)	0.3	-	**-**	**-**	-	-	-	-	-
Adjusted EBITDA	$ 6.8	$ 20.5	$ 22.0	**$ 36.9**	**$ 86.2**	$ (5.8)	$ 1.1	$ 10.1	$ (0.7)	$ 4.7



All-Inclusive Sustaining Costs (AISC)

The Company believes that, in addition to the above Non-IFRS measures, the determination of AISC and AISC per ounce of palladium producted also represents an effective criterion for understanding the economics of the mining operation.

The Company's methodology for calculating AISC follows guidelines provided by the World Gold Council released June 27, 2013, which may not be similar to methodology used by other precious metal producers that disclose AISC.

	2017					2016				
	Q1	Q2	Q3	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Production costs	$ 31.9	$ 41.1	$ 40.0	**$ 40.2**	**$ 153.2**	$ 31.3	$ 31.5	$ 30.8	$ 38.6	$ 132.2
Deduct:										
Inventory adjustments	4.7	(1.8)	(0.5)	**2.9**	**5.3**	1.9	0.3	1.2	(2.4)	1.0
On-site mining, general & administration costs	36.6	39.3	39.5	**43.1**	**158.5**	33.2	31.8	32.0	36.2	133.2
Royalties & production taxes	2.2	3.0	3.4	**4.2**	**12.8**	1.3	1.7	2.0	1.8	6.8
Third party smelting, refining & transport costs	2.1	3.2	3.2	**3.7**	**12.2**	3.3	3.9	3.6	4.8	15.6
Stock-piles/product inventory write down	(0.2)	-	-	**-**	**(0.2)**	0.9	0.1	-	0.2	1.2
By-product credits	(8.7)	(12.0)	(12.6)	**(14.5)**	**(47.8)**	(9.5)	(10.0)	(10.0)	(11.4)	(40.9)
Adjusted Operating Costs	$ 32.0	$ 33.5	$ 33.5	**$ 36.5**	**$ 135.5**	$ 29.2	$ 27.5	$ 27.6	$ 31.6	$ 115.9
Corporate general & administrative costs	1.4	2.3	2.0	**1.7**	**7.4**	1.5	1.6	1.4	1.3	5.8
Reclamation & remediation accretion & amortization	0.1	-	0.1	**0.2**	**0.4**	0.1	-	0.1	-	0.2
Capitalized mine development (sustaining)	2.8	1.8	2.3	**3.8**	**10.7**	1.9	1.6	1.8	2.6	7.9
Capital expenditure (sustaining)[1]	4.2	3.9	7.8	**11.7**	**27.6**	1.7	2.3	2.0	4.0	10.0
All-inclusive sustaining cost	$ 40.5	$ 41.5	$ 45.7	**$ 53.9**	**$ 181.6**	$ 34.4	$ 33.0	$ 32.9	$ 39.5	$ 139.8
Ounces of palladium produced	40,252	50,222	53,118	**58,000**	**201,592**	40,216	38,203	33,165	37,979	149,563
AISC per palladium ounce produced (CDN$)	$ 1,006	$ 827	$ 860	**$ 929**	**$ 901**	$ 855	$ 864	$ 992	$ 1,040	$ 935
Average exchange rate (CAD/USD)	0.76	0.74	0.80	**0.79**	**0.77**	0.72	0.78	0.77	0.75	0.75
AISC per palladium ounce produced (US$)	$ 765	$ 612	$ 688	**$ 734**	**$ 694**	$ 616	$ 674	$ 764	$ 780	$ 701

1 Capital expenditures include principal payments on obligations under finance lease. A final buyout of $2.9 in Q1 2017 relating to a sale-leaseback of various pieces of equipment is excluded. Had this non-recurring expenditure been included, the Q1 2017 AISC would have been $43.4, with an AISC per palladium ounce produced of $1,078 (US$819).