NORTH AMERICAN PALLADIUM LTD
Form F-10/A
April 22, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 22,

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
FORM F-10
REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933

NORTH AMERICAN PALLADIUM LTD.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CANADA	1099
(PROVINCE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)

130 ADELAIDE STREET WEST, SUITE 2116
TORONTO, ONTARIO, CANADA M5H 3P5
(416) 360-7590
(ADDRESS AND TELEPHONE NUMBER OF REGISTRANT'S PRINCIPAL EXECUTIVE O
CT CORPORATION SYSTEM
111 8TH AVENUE, 13TH FLOOR
NEW YORK, NEW YORK 10011
(212) 894-8940
(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE IN THE UNITE

COPIES TO:

CHRISTOPHER W. MORGAN, ESQ.	LES
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP	GOWLING L
222 BAY STREET	4900 CO
SUITE 1750, P.O. BOX 258	TORONTO
TORONTO, ONTARIO M5K 1J5	(4
(416) 777-4700	

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO T
From time to time after the effective date of this Registration Stat

PROVINCE OF ONTARIO, CANADA
(PRINCIPAL JURISDICTION REGULATING THIS OFFERING)

It is proposed that this filing shall become effective (check appropriate box):

A. /X/ Upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an off
in the United States and Canada).

B. / / At some future date (check the appropriate box below):

1. / / pursuant to Rule 467(b) on ( ) at ( ) (designate a time not sooner tha
2. / / pursuant to Rule 467(b) on ( ) at ( ) (designate a time 7 calendar day

because the securities regulatory authority in the review jurisdiction has i
clearance on ( ).

3. / / pursuant to Rule 467(b) as soon as practicable after notification of the Com
Canadian securities regulatory authority of the review jurisdiction that a r
has been issued with respect hereto.

4. / / after the filing of the next amendment to this Form (if preliminary material

If any of the securities being registered on this Form are to be offered on a delayed or continuo
jurisdiction's shelf prospectus offering procedures, check the following box. /X/

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSAR
THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE AS PROVIDED IN RULE 467 UNDER THE SECURITIES AC
COMMISSION, ACTING PURSUANT TO SECTION 8(A) OF THE ACT, MAY DETERMINE.

PART I

INFORMATION REQUIRED TO BE
DELIVERED TO OFFEREES OR PURCHASERS

SHORT FORM BASE SHELF PROSPECTUS DATED APRIL 21, 2004

NEW ISSUE

[LOGO] NORTH AMERICAN PALLADIUM LTD.

CDN$100,000,000

COMMON SHARES
SPECIAL SHARES
WARRANTS
STOCK PURCHASE CONTRACTS
UNITS

North American Palladium Ltd. (the "Corporation") may from time to time offer common shares, special shares, stock purchase contracts, units or warrants to purchase common shares, special shares or other securities (collectively, the "Securities"), in one or more offerings up to an aggregate offering price of Cdn$100,000,000 during the 25 month period that this Prospectus, including any amendments hereto, remains effective. This offering is being made concurrently in each of the provinces of Canada and in the United States pursuant to the multi-jurisdictional disclosure system (the "MJDS") implemented by securities regulatory authorities in Canada and the United States.

The Securities may be offered at prices and on terms to be determined by the Corporation based on market conditions at the time of sale and other factors and such prices and terms will be set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements. A Prospectus Supplement will be delivered to prospective purchasers of such offered Securities, together with this Prospectus, and will be deemed to be incorporated by reference into this Prospectus for the purpose of securities legislation as of the date of such Prospectus Supplement and only for the purpose of the offering of such offered Securities.

The specific terms of any Securities offered will be described in a Prospectus Supplement including, where applicable: (i) in the case of common shares, the number of shares offered, the offering price and any other specific terms; (ii) in the case of special shares, the designation of the particular series, the number of shares offered, the offering price, any rights to receive dividends, any terms of redemption and any other specific terms; (iii) in the case of warrants, the designation, number and terms of the common shares, special shares or other securities purchasable upon exercise of the warrants, any procedures that will result in the adjustment of these numbers, the exercise price, dates and periods of exercise, and the currency in which the warrants are issued and any other specific terms; (iv) in the case of stock purchase contracts, the designation, number and terms of the common shares or special shares to be purchased under the stock purchase contract, any procedures that will result in the adjustment of these numbers, the purchase price and purchase date or dates of the shares, any requirements of the purchaser to secure its obligations under the stock purchase contract and any other specific terms; and (v) in the case of units, the terms of the component securities and any other specific terms. The Prospectus Supplement may also include specific variable terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

INVESTING IN THE SECURITIES INVOLVES RISKS. SEE "RISK FACTORS" IN THIS PROSPECTUS AND THE RISK FACTORS SECTION IN ANY APPLICABLE PROSPECTUS SUPPLEMENT.

THIS OFFERING IS MADE BY A FOREIGN ISSUER THAT IS PERMITTED, UNDER A MULTIJURISDICTIONAL DISCLOSURE SYSTEM ADOPTED BY THE UNITED STATES, TO PREPARE THIS PROSPECTUS IN ACCORDANCE WITH THE DISCLOSURE REQUIREMENTS OF ITS HOME COUNTRY. PROSPECTIVE INVESTORS SHOULD BE AWARE THAT SUCH REQUIREMENTS ARE DIFFERENT FROM THOSE OF THE UNITED STATES. FINANCIAL STATEMENTS INCLUDED OR INCORPORATED HEREIN, IF ANY, HAVE BEEN PREPARED IN ACCORDANCE WITH FOREIGN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, AND MAY BE SUBJECT TO FOREIGN AUDITING AND AUDITOR INDEPENDENCE STANDARDS, AND THUS MAY NOT BE COMPARABLE TO FINANCIAL STATEMENTS OF UNITED STATES COMPANIES.

PROSPECTIVE INVESTORS SHOULD BE AWARE THAT THE ACQUISITION OF THE SECURITIES DESCRIBED HEREIN MAY HAVE TAX CONSEQUENCES BOTH IN THE UNITED STATES AND IN THE HOME COUNTRY OF THE REGISTRANT. SUCH CONSEQUENCES FOR INVESTORS WHO ARE RESIDENT IN, OR CITIZENS OF, THE UNITED STATES MAY NOT BE DESCRIBED FULLY HEREIN.

THE ENFORCEMENT BY INVESTORS OF CIVIL LIABILITIES UNDER UNITED STATES FEDERAL SECURITIES LAWS MAY BE AFFECTED ADVERSELY BY THE FACT THAT THE REGISTRANT IS INCORPORATED OR ORGANIZED UNDER THE LAWS OF A FOREIGN COUNTRY, THAT SOME OR ALL OF ITS OFFICERS AND DIRECTORS MAY BE RESIDENTS OF A FOREIGN COUNTRY, THAT SOME OR ALL OF THE UNDERWRITERS OR EXPERTS NAMED IN THIS PROSPECTUS MAY BE RESIDENTS OF A FOREIGN COUNTRY, AND THAT ALL OR A SUBSTANTIAL PORTION OF THE ASSETS OF THE REGISTRANT AND SAID PERSONS MAY BE LOCATED OUTSIDE THE UNITED STATES.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Securities may be sold to or through underwriters or dealers, to one or more other purchasers directly or through agents. See "Plan of Distribution". A Prospectus Supplement will set forth the names of any underwriters, dealers or agents involved in the sale of any Securities, and will set forth the terms of the offering of such Securities, including, to the extent applicable, the offering price, the proceeds to the Corporation, the number of Securities, if any, to be purchased by underwriters, the underwriting discounts or commissions, and any other discounts or concessions to be allowed or reallowed to dealers. Unless otherwise specified in a Prospectus Supplement, the offering is subject to approval of certain legal matters on the Corporation's behalf by Gowling Lafleur Henderson LLP with respect to certain matters of Canadian law and by Skadden, Arps, Slate, Meagher & Flom LLP with respect to certain matters of U.S. law.

The date of this prospectus is April 21, 2004

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Investors should rely only on the information contained or incorporated by reference in this Prospectus and any Prospectus Supplement. The Corporation has not authorized anyone to provide prospective investors with information that is different. If prospective investors are provided with any different or inconsistent information, they should not rely on it. This document may only be used where it is legal to sell the Securities and it is not an offer to sell Securities in any jurisdiction where the offer or sale is not permitted. The information in or incorporated by reference into this Prospectus is only accurate as of the date of this Prospectus or any Prospectus Supplement, regardless of the time of delivery of this Prospectus and any Prospectus Supplement or any sale of the Securities.

Unless otherwise indicated, all references in this Prospectus to the "Corporation" refer to North American Palladium Ltd., together with its wholly-owned subsidiary, Lac des Iles Mines Ltd.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included or incorporated by reference into any Prospectus Supplement has been or will have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which may differ from United States generally accepted accounting principles ("U.S. GAAP"). Please see the notes to the Corporation's audited consolidated financial statements for a summary of the significant differences between Canadian GAAP and U.S. GAAP.

In this Prospectus, unless otherwise specified or the context otherwise requires, all monetary amounts are expressed in Canadian dollars. References to "$" or "Cdn$" are to Canadian dollars and references to "US$" are to U.S. dollars.

Unless otherwise indicated, the mineral reserves ("reserves") and mineral resources ("resources") estimates contained or incorporated by reference in this Prospectus were prepared in accordance with NATIONAL INSTRUMENT 43-101 - STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS ("NI 43-101"), including the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines adopted by the Canadian Institute of Mining, Metallurgy and Petroleum Council on August 20, 2000 (the "CIM Standards") by employees of the Corporation who are "qualified persons" as such term is defined in NI 43-101. Descriptions of reserves and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to reporting and disclosure requirements of the United States Securities and Exchange Commission (the "SEC"). See "Mineral Reserve and Mineral Resource Estimates - Note to U.S. Shareholders".

DOCUMENTS INCORPORATED BY REFERENCE

INFORMATION HAS BEEN INCORPORATED BY REFERENCE IN THIS PROSPECTUS FROM DOCUMENTS FILED WITH THE SECURITIES REGULATORY AUTHORITIES IN EACH OF THE PROVINCES OF CANADA. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 2116, 130 Adelaide Street West, Toronto, Ontario M5H 3P5, telephone: (416) 360-7590. For the purpose of the Province of Quebec, this Prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Secretary of the

Corporation at the above-mentioned address and telephone number. Copies of documents incorporated by reference herein or forming a part of the permanent information record may also be obtained at www.sedar.com and at www.sec.gov.

The following documents filed with the securities regulatory authorities in each of the provinces of Canada are specifically incorporated by reference in and form an integral part of this Prospectus:

(a) renewal annual information form of the Corporation dated May 20, 2003 for the fiscal year ended December 31, 2002;

(b) management proxy circular of the Corporation dated April 9, 2003 relating to the annual and special meeting of shareholders of the Corporation held on May 28, 2003, other than the sections entitled "Report on Executive Compensation", "Composition of the Compensation Committee", "Performance Graph" and "Corporate Governance";

(c) audited comparative consolidated financial statements of the Corporation and the notes thereto for the financial year ended December 31, 2003, together with the report of the auditors thereon;

(d) management's discussion and analysis for the annual comparative financial statements referred to in paragraph (c) above;

(e) material change report dated March 18, 2004 regarding the Corporation's financial results for the fiscal year ended December 31, 2003;

(f) material change report dated April 2, 2004 regarding the Corporation's decision to proceed with an underground mining project;

(g) material change report dated April 19, 2004 regarding the Corporation's operating results for the first quarter ended March 31, 2004; and

(h) audited comparative financial statements of the Corporation and the notes thereto for the financial year ended December 31, 2003, together with the report of the auditors thereon, which have been reconciled to U.S. GAAP in accordance with Item 18 of Form 20-F.

Any documents of the types referred to in paragraphs (a) through (h) above (excluding confidential material change reports) filed by the Corporation with the securities regulatory authorities in each of the provinces of Canada after the date of this Prospectus and prior to the termination of the Offering shall be deemed to be incorporated by reference into this Prospectus. Any similar document filed by the Corporation with, or furnished by the Corporation to, the SEC pursuant to the United States Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act") after the date of this Prospectus shall be deemed to be incorporated by reference in this Prospectus, if and to the extent provided in such document.

ANY STATEMENT CONTAINED IN THIS PROSPECTUS OR IN A DOCUMENT INCORPORATED OR DEEMED TO BE INCORPORATED BY REFERENCE IN THIS PROSPECTUS SHALL BE DEEMED TO BE MODIFIED OR SUPERSEDED FOR THE PURPOSES OF THIS PROSPECTUS TO THE EXTENT THAT A STATEMENT CONTAINED IN THIS PROSPECTUS OR IN ANY OTHER SUBSEQUENTLY FILED DOCUMENT WHICH ALSO IS OR IS DEEMED TO BE INCORPORATED BY REFERENCE IN THIS PROSPECTUS MODIFIES OR SUPERSEDES THAT STATEMENT. THE MODIFYING OR SUPERSEDING STATEMENT NEED NOT STATE THAT IT HAS MODIFIED OR SUPERSEDED A PRIOR STATEMENT OR

INCLUDE ANY OTHER INFORMATION SET FORTH IN THE DOCUMENT THAT IT MODIFIES OR SUPERSEDES. THE MAKING OF A

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MODIFYING OR SUPERSEDING STATEMENT IS NOT AN ADMISSION FOR ANY PURPOSES THAT THE MODIFIED OR SUPERSEDED STATEMENT, WHEN MADE, CONSTITUTED A MISREPRESENTATION, AN UNTRUE STATEMENT OF MATERIAL FACT OR AN OMISSION TO STATE A MATERIAL FACT THAT IS REQUIRED TO BE STATED OR IS NECESSARY TO MAKE A STATEMENT NOT MISLEADING IN LIGHT OF THE CIRCUMSTANCES IN WHICH IT WAS MADE. ANY STATEMENT SO MODIFIED OR SUPERSEDED SHALL NOT CONSTITUTE A PART OF THIS PROSPECTUS, EXCEPT AS SO MODIFIED OR SUPERSEDED.

A Prospectus Supplement containing the specific terms applicable to the issuance of the Securities including the number of Securities offered, the offering price of such Securities and other information relating to such issuance will be delivered to purchasers of Securities together with this Prospectus and will be deemed to be incorporated by reference into this Prospectus as of the date of such Prospectus Supplement solely for the purposes of the offering of Securities covered by that Prospectus Supplement.

Upon a new annual information form and the related annual financial statements being filed with and, where required, accepted by, the applicable securities regulatory authorities during the currency of this Prospectus, the previous annual information form, the previous annual financial statements and all interim financial statements, material change reports and information circulars filed prior to the commencement of the then current financial year will be deemed no longer to be incorporated into this Prospectus for purposes of future offerings of Securities hereunder.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

In particular, the words "expect," "anticipate," "estimate," "may," "will," "should," "intend," "believe," "target," "budget," "plan," "projection" and similar expressions are intended to identify forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this Prospectus should not be considered as a representation by the Corporation or any other person that its objectives or plans will be achieved. Numerous factors could cause the Corporation's actual results to differ materially from those in the forward-looking statements, including the following, which are discussed in greater detail under the heading "Risk Factors":

- inability to meet production or operating cost goals;
- inaccurate resource and reserve estimates;
- inherent risks associated with mining and processing operations;
- failure to successfully develop the underground mining operations or to achieve projected production levels;

- unexpected problems and delays in the construction of the underground mining operations;
- inability to obtain additional funding for operations, if required;
- failure of the Corporation's exploration program to increase reserves;
- interruption of operations at the Lac des Iles Mine;
- termination or suspension of the Corporation's palladium sales contract;
- defaults under the Corporation's credit facilities;
- termination or failure to renew smelting agreements;
- volatility in metal prices;
- costs of complying with current and future environmental regulation;
- costs of complying with other current and future governmental regulation;
- competition from other suppliers of platinum group metals;
- development of new technology leading to reduced demand for palladium;

- loss of key personnel;
- failure to renew mining leases;
- hedging activities; and
- changes in the United States/Canadian dollar exchange rate.

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

THE CORPORATION

The Corporation is the successor to Madeleine Mines Ltd., a company incorporated under the Quebec Mining Companies Act by letters patent dated February 2, 1968. In January 1992: (i) Madeleine Mines Ltd. was amalgamated with a wholly owned Quebec subsidiary of 2750538 Canada Inc., a company incorporated under the Canada Business Corporations Act by articles of incorporation dated September 12, 1991; (ii) the amalgamated company was wound up into 2750538 Canada Inc.; and (iii) 2750538 Canada Inc. changed its name to "Madeleine Mines Ltd.". By articles of amendment dated July 24, 1993, Madeleine Mines Ltd. changed its name to "North American Palladium Ltd.". The Corporation has one operating subsidiary, Lac des Iles Mines Ltd., incorporated under the Canada Business Corporations Act, and wholly owned by the Corporation.

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

BUSINESS OF THE CORPORATION

LAC DES ILES MINE

The Corporation owns and operates an open pit mine known as the Lac des Iles Mine and processing plant with a design capacity of 15,000 tonnes per day. The mining and processing operation produces by flotation a palladium rich concentrate that also contains platinum, gold, copper and nickel. The concentrate is delivered to the Sudbury operations of each of Falconbridge Limited ("Falconbridge") and Inco Limited ("Inco") for smelting, and is further processed at their respective European operations for refining. From the European refineries of Inco and Falconbridge, the palladium is delivered to a major automotive manufacturer (the "Automotive Manufacturer") pursuant to the terms of a palladium sales contract (the "Palladium Sales Contract") dated February 4, 2000. Under the Palladium Sales Contract, the Automotive Manufacturer purchases all of the refined palladium that the Corporation is entitled to receive from the smelters. For more detail relating to the terms and conditions of the Palladium Sales Contract and other material contracts that the Corporation has entered into, see the Corporation's renewal annual information form dated May 20, 2003 that is incorporated by reference herein and "Risk Factors" herein.

In 1999, an extensive exploration program was completed on the Lac des Iles property. Based on the outcome of the exploration program, in March 2000 the Corporation commenced an expansion of the mining operations to increase the ore processing rate from 2,400 tonnes per day to 15,000 tonnes per day. The expansion involved the construction of a new concentrator at the mine site and preparing for increased production from the open pit.

AGRA Simons Limited, an engineering, construction and technology company, completed a detailed feasibility study, dated December 1999, together with an updated version, dated May 2000, of the proposed expansion of the mining operation and concluded that the proposed expansion project was technically feasible and economically viable.

In January 2000, the Corporation began equipment procurement and detailed engineering and in March 2000 began site preparation. In the first quarter of 2001, the semi-autogenous grinding ("SAG") mill and two ball mills arrived

on site and were assembled and tested. By March 2001, the warehouse, the maintenance shop and the material handling facilities were operational. The new concentrator was commissioned in June 2001. Initially, the new concentrator did not operate at design capacity and a number of modifications were required to improve production throughput and recoveries. In the fourth quarter of 2001, the concentrator throughput and recoveries improved as a result of these changes.

In 2002, certain modifications were made to the SAG mill circuit, including fine crushing a portion of the SAG mill feed and, in August 2002, the mill achieved its design rate of 15,000 tonnes per day. However, this rate was not sustained for the remainder of the year because of the failure in late August 2002 of the primary crusher, which processes ore before it reaches the SAG mill. Portable third party contract crushers were installed to sustain the operation while the primary crusher was repaired. The repairs were more difficult than anticipated and the unit did not return to operation until early March 2003. As the long-term reliability of the primary crusher was doubtful, a new primary crusher was purchased and was put into operation in June 2003. The Corporation carries property damage and business interruption insurance and has submitted a claim to recover losses sustained by the crusher failure.

In 2003, total mine production amounted to 14.6 million tonnes or 39,895 tonnes per day, containing 4.4 million tonnes of ore grading 2.48 grams of palladium per tonne. Total mine production decreased from 46,793 tonnes per day in 2002 to 39,895 tonnes per day in 2003 as a result of continued crusher problems during the first six months and longer haulage distances attributable to increased pit depth and tailings dam construction.

Although mine production was lower in 2003, palladium production from the Lac des Iles mill reached a new record of 288,703 ounces in 2003 as a result of higher palladium feed grade and, particularly during the second half of the year, higher mill throughput and mill operating time. Ore processed in 2003 totalled 5,159,730 tonnes or 14,136 tonnes per calendar day at an average palladium head grade of 2.3 grams per tonne and an average palladium recovery of 75.5%. Other metal production in 2003 included 23,742 ounces of platinum, 23,536 ounces of gold, 7,142,674 pounds of copper and 4,070,785 pounds of nickel.

The improved mill performance resulted from the installation of the new primary crusher and a number of other factors, including: using a contract secondary crusher to provide fine ore to maximize mill throughput; a significant reduction in the number of unscheduled shutdowns during 2003 which allowed for more regular mill operations and increased metal recovery and operating time; and improved maintenance planning and scheduling which resulted in increased mill availability. In late December 2003, additional flotation cells from the old mill were overhauled and commissioned as part of the second cleaner circuit expansion. Optimization of these flotation cells continued in early 2004.

Several projects are planned for 2004 to further improve mill throughput and reduce operating costs. The Corporation intends to install a secondary crusher at an estimated capital cost of approximately $10 million and eliminate contract crushing. Additional ore processing control systems will be installed in both the grinding and flotation circuits to permit better sampling of concentrate grade and quality, and concentrator reagents will be optimized.

PROPOSED UNDERGROUND MINE

In late 2003, the Corporation commissioned a feasibility study by Roscoe Postle Associates Inc. ("RPA") in response to scoping studies and a pre-feasibility study that indicated a higher grade sub-vertical ore body located directly beneath the Lac des Iles open pit mine was a viable underground mine. The underground mine feasibility study defines, as its base case, a nominal 2,000 tonnes per day mechanized longhole stope mine accessed through a portal in the Lac des Iles open pit with an initial mine plan containing 3,542,000 tonnes of reserves. According to the feasibility study, the underground reserves contain an estimated 6.62 grams of palladium per tonne at a cut-off grade of 4.5 grams per tonne. In addition, the underground probable reserves contain an estimated 0.40 grams of platinum per tonne, 0.34 grams of gold per tonne, 0.07% copper, and 0.08% nickel. See "Feasiblity Study". The integrated production plan for the expanded Lac des Iles Mine calls for the blending of higher grade underground ore with that of the open pit to generate a seven year mine life at an average production rate of about 300,000 ounces of palladium per annum.

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2003 EXPLORATION

In 2003, diamond drilling at the Lac des Iles Mine (19 holes aggregating 6,011 metres) was carried out southeast of the Roby Zone pit in an effort to discover additional near-surface bulk mineable mineralization. In addition, several deep holes were drilled to the southwest side of the Roby pit. One hole intersected the possible southern extension of the Offset High Grade Zone, 180 metres south of previous drilling.

OTHER PROPERTIES

In 2003, the Corporation continued to pursue new properties beyond the Lac des Iles Mine, with a focus on those with established base and precious metals resources.

The Corporation has an option to acquire a 60% interest in the Roaring River property located 60 kilometres north of Lac des Iles. The 5,404 hectare Roaring River property contains a large complex mafic intrusion, similar to the Lac des Iles intrusion. Exploration at Roaring River is handicapped by extensive overburden of glacial till and glacio-fluvial sediment. Historically, it has been subject to only minor amounts of exploration.

The few bedrock exposures have features similar to the Roby Zone at the Lac des Iles Mine and prospecting has discovered numerous boulders with elevated base and precious metal values. The bedrock source of the boulders remains undiscovered, buried by overburden. After several months of reconnaissance evaluation of the property and a review of previous exploration programs, soil sampling was completed in late 2003 and further work is planned for 2004.

In December 2003, the Corporation entered into an option and joint venture agreement with Inco relating to Inco's Haines and Conacher properties, located approximately 80 kilometers southwest of Thunder Bay, which surround Inco's former Shebandowan mine and are contiguous with the Corporation's Haines property. Combined with the Corporation's options on two adjacent properties, the Shebandowan Lake project in the Haines and Conacher districts now covers approximately 7,000 hectares.

The Corporation's original option on the Haines property was based on the discovery of palladium mineralization contained in the matrix of a magmatic breccia similar to that found at the Lac des Iles Mine. Another similarity to the Lac des Iles Mine is the widespread occurrence of palladium associated with pegmatitic pyroxenite and gabbro. In addition, nickel and copper-bearing massive sulphide bodies were discovered on the property in the 1960s in a structure that also controls the location of the Shebandowan mine, to the immediate east. Mapping and sampling and overburden stripping by the Corporation during 2003 resulted in the discovery of similar mineralization as well as several styles of gold mineralization. In 2004 the combined Shebandowan Lake properties will be geophysically surveyed and diamond drilled with the objective of delineating key targets.

MINERAL RESERVE AND MINERAL RESOURCE ESTIMATES

The resource and reserve model developed by the Corporation utilizes the classification system and definitions set forth in the CIM Standards required by NI 43-101 which classifies resources as measured, indicated and inferred and classifies reserves as proven and probable.

RESOURCES ARE INCLUSIVE OF RESERVES. Reserves are presently defined on a palladium-only basis. The deposit is polymetallic by nature, with economically recoverable credits for platinum, gold, copper, nickel and cobalt. The majority of revenue is derived from palladium averaging about 67% of revenues in 2003. Geochemical and statistical correlations between the metals are sufficiently robust that grade control based on palladium only, corrected for by-products, is sufficient for making economic decisions.

The reserve estimates are diluted and based upon a cut off grade of 1.1 grams of palladium per tonne for the open pit mine, assuming a long-term palladium metal price of US$325 per troy ounce.

NOTE TO U.S. SHAREHOLDERS

The Corporation is required under Canadian law (NI 43-101) to report mineral reserves and resources using the classification system set out in the CIM

Standards. These guidelines establish definitions for the reporting of exploration information, "mineral resources" and "mineral reserves" in Canada. These definitions have not been adopted for use in the United States by the SEC.

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

OPEN PIT MINE RESERVES AND RESOURCES

Mr. Chris Turek, P. Eng., Mine Superintendent, Mr. Douglas Kim, P. Geo., Technical Services Manager, and Mr. Clay Craig, P. Eng., Chief Engineer, prepared the reserve and resource estimates for the open pit mine. Messrs. Turek, Kim and Craig are employees of the Corporation and are qualified persons under NI 43-101

RESERVES

The following table sets forth the estimated open pit reserves at the Lac des Iles Mine as at December 31, 2003:

RESERVES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)	NICKEL (%)	PAL (00
Proven	25,812	1.72	0.19	0.14	0.06	0.08	1
Probable	10,391	2.14	0.23	0.16	0.07	0.08	
Total	36,203	1.84	0.20	0.15	0.06	0.08	2

A basic dilution strategy is applied on a selective basis to the reserve model. With the higher grade Roby High Grade and gabbronorite rock types, grades are diluted by 10%. Within the other ore-bearing rock units, material is diluted by 10% with the diluting material assumed at a 0.4 g/t palladium grade (the average grade of the surrounding waste material). Mining recovery in all cases is assumed at 90%.

RESOURCES

The following table sets forth the estimated open pit resources at the Lac des Iles Mine as at December 31, 2003:

RESOURCES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)	NICKEL (%)	PALLA (000
Measured	33,839	1.73	0.20	0.14	0.06	0.08	1,8
Indicated	16,103	1.97	0.22	0.15	0.07	0.08	1,0
Total	49,942	1.81	0.20	0.14	0.06	0.08	2,9
Inferred	110	1.49	0.17	0.11	0.06	0.07	5

1. THE RESOURCES ARE INCLUSIVE OF RESERVES. The resources were estimated using a cut-off grade of 1.1 grams of palladium per tonne. The cutoff grade used in the resource estimates reflect the current estimated life-of-mine costs of mining and processing, in conjunction with smelting and transportation costs consistent with current contracts. The metal ounces listed in the table above are on a contained basis without adjustment for processing or smelting recoveries. Resources which are not reserves do not have demonstrated economic viability.

PRODUCTION

The following table sets forth information concerning the production from the Lac des Iles Mine for each of the five years ended December 31, 2003:

	2003	2002	2001	2000	1
Ore Tonnes Mined	4,396,847	7,250,963	5,768,157	2,689,634	1,27
Waste Tonnes Mined	10,164,806	9,828,552	19,174,635	7,508,117	4,11
Total Tonnes Mined	14,561,653	17,079,515	24,942,792	10,197,751	5,38
Stripping Ratio	2.31:1	1.36:1	3.32:1	2.79:1	3.
Average Daily Production	39,895	46,793	68,336	27,939	14

HISTORICAL PALLADIUM PRICES

The following table outlines the average monthly LME PM Fix price and the highest and lowest average monthly LME PM Fix prices for palladium reported by the London Metal Exchange for the periods indicated:

PERIOD	AVERAGE MONTHLY PRICE (US$)	HIGHEST MONTHLY AVERAGE PRICE (US$)	LOWEST MONTHLY AVERAGE PRICE (US$)

2000	680.33	910.59	452.35
2001	603.68	1041.55	238.91
2002	337.56	409.23	242.61
2003	200.58	255.32	162.40
January 2004	216.94	--	--
February 2004	235.44	--	--
March 2004	269.66	--	--

FEASIBILITY STUDY

On January 31, 2003, RPA was commissioned to prepare a pre-feasibility study (the "Pre-Feasibility Study") for establishing an underground mine in the Roby High Grade Zone below the existing Roby open pit operation (the "Roby Pit"). The purpose of the Pre-Feasibility Study was to demonstrate the economic viability of a palladium underground mining operation below the existing open pit; provide a cost effective underground development plan and schedule; and provide operating and capital cost estimates to a feasibility study level for both contractor and owner operated scenarios. The Pre-Feasibility Study was completed on July 31, 2003.

In October 2003, an independent contractor, was retained to review the Pre-Feasibility Study and to prepare a request for proposal ("RFP") for a feasibility study for the underground mine (the "Project"). The RFP was issued on October 24, 2003 and the mandate was awarded to RPA in November 2003.

The feasibility study prepared by RPA is dated February 27, 2004 and titled "Feasibility Study for Underground Mining at the Lac des Iles Mine" (the "Feasibility Study"). In completing the Feasibility Study, RPA used its own senior staff, together with Itasca Consulting Canada Inc. for geomechanics assessment and McIntosh Engineering Ltd. for design and drafting services for electrical design.

All of the technical information (including financial information) contained in this Prospectus relating to the Project has been taken from the Feasibility Study. A technical report, prepared by Graham G. Clow, P. Eng and David W. Rennie, P. Eng of RPA, incorporating certain information from the Feasibility Study has been filed on SEDAR and a copy of the Feasibility Study is available for inspection at the Corporation's executive office during the distribution of Securities under this Prospectus and any Prospectus Supplement. Messrs. Clow and Rennie are employees of RPA, have confirmed their independence to the Corporation and are qualified persons under NI 43-101. Messrs. Clow and Rennie prepared the reserve and resource estimates for the proposed underground mine at the Roby High Grade Zone.

RESOURCES AND RESERVES

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

The following table sets forth the underground resources for the Roby Deposit as estimated by RPA in the Feasibility Study:

RESOURCE CATEGORY	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	CO
Indicated	4,496	7.35	0.43	0.35	0
Inferred	-	-	-	-	

1. The resource categories follow the definitions contained in NI 43-101. THE RESOURCES ARE INCLUSIVE OF RESERVES.
2. Resources are calculated at a cutoff grade of 4.5 grams per tonne for palladium (5.0 grams per tonne palladium equivalent) and an average long-term palladium price of US$325 per ounce.
3. Resources are estimated to commence at an elevation of 209 metres above sea level, the ultimate pit bottom of the Roby Pit.

The sub-vertical deposit strikes in a northerly direction over a maximum length of 440 metres. It pinches out to the north and south, and is wider towards the south. Thickness ranges from 2 metres to 34 metres and averages 11 metres. The highest grades are generally in the thicker mineralized areas to the south and above 30 metres below sea level. The zone is continuous along strike and dip and appears to be quite repetitive and predictable from level to level.

A nominal target of 2,000 tonnes of ore per day from underground was chosen by RPA as the most appropriate rate for both the size of the deposit and the allowable time for pre-production development. This target rate is referred to

in the Feasibility Study as the "Base Case". RPA identified several constraints in assessing access alternatives and coordinating the underground operations with the open pit. RPA concluded that ramp access from within the open pit would be the most economical alternative. RPA recommends that the portal be located in the pit wall, and ore be hauled in 60 tonne trucks directly from the mine to a stockpile area near the surface crusher.

In general, ground conditions are expected to be very good, based on observations in the open pit, from drill core, and from geomechanics testwork. This will favour large open spans, and reasonable mineral resource recoveries should be attainable without the need for backfill. The chosen mining method for the Feasibility Study is sublevel retreat longitudinal longhole stoping with no fill. The mining block interval is 70 metres floor to floor including a 15 metre to 25 metre sill pillar below each haulage level. Stopes will be 45 metres to 55 metres high by the width of the orebody.

The Feasibility Study states that, initially, mining will be concentrated in the southern half of the underground mine, where orebody thickness and grades are highest. Stopes will be mined retreating from the north and south extremities towards a 50 metre wide main rib pillar situated at the centroid of the mineral deposit. A single 15 metre wide side rib pillar will be left on the north side for added stability. Up to four stopes will be in operation at any one time.

Average stope dilution has been calculated by the Feasibility Study at 15% by adding an amount of hangingwall and footwall to the resource tonnage. Drift dilution has been calculated as 35%, giving a total mining dilution of 16%. Mining limits will be assay cut offs, and dilution will carry mineral grades estimated at 1.10 grams of palladium per tonne. Design extraction is estimated by the Feasibility Study to be 83% of the resources, with unrecovered ore tied up mostly in the crown pillar (20 metres) and the sill pillars.

The following table sets forth the underground reserves for the deposit as estimated by RPA in the Feasibility Study:

RESERVES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)
Probable					
Stopes	2,218	6.69	0.40	0.33	0.06
Drifts	225	5.72	0.35	0.27	0.05
Recoverable Pillars	1,098	6.67	0.41	0.36	0.07
Total Probable	3,542	6.62	0.40	0.34	0.07

1. The reserve categories follow the definitions contained in NI 43-101.
2. Reserves were calculated at a cutoff grade of 4.5 grams per tonne for palladium (5.0 grams per tonne palladium equivalent) and an average long-term palladium price of US$325 per ounce.
3. Reserves were estimated to commence at an elevation of 209 metres above sea level, the ultimate pit bottom of the Roby Pit plan.
4. Dilution was estimated to average 16%.
5. Extraction was designed to be 83% of the resource.

Mobile equipment for the mine is expected to include two electric hydraulic drill jumbos, one longhole drill, one emulsion truck, three 8 cubic yard scooptrams, and three 60 tonne trucks, along with other service and support equipment. Total intake ventilation for the mine is designed to be 425,000 cubic feet per minute. There will be one intake ventilation raise/secondary egress situated outside the ultimate pit limits and air will exhaust up the main ramp.

The Corporation has carried out metallurgical test work on the underground ore and has determined that no modifications are required to process a blend of underground and open pit ore. For purposes of the Feasibility Study, the Corporation advised RPA that the palladium recovery of underground ore was expected to be higher (+80%) than that being achieved on the open pit ore in the mill (75% to 80%).

Based on the Feasibility Study, at full complement there will be an underground workforce of 70 and 11 management and technical staff. Hourly employees will work two ten-hour shifts per day on a two week on/one week off rotation. Contractors will be retained during the pre-production period to install the ventilation raise.

During the mine life, there will be an ongoing contractor presence for infill diamond drilling. A contract crew will continue to extend the ventilation raise into production as lower levels of the mine are reached.

Permitting and approvals requirements are expected by RPA to be minimal, as the underground mine will be an extension of the much larger and higher impact open pit operations. The Corporation does not anticipate any environmental issues or aboriginal or local opposition to the development of the underground mine. Changes to services such as potable water and sewage systems will be suitably permitted.

CAPITAL COSTS

The following table sets forth the estimated capital costs of the Project (in constant 2004 dollars) as set forth in the Feasibility Study.

	COST (CDN$000S)
Mine development	15,855
Buildings	4,582
Engineering, procurement and construction management	1,431
Indirect costs	1,380
Owner's costs	9,937
Contingency	2,755
Sub-total	35,940

	COST (CDN$000S)
Capitalized operating costs	947
Less pre-production development revenue	(6,530)
Total	$30,358

The capital cost estimate covers a 16-month pre-production period and includes all costs for the development of the underground mine based upon 2,000 tonnes ore per day for its 4.7 year mine life.

Mine development includes all rockwork and support with productivities calculated from base data (for example, for each face, the number of holes required, powder factors assigned, manpower for operating each item of equipment and other costs). It also includes all stationary and electrical equipment. Major mobile equipment will be leased and phased in during pre-production as it is required. Equipment leases are currently scheduled to be expensed as an operating cost during production. Smaller equipment such as mine service vehicles and the shuttle bus will be purchased outright.

Indirect costs include items such as plant commissioning, first fills for consumables, freight and insurance.

Owner's costs cover all pre-production labour, including recruitment, equipment leases and diamond drilling.

Contingencies have been estimated at 10% for development, 10% for equipment, and 10% for services and owner's costs. Contingencies are not applied to indirect costs and to some small items of equipment. The average contingency for the Project is 8%.

Closure costs related to the overall underground site are assumed to be minimal. These include removal of underground equipment and services, and capping of the ventilation raises. Costs are expected to be recovered from the salvage value of equipment.

During pre-production, approximately 100,000 tonnes of ore will be produced, generating revenue of $6.5 million. It was assumed for evaluation purposes that this was in addition to and does not replace open pit feed.

Sustaining capital is estimated at $5.3 million during the mine life, covering ventilation raise extension, major equipment rebuilds in 2008 and equipment lease residuals. Main ramp development after startup was included in operating costs.

OPERATING COSTS

The operating cost estimate for the underground mine covers a 4.7 year mine life from September 2005 to June 2010 and were estimated in detail from a zero base.

The average total unit operating cost over the mine life is estimated by RPA to be $39.79 per tonne milled, or $152 per ounce of palladium (net of by-product credits). This includes mining, ore haul, milling, power, equipment leases, and general and administrative costs.

PROJECT RISK

According to the Feasibility Study, this is a relatively low risk mine project. The underground mine is being developed beneath an existing open pit where the surface infrastructure is in place, including crusher and concentrator. Resources and reserves have been estimated in accordance with the requirements of NI 43-101 from an extensive database built up over five years. The underground mineral deposit lies within the same competent rocks as in the overlying open pit, and ground conditions are expected to be good. Development and production plans have been prepared from a zero base using known operating and productivity specifications. Costing has been derived from firm quotations from equipment suppliers and contractors.

Geomechanics testwork has indicated that large openings created with longhole retreat mining need to be supported by a recoverable central main rib pillar and a side rib pillar to minimize the chance of major ground falls in the later stages of mining. It is expected that 83% of the reserves will be recoverable using this method, where the majority of the non-recoverable ore will be in thin, lower grade pillars.

CASH FLOW ANALYSIS

A pre-tax cash flow projection was generated by RPA from the life of mine capital and operating cost data prepared from the parameters set forth in the Feasibility Study. The following table summarizes the key economic criteria used by RPA to prepare the cash flow projection:

REVENUE

- 2,000 tonnes per day mining from underground (720,000 tonnes per year), for a total daily mill throughput of 16,500 tonnes per day including open pit production
- metal price assumptions:
  - Palladium: US$325 per ounce
  - Platinum: US$700 per ounce
  - Gold: US$375 per ounce
  - Copper: US$0.90 per pound
  - Nickel: US$5.50 per pound
- metallurgy as per the Corporation's 2004 budget and current operating experience
- palladium metal recovery 83%
- net smelter returns based on existing terms with Inco and Falconbridge
- revenue is recognized at the time of production
- exchange rate US$1: Cdn$1.33
- 5% net smelter return royalty payable to the Sheridan Platinum Group Inc. and John Patrick Sheridan

COSTS

- pre-production period 16 months (commencing May 1, 2004)
- mine life of 4.7 years (commencing September 2005)
- production plan as set out in the Feasibility Study
- mine life capital totals Cdn$36.7 million, net of pre-production revenue
- the average operating cost over the mine life is Cdn$39.79 per tonne milled

The economic analysis was carried out by RPA assuming operations are on a stand alone basis where underground production is considered incremental to the higher-output ongoing open pit operation. Some costs, such as indirect costs, currently are wholly absorbed by open pit mining. A more complete economic assessment of the impact of underground mining will require analysis of cash flow projections both for the total open pit and underground, and for the open pit alone.

According to the Feasibility Study (and based on the economic criteria set out above), for the underground mine on a stand-alone basis, the undiscounted pre-tax cash flow for the Base Case totals $92.0 million over the mine life, and simple payback occurs by the first quarter of 2007 (15 months).

The unit operating cost is estimated by RPA to be US$152 per ounce of palladium, net of by-product credits. The mine life capital unit cost is estimated to be US$48 per ounce, for a total cash cost of US$200 per ounce of palladium. Average annual palladium production from underground during operation is estimated to be 118,000 ounces per year.

The net present value for the base case pre-tax model was calculated by RPA using a 10% discount rate, based on constant 2004 dollars and a relatively short mine life (4.7 years). According to RPA, introducing inflation/deflation criteria to the model would make little difference to the figures.

Over recent years, Canadian mining companies have used discount rates between 12% and 15% for project evaluation of Canadian greenfield projects. Projects in other countries are likely to be discounted at higher rates, to reflect an added risk element. An incremental project to a Canadian-based existing profitable mining operation can be expected to carry a lower risk premium. As a result, RPA considered a 10% discount rate for the Project as appropriate for project evaluation purposes.

The following table sets forth the net present value based upon discount rates of 5%, 10% and 15%, and exchange rates and prices listed above under "Revenue":

	DISCOUNT RATE		
	5%	10%	15%
Net present value (Cdn$000)	$69,151	$52,195	$39,437
Internal rate of return (IRR)	58%		

On February 27, 2004 the United States dollar exchange rate was $0.75 per Cdn$1.00 and the closing metal prices on that day pertinent to the Project were as follows:

Palladium:	US$235 per ounce
Platinum:	US$895 per ounce
Gold:	US$394 per ounce
Copper:	US$1.35 per pound
Nickel:	US$6.69 per pound

Using these prices and exchange rate, the undiscounted pre-tax cash flow for the Base Case totals $41.3 million and the net present value at 10% is estimated by RPA to be $18.8 million. The unit operating cost is estimated to be

-15-

US$129 per ounce of palladium, net of by-product credits. The mine life capital unit cost is estimated to be US$50 per ounce, for a total estimated cash cost of US$179 per ounce of palladium.

SENSITIVITY ANALYSIS

The following table sets forth RPA's analysis of the sensitivity of the Project to specified variables:

ITEM	UNIT	BASE CASE VALUE	VALUE AT NPV=O(1)
Palladium price	US$ per oz	US$325	US$216
Operating cost	Cdn$ per tonne	Cdn$39.79	Cdn$62.23
Capital cost	Cdn$000	Cdn$36,700	Cdn$93,900
Exchange rate	US$:Cdn$	US$0.75	US$0.99
Pd Head grade	g/t Pd	6.62	4.33
Extraction	Tonnes 000	3,542	18 months production

1. For each value, all other Base Case values remain constant.

According to the Feasibility Study, the Project is most sensitive to external economic criteria related to the palladium price (spot price and the Canadian/United States dollar exchange rate). Any further rise in the Canadian dollar will have a direct impact on Project viability since costs are almost entirely in Canadian dollars and revenues are in United States dollars. The major Project risk will arise if there is a combination of significant weakening of the U.S. dollar combined with a prolonged period of lower palladium spot prices. Based on the palladium price at the date of the Feasibility Study, the Project is less robust, but still has a positive net present value. The Feasibility Study sets out the following additional Project sensitivities:

- PALLADIUM HEAD GRADE. Head grade should not change significantly from the estimates used in the Feasibility Study unless there is increased dilution, perhaps caused by unforeseen poor ground conditions. Geomechanics testwork and the experience of open pit ground conditions suggest that this is unlikely, especially during primary stope extraction. Should grades fall through increased dilution in the pillar recovery stage, there will be the option to leave broken ore in the drawpoints.

- EXTRACTION. The Base Case undiscounted payback period is 15 months from production start up. This is the point at which production could cease and the mine would be in a nominal breakeven situation in terms of Base Case assumptions.

- Capital and operating costs. These costs have been calculated from a zero base using firm price quotations and known manpower and equipment productivities. Capital costs are estimated to an accuracy of +15%/-10%. The Project is not particularly sensitive to capital cost overruns. Rises in consumable costs (fuel and power) could increase unit operating costs. It is unlikely such cost rises would seriously endanger Project viability unless they were combined with adverse changes in other variables such as exchange rates and palladium price.

The Project has a rapid simple payback of 15 months, which, according to the Feasibility Study, minimizes the chance for adverse changes in underlying fundamental variables to have a significant effect on overall Project viability.

CONCLUSIONS AND RECOMMENDATIONS

According to the Feasibility Study, in RPA's opinion the Project is a relatively low risk operation from a technical viewpoint. The underground mine will lie down dip and directly beneath the open pit mine, which has been in operation since 1993. Metallurgical response is predictable and proper environmental controls are in place. Site infrastructure is well established, and permitting for an underground operation has been discussed with the relevant ministries, with no difficulties being foreseen. Provision of services such as power, water and sewage are incremental to those existing for the open pit mine. In RPA's opinion, the key risks to the Project lie in two areas:

- A decline in the palladium price to approximately US$216 per ounce results in a breakeven discounted cash flow. The Project is somewhat sensitive to nickel and platinum prices as well. A decline in the nickel price to approximately US$4.00 per pound and platinum to approximately US$500 per ounce would result in a break even discounted cash flow at the palladium price of US$235 as of the date of the Feasibility Study.

- Extraction of the ore without fill presents some risk, which geomechanical modelling shows should be manageable. In RPA's opinion, the investment in backfill is not warranted at present palladium prices.

The current schedule calls for work to commence in May 2004. RPA believes it is unlikely that an acceptable crew and equipment can be acquired by that time and, accordingly, RPA recommends that the Corporation retain a contractor to carry out the initial phase of portal development and decline development to the first ventilation raise bypass.

Based upon the price forecast used in the analysis, RPA has recommended that the Corporation proceed with the development of the underground mine.

USE OF PROCEEDS

A Prospectus Supplement will contain specific information about the use of proceeds from the sale of the Securities under that Prospectus Supplement. The Corporation may from time to time issue securities otherwise than pursuant to this Prospectus.

DESCRIPTION OF COMMON SHARES

The Corporation is authorized to issue an unlimited number of common shares. Each common share entitles the holder thereof to one vote at all meetings of shareholders other than meetings at which only the holders of another class or series of shares are entitled to vote. Each common share entitles the holder thereof, subject to the prior rights of the holders of special shares (none of which are currently issued and outstanding), to receive any dividends declared by the board of directors and the remaining property of the Corporation upon dissolution. As of April 20, 2004, there were 51,212,255 common shares issued and outstanding.

There are no pre-emptive or conversion rights that attach to the common shares. All common shares now outstanding and to be outstanding upon exercise of outstanding options are, or will be, fully paid and non-assessable, which means that the holders of such common shares will have paid the purchase price in full and the Corporation may not ask them to pay additional funds.

The Corporation's by-laws provide for certain rights of its shareholders in accordance with the provisions of the CANADA BUSINESS CORPORATIONS ACT. Such by-laws may be amended either by a majority vote of the shareholders or by a majority vote of the board of directors. Any amendment of the by-laws by action of the board of directors must be submitted to the next meeting of the shareholders whereupon the by-law amendment must be confirmed as amended or repealed by a majority vote of the shareholders voting on such matter.

Shareholders do not have cumulative rights for the election of directors. Therefore, the holders of more than 50% of the shares voting for the election of directors could, if they choose to do so, elect all of the directors and, in such event, the holders of the remaining shares would not be able to elect any directors.

The rights of holders of common shares may be adversely affected by the rights of holders of any special shares that may be issued in the future.

DESCRIPTION OF SPECIAL SHARES

The Corporation is authorized to issue an unlimited number of special shares, issuable in series. As of April 20, 2004, there were no special shares outstanding.

The following description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Corporation's constating documents, as amended.

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

The specific terms of any series of special shares will be described in a Prospectus Supplement which, if applicable, may modify or replace the general terms described herein. If there are differences between any Prospectus Supplement and this Prospectus, the Prospectus Supplement will govern. As a result, the statements made in this section may not apply to every series of special shares that the Corporation may offer.

The Prospectus Supplement relating to the issue of special shares will contain a description of the specific terms of that series as fixed by the Corporation's board of directors, including, as applicable:

- the offering price at which the Corporation will issue the special shares;
- the title, designation of number of special shares and stated value of the special shares;
- the dividend rate or method of calculation, the payment dates for dividends and the place or places where the dividends will be paid, whether dividends will be cumulative or non-cumulative and, if cumulative, the dates from which dividends will begin to cumulate;
- any conversion or exchange rights;
- whether the special shares will be subject to redemption and the redemption price and other terms and conditions relative to the redemption rights;
- any liquidation rights;
- voting rights, if any;
- any sinking fund provisions; and

- any other rights, preferences, privileges, limitations and restrictions that are not inconsistent with the terms of the Corporation's constating documents, as amended.

The rights of holders of the special shares of any series may be adversely affected by the rights of holders of any special shares of any other series that may be issued in the future. The Corporation's board of directors may cause the special shares to be issued in public or private transactions for any proper corporate purposes and may include issuances to obtain additional financing in connection with acquisitions and issuances to officers, directors and employees pursuant to benefit plans. The Corporation's board of directors' ability to issue special shares may discourage attempts by others to acquire control of the Corporation without negotiation with the Corporation's board of directors, as it may make it difficult for a person to acquire the Corporation without negotiating with the Corporation's board of directors.

DESCRIPTION OF WARRANTS

The Corporation may issue warrants to purchase common shares, special shares or other securities. The Corporation may issue warrants independently or together with other securities, and warrants sold with other securities may be attached to or separate from the other securities. Warrants will be issued under one or more warrant agreements between the Corporation and a warrant agent that will be named in the Prospectus Supplement.

Selected provisions of the warrants and any future warrant agreements are summarized below. This summary is not complete. The statements made in this Prospectus relating to any warrant agreement and warrants to be issued thereunder are summaries of certain anticipated provisions thereof and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable warrant agreement.

The Prospectus Supplement relating to any warrants that the Corporation offers will describe the warrants and include specific terms relating to the offering. The Prospectus Supplement will include some or all of the following:

- the title of the warrants;
- the aggregate number of warrants offered;
- the designation, number and terms of the common shares, special shares or other securities purchasable upon exercise of the warrants, and procedures that will result in the adjustment of those numbers;
- the exercise price of the warrants;
- the dates or periods during which the warrants are exercisable;
- the designation and terms of any securities with which the warrants are issued;
- if the warrants are issued as a unit with another security, the date on and after which the warrants and the other security will be separately transferable;
- if the exercise price is not payable in Canadian dollars, the foreign currency or currency unit in which the exercise price is denominated;
- any minimum or maximum amount of warrants that may be exercised at any one time;
- any terms, procedures and limitations relating to the transferability, exchange or exercise of the warrants; and
- any other terms of the warrants.

Prior to the exercise of their warrants, holders of warrants will not have any of the rights of holders of the securities subject to the warrants.

DESCRIPTION OF STOCK PURCHASE CONTRACTS

The Corporation may issue stock purchase contracts, representing contracts obligating holders to purchase from or sell to the Corporation, and obligating the Corporation to purchase from or sell to the holders, a specified number of the Corporation's common shares or special shares, as applicable, at a future date or dates. The price per common share or special share, as applicable, may be fixed at the time the stock purchase contracts are issued or may be

determined by reference to a specific formula contained in the stock purchase contracts. The Corporation may issue stock purchase contracts in such amounts and in as many distinct series as it desires.

The applicable Prospectus Supplement will describe the terms of any stock purchase contracts and may contain, where applicable, the following information about the stock purchase contracts issued under it:

- o whether the stock purchase contracts obligate the holder to purchase or sell, or both purchase and sell, the Corporation's common shares or special shares, as applicable, and the nature and amount of each of those securities, or the method of determining those amounts;
- o whether the stock purchase contracts are to be prepaid or not;
- o whether the stock purchase contracts are to be settled by delivery, or by reference or linkage to the value, performance or level of the Corporation's common shares;
- o any acceleration, cancellation, termination or other provisions relating to the settlement of the stock purchase contracts; and
- o whether the stock purchase contracts will be issued in fully registered or global form.

The preceding description and any description of stock purchase contracts in the applicable Prospectus Supplement does not purport to be complete and is subject to and is qualified in its entirety by reference to the stock purchase contract agreement and, if applicable, collateral arrangements and depository arrangements relating to such stock purchase contracts.

DESCRIPTION OF UNITS

The Corporation may issue units comprised of one or more of the other securities described in this Prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately at any time or at any time before a specified date.

The applicable Prospectus Supplement will describe the terms of any units and may describe:

- o the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;
- o any provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units; and
- o whether the units will be issued in fully registered or global form.

The preceding description and any description of units in the applicable Prospectus Supplement does not purport to be complete and is subject to and is qualified in its entirety by reference to the unit agreement and, if applicable, collateral arrangements and depositary arrangements relating to such units.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities to or through underwriters or dealers. The Corporation may also sell the Securities to one or more other purchasers directly or through agents designated by the Corporation from time to time.

The Prospectus Supplement will state the terms of the offering, including the name or names of any underwriters or agents, the purchase price of the Securities, the initial offering price, the proceeds to the Corporation from the sale of the Securities, any underwriting discount or commission and any discounts, concessions or commissions allowed or

reallowed or paid by any underwriter to other dealers. Any initial offering price and discounts, concessions or commissions allowed or reallowed or paid to dealers may be changed from time to time.

The Securities may be sold from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

If so indicated in the Prospectus Supplement, the Corporation may authorize dealers or other persons acting as the Corporation's agents to solicit offers by certain institutions to purchase the Securities directly from the Corporation pursuant to contracts providing for payment and delivery on a future date. Such contracts will be subject only to the conditions set forth in the Prospectus Supplement, which will also set forth the commission payable for solicitation of such contracts.

Underwriters, dealers and agents that participate in the distribution of the Securities may be "underwriters" as defined in the U.S. Securities Act and any discount or commission they receive from the Corporation and any profit on their resale of the Securities may be treated as underwriter discounts and commissions under the U.S. Securities Act. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreements to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian and U.S. securities laws, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may be customers of, engage in transactions with or perform services for the Corporation in the ordinary course of business.

RISK FACTORS

The acquisition of the Securities involves risk. Any prospective investor should carefully consider the following risk factors and all of the other information contained in this Prospectus (including the documents incorporated by reference) and any applicable Prospectus Supplement before purchasing any of the Securities. If any event arising from these risks occurs, the Corporation's business, prospects, financial condition, results of operations or cash flows could be adversely affected. Additional risks and uncertainties not currently known to the Corporation, or that are currently deemed immaterial, may also materially and adversely affect the Corporation's business operations.

THE CORPORATION CANNOT ASSURE THAT IT WILL MEET ITS GOALS FOR PRODUCTION AND OPERATING COSTS AND IF IT DOES NOT, ITS OPERATING RESULTS WILL BE ADVERSELY AFFECTED.

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

IF RESERVE ESTIMATES ARE NOT ACCURATE, PRODUCTION MAY BE LESS THAN ESTIMATED WHICH WOULD ADVERSELY AFFECT THE CORPORATION'S FINANCIAL CONDITION AND RESULT OF OPERATIONS.

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

- mineralization or formations at the mine could be different from those predicted by drilling, sampling and similar examinations;
- declines in the market price of palladium may render the mining of some or all of the reserves uneconomic; and
- the grade of ore may vary significantly from time to time and the Corporation cannot give any assurances that any particular quantity of metal will be recovered from the reserves.

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

THE RISKS AND HAZARDS ASSOCIATED WITH MINING AND PROCESSING MAY INCREASE COSTS AND REDUCE PROFITABILITY IN THE FUTURE.

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

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

These risks could result in:

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

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

IF THE CORPORATION FAILS TO DEVELOP ITS UNDERGROUND MINING OPERATIONS AT A

REASONABLE COST, OR AT ALL, OR TO ACHIEVE PROJECTED PRODUCTION LEVELS FOR ITS UNDERGROUND MINING OPERATIONS, ITS ABILITY TO GENERATE REVENUE AND PROFITS WILL BE ADVERSELY AFFECTED.

The Corporation's future prospects will be negatively affected if the underground mine fails to achieve projected production levels. Due to the complexity and uncertainty involved in developing an underground mine, it is difficult to provide reliable time and cost estimates for completion. Unforeseen conditions or developments could arise during the development and construction of the underground mine which could delay or prevent its completion or substantially increase the cost of such project, adversely affecting the Corporation's ability to generate revenue and profits. These events may include, among others:

- delays or difficulties in obtaining required permits;
- shortages of equipment, materials or labor;
- delays in delivery of equipment or materials;
- labor disruptions;
- local or political opposition;

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

THE CORPORATION MAY EXPERIENCE HIGHER COSTS AND LOWER REVENUES THAN ESTIMATED IN THE FEASIBILITY STUDY DUE TO UNEXPECTED PROBLEMS AND DELAYS.

New mining operations often experience unexpected problems during the development and start-up phases and such problems can result in substantial delays in reaching commercial production. Delays in construction or reaching commercial production in connection with the Corporation's development of its underground mine would increase its operating costs and delay revenue growth.

IF THE COSTS OF COMPLETING THE UNDERGROUND MINE ARE GREATER THAN ANTICIPATED, THE CORPORATION MAY NEED TO OBTAIN ADDITIONAL FUNDS WHICH MAY NOT BE AVAILABLE ON FAVOURABLE TERMS OR AT ALL.

The costs of developing the underground mine are subject to many uncertainties which may cause such costs to be higher than anticipated. In such event, the Corporation may need to obtain additional capital to pursue its mining plan. There is no assurance that the Corporation will be able to obtain such capital on favourable terms, if at all. If additional capital is raised by incurring debt, the Corporation will be obligated to make greater interest payments which will reduce funds available for the mining operations. If capital is raised through the sale of equity securities, shareholders may experience substantial dilution. If the Corporation is unable to raise additional funds when and if required, it may have to delay or abandon its development of the underground mine or restrict its operations.

FUTURE EXPLORATION AT LAC DES ILES MINE OR ELSEWHERE MAY NOT RESULT IN INCREASED RESERVES, WHICH WOULD PREVENT THE CORPORATION FROM SUSTAINING ITS TARGETED PRODUCTION LEVELS.

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

THE CORPORATION FACES STRONG COMPETITION FROM OTHER MINING COMPANIES FOR THE ACQUISITION OF NEW PROPERTIES.

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

THE CORPORATION DEPENDS ON A SINGLE MINE TO GENERATE REVENUES AND, IF MINING OPERATIONS ARE INTERRUPTED, THE CORPORATION'S BUSINESS WILL SUFFER.

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

THE CORPORATION DEPENDS ON A SINGLE PALLADIUM SALES CONTRACT TO GENERATE MOST OF ITS REVENUES AND REDUCE ITS EXPOSURE TO FLUCTUATIONS OF THE PRICE OF PALLADIUM AND, IF THIS CONTRACT IS SUSPENDED OR TERMINATED, THE CORPORATION MAY NOT BE ABLE TO FIND OTHER PURCHASERS FOR ITS PALLADIUM ON SIMILAR TERMS OR AT ALL.

Pursuant to the Palladium Sales Contract with the Automotive Manufacturer, the Corporation has committed to sell all of the refined palladium it is entitled to receive from the smelters to the Automotive Manufacturer until June 30, 2005. As of May 1, 2001, the Palladium Sales Contract is no longer subject to an automatic contractual right of renewal. The Palladium Sales Contract allows the Automotive Manufacturer to terminate the Palladium Sales Contract if the Corporation breaches a material term and it does not remedy the breach within ten business days of receiving notice of such breach. In addition, the contract contains "force majeure" provisions that allows the Automotive Manufacturer to suspend its obligations to purchase palladium upon the occurrence of certain events, such as acts of nature, that are beyond the control of the Automotive Manufacturer and that limit its ability to make such purchases. If the Palladium Sales Contract is suspended or terminated, the Corporation may not be able to find other purchasers for its palladium on similar terms or at all, and the Corporation's business could suffer significantly.

IN CERTAIN CIRCUMSTANCES THE PALLADIUM SALES CONTRACT MAY LIMIT THE CORPORATION'S ABILITY TO GENERATE REVENUES.

Future revenues from production of palladium will be governed by the Palladium

Sales Contract. The prices the Corporation receives under that contract are based on a specified discount from the average monthly London Metal Exchange prices, subject to a maximum price of US$550 per ounce for 50% of the production delivered each month. Therefore, if the price of palladium rises above US$550, with respect to half of the production the Corporation will not be able to charge a price that reflects market value. In such event, the Corporation's ability to generate revenues will be limited by the Palladium Sales Contract.

IF THE PALLADIUM SALES CONTRACT IS TERMINATED, THE CORPORATION WILL BE IN DEFAULT OF ITS CREDIT FACILITIES.

The Corporation will be in default of its credit facilities if the Palladium Sales Contract is terminated. The Corporation may not have sufficient cash reserves to make increased payments required under its credit facilities if it is in default and will be required to incur further debt or raise capital in the markets by issuing additional shares, which could cause a decline in the price of its common shares and may involve substantial dilution. Such additional funds may not be available on favourable terms or at all.

THE CORPORATION IS DEPENDENT ON THIRD PARTIES FOR SMELTING AND REFINING ITS PALLADIUM AND IF THEY ARE UNABLE TO ACCOMMODATE THE CORPORATION'S SMELTING AND REFINING REQUIREMENTS OR THE EXISTING CONTRACTS ARE TERMINATED OR NOT RENEWED THE CORPORATION'S ABILITY TO GENERATE REVENUES COULD BE HARMED.

The Corporation has smelter agreements with Inco and Falconbridge which provide for the smelting and refining of the principal metals contained in the concentrates produced at Lac des Iles Mine. The existing agreements with Inco and Falconbridge end on August 31, 2005 and March 31, 2006, respectively and do not provide for automatic renewal or additional terms at the expiry of the initial term. The agreement with Inco can be terminated by either party on 12 months' notice. The agreement with Falconbridge can be terminated in certain circumstances, such as default of performance. The inability to renew one or both of these agreements under similar terms or the termination of either of the agreements could have a material adverse affect on the Corporation's financial performance and results of operations until such time as alternative smelting and refining arrangements can be made or alternative purchasers of the Corporation's concentrates can be found.

THE CORPORATION'S VULNERABILITY TO CHANGES IN METAL PRICES MAY CAUSE ITS COMMON SHARE PRICE TO BE VOLATILE AND MAY AFFECT THE SUCCESS OF THE PROJECT.

The Corporation's primary source of revenue is the sale of palladium. In fiscal 2003, sales of palladium accounted for approximately 67% of the Corporation's revenues. Historically, changes in the market price of palladium have significantly impacted the Corporation's profitability and common share price. Notwithstanding the Palladium Sales Contract, market prices will continue to significantly impact profitability and may cause wide fluctuations in the

market price for the Corporation's common shares. In addition, according to the Feasibility Study the Project is most sensitive to external economic criteria related to the palladium price. At the current palladium price, the Project has a positive net present value. However, a major Project risk will arise if there is a significant weakening of the U.S. dollar combined with a prolonged period of lower palladium prices. See "Feasibility Study". Many factors beyond the Corporation's control influence the market price of palladium. These factors include:

- global supply and demand;
- availability and costs of metal substitutes;

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

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

SINCE THE CORPORATION'S REVENUES ARE IN UNITED STATES DOLLARS AND EXPENDITURES ARE IN CANADIAN DOLLARS, THE CORPORATION IS SUBJECT TO FLUCTUATIONS IN EXCHANGE RATES BETWEEN THE UNITED STATES AND CANADIAN DOLLARS.

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

THE CORPORATION IS SUBJECT TO EXTENSIVE ENVIRONMENTAL LEGISLATION AND THE COSTS OF COMPLYING WITH THESE REGULATIONS MAY BE SIGNIFICANT.

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

The Corporation will be responsible for all costs of closure and reclamation at the Lac des Iles Mine. Under applicable environmental legislation, the Corporation had to establish a trust fund to prepare for closure and reclamation. The current amended mine closure plan requires $7.8 million for clean-up and restoration of the mine site. The trust fund, maintained by the Ontario Ministry of Northern Development and Mines, is designed to collect $7.8 million through instalments of $100,000 per month. The money in the trust fund will become available to the Corporation when the mine closure is completed. At March 31, 2004, approximately $5.0 million was on deposit in the trust fund. Development of the underground mine pursuant to the Feasibility Study will require an amendment to the existing closure plan and will result in an increase in the amount of financial assurance required by the Ontario Ministry of Northern Development and Mines. The actual amount needed for the closure of the Lac des Iles Mine may be materially more than the original estimate. Recent changes in the Province of Ontario mining regulations may require the Corporation to provide a letter of credit or other financial instrument as security for the closure of the Lac des Iles Mine.

CHANGES IN ENVIRONMENTAL LEGISLATION COULD INCREASE THE COSTS OF COMPLYING WITH APPLICABLE REGULATIONS AND REDUCE LEVELS OF PRODUCTION.

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

COMPLIANCE WITH CURRENT AND FUTURE GOVERNMENT REGULATIONS MAY CAUSE THE CORPORATION TO INCUR SIGNIFICANT COSTS AND SLOW ITS GROWTH.

The Corporation's activities are subject to extensive Canadian federal and provincial laws and regulations governing matters relating to mine safety, occupational health, labor standards, prospecting, exploration, production, exports and taxes. Compliance with these and other laws and regulations could require the Corporation to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have a harmful effect on the Corporation. The Corporation cannot make assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

THE CORPORATION IS REQUIRED TO OBTAIN AND RENEW GOVERNMENTAL PERMITS IN ORDER TO CONDUCT MINING OPERATIONS, WHICH IS OFTEN A COSTLY AND TIME-CONSUMING PROCESS.

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

THE CORPORATION FACES COMPETITION WITH OTHER LARGER SUPPLIERS OF PLATINUM GROUP METALS AND FROM POTENTIAL NEW SOURCES OF PLATINUM GROUP METALS.

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

THE DEVELOPMENT OF NEW TECHNOLOGY OR NEW ALLOYS COULD REDUCE THE DEMAND FOR PALLADIUM AND PLATINUM.

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

IF THE CORPORATION LOSES KEY PERSONNEL OR IS UNABLE TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL, THE CORPORATION'S MINING OPERATIONS AND PROSPECTS COULD BE HARMED.

The Corporation is dependent upon the services of a small number of members of senior management including Andre J. Douchane, the President and Chief Executive Officer, and George D. Faught, the Chief Financial Officer. The Corporation's current mining operations, its successful development of the underground mine and its future prospects depends on the experience and knowledge of these individuals. The loss of one or more of these individuals could have a material adverse affect on the Corporation's mining operations.

THE MINING LEASES CONSTITUTING THE LAC DES ILES MINE EXPIRE IN 2006 AND MAY NOT BE RENEWED.

The Lac des Iles Mine consists of four mining leases issued by the Government of Ontario. The mining leases are dated August 16, 1985 and have a 21 year term, which is the term of all mining leases granted by the Government of Ontario. These leases expire on August 31, 2006 and are renewable for a further term of 21 years if the terms and conditions of the leases have been complied with. If the leases expire and are not renewed, the Corporation will not be able to continue its mining operations.

THE CORPORATION'S CREDIT FACILITIES HAVE EVENTS OF DEFAULT, SOME OF WHICH ARE BEYOND THE CORPORATION'S CONTROL.

The Corporation has borrowed funds under its credit facilities to finance its operations. The credit facilities contain certain events of default, some of which are beyond the Corporation's control, the occurrence of which could require the Corporation to pay back immediately all amounts borrowed under the credit facilities. The death of George B. Kaiser, the principal shareholder of the Kaiser-Francis Oil Company and a lender under one of the Corporation's credit facilities, constitutes such an event of default. If the Corporation is required to pay back immediately all amounts borrowed under either or both of its credit facilities, it may be necessary to obtain additional financing which may not be available on terms acceptable to the Corporation, if at all.

THE CORPORATION'S PRINCIPAL SHAREHOLDER HAS THE ABILITY TO DIRECT THE CORPORATION'S AFFAIRS AND BUSINESS AND, BECAUSE IT OWNS APPROXIMATELY 51% OF THE COMMON SHARES, THIRD PARTIES MAY BE DETERRED FROM ACQUIRING THE CORPORATION.

To the best of the Corporation's knowledge, Kaiser-Francis Oil Company, a privately-held oil and gas company based in Tulsa, Oklahoma, owns common shares, representing approximately 51% of the total number of common shares outstanding as of March 31, 2004. Kaiser-Francis Oil Company therefore has the ability to direct the affairs and business of the Corporation. This concentration of ownership may have the effect of delaying or preventing a change in control of the Corporation, which may deprive the Corporation's shareholders of a control premium that might otherwise be realized in connection with an acquisition of the Corporation.

THE CORPORATION'S HEDGING ACTIVITIES OR ITS DECISION NOT TO HEDGE COULD EXPOSE IT TO LOSSES.

From time to time, the Corporation engages in hedging activities in connection with the metals it produces, such as forward sales contracts and commodity put and call option contracts, to partially offset the risk of declines in metal prices on its operating results. While these hedging activities may protect the Corporation against low metal prices,

they may also limit the price it can receive on hedged products. As a result, the Corporation may be prevented from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract. In addition, the Corporation may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity.

AUDITORS

The Corporation's auditors are Ernst & Young LLP, Chartered Accountants, Ernst & Young Tower, 222 Bay Street, Toronto-Dominion Centre, Toronto, Ontario M5K 1T7.

EXPERTS

The technical and resource and reserve information relating to the Project has been included in this Prospectus in reliance on the Feasibility Study prepared by RPA. As of the date hereof, RPA does not beneficially own, directly or indirectly, any of the outstanding common shares of the Corporation.

LEGAL MATTERS

Certain legal matters in connection with the Securities offered hereby will be passed upon for the Corporation by Gowling Lafleur Henderson LLP, Toronto, Ontario with respect to matters of Canadian law, and Skadden, Arps, Slate, Meagher & Flom LLP, Toronto, Ontario with respect to matters of U.S. law. As of the date hereof, the partners and associates of Gowling Lafleur Henderson LLP own, directly or indirectly, in the aggregate, less than 1% of the Corporation's outstanding common shares.

AVAILABLE INFORMATION

The Corporation has filed with the SEC a registration statement on Form F-10 with respect to the Securities. This Prospectus does not contain all the information set forth in the registration statement. For further information about the Corporation and the Securities, please refer to the registration statement.

The Corporation is subject to the information requirements of the U.S. Exchange Act and applicable Canadian securities legislation, and in accordance therewith it files reports and other information with the SEC and with the securities regulators in each of the provinces of Canada. Under the MJDS, the Corporation generally may prepare these reports and other information in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. As a foreign private issuer, the Corporation is exempt from the rules under the U.S. Exchange Act prescribing the furnishing and content of proxy statements, and the Corporation's officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the U.S. Exchange Act. In addition, the Corporation is not required to publish financial statements as promptly as U.S. companies.

Investors may read and copy any document the Corporation files with the SEC at the SEC's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Investors may also obtain copies of the same documents from the public reference room of the SEC in Washington by paying a fee. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a web site (www.sec.gov) that makes available reports and other information that the Corporation files electronically with it, including the registration statement it has filed with respect to this offering.

Investors are invited to read and copy any reports, statements or other information that the Corporation files with the Canadian provincial securities commissions or other similar regulatory authorities at their respective public reference rooms. These filings are also electronically available from the Canadian System for Electronic Document Analysis and Retrieval (www.sedar.com), which is commonly known by the acronym "SEDAR". Reports and other information about the Corporation are also available for inspection at the offices of the TSX.

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DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the Registration Statement of which this Prospectus forms a part: (1) the documents listed under "Documents Incorporated by Reference"; (2) the consent provided by Ernst & Young LLP in the form required by the SEC; (3) the consent of RPA; and (4) the powers of attorney from the directors and officers of the Corporation and its authorized representative.

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PART II
INFORMATION NOT REQUIRED TO BE
DELIVERED TO OFFEREES OR PURCHASERS

INDEMNIFICATION.

Section 124 of the Canada Business Corporation Act, as amended ("CBCA"), provides as follows:

1. INDEMNIFICATION. A corporation may indemnify a director or officer of the corporation, a former director or officer of the corporation or another individual who acts or acted at the corporation's request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the corporation or other entity.

2. ADVANCE OF COSTS. A corporation may advance moneys to a director, officer or other individual for the costs, charges and expenses of a proceeding referred to in subsection (1). The individual shall repay the moneys if the individual does not fulfill the conditions of subsection (3).

3. LIMITATION. A corporation may not indemnify an individual under subsection (1) unless the individual:

(a) acted honestly and in good faith with a view to the best interests of the corporation, or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the corporation's request; and

(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct was lawful.

4. INDEMNIFICATION IN DERIVATIVE ACTIONS. A corporation may with the approval of a court, indemnify an individual referred to in subsection (1), or advance moneys under subsection (2), in respect of an action by or on behalf of the corporation or other entity to procure a judgment in its favour, to which the individual is made a party because of the individual's association with the corporation or other entity as described in subsection (1) against all costs, charges and expenses reasonably incurred by the individual in connection with such action, if the individual fulfils the conditions set out in subsection (3).

5. RIGHT TO INDEMNITY. Despite subsection (1), an individual referred to in that subsection is entitled to indemnity from the corporation in respect of all costs, charges and expenses reasonably incurred by the individual in connection with the defence of any civil, criminal, administrative, investigative or other proceeding to which the individual is subject because of the individual's association with the corporation or other entity as described in subsection (1), if the individual seeking indemnity:

(a) was not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done; and

(b) fulfils the conditions set out in subsection (3).

6. INSURANCE. A corporation may purchase and maintain insurance for the benefit of an individual referred to in subsection (1) against any liability incurred by the individual

(a) in the individual's capacity as a director or officer of the corporation; or

(b) in the individual's capacity as a director or officer, or similar capacity, of another entity, if the individual acts or acted in that capacity at the corporation's request.

7. APPLICATION TO COURT. A corporation, an individual or an entity referred to in subsection (1) may apply to a court for an order approving an indemnity under this section and the court may so order and make any further order that it sees fit.

8. NOTICE TO DIRECTOR. An applicant under subsection (7) shall give the Director notice of the application and the Director is entitled to appear and be heard in person or by counsel.

9. OTHER NOTICE. On an application under subsection (7) the court may order notice to be given to any interested person and the person is entitled to appear and be heard in person or by counsel.

Subject to the limitations contained in the CBCA, the By-laws of the Registrant provide that every director or officer of the Registrant, every former director or officer of the Registrant or another individual who acts or acted at the Registrant's request as a director or officer, or an individual acting in a similar capacity, of another entity, and such person's heirs and legal representatives shall, from time to time, be indemnified and saved harmless by the Registrant from and against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal or administrative action or proceeding in which such individual is involved because of that association with the Registrant or other such entity if (i) he or she acted honestly and in good faith and with a view to the best interests of the Registrant, and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, such individual had reasonable grounds for believing that his or her conduct was lawful.

The Registrant maintains insurance for the benefit of its directors and officers against liability in their respective capacities as directors and officers except where the liability relates to the person's failure to act honestly and in good faith and with a view to the best interests of the Registrant. The directors and officers are not required to pay any premium in respect of the insurance. The policy contains standard industry exclusions and no claims have been made thereunder to date.

Insofar as indemnification for liabilities arising under the U.S. Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the U.S. Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ober 2018, respectively, cont
liability recognized in purchase accounting of $6.1 million is being accounted for as deferred co
March 31, 2016, approximately $0.6 million of related compensation expense was recognized and has

5. Fair Value Measurements

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the Codification establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible as well as considers counterparty and our own credit risk in its assessment of fair value.

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The following table presents our financial assets and liabilities that are carried at fair value, classified according to the three categories described above (in thousands):

	Fair Value Measurement at March 31, 2016 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents money market funds	$ 21,367	$ 21,367	$	$
Cash equivalents commercial paper	11,994		11,994	
Cash equivalents corporate bonds	6,694		6,694	
Total assets	$ 40,055	$ 21,367	$ 18,688	$

	Fair Value Measurement at December 31, 2015 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents money market funds	$ 21,808	$ 21,808	$	$
Cash equivalents commercial paper	8,920		8,920	
Cash equivalents U.S. government and agency securities	9,293		9,293	
Total assets	$ 40,021	$ 21,808	$ 18,213	$

The Company s recurring fair value measures relate to short-term investments, which are classified as cash equivalents, derivative instruments and from time to time contingent consideration. The fair value of our cash equivalents are either based on quoted prices for similar assets or other observable inputs such as yield curves at commonly quoted intervals and other market corroborated inputs. The fair value of our derivatives is based on quoted market prices from various banking institutions or an independent third party provider for similar instruments. In determining the fair value, we consider our non-performance risk and that of our counterparties. At March 31, 2016, we had one contract to sell 2.4 million British pounds sterling and purchase $3.4 million that together, had an immaterial fair value. There were no outstanding forward contracts at December 31, 2015.

The Company s non-financial assets and non-financial liabilities subject to non-recurring measurements include goodwill and intangible assets.

6. Intangible Assets

Intangible assets as of March 31, 2016 and December 31, 2015 were as follows (dollar amounts in thousands):

	Weighted-Average Amortization Period (Years)	March 31, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	10	$ 60,248	$ (49,423)	$ 10,825	$ 59,994	$ (48,767)	$ 11,227
Acquired technology	11	54,633	(40,686)	13,947	54,424	(39,336)	15,088
Non-compete agreements	4	13,007	(12,246)	761	12,946	(12,111)	835
Indefinite-lived intangible assets:							
Trademarks		38,049		38,049	37,714		37,714
Domain names		4,400		4,400	4,400		4,400
Total		$ 170,337	$ (102,355)	$ 67,982	$ 169,478	$ (100,214)	$ 69,264

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7. Debt

On September 15, 2015, the Company entered into a new credit agreement (the New Credit Agreement) by and among the Company, the Company s subsidiary, Monotype Imaging Inc., any financial institution that becomes a Lender (as defined therein) and Silicon Valley Bank, as agent which provides for a five-year $150.0 million secured revolving credit facility (the Credit Facility). The Credit Facility permits the Company to request that the Lenders, at their election, increase the secured credit facility to a maximum of $200.0 million. The New Credit Agreement replaced the Company s existing $120.0 million revolving credit facility (the Original Credit Agreement) by and between the Company and Wells Fargo Capital Finance, LLC. The Original Credit Agreement was terminated effective September 15, 2015 and was scheduled to expire on July 13, 2016.

Borrowings under the Credit Facility bear interest at a variable rate not less than zero based upon, at the Company s option, either LIBOR or the higher of (i) the prime rate as published in the Wall Street Journal, and (ii) 0.5% plus the overnight federal funds rate, plus in each case, an applicable margin. The applicable margin for LIBOR loans, based on the applicable leverage ratio, is 1.25%, 1.50% or 1.75% per annum, and the applicable margin for base rate loans, based on the applicable leverage ratio, is either 0.25%, 0.50% or 0.75%% per annum. At March 31, 2016 our rate, inclusive of applicable margins, was 1.9% for LIBOR. At March 31, 2016, the Company had no outstanding borrowings under the Credit Facility. The Company is required to pay a commitment fee, based on the applicable leverage ratio, equal to 0.20%, 0.25% or 0.30% per annum on the undrawn portion available under the revolving credit facility and variable per annum fees in respect of outstanding letters of credit. In connection with the New Credit Agreement, the Company incurred closing and legal fees of approximately $1.0 million, which have been accounted for as deferred financing costs and will be amortized to interest expense over the term of the New Credit Agreement.

In addition to other covenants, the New Credit Agreement places limits on the Company and its subsidiaries ability to incur debt or liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, engage in mergers, acquisitions and asset sales, transact with affiliates and alter its business. The New Credit Agreement also contains events of default, and affirmative covenants, including financial maintenance covenants which include (i) a maximum leverage ratio of consolidated total debt to consolidated adjusted EBITDA of 3.00 to 1.00, and (ii) a minimum fixed charge coverage ratio of 1.25 to 1.00. As of March 31, 2016, our leverage ratio was 0.00: 1.00 and our fixed charge ratio was 4.19: 1.00. Adjusted EBITDA, under the Credit Facility, is defined as consolidated net income (or loss), plus net interest expense, income taxes, depreciation and amortization, and share based compensation expense, plus acquisition expenses not to exceed $2.0 million on a trailing twelve month basis, plus restructuring, issuance costs, cash non-operating costs and other expenses or losses minus cash non-operating gains and other non-cash gains. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the New Credit Agreement to declare all amounts borrowed under the New Credit Agreement, together with accrued interest and fees, to be immediately due and payable. In addition, the Credit Facility is secured by a lien on substantially all of the Company s and its domestic subsidiaries tangible and intangible property by a pledge of all of the equity interests of the Company s direct and indirect domestic subsidiaries and by a pledge by the Company s domestic subsidiaries of 65% of the equity of their direct foreign subsidiaries, subject to limited exceptions. The Company was in compliance with all covenants under our Credit Facility as of March 31, 2016 and 2015.

8. Defined Benefit Pension Plan

Our German subsidiary maintains an unfunded defined benefit pension plan which covers substantially all employees who joined the company prior to the plan s closure to new participants in 2006. Participants are entitled to benefits in the form of retirement, disability and surviving dependent pensions. Benefits generally depend on years of service and the salary of the employees.

The components of net periodic benefit cost included in the accompanying condensed consolidated statements of income were as follows (in thousands):

	Three Months Ended March 31,	
	2016	**2015**
Service cost	$ 23	$ 29
Interest cost	30	28
Amortization	13	19
Net periodic benefit cost	$ 66	$ 76

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9. Income Taxes

A reconciliation of income taxes computed at federal statutory rates to income tax expense is as follows (dollar amounts in thousands):

	Three Months Ended March 31,			
	2016		2015	
Provision for income taxes at statutory rate	$ 2,963	35.0%	$ 3,821	35.0%
State and local income taxes, net of federal tax benefit	120	1.4%	156	1.4%
Stock compensation	41	0.5%	32	0.3%
Reversal of reserves			(342)	(3.1)%
Foreign rate differential	(101)	(1.2)%	(87)	(0.8)%
Research credits	(69)	(0.8)%		
Permanent non-deductible acquisition-related expense	161	1.9%		
Other, net	(8)	(0.1)%	(21)	(0.2)%
Reported income tax provision	$ 3,107	36.7%	$ 3,559	32.6%

As of March 31, 2016, the reserve for uncertain tax positions was approximately $5.7 million. Of this amount, $3.3 million is recorded as a reduction of deferred tax assets and $2.4 million is classified as long term liabilities. During the first quarter of 2015, the Company settled a tax audit related to its Japan subsidiary. As a result of this settlement, the Company recognized a tax benefit of $0.3 million.

10. Net Income Per Share

Basic and diluted earnings per share are computed pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating security according to their respective participation rights in undistributed earnings. Unvested restricted stock awards granted to employees are considered participating securities as they receive non-forfeitable rights to cash dividends at the same rate as common stock. In accordance with ASC Topic No. 260, *Earnings Per Share,* diluted net income per share is calculated using the more dilutive of the following two approaches:

1. Assume exercise of stock options and vesting of restricted stock using the treasury stock method.

2. Assume exercise of stock options using the treasury stock method, but assume participating securities (unvested restricted stock) are not vested and allocate earnings to common shares and participating securities using the two-class method.

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For the periods presented the two-class method was used in the computation of diluted net income per share, as the result was more dilutive. The following presents a reconciliation of the numerator and denominator used in the calculation of basic net income per share and a reconciliation of the numerator and denominator used in the calculation of diluted net income per share (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2016	**2015**
Numerator:		
Net income, as reported	$ 5,358	$ 7,357
Less: net income attributable to participating securities	(140)	(146)
Net income available to common shareholders basic	$ 5,218	$ 7,211
Denominator:		
Basic:		
Weighted-average shares of common stock outstanding	40,230,488	39,642,889
Less: weighted-average shares of unvested restricted common stock outstanding	(1,107,839)	(813,720)
Weighted-average number of common shares used in computing basic net income per common share	39,122,649	38,829,169
Net income per share applicable to common shareholders basic	$ 0.13	$ 0.19

	Three Months Ended March 31,	
	2016	**2015**
Numerator:		
Net income available to common shareholders basic	$ 5,218	$ 7,211
Add-back: undistributed earnings allocated to unvested shareholders	26	70
Less: undistributed earnings reallocated to unvested shareholders	(25)	(69)
Net income available to common shareholders diluted	$ 5,219	$ 7,212
Denominator:		
Diluted:		
Weighted-average shares of common stock outstanding	40,230,488	39,642,889
	(1,107,839)	(813,720)

Less: weighted-average shares of unvested restricted common stock outstanding		
Weighted-average number of common shares issuable upon exercise of outstanding stock options, based on the treasury stock method	398,970	692,970
Weighted-average number of common shares used in computing diluted net income per common share	39,521,619	39,522,139
Net income per share applicable to common shareholders diluted	$ 0.13	$ 0.18

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The following common share equivalents have been excluded from the computation of diluted weighted-average shares outstanding, as their effect would have been anti-dilutive:

	Three Months Ended March 31,	
	2016	**2015**
Options	682,262	306,940
Unvested restricted stock	319,504	90,014
Unvested restricted stock units	12,794	7,857

11. Share Based Compensation

We account for share based compensation in accordance with ASC Topic No. 718, *Compensation Stock Compensation,* which requires the measurement of compensation costs at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. The following presents the impact of share based compensation expense on our condensed consolidated statements of income (in thousands):

	Three Months Ended March 31,	
	2016	**2015**
Marketing and selling	$ 1,581	$ 1,266
Research and development	813	542
General and administrative	1,384	963
Total expensed	3,778	2,771
Property and equipment		42
Total share based compensation	$ 3,778	$ 2,813

In the first quarter of 2015, approximately $42 thousand of share based compensation was capitalized as part of an internal software project, and this amount is included in property and equipment, net in our condensed consolidated balance sheet. As of March 31, 2016, the Company had $34.2 million of unrecognized compensation expense related to employees and directors unvested stock options and restricted stock awards that are expected to be recognized over a weighted average period of 3.1 years.

12. Segment Reporting

We view our operations and manage our business as one segment: the development, marketing and licensing of technologies and fonts. Factors used to identify our single segment include the financial information available for evaluation by our chief operating decision maker in making decisions about how to allocate resources and assess performance. While our technologies and services are sold into two principal markets, Creative Professional and OEM, expenses and assets are not formally allocated to these market segments, and operating results are assessed on an aggregate basis to make decisions about the allocation of resources. The following table presents revenue for these two major markets (in thousands):

	Three Months Ended March 31,	
	2016	**2015**
Creative Professional	$ 23,915	$ 20,504
OEM	25,927	25,542
Total	$ 49,842	$ 46,046

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Geographic segment information

The Company attributes revenue to geographic areas based on the location of our subsidiary receiving such revenue. For example, licenses may be sold to large international companies which may be headquartered in the Republic of Korea, but the sales are received and recorded by our subsidiary located in the United States, or U.S. In this example, the revenue would be reflected in the U.S. totals in the table below. We market our products and services through offices in the U.S., United Kingdom, Germany, China, Republic of Korea and Japan. The following summarizes revenue by location (in thousands of dollars, except percentages):

	Three Months Ended March 31,			
	2016		2015	
	Revenue	% of Total	Revenue	% of Total
United States	$ 26,511	53.2%	$ 24,843	54.0%
United Kingdom	4,325	8.7	1,848	4.0
Germany	6,032	12.1	5,844	12.7
Japan	12,816	25.7	13,207	28.6
Other Asia	158	0.3	304	0.7
Total	$ 49,842	100.0%	$ 46,046	100.0%

Long-lived assets, which include property and equipment, goodwill and intangibles, but exclude other assets, long-term investments and deferred tax assets, are attributed to geographic areas in which Company assets reside and is shown below (in thousands):

	March 31, 2016	December 31, 2015
Long-lived assets:		
United States	$ 204,842	$ 206,822
United Kingdom	4,359	4,581
Germany	57,441	55,269
Asia (including Japan)	3,491	3,531
Total	$ 270,133	$ 270,203

13. Commitments and Contingencies

Legal Proceedings

From time to time, we may be a party to various claims, suits and complaints. We do not believe that there are claims or legal proceedings that, if determined adversely to us, would have a material adverse effect on our business, results of operations or financial condition.

Licensing Warranty

Under our standard license agreement with our OEM customers, we warrant that the licensed technologies are free of infringement claims of intellectual property rights and will meet the specifications as defined in the licensing agreement for a one year period. Under the licensing agreements, liability for such indemnity obligations is limited, generally to the total arrangement fee; however, exceptions have been made on a case-by-case basis, increasing the maximum potential liability to agreed upon amounts at the time the contract is entered into or unlimited liability. We have never incurred costs payable to a customer or business partner to defend lawsuits or settle claims related to these warranties, and as a result, management believes the estimated fair value of these warranties is minimal. Accordingly, there are no liabilities recorded for these warranties as of March 31, 2016 and December 31, 2015.

14. Subsequent Events

Dividend Declaration

On April 26, 2016 the Company s Board of Directors declared an $0.11 per share quarterly cash dividend on our outstanding common stock. The record date is set for July 1, 2016 and the dividend is payable to shareholders of record on July 21, 2016. Dividends are declared at the discretion of the Company s Board of Directors and depend on actual cash from operations, the Company s financial condition and capital requirements and any other factors the Company s Board of Directors may consider relevant. Future dividend declarations, as well as the record and payment dates for such dividends, will be determined by the Company s Board of Directors on a quarterly basis.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements and Projections

This Quarterly Report on Form 10-Q contains forward looking statements. Forward looking statements relate to future events or our future financial performance. We generally identify forward looking statements by terminology such as may, will, should, expects, plans, anticipates, could, intends, target, projects, contemplates, believes, estimates, predicts, potential or continue or the negative of these terms or other similar words. These statements are only predictions. We have based these forward looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, results of operations and financial condition. The outcome of the events described in these forward looking statements is subject to risks, uncertainties and other factors described in Risks Factors in our Annual Report on Form 10-K for the year ended December 31, 2015, as well as those described in Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and elsewhere in this Quarterly Report on Form 10-Q. Accordingly, you should not rely upon forward looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward looking statements will be achieved or occur, and actual results could differ materially from those projected in the forward looking statements. The forward looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Overview

We are a leading provider of type, technology and expertise for creative professionals and consumer device manufacturers. Our vision is that our fonts and technology empower every word and experience. We help creative professionals, consumer device manufacturers and independent software vendors connect their brands, content, products and services to consumers and businesses everywhere. Monotype is home to some of the world s most well-known typeface collections. Along with our custom type services, our solutions enable consumers and professionals to express their creativity, while our tools and technologies improve creative workflows and maximize efficiency as content is published or distributed. Our solutions provide worldwide language coverage and high-quality text, and our embedded solutions support compelling user interfaces. We offer more than 16,000 typeface designs, and include some of the world s most widely used designs, such as the Times New Roman®, Helvetica®, Frutiger®, ITC Franklin Gothic , FF Meta and Droid typefaces, and support more than 250 Latin and non-Latin languages. Our e-commerce websites, including *myfonts.com, fonts.com, fontshop.com,* and *linotype.com,* which attracted more than 80 million visits in 2015 from over 200 countries and territories, offer thousands of high-quality font products including our own fonts from the Monotype Libraries, as well as fonts from third parties.

Sources of Revenue

We derive revenue from two principal sources: licensing our fonts and font related services to creative and business professionals, which we refer to as our Creative Professional revenue, and licensing our text imaging solutions to consumer device manufacturers and independent software vendors, which we refer to as our OEM revenue. We derive our Creative Professional revenue primarily from brands, agencies, publishers, corporations, enterprises, small businesses and individuals. We derive our OEM revenue primarily from consumer device manufacturers. Some of our revenue streams, particularly custom revenue where spending is largely discretionary in nature, have historically been and we expect them to continue to be in the future, susceptible to weakening economic conditions.

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Geographic revenue, which is based on the location of our subsidiary receiving such revenue, is in the table below:

	Three Months Ended March 31,			
	2016		2015	
	Revenue	% of Total	Revenue	% of Total
	(In millions of dollars, except percentages)			
United States	$ 26,511	53.2%	$ 24,843	54.0%
United Kingdom	4,325	8.7	1,848	4.0
Germany	6,032	12.1	5,844	12.7
Japan	12,816	25.7	13,207	28.6
Other Asia	158	0.3	304	0.7
Total	$ 49,842	100.0%	$ 46,046	100.0%

For the three months ended March 31, 2016 and 2015, revenue by our subsidiaries located outside the United States comprised 46.8% and 46.0%, respectively, of our total revenue. We expect that sales by our international subsidiaries will continue to represent a substantial portion of our revenue for the foreseeable future. Future international revenue will depend on the continued use and expansion of our text imaging solutions worldwide.

We derive a significant portion of our OEM revenue from a limited number of customers, in particular manufacturers of laser printers and consumer electronic devices. For the three months ended March 31, 2016 and 2015, our top ten licensees by revenue, most of which are OEM customers, accounted for approximately 32.3% and 36.9% of our total revenue, respectively. Although no one customer accounted for more than 10% of our total revenue for the three months ended March 31, 2016 or 2015, if we are unable to maintain relationships with major customers or establish relationships with new customers, our licensing revenue will be adversely affected.

Creative Professional Revenue

Our Creative Professional revenue is derived from font licenses, font related services and from custom font design services. We license fonts directly to end-users through our e-commerce websites, via telephone, e-mail and indirectly through third-party resellers. Font related services refer to our web font services and web design tools. We also license fonts and provide custom font design services to graphic designers, advertising agencies, media organizations and corporations. We refer to direct, indirect and custom revenue, as non-web revenue, and refer to revenue that is derived from our websites, as web revenue.

Revenue from font licenses to our e-commerce customers is recognized upon payment by the customer and the software embodying the font is shipped or made available. Revenue from font licenses to other customers is recognized upon shipment of the software embodying the font and when all other revenue recognition criteria have been met. Revenue from resellers is recognized upon notification from the reseller that our font product has been licensed and when all other revenue recognition criteria have been met. Custom font design services are generally recognized upon delivery. Font related service revenue is mainly subscription based and it may contain software as a service. The subscription revenue is recognized ratably over the subscription period. We consider web server and commercial rights to online fonts as recurring revenue and it is recognized upon payment by the customer and proof of font delivery, when all other revenue recognition criteria have been met. Contract accounting, completed contract for short-term projects and percentage-of-completion for long-term projects, is used where services are deemed essential to the software.

OEM Revenue

Our OEM revenue is derived substantially from per-unit royalties received for printer imaging and printer driver, or printer products, and display imaging products. Under our licensing arrangements we typically receive a royalty for each product unit incorporating our fonts and technology that is shipped by our OEM customers. We also receive OEM revenue from fixed fee licenses with certain of our OEM customers. Fixed fee licensing arrangements are not based on units the customer ships, but instead, customers pay us on a periodic basis for the right to embed our fonts and technology. Although significantly less than royalties from per-unit shipments and fixed fees from OEM customers, we also receive revenue from software application and operating systems vendors, who include our fonts and technology in their products, and for font development. Many of our per-unit royalty licenses continue for the duration that our OEM customers ship products that include our technology, unless terminated for breach. Other licenses have terms that typically range from one to five years, and usually provide for automatic or optional renewals. We recognize revenue from per-unit royalties in the period during which we receive a royalty report from a customer, typically one quarter after royalty-bearing units are shipped, as we do not have the ability to estimate the number of units shipped by our customers. Revenue from fixed fee licenses is generally recognized when it is billed to the customer, so long as the product has been delivered, the license fee is fixed and non-refundable and collection is probable. OEM revenue also includes project-related agreements for which contract accounting, completed contract for short-term projects and percentage-of-completion for long-term projects, may be used.

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Cost of Revenue

Our cost of revenue consists of font license fees that we pay on certain fonts that are owned by third parties, allocated internal engineering expense and overhead costs directly related to custom design services. License fees that we pay to third parties are typically based on a percentage of our Creative Professional and OEM revenue and do not involve minimum fees. Our cost of OEM revenue is typically lower than our cost of Creative Professional revenue because we own a higher percentage of the fonts licensed to our OEM customers, provide value-added technology and have negotiated lower royalty rates on the fonts we license from third parties because of volume. The cost of our custom design service revenue is substantially higher than the cost of our other revenue and, as a result, our gross margin varies from period-to-period depending on the level of custom design revenue recorded.

Cost of revenue also includes amortization of acquired technology, which we amortize over 8 to 15 years. For purposes of amortizing acquired technology we estimate the remaining useful life of the technology based upon various considerations, including our knowledge of the technology and the way our customers use it. We use the straight-line method to amortize our acquired technology. There is no reliable evidence to suggest that we should expect any other pattern of amortization than an even pattern, and we believe this best reflects the expected pattern of economic usage.

Gross Profit

Our gross profit percentage is influenced by a number of factors including product mix, pricing and volume at any particular time. However, our cost of OEM revenue is typically lower than our cost of Creative Professional revenue because we own a higher percentage of the fonts licensed to our OEM customers, provide value-added technology and have negotiated lower royalty rates on the fonts we license from third parties because of volume. Within our Creative Professional business, the cost of our custom design service revenue is substantially higher than the cost of our other revenue. As a result, our gross profit varies from period-to-period depending on the mix between, and within, Creative Professional and OEM revenue.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP and our discussion and analysis of our financial condition and results of operations requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

There has been no material change in our critical accounting policies since December 31, 2015. Information about our critical accounting policies may be found in Management s Discussion and Analysis of Financial Condition and Results of Operations, under the heading Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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Results of Operations for the Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

The following table sets forth items in the unaudited condensed consolidated quarterly statements of income as a percentage of sales for the periods indicated:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revenue:		
Creative Professional	48.0%	44.5%
OEM	52.0	55.5
Total revenue	100.0	100.0
Cost of revenue	16.7	16.1
Cost of revenue amortization of acquired technology	2.3	2.5
Total cost of revenue	19.0	18.6
Gross profit	81.0	81.4
Marketing and selling	28.2	28.1
Research and development	14.7	12.6
General and administrative	17.8	15.0
Amortization of other intangible assets	1.5	1.5
Total operating expenses	62.2	57.2
Income from operations	18.8	24.2
Interest expense, net	0.2	0.6
Loss on foreign exchange	1.6	0.2
(Gain) loss on derivatives		(0.3)
Other		
Total other expenses	1.8	0.5
Income before provision for income taxes	17.0	23.7
Provision for income taxes	6.2	7.7
Net income	10.8%	16.0%

The following discussion compares the three months ended March 31, 2016 with the three months ended March 31, 2015.

Revenue by Market

We view our operations and manage our business as one segment: the development, marketing and licensing of technologies and fonts. Factors used to identify our single segment include the financial information available for evaluation by our chief operating decision maker in making decisions about how to allocate resources and assess performance. While our technologies and services are sold to customers in two principal markets, Creative Professional and consumer device manufacturers and independent software vendors, together OEM, expenses and assets are not formally allocated to these markets, and operating results are assessed on an aggregate basis to make decisions about the allocation of resources. The following table presents revenue for these two principal markets (in thousands):

	Three Months Ended March 31,		
	2016	**2015**	**Increase**
Creative Professional	$ 23,915	$ 20,504	$ 3,411
OEM	25,927	25,542	385
Total revenue	$ 49,842	$ 46,046	$ 3,796

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Revenue

Revenue was $49.8 million and $46.0 million for the three months ended March 31, 2016 and 2015, respectively, an increase of $3.8 million, or 8.2%.

Creative Professional revenue increased $3.4 million, or 16.6%, to $23.9 million for the three months ended March 31, 2016, as compared to $20.5 million for the three months ended March 31, 2015, primarily due to an increase in direct and web revenue. Direct revenue from our enterprise customers increased primarily due to growth in sales of recurring licenses, period over period. Web revenue increased primarily due to continued growth in Web Font revenue in the three months ended March 31, 2016, as compared to the same period in 2015.

OEM revenue was $25.9 million and $25.5 million in the first quarter of 2016 and 2015, respectively, an increase of $0.4 million, or 1.5%. Revenue from our display imaging consumer electronic OEM customers increased period over period, and was partially offset by decreased royalty revenue from our printer imaging electronic OEM customers, primarily due to lower volumes of shipments by our printer imaging customers.

Cost of Revenue and Gross Profit

Cost of revenue, excluding amortization of acquired technology, was $8.3 million and $7.4 million in the three months ended March 31, 2016 and 2015, respectively. The increase in dollars is partially due to increased revenue and partially due to changes in product mix, period over period. As a percentage of sales, cost of revenue, excluding amortization of acquired technology, was 16.7% and 16.1% of total revenue in the three months ended March 31, 2016 and 2015, respectively. The increase in cost of revenue, excluding amortization of acquired technology, as a percentage of revenue was mainly due to changes in product mix. In the first quarter of 2016, Creative Professional revenue was 48.0% of total revenue, as compared to 44.5% of total revenue in the same period in 2015. Our Creative Professional revenue typically has a higher associated cost than our OEM revenue because Creative Professional revenue contains a higher proportion of third party fonts.

The portion of cost of revenue consisting of amortization of acquired technology was unchanged at $1.1 million for the three months ended March 31, 2016 and 2015.

Gross profit was 81.0% in the three months ended March 31, 2016, as compared to 81.4% in the three months ended March 31, 2015, a decrease of 0.4%, mainly the result of the changes in product mix detailed above.

Operating Expenses

Marketing and Selling. Marketing and selling expense was $14.1 million and $13.0 million in the three months ended March 31, 2016 and 2015, respectively, an increase of $1.1 million, or 8.6%. Personnel expenses increased $2.1 million due to additional headcount primarily from our acquisitions of Swyft Media, additional compensation expense in connection with an Amendment to the Swyft Media Merger Agreement executed in November 2015 and increased variable compensation from higher revenue. The headcount additions were offset by a redeployment of certain employees at the beginning of 2016 to development related activities from our sales and marketing organization. Targeted marketing spend decreased $0.7 million due to timing, period over period.

Research and Development. Research and development expense increased $1.5 million, or 26.5%, to $7.3 million in the three months ended March 31, 2016, as compared to $5.8 million in the three months ended March 31, 2015. Personnel expenses increased $0.8 million in the first quarter of 2016, as compared to the same period in 2015, a result of increased headcount, including continued expansion of our India operation. At the beginning of 2016, certain employees were redeployed to development related activities from our sales and marketing organization, which resulted in an increase in headcount of 25.8% in our research and development organization. Increased outside development work and an increase in the number of software licenses for internal use software, as we continue to grow the development operation in India together provided an increase of $0.7 million, period over period.

General and Administrative. General and administrative expense increased $1.9 million, or 28.3%, to $8.8 million in the three months ended March 31, 2016, as compared to $6.9 million in the three months ended March 31, 2015. The increase is primarily due to personnel and personnel related expenses, which increased $1.6 million in the three months ended March 31, 2016, as compared to the same period in 2015, primarily the result of key hiring and increased share based compensation expense. In the three months ended March 31, 2015, approximately $0.3 million was capitalized in connection with our new ERP system.

Amortization of Other Intangible Assets. Amortization of other intangible assets was unchanged at $0.7 million for the three months ended March 31, 2016 and 2015.

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Interest Expense, Net

Interest expense, net of interest income was $0.1 million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively, a decrease of $0.1 million, or 53.8%, mainly due to a reduction in the commitment fee rate in connection with the refinancing of our Credit Facility in September 2015.

Loss on Foreign Exchange

Loss on foreign exchange was $0.8 million and $0.1 million in the three months ended March 31, 2016 and 2015, respectively, an increase of $0.7 million. The loss in both periods was primarily the result of currency fluctuations on our foreign denominated receivables and payables.

Gain Derivatives

Gain on derivatives was $6 thousand, as compared to $0.1 million in the three months ended March 31, 2016 and 2015, respectively, the net result of changes in the market value of our 30-day forward currency derivative contracts.

Provision for Income Taxes

For the three months ended March 31, 2016 and 2015, our effective tax rate was 36.7% and 32.6%, respectively. The effective tax rate for the three months ended March 31, 2016 included a charge of 1.9% for non-deductible expenses recognized due to the Amendment to the Swyft Media Merger Agreement. The effective tax rate for the first quarter of 2016 included a benefit of 0.8% for research credits. There was no similar item in the same period in 2015, as the legislation for the credit for 2015 had not yet been passed. In addition, the effective tax rate for the three months ended March 31, 2015 included a benefit of 3.1% for the reversal of reserves, in connection with a settlement of the tax audit related to Monotype KK, the Company s subsidiary in Japan. There was no similar item in the same period in 2016.

Recently Issued Accounting Pronouncements

Information concerning recently issued accounting pronouncements may be found in Note 3 to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

Cash Flows for the Three Months Ended March 31, 2016 and 2015

Since our inception, we have financed our operations primarily through cash from operations, private and public stock sales and long-term debt arrangements, as described below. We believe our existing cash and cash equivalents, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next twelve months. At March 31, 2016, our principal sources of liquidity were cash and cash equivalents totaling $95.4 million and a $150.0 million revolving credit facility, of which there were no outstanding borrowings at March 31, 2016. On October 23, 2013, our Board of Directors approved a share repurchase program of up to $50.0 million of our outstanding common stock over the following two years, and in the first quarter of 2015, we used $6.1 million of cash to repurchase shares. This program was completed in June 2015, after reaching our maximum cumulative spend. We also used $0.4 million in cash to repurchase shares in excess of our previously approved share repurchase program. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion and future acquisitions we might undertake.

The following table presents our cash flows from operating activities, investing activities and financing activities for the periods presented (in thousands):

	Three Months Ended March 31,	
	2016	2015
Net cash provided by operating activities	$ 11,189	$ 10,922
Net cash used in investing activities	(628)	(18,476)
Net cash used in financing activities	(3,053)	(3,404)
Effect of exchange rates on cash and cash equivalents	413	(602)
Total increase (decrease) in cash and cash equivalents	$ 7,921	$ (11,560)

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Operating Activities

Significant variations in operating cash flows may occur because, from time-to-time, our customers make prepayments against future royalties. Prepayments may be required under the terms of our license agreements and are occasionally made on an elective basis and often cause large fluctuations in accounts receivable and deferred revenue. The timing and extent of such prepayments significantly impacts our cash balances.

We generated $11.2 million in cash from operations during the three months ended March 31, 2016. Net income, after adjusting for depreciation and amortization, amortization of deferred financing costs, accreted interest, share based compensation, excess tax benefit on stock options, provision for doubtful accounts, deferred income taxes, and unrealized currency gain on foreign denominated intercompany transactions generated $14.7 million in cash. Decreased accrued expenses and increased prepaid expenses and other assets, net of increased accounts payable used $1.1 million in cash, primarily a result of the payment of 2015 accrued variable compensation amounts. Increased accounts receivable and decreased deferred revenue used $1.3 million in cash, mainly due to timing of customer payments. Accrued income taxes used $1.1 million during the quarter ended March 31, 2016.

We generated $10.9 million in cash from operations during the three months ended March 31, 2015. Net income, after adjusting for depreciation and amortization, amortization of deferred financing costs, accreted interest, share based compensation, excess tax benefit on stock options, provision for doubtful accounts, deferred income taxes, and unrealized currency gain on foreign denominated intercompany transactions generated $12.9 million in cash. Decreased accrued expenses and decreased prepaid expenses and other assets, net of increased accounts payable used $1.1 million in cash, primarily a result of the payment of 2014 accrued variable compensation amounts. Increased deferred revenue net of increased accounts receivable, generated $0.3 million in cash, mainly due to timing of customer payments. Accrued income taxes used $1.2 million during the quarter ended March 31, 2015.

Investing Activities

During the three months ended March 31, 2016 we used $0.6 million in investing activities for the purchase of $0.5 million of property and equipment and $0.1 million for the Swyft Media acquisition. During the three months ended March 31, 2015 we used $18.5 million in investing activities for the purchase of $4.2 million of property and equipment and $14.3 million for the Swyft Media and FontShop acquisitions.

Financing Activities

Cash used in financing activities for the three months ended March 31, 2016 was $3.0 million. We received cash from exercises of stock options of $0.8 million and excess tax benefit on stock options provided $0.2 million. We paid a cash dividend of $4.0 million. Cash used in financing activities for the three months ended March 31, 2015 was $3.4 million. We received cash from exercises of stock options of $4.6 million and excess tax benefit on stock options provided $1.2 million. We paid a cash dividend of $3.1 million. We also purchased $6.1 million of treasury stock in the three months ended March 31, 2015.

Dividends

On February 8, 2016 our Board of Directors approved an $0.11 per share, or $4.0 million, quarterly cash dividend on our outstanding common stock. The record date was April 1, 2016 and the dividend was paid to shareholders on April 21, 2016. We anticipate this to be a recurring quarterly dividend with future payments and record dates, subject to board approval. On April 26, 2016, our Board of Directors approved a $0.11 per share quarterly cash dividend on our outstanding common stock. The record date is set for July 1, 2016 and the dividend is payable to shareholders of record on July 21, 2016.

Credit Facility

On September 15, 2015, the Company entered into a new credit agreement (the New Credit Agreement) by and among the Company, the Company s subsidiary, Monotype Imaging Inc., any financial institution that becomes a Lender (as defined therein) and Silicon Valley Bank, as agent which provides for a five-year $150.0 million secured revolving credit facility (the Credit Facility). The Credit Facility permits the Company to request that the Lenders, at their election, increase the secured credit facility to a maximum of $200.0 million. The Credit Facility provides more attractive interest rates and a lower commitment fee than those under the Original Credit Agreement, as defined below. The New Credit Agreement replaced the Company s existing $120.0 million revolving credit facility (the Original Credit Agreement) by and between the Company and Wells Fargo Capital Finance, LLC. The Original Credit Agreement was terminated effective September 15, 2015 and was scheduled to expire on July 13, 2016.

Borrowings under the Credit Facility bear interest through September 15, 2020 at a variable rate not less than zero based upon, at the Company s option, either LIBOR or the higher of (i) the prime rate as published in the Wall Street Journal, and (ii) 0.5% plus the overnight federal funds rate, plus in each case, an applicable margin. The applicable margin for LIBOR loans, based on the

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applicable leverage ratio, is 1.25%, 1.50% or 1.75% per annum, and the applicable margin for base rate loans, based on the applicable leverage ratio, is either 0.25%, 0.50% or 0.75%% per annum. At March 31, 2016 our rate, inclusive of applicable margins, was 1.9% for LIBOR. At March 31, 2016 the Company had no outstanding debt under the Credit Facility. The Company is required to pay a commitment fee, based on the applicable leverage ratio, equal to 0.20%, 0.25% or 0.30% per annum on the undrawn portion available under the revolving credit facility and variable per annum fees in respect of outstanding letters of credit. In connection with the New Credit Agreement, the Company incurred closing and legal fees of approximately $1.0 million in 2015, which have been accounted for as deferred financing costs and will be amortized to interest expense over the term of the New Credit Agreement.

In addition to other covenants, the New Credit Agreement places limits on the Company and its subsidiaries ability to incur debt or liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, engage in mergers, acquisitions and asset sales, transact with affiliates and alter its business. The New Credit Agreement also contains events of default, and affirmative covenants, including financial maintenance covenants which include (i) a maximum ratio of consolidated total debt to consolidated adjusted EBITDA of 3.00 to 1.00 and (ii) a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00. Adjusted EBITDA, under the Credit Facility, is defined as consolidated net income (or loss), plus net interest expense, income taxes, depreciation and amortization, and share based compensation expense, plus acquisition expenses not to exceed $2.0 million on a trailing twelve month basis, plus restructuring, issuance costs, cash non-operating costs and other expenses or losses minus cash non-operating gains and other non-cash gains. As of March 31, 2016, the maximum leverage ratio permitted was 3.00:1.00 and our leverage ratio was 0.00:1.00 and the minimum fixed charge coverage ratio was 1.25:1.00 and our fixed charge ratio was 4.19:1.00. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the New Credit Agreement to declare all amounts borrowed under the New Credit Agreement, together with accrued interest and fees, to be immediately due and payable. In addition, the Credit Facility is secured by a lien on substantially all of the Company s and its domestic subsidiaries tangible and intangible property by a pledge of all of the equity interests of the Company s direct and indirect domestic subsidiaries and by a pledge by the Company s domestic subsidiaries of 65% of the equity of their direct foreign subsidiaries, subject to limited exceptions.

The following table presents a reconciliation from net income, which is the most directly comparable GAAP operating performance measure, to EBITDA and from EBITDA to Adjusted EBITDA as defined in our credit facilities (in thousands):

	Three Months Ended March 31,	
	2016	**2015**
Net income	$ 5,358	$ 7,357
Provision for income taxes	3,107	3,559
Interest expense, net	108	234
Depreciation and amortization	2,874	2,302
EBITDA	$ 11,447	$ 13,452
Share based compensation	3,778	2,771
Non-cash add backs		
Restructuring, issuance and cash non-operating costs	380	121
Acquisition expenses		339

Adjusted EBITDA[(1)]	$ 15,605	$ 16,683

(1) Adjusted EBITDA is not a measure of operating performance under GAAP and should not be considered as an alternative or substitute for GAAP profitability measures such as income from operations and net income. Adjusted EBITDA as an operating performance measure has material limitations since it excludes the statement of income impact of depreciation and amortization expense, interest expense, net, the provision for income taxes and share based compensation and therefore does not represent an accurate measure of profitability, particularly in situations where a company is highly leveraged or has a disadvantageous tax structure. We have significant intangible assets and amortization expense is a meaningful element in our financial statements and therefore its exclusion from Adjusted EBITDA is a material limitation. In the past, we have had a significant amount of debt, and interest expense is a necessary element of our costs and therefore its exclusion from Adjusted EBITDA is a material limitation. We generally incur significant U.S. federal, state and foreign income taxes each year and the provision for income taxes is a necessary element of our costs and therefore its exclusion from Adjusted EBITDA is a material limitation. We have share based compensation and the associated expense is a meaningful element in our financial statements and therefore its exclusion from Adjusted EBITDA is a material limitation. Non-cash expenses, restructuring, issuance and cash non-operating expenses have a meaningful impact on our financial statements. Therefore, their exclusion from Adjusted EBITDA is a material limitation. As a result, Adjusted EBITDA should be evaluated in conjunction with net income for complete analysis of our profitability, as net income includes the financial statement impact of these items and is the most directly comparable GAAP

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operating performance measure to Adjusted EBITDA. As Adjusted EBITDA is not defined by GAAP, our definition of Adjusted EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that Adjusted EBITDA has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under GAAP.

The Credit Facility also contains provisions for an increased interest rate during periods of default. We do not believe that these covenants will affect our ability to operate our business, and we were in compliance with all covenants under our Credit Facility as of March 31, 2016.

Non-GAAP Measures

In our quarterly earnings press releases and conference calls, in addition to Adjusted EBITDA as discussed above, we discuss a key measure that is not calculated according to GAAP. This non-GAAP measure is net adjusted EBITDA, which is defined as income (loss) from operations before depreciation, amortization of acquired intangible assets and share based compensation expenses. We use net adjusted EBITDA as a principal indicator of the operating performance of our business. We use net adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining bonus compensation for our employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe that net adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our GAAP results, while isolating the effects of charges that may vary from period-to-period without direct correlation to underlying operating performance. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making. We believe that trends in our net adjusted EBITDA may be valuable indicators of our operating performance.

In November 2015, we revised our definition of non-GAAP net adjusted EBITDA to exclude the impact of acquisition-related contingent consideration adjustments. The impact of these adjustments has been added back in calculating non-GAAP net adjusted EBITDA. This change more accurately reflects management s view of the Company s business and financial performance.

The following table presents a reconciliation from income from operations, which is the most directly comparable GAAP operating financial measure, to net adjusted EBITDA as used by management (in thousands):

	Three Months Ended March 31,	
	2016	2015[(1)]
Income from operations	$ 9,385	$ 11,127
Depreciation and amortization	2,874	2,302
Share based compensation	3,778	2,771
Contingent consideration adjustment [(2)]	578	
Net adjusted EBITDA[(3)]	$ 16,615	$ 16,200

(1) Non-GAAP net adjusted EBITDA for the three months ended March 31, 2015 has been restated to add back the impact of acquisition-related contingent consideration adjustments in accordance with our revised definition of non-GAAP net adjusted EBITDA, as noted above.

(2) For the three months ended March 31, 2016 the amount includes $0.6 million of expense associated with the deferred compensation arrangement resulting from the Amendment to the Swyft Merger Agreement.

(3) Net adjusted EBITDA is not a measure of operating performance under GAAP and should not be considered as an alternative or substitute for GAAP profitability measures such as income (loss) from operations and net income (loss). Net adjusted EBITDA as an operating performance measure has material limitations since it excludes the statement of income impact of depreciation and amortization expense and share based compensation and therefore does not represent an accurate measure of profitability. We have significant intangible assets and amortization expense is a meaningful element in our financial statements and therefore its exclusion from net adjusted EBITDA is a material limitation. Share based compensation and the associated expense has a meaningful impact on our financial statements and therefore its exclusion from net adjusted EBITDA is a material limitation. Contingent consideration and its associated income or (expense) has a meaningful impact on our financial statements therefore its exclusion from net adjusted EBITDA is a material limitation. As a result, net adjusted EBITDA should be evaluated in conjunction with income (loss) from operations for complete analysis of our profitability, as income (loss) from operations includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to net adjusted EBITDA. As net adjusted EBITDA is not defined by GAAP, our definition of net adjusted EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that net adjusted EBITDA has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under GAAP.

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In our quarterly earnings press releases and conference calls, in addition to Adjusted EBITDA and net adjusted EBITDA as discussed above, we discuss another key measure that is not calculated according to GAAP. This non-GAAP measure is non-GAAP earnings per diluted share, which is defined as earnings per diluted share before amortization of acquired intangible assets and share based compensation expenses. We use non-GAAP earnings per diluted share as one of our principal indicators of the operating performance of our business. We use non-GAAP earnings per diluted shares in internal forecasts, supplementing the financial results and forecasts reported to our board of directors and evaluating short-term and long-term operating trends in our operations. We believe that non-GAAP earnings per diluted share permits a comparative assessment of our operating performance, relative to our performance based on our GAAP results, while isolating the effects of charges that may vary from period-to-period without direct correlation to underlying operating performance. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making. We believe that trends in our non-GAAP earnings per diluted share may be valuable indicators of our operating performance.

In November 2015, we revised our definition of non-GAAP earnings per diluted share to exclude the impact of acquisition-related contingent consideration adjustments. The impact of these adjustments has been added back in calculating non-GAAP earnings per diluted share. This change more accurately reflects management s view of the Company s business and financial performance.

The following table presents a reconciliation from earnings per diluted share, which is the most directly comparable GAAP measure, to non-GAAP earnings per diluted share as used by management:

	Three Months Ended March 31,	
	2016	**2015**(1)
GAAP earnings per diluted share	$ 0.13	$ 0.18
Amortization, net of tax	0.03	0.03
Share based compensation, net of tax	0.07	0.05
Contingent consideration adjustment, net of tax (2)	0.01	
Non-GAAP earnings per diluted share(3)	$ 0.24	$ 0.26

(1) Non-GAAP earnings per diluted share for the three months ended March 31, 2015, has been restated to add back the impact of acquisition-related contingent consideration adjustments, net of tax, in accordance with our revised definition of non-GAAP earnings per diluted share, as noted above.

(2) For the three months ended March 31, 2016 the amount includes $0.6 million, or $0.01 per share, of expense associated with the deferred compensation arrangement resulting from the Amendment to the Swyft Merger Agreement.

(3) Non-GAAP earnings per diluted share is not a measure of operating performance under GAAP and should not be considered as an alternative or substitute for GAAP profitability measures such as earnings per share and earnings per diluted share. Non-GAAP earnings per diluted share as an operating performance measure has material limitations since it excludes the statement of income impact of amortization expense and share based compensation, and therefore, does not represent an accurate measure of profitability. We have significant intangible assets and amortization expense is a meaningful

element in our financial statements and therefore its exclusion from non-GAAP earnings per diluted share is a material limitation. Share based compensation and the associated expense has a meaningful impact on our financial statements and therefore its exclusion from non-GAAP diluted earnings per share is a material limitation. Contingent consideration and its associated income or (expense) has a meaningful impact on our financial statements therefore its exclusion from non-GAAP diluted earnings per share is a material limitation. As a result, non-GAAP earnings per diluted share should be evaluated in conjunction with earnings per diluted share for complete analysis of our profitability, as earnings per diluted share includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to non-GAAP earnings per diluted share. As non-GAAP earnings per diluted share is not defined by GAAP, our definition of non-GAAP earnings per diluted share may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that non-GAAP earnings per share has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under GAAP.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk
We are exposed to financial market risk, including interest rate risk and foreign currency exchange risk.

Concentration of Revenue and Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. Cash equivalents consist primarily of bank deposits and certain investments, such as commercial paper, corporate debt and municipal securities, with maturities less than 90 days. Deposits of cash held outside the United States totaled approximately $16.3 million and $15.3 million at March 31, 2016 and December 31, 2015, respectively.

We grant credit to customers in the ordinary course of business. Credit evaluations are performed on an ongoing basis to reduce credit risk, and no collateral is required from our customers. An allowance for uncollectible accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and credit evaluation. As of March 31, 2016 and December 31, 2015, no customers individually accounted for 10% or more of our gross accounts receivable. Due to the nature of our quarterly revenue streams derived from royalty revenue, it is not unusual for our accounts receivable balances to include a few customers with large balances. Historically, we have not recorded material losses due to customers nonpayment. Our Creative Professional business consists of a higher volume of lower dollar value transactions. Accordingly, as the percent of Creative Professional revenue increases in relation to total revenue, we expect the average time to collect our accounts receivables, and our overall accounts receivables balances, to increase.

For the three months ended March 31, 2016 and 2015, no customer accounted for more than 10% of our revenue.

Derivative Financial Instruments and Interest Rate Risk

In the past, we have used interest rate derivative instruments to hedge our exposure to interest rate volatility resulting from our variable rate debt. ASC Topic No. 815, *Derivatives and Hedging*, or ASC 815, requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships, including a requirement that all designations must be made at the inception of each instrument. As we did not make such initial designations, ASC 815 requires changes in the fair value of the derivative instrument to be recognized as current period income or expense.

The fair value of derivative instruments is estimated based on the amount that we would receive or pay to terminate the agreements at the reporting date. Our exposure to market risk associated with changes in interest rates relates primarily to our long-term debt. The interest rate on our Credit Facility fluctuates with either the prime rate or the LIBOR interest rate. At March 31, 2016 and December 31, 2015, the Company had no borrowings under our revolving Credit Facility. Historically, we have purchased interest rate swap instruments to hedge our exposure to interest rate fluctuations on our debt obligations.

Foreign Currency Exchange Rate Risk

In accordance with ASC Topic No. 830, *Foreign Currency Matters*, or ASC 830, all assets and liabilities of our foreign subsidiaries whose functional currency is a currency other than U.S. dollars are translated into U.S. dollars at an exchange rate as of the balance sheet date. Revenue and expenses of these subsidiaries are translated at the average monthly exchange rates. The resulting translation adjustments as calculated from the translation of our foreign subsidiaries to U.S. dollars are recorded as a separate component of stockholders equity. For the three months ended March 31, 2016 and 2015, sales by our subsidiaries located outside North America, particularly the U.K, Germany and Japan, comprised 46.8% and 46.0%, respectively, of our total revenue. An effect of a 10% strengthening of the British pound sterling, the Euro or Japanese yen, relative to the U.S. dollar, would have decreased our revenues by \$5.0 million, decreased expenses by \$3.1 million and decreased operating income by \$0.9 million for the three months ended March 31, 2016. The sensitivity analysis assumes that all currencies move in the same direction at the same time and the ratio of non-U.S. dollar denominated revenue and expenses to U.S. dollar denominated revenue and expenses does not change from current levels.

We incur foreign currency exchange gains and losses related to certain customers that are invoiced in U.S. dollars, but who have the option to make an equivalent payment in their own functional currencies at a specified exchange rate as of a specified date. In the period from that date until payment in the customer s functional currency is received and converted into U.S. dollars, we can incur realized gains and losses. We also incur foreign currency exchange gains and losses on certain intercompany assets and liabilities denominated in foreign currencies. We are currently utilizing 30-day forward contracts to mitigate our exposure on these currency fluctuations. Any increase or decrease in the fair value of the forward contracts is offset by the change in the value of the hedged assets of our consolidated foreign affiliate. At March 31, 2016, we had one contract to sell 2.4 million British pounds sterling and purchase \$3.4 million that together, had an immaterial fair value. There were no outstanding forward contracts at December 31, 2015.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable assurance of achieving their objectives.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2016, our principal executive officer and principal financial officer concluded that, as of such date, the Company s disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during and as of the fiscal quarter ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be a party to various claims, suits and complaints. We do not believe that there are claims or legal proceedings that, if determined adversely to us, would have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

There are no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) **Unregistered Sales of Equity Securities**
None.

(b) **Use of proceeds**
Not applicable.

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(c) **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**
The following table provides information about purchases by the Company during the quarter ended March 31, 2016 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Monotype Imaging Holdings Inc. Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
January 18, 2016 to January 29, 2016	4,595	$		$
February 11, 2016	750			
March 11, 2016 to March 31, 2016	31,126			
Total	36,471	$		$

(1) The Company repurchased unvested restricted stock in accordance with the Second Amended and Restated 2007 Stock Option and Incentive Plan (2007 Plan) The price paid by the Company was determined pursuant to the terms of either the 2007 Plan and related restricted stock agreements.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
None.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

	MONOTYPE IMAGING HOLDINGS INC.
Date: April 29, 2016	By: /s/ Scott E. Landers **Scott E. Landers** **President, Chief Executive Officer and Director** **(Principal Executive Officer)**
Date: April 29, 2016	By: /s/ Joseph D. Hill **Joseph D. Hill** **Executive Vice President,** **Chief Financial Officer,** **Treasurer and Assistant Secretary** **(Principal Financial Officer)**

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EXHIBIT INDEX

Listed and indexed below are all exhibits filed as part of this report.

Exhibit Number	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.*
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer and Chief Financial Officer.**
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished herewith.