

North
American
Palladium
Ltd.



**Third
Quarter
Report
2002**



Management's Discussion and Analysis of Results - Third Quarter 2002

Results of Operations

The Company realized net income for the three months ended September 30, 2002 of \$2,894,000 or \$0.06 per share (fully diluted) on revenues of \$46,547,000 compared to a net loss of (\$6,639,000) or (\$0.13) per share (fully diluted) on revenue from metal sales of \$23,225,000 for the corresponding period a year earlier. The increase in revenue in the current quarter was due to a 39% increase in palladium production, which was partially offset by lower palladium prices. The average spot palladium price in the third quarter was US\$325 per ounce, down 32% versus the corresponding quarter a year ago. The Company sells 100% of its palladium production under a long-term sales contract with a guaranteed floor price of US\$325 per ounce. To augment the sales contract, the Company has entered into forward sales contracts and realized US\$899 per ounce on 12,600 ounces of third quarter production, resulting in an average realized palladium price of US\$490 per ounce in the third quarter.

Effective January 1, 2002 the Company adopted, on a retroactive basis, the new CICA recommendations for foreign currency translation. By following the new recommendations, the Company records the unrealized exchange gains and losses on long-term US\$ denominated debt in the consolidated statements of operation and deficit in the period in which they occur. Due to the volatility in the Canadian/US dollar exchange rate, the Company experienced an unrealized non-cash foreign exchange loss of \$6,056,000 in the third quarter. The after tax impact of the unrealized foreign exchange loss was \$3,596,000 or \$0.07 per share for the quarter.

For the nine months ended September 30, 2002 the Company reported net income of \$16,661,000 or \$0.33 per share on revenue of \$132,869,000 compared to net income of \$2,351,000 or \$0.05 per share on revenues of \$64,606,000 for the nine months ended September 30, 2001.

During the third quarter, the mill processed 1,210,799 tonnes of ore at a rate of 13,161 tonnes per day with a palladium grade of 1.83 g/t, producing 51,168 ounces of palladium. This compares with the third quarter 2001, when during the start-up period, the new mill processed 910,509 tonnes of ore at a rate of 9,897 tonnes per day with a palladium grade of 2.00 g/t, producing 36,891 ounces of palladium. Mill palladium

recoveries in the third quarter 2002 were 71.9% compared to 62.9% in the third quarter 2001.

Production costs including overhead were \$24,965,000 during the third quarter 2002 compared to \$16,303,000 during the third quarter 2001. The higher production costs during the quarter were due to a 33% increase in ore tonnes milled, higher power rates and the need for contract crushing and the related increase in ore handling costs as a result of the unscheduled temporary shut down of the primary crusher. Ore mined during the quarter was 1,382,971 tonnes compared to 1,655,897 tonnes in the third quarter 2001. Of the ore mined in the third quarter 2002, 662,049 tonnes was classified as high grade (greater than 1.10 g/t palladium) and 720,922 tonnes was classified as regular grade (0.70 to 1.09 g/t palladium). The broken ore stockpile at September 30, 2002 increased to 8.3 million tonnes grading 1.14 g/t palladium and contained approximately 303,000 ounces of palladium.

Total cash costs to produce palladium, net of other metal credits and royalties, decreased to US\$282 per ounce in the third quarter 2002 compared to US\$306 per ounce in the third quarter 2001. The reduction in unit total cash costs resulted from increased mill throughput and improved palladium recoveries combined with stronger prices for other metal credits. However, the current quarter total cash costs were US\$59 per ounce higher than the second quarter 2002 total cash costs of US\$223 per ounce, largely due to increased operating costs attributable to the primary crusher shut down and the related affect on palladium production.

The operation was adversely affected by the unscheduled temporary shutdown of the primary crusher at the mine in early September 2002. The shutdown impacted both mill feed grade and mill throughput. The existing ore stockpile was initially utilized as a source of mill feed which contains a lower palladium grade than the current run-of-mine ore. In addition, the secondary crusher which typically provides finer crushed ore was utilized to provide a coarse mill feed which resulted in reduced mill throughput for September. Prior to the shutdown, the mill had been achieving targeted mill throughput as demonstrated in the month of August when mill throughput averaged over 15,000 tonnes per day. Repairs to the primary crusher are underway and are expected to be completed by early December 2002. Fourth quarter

metal production is expected to be comparable to the third quarter with increased costs associated with contract crushing and ore rehandling. In addition, the primary crusher repair costs that are estimated to exceed \$2.0 million will be expensed in the fourth quarter.

Liquidity and Capital Resources

Cash flow from operations (prior to changes in non-cash working capital) was \$14,207,000 in the third quarter 2002 compared to \$627,000 in the third quarter 2001. Changes in working capital other than cash required \$4,660,000 of cash in the third quarter 2002. Concentrate awaiting settlement increased marginally from 105,550 ounces of palladium at June 30, 2002 to 106,561 ounces at September 30, 2002. After allowing for working capital changes, cash provided by operations was \$9,547,000 in the third quarter of 2002 compared to cash used of (\$12,173,000) in the third quarter of 2001. Cash provided by operations was \$23,201,000 in the first nine months of 2002 compared to \$9,184,000 in the first nine months of 2001.

Investing activities were much reduced in the third quarter at \$2,884,000 compared to \$26,274,000 in the third quarter 2001 when construction of the major expansion project was being completed. Financing activities required \$6,725,000 in the third quarter 2002 compared to \$47,417,000 raised in the third quarter 2001. The Company is continuing to reduce its project loan facility and made a further payment of \$6,551,000 in the third quarter, thereby reducing the loan balance to \$115,908,000 at September 30, 2002.

Production Statistics

	Third Quarter September 30		Nine Months September 30	
	2002	2001	2002	2001
Palladium (oz)	51,168	36,891	167,258	76,003
Payable Palladium (oz)	46,819	33,755	153,042	69,496
Platinum (oz)	4,753	3,347	14,620	6,328
Gold (oz)	4,137	2,829	12,049	5,996
Copper (lbs)	1,445,416	956,935	3,997,735	1,899,647
Nickel (lbs)	656,240	348,015	2,060,292	1,000,850
Ore Tonnes Milled	1,210,799	910,509	3,686,233	1,515,677
Ore Tonnes Mined				
High grade ore	662,049	1,151,789	2,945,790	2,781,520
Regular grade	720,922	504,108	2,628,737	1,611,899
Waste Tonnes Mined	2,526,759	4,758,748	8,206,452	14,563,190
Waste Strip Ratio	1.83:1	2.87:1	1.47:1	3.32:1

Exploration

During the third quarter, an 82 hole, 47,160 metre program of definition diamond drilling on the Main High Grade Zone was completed. The drilling program was designed to increase the level of confidence in the Main High Grade Zone resource which will be used to evaluate the potential of undertaking an underground mining operation. The resource model is currently being updated.

An independent geoscience consulting firm completed simulations of a variety of geophysical techniques in an effort to evaluate their effectiveness at extrapolating Lac des Iles minesite geology and mineralization to depths greater than one kilometer, and at generating drill targets at even greater depths. As a result, plans to conduct a deep penetrating Magnetotellurics survey during the late winter are underway. This survey will be capable of accurately detecting PGE-Ni-Cu bearing massive sulphide bodies to a depth of two kilometers. The discovery of numerous pods of remobilized massive sulphide, several metres in size, at surface and during past drilling has generated the impetus to search for their deep source.

The Company is initiating several new grass roots exploration projects as a result of acquiring new properties in Northwestern Ontario. Planning of field activities for the new year is underway.

Respectfully,



Michael P. Amsden

Chairman and Acting Chief Executive Officer

November 14, 2002

Cautionary Note

Certain statements included in this interim report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives and goals, including words to the effect that the Company or management expects a stated condition or result to occur. Such forward-looking statements involve inherent risks and uncertainties and other factors that may cause the actual results or performance to differ materially from those currently anticipated in such statements. Important factors that could cause actual results to differ materially from those currently anticipated are disclosed in the Company's most recent Annual Report under "Management's Discussion and Analysis of Financial Results" and Annual Information Form under "Risk Factors" on file with the U.S. Securities and Exchange Commission and Canadian provincial securities regulatory authorities.



North American Palladium Ltd.

Consolidated Balance Sheets

(Canadian funds in thousands of dollars)

(Unaudited)

	September 30 2002	December 31 2001
Assets		
Current Assets		
Cash	\$ 7,512	\$ 1,775
Short-term investments	5,092	4,999
Concentrate awaiting settlement, net - Note 3	93,713	82,534
Inventories	22,229	23,269
Future income tax asset	3,487	10,830
Accounts receivable and other assets	1,925	2,626
	133,958	126,033
Mining interests, net	266,740	272,831
Mine closure deposit - Note 4	3,132	2,232
Deferred financing costs	2,278	2,870
Future income tax asset	8,700	8,700
	\$ 414,808	\$ 412,666
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 12,798	\$ 17,255
Taxes payable	2,287	3,539
Current portion of obligations under capital lease	1,397	1,003
Current portion of project term loan	53,496	33,620
	69,978	55,417
Provision for mine closure costs	1,426	1,020
Obligations under capital leases	1,066	1,053
Project term loan	62,412	103,100
Kaiser-Francis credit facility	18,228	7,964
	153,110	168,554
Shareholders' Equity		
Capital stock outstanding: 50,579,500 common shares (2001 - 50,447,630) - Note 7	311,709	310,784
Deficit	(50,011)	(66,672)
Total shareholders' equity	261,698	244,112
	\$ 414,808	\$ 412,666

North American Palladium Ltd.

Consolidated Statements of Operations and Deficit

(Canadian funds in thousands of dollars except share and per share amounts)

(Unaudited)

	Quarter Ended September 30 2002	September 30 2001	Nine Months Ended September 30 2002	September 30 2001
Revenue from Metal Sales				
Palladium	\$ 34,377	\$ 29,754	\$ 112,696	\$ 67,455
Adjustments for mark to market	3,184	(10,369)	(8,120)	(13,377)
Other Metals	8,986	3,840	28,293	10,528
	46,547	23,225	132,869	64,606
Deduct: smelter treatment, refining and freight costs	(3,893)	(3,012)	(12,846)	(5,793)
Net revenue from mining operations	42,654	20,213	120,023	58,813
Operating Expenses				
Production costs including overheads	24,965	16,303	71,387	36,036
Amortization	4,935	3,824	15,028	6,234
Administrative expenses	1,498	935	3,442	2,895
Provision for mine closure costs	134	109	406	185
Total operating expenses	31,532	21,171	90,263	45,350
Income (loss) from mining operations	11,122	(958)	29,760	13,463
Other Income (expenses)				
Interest income	82	306	497	1,255
Gain on disposal of capital assets	—	—	120	—
Interest	(115)	(106)	(371)	(197)
Interest on long-term debt	(1,446)	(1,688)	(4,281)	(1,688)
Exploration expenses	(249)	(558)	(590)	(1,171)
Foreign exchange gain (loss)	(5,801)	(4,971)	(199)	(5,121)
Total other income (expenses)	(7,529)	(7,017)	(4,824)	(6,922)
Income (loss) before income taxes	3,593	(7,975)	24,936	6,541
Provision for income taxes	(699)	1,336	(8,275)	(4,190)
Net income (loss) for the period	2,894	(6,639)	16,661	2,351
Deficit, beginning of period	(52,905)	(65,192)	(66,672)	(74,182)
Deficit, end of period	\$ (50,011)	\$ (71,831)	\$ (50,011)	\$ (71,831)
Basic and diluted net income (loss) per share	\$ 0.06	\$ (0.13)	\$ 0.33	\$ 0.05
Weighted average number of shares outstanding	50,574,116	50,426,060	50,519,640	50,352,350

North American Palladium Ltd.

Consolidated Statements of Cash Flows

(Canadian funds in thousands of dollars)

(Unaudited)

	Quarter Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Cash Provided by (used in) Operations				
Net income (loss) for the period	\$ 2,894	\$ (6,639)	\$ 16,661	\$ 2,351
Operating items not involving cash				
Future income tax	188	(1,572)	7,343	2,883
Amortization	4,935	3,824	15,028	6,234
Unrealized foreign exchange (gain) loss	6,056	4,905	(970)	4,905
Gain on disposal of capital assets	—	—	(120)	—
Provision for mine closure costs	134	109	406	185
	14,207	627	38,348	16,558
Changes in non-cash working capital	(4,660)	(12,800)	(15,147)	(7,374)
	9,547	(12,173)	23,201	9,184
Financing Activities				
Mine closure deposit	(300)	(300)	(900)	(800)
Obligations under capital leases	(395)	(317)	407	473
Deferred financing costs	—	(132)	—	(168)
Notes payable: Kaiser-Francis Oil Company	—	—	10,372	—
Increase in project term loan	—	48,030	—	83,060
Repayment of project term loan	(6,551)	—	(19,950)	—
Issuance of common shares	521	136	925	1,641
	(6,725)	47,417	(9,146)	84,206
Investing Activities				
Short-term investments	(35)	(45)	(93)	26,257
Additions to plant and equipment	(1,052)	(25,244)	(6,069)	(108,129)
Mining claims, exploration and development costs	(1,797)	(985)	(2,284)	(2,572)
Proceeds on disposal of capital assets	—	—	128	—
	(2,884)	(26,274)	(8,318)	(84,444)
Increase (decrease) in cash	(62)	8,970	5,737	8,946
Cash, beginning of period	7,574	4,479	1,775	4,503
Cash, end of period	\$ 7,512	\$ 13,449	\$ 7,512	\$ 13,449

North American Palladium Ltd.

Notes to the September 30, 2002 Consolidated Financial Statements

(Canadian funds in thousands of dollars except per share and per ounce amounts)

(Unaudited)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting policies as set out in the Company's audited fiscal 2001 consolidated financial statements.

These unaudited interim financial statements by their nature do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim financial statements should be read in conjunction with the audited fiscal 2001 financial statements.

In the opinion of management, the unaudited interim financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position of the Company as at September 30, 2002 and the results of operations and cash flows for the three month and nine month periods ended September 30, 2002 and 2001.

2. Stock-Based Compensation

Effective January 1, 2002, the Company adopted the recommendations issued by The Canadian Institute of Chartered Accountants ("CICA") dealing with stock-based compensation. The new recommendations are generally applicable only to awards granted after the date of adoption. The adoption of the new recommendations did not impact these financial statements.

Stock options granted to employees are accounted for as a capital transaction. The Company is also required to disclose the pro forma effect of accounting for stock option awards granted to employees subsequent to January 1, 2002, under the fair value based method. Accordingly, the fair value of the 148,000 options granted in 2002 has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 4%, expected dividend yield of nil, expected volatility of 60%, and expected option life of 3 years. For purposes of pro forma disclosure, the estimated fair value of the options is expensed over the option's vesting period, which is 3 years.

The table below presents pro forma net earnings and basic and diluted net income per common share as if the options granted to employees had been determined based on the fair value method. The table includes all stock options granted by the Company subsequent to the date of adoption of the recommendations issued by the CICA.

	Three months September 30, 2002	Nine Months September 30, 2002
Net income as reported	\$ 2,894	\$ 16,661
Compensation expense related to fair value of stock options	53	106
Pro forma net income	2,841	16,555
Pro forma basic and diluted income per share	\$ 0.06	\$ 0.33

The Black-Scholes option-pricing model was developed for use in estimating the fair value of freely tradable, fully transferable options without vesting restrictions. As the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the four highly subjective input assumptions can affect the calculated values, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

3. Concentrate Awaiting Settlement

The gross value of concentrate awaiting settlement represents the value of all platinum group metals and base metals from production shipped to the smelters between April 1 and September 30, 2002, including 106,561 ounces of palladium. At December 31, 2001 concentrate awaiting settlement included 78,445 ounces of palladium. Concentrate awaiting settlement was 100% from one domestic customer at September 30, 2002. Revaluations of the net realizable value of concentrate awaiting settlement are included in revenue at each reporting period and are adjusted for the effects of hedging instruments, sales contracts and foreign exchange.

4. Mine Closure Plan

As part of the expansion project, the Company has established a revised mine closure plan with the Ontario Ministry of Northern Development and Mines (the "Ministry"), which requires a total amount of \$7,800 to be accumulated in a Trust Fund controlled by the Ministry. At September 30, 2002, the Company had \$3,132 on deposit with the Ministry and has agreed to make monthly deposits of \$100.

5. Palladium Sales Contract

The Company entered into a Palladium Sales Contract with a major automobile manufacturer which provides for a floor price of US\$325 per ounce on 100% of palladium production and a cap of US\$550 per ounce on 50% of palladium production until June 30, 2005. The palladium sales contract was required as a condition to the US\$90 million project term loan.

6. Palladium and Platinum Forward Sales Contracts

At September 30, 2002, to augment the palladium sales contract, the Company had forward sales contracts for 12,600 ounces of palladium at US\$945 per ounce and 50,400 ounces of palladium at US\$899 per ounce as a hedge against a portion of its 2002 and 2003 production respectively. In addition, the Company had forward sales contracts for 9,734 ounces platinum at US\$519 per ounce as a hedge against a portion of its 2002 production.

7. Share Capital

As at September 30, 2002, the Company had 50,579,500 common shares issued and outstanding (December 31, 2001 – 50,447,630). At September 30, 2002, the Company had 1,220,704 stock options outstanding at a weighted average exercise price of \$10.68, expiring at various dates from November 2002 to June 6, 2010.

Corporate Information

Directors

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Steven R. Berlin
Louis J. Fox
A. M. (Sandy) Laird
Walter R. Ranta
Richard H. Sutcliffe

Officers and Senior Management

Michael P. Amsden
 Chairman and Acting
 Chief Executive Officer

George D. Faught, C.A.
 Vice President Finance,
 Chief Financial Officer

Ray J. Mason, B.Sc.
 Mine Manager

Maurice J. Lavigne, M.Sc.
 Vice President - Exploration

Michael C. Thompson, F.C.C.A.
 Corporate Controller

Nicholas J. Nikolakakis, M.B.A.
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Stock Exchange Listings

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