

Second Quarter Report
2003



North American **Palladium** Ltd.



North American
Palladium
Focused on Results

Management's Discussion and Analysis of Results

Second Quarter 2003

RESULTS OF OPERATIONS

The Company realized net income for the three months ended June 30, 2003 of \$10,361,000 or \$0.20 per share (fully diluted) on revenues of \$44,631,000 compared to a net income of \$7,521,000 or \$0.15 per share (fully diluted) on revenue from metal sales of \$41,745,000 for the corresponding period a year earlier. Included in the second quarter results was a \$2,315,000 write-down for the damaged primary crusher, which was removed from service in the quarter.

For the six months ended June 30, 2003 the Company reported net income of \$18,751,000 or \$0.37 per share on revenue of \$89,751,000 compared to net income of \$13,767,000 or \$0.27 per share on revenues of \$86,322,000 for the six months ended June 30, 2002.

During the second quarter, the mill processed 1,154,965 tonnes of ore at a rate of 12,692 tonnes per day with a palladium grade of 2.08 g/t, producing 59,069 ounces of palladium at a recovery rate of 76.6%. This compares with the second quarter of 2002, when the mill processed 1,270,284 tonnes of ore or 13,959 tonnes per day with a palladium head grade of 2.00 g/t, producing 62,168 ounces of palladium at a recovery rate of 76.0%.

Production costs including overheads were \$24,009,000 during the second quarter 2003 compared to \$23,002,000 during the second quarter 2002. The increase in production costs during the quarter was due to scheduled major component rebuilds to the loading and hauling equipment, offset in part by reduced drilling and blasting costs which was the result of mining 28% less ore and waste in the quarter. The repaired primary crusher, while not operating at full efficiency, did provide 100% of the coarse ore mill feed in the second quarter, thereby sparing the significant additional costs associated with contract crushing.

Total cash costs to produce palladium, net of other metal credits and royalties, increased to US\$256 per ounce in the second quarter 2003 compared to US\$223 per ounce in the second quarter 2002. The drop in the US exchange rate compared to the exchange rate for

the same quarter last year increased cash costs by US\$27 per ounce. In addition, an unscheduled six-day shutdown for a SAG mill motor bearing repair in the quarter, with the resulting loss of palladium production contributed to increased unit cash costs.

The Company met its production goal for the first half of the year by producing 117,860 ounces of palladium. On June 19th the Company commissioned a new primary crusher ahead of schedule and on budget. With the resumption of normal operations it is anticipated further improvements will be made to daily mill throughput and palladium production.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations (prior to changes in non-cash working capital) was \$12,406,000 in the second quarter 2003 compared to \$10,139,000 in the second quarter 2002. Changes in working capital other than cash provided \$8,417,000 of cash in the second quarter 2003. Concentrate awaiting settlement increased from 92,817 ounces of palladium at March 31, 2003 to 97,171 ounces at June 30, 2003, however, the strengthening of the Canadian dollar compared to the US dollar reduced the value of concentrate awaiting settlement at the end of the second quarter. After allowing for working capital changes, cash provided by operations was \$20,823,000 in the second quarter of 2003 compared to \$14,745,000 in the second quarter of 2002. Cash provided by operations was \$31,182,000 in the first six months of 2003 compared to \$13,654,000 in the first six months of 2002.

Investing activities required \$7,411,000 of cash in the second quarter, with the main activity being the procurement and installation of a new primary crusher.

During the quarter, the Company's long-term debt was reduced by \$19,219,000 as a result of the payment of \$11,545,000 and an unrealized foreign exchange gain of \$7,674,000. At June 30, 2003, long-term debt totaled \$80,392,000 (US\$59,313,000). The Company ended the second quarter with cash and cash equivalents of \$7,398,000.

PRODUCTION STATISTICS

	Second Quarter June 30		Six Months June 30	
	2003	2002	2003	2002
Palladium (oz)	59,069	62,168	117,860	116,090
Payable Palladium (oz)	54,354	56,884	107,682	106,223
Platinum (oz)	5,216	5,211	10,501	9,867
Gold (oz)	5,050	4,244	9,614	7,912
Copper (lbs)	1,574,906	1,387,822	2,971,061	2,552,319
Nickel (lbs)	915,977	737,683	1,688,522	1,404,052
Ore Tonnes Milled	1,154,965	1,270,284	2,351,224	2,475,434
Ore Tonnes Mined				
High grade ore	1,135,784	1,149,966	2,006,153	2,283,741
Regular grade	391,972	1,066,158	915,572	1,907,815
Waste Tonnes Mined	2,108,737	2,839,992	4,579,622	5,679,693
Waste Strip Ratio	1.38:1	1.28:1	1.57:1	1.36:1

EXPLORATION

Our exploration strategy for 2003 will balance resource development with grass roots programs. The greatest potential for expanding resources remains within the immediate Lac des Iles area. At the mine site, hole #03-018 intercepted 9 metres assaying 19.74 g/t Pd at a depth of 625 metres. A second hole, originally drilled in 2001, was extended to test 130 metres below this new intersection. It intercepted 9.35 metres assaying 4.12 g/t Pd. These two new intercepts extend the Offset High Grade Zone 180 metres south of previous drilling.

A new low-grade zone was discovered near surface, southwest of the Roby Zone. At this location, a drill hole intercepted 167 metres assaying 1.0 g/t Pd. This discovery was followed-up by digging two trenches across the projection of the hole to define its surface geometry. Assays are pending.

At satellite properties, untested geophysical targets at the Buck Lake, Weaver Lake, and the Murphy Zone area of North Lac des Iles were core drilled (11 holes, 3,400 metres). The results were insignificant.

The field component of the Titan 24 magnetotelluric and induced polarization survey was completed in early April. Data processing was completed in July. The magnetotelluric component of the survey mapped out the geology of the Mine Block Intrusion in three dimensions in close conformity to drill defined geology and mineralized zones. A near surface resistivity low mapped out by the Titan 24 survey was tested with a 321 metre hole beneath the North Cell of the tailing facility. No mineralization was intercepted and the resistivity low was attributed to norite with talc alteration. Additional drill targets are currently being evaluated.

The Company has also turned its focus to three recently acquired grass roots exploration properties.

The Company initiated a systematic prospecting/sampling/mapping program on the Shebandowan property in late May, including overburden removal by backhoe and the collection of 1,100 samples. On the Roaring River property, the existing grid was expanded by 49 kilometres in preparation for additional soil sampling. At the Chief Peter property, a follow-up of last winter's magnetic survey has resulted in the uncovering of numerous potential Cu-Ni-PGE bearing dykes.

RISKS AND UNCERTAINTIES

The price of palladium is the most significant factor influencing the profitability of the Company. In the second quarter 2003, sales of palladium accounted for approximately 76% of the Company's revenue. Many factors influence the price of palladium, including global supply and demand, speculative activities, international political and economic conditions and production levels and costs in other platinum group metal producing countries, particularly Russia and South Africa. To offset the price risk, the Company entered into the Palladium Sales Contract and other hedge contracts to cover a portion of expected annual production. Without the Palladium Sales Contract and other hedging contracts the Company's profitability would be significantly impacted by the current depressed spot palladium price. At June 30, 2003, the Company had fully recognized the revenue relating to the palladium forward contracts and therefore does not expect to recognize palladium revenue above the Palladium Sales Contract floor price of US\$325 per ounce for the second half of 2003. In the short term, the fundamentals for palladium are very weak with abundant supply and lack of demand, however the Company is optimistic that the fundamentals for palladium will improve in the medium term.

The possible development of a substitute alloy or synthetic material, which has catalytic characteristics similar to platinum group metals, may result in a future decrease in demand for palladium and platinum.

Currency fluctuations may affect cash flow since production currently is sold in United States dollars, whereas the Company's administration, operating and exploration expenses are incurred in Canadian dollars. As a result, changes in the exchange rate between Canadian and United States dollars can affect revenue

and profitability. The Company has hedged US\$53.0 million of its revenue for 2003 at an average C\$/US\$ exchange rate of approximately 1.59.

The Company is dependent on one mine for its metal production. The business of mining is generally subject to risks and hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual and unexpected rock formations, pit slope failures, flooding and periodic interruptions due to inclement weather conditions or other acts of nature, mechanical equipment and facility performance problems and the availability of materials and equipment. These risks could result in damage to, or destruction of, the Company's properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Although the Company maintains insurance in respect of the mining operations that is within ranges of coverage consistent with industry practice, such insurance may not provide coverage of all the risks associated with mining. The Company is making a claim under its property damage and business interruption insurance policies relating to the primary crusher failure in 2002. The Company will record the effect of this insurance recovery in its financial statements when the proceeds are received.

Respectfully,



André J. Douchane

President and Chief Executive Officer

August 14, 2003

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 described above and 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. The Company disclaims any obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise.

North American Palladium Ltd.

Consolidated Balance Sheets

(Canadian funds in thousands of dollars)

	June 30 2003 (Unaudited)	December 31 2002
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,398	\$ 11,536
Short-term investments	5,189	5,127
Concentrate awaiting settlement, net - Note 3	81,734	85,312
Inventories	7,594	7,414
Crushed and broken ore stockpiles	8,728	9,157
Future tax asset	3,640	4,868
Accounts receivable and other assets	1,044	1,683
	115,327	125,097
Mining interests, net	259,560	260,985
Mine closure deposit - Note 5	4,070	3,470
Deferred financing costs	1,684	2,080
Crusher and broken ore stockpiles	6,398	7,983
Future tax asset	5,637	11,218
	\$ 392,676	\$ 410,833
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 16,383	\$ 14,813
Taxes payable	2,049	1,940
Current portion of obligations under capital lease	1,048	1,127
Current portion of project term loan	41,932	51,083
	61,412	68,963
Provision for mine closure costs	1,813	1,554
Obligations under capital leases	579	1,024
Project term loan	22,873	51,083
Kaiser-Francis Oil Company credit facility	15,587	18,163
Future tax liability	10,750	9,600
	113,014	150,387
Shareholders' Equity		
Capital stock - Note 8	312,448	311,983
Deficit	(32,786)	(51,537)
Total shareholders' equity	279,662	260,446
	\$ 392,676	\$ 410,833

North American Palladium Ltd.

Consolidated Statements of Earnings and Deficit

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

	Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Revenues from metal sales - Note 10	\$ 44,631	\$ 41,745	\$ 89,751	\$ 86,322
Deduct: smelter treatment, refining and freight costs	(4,549)	(4,952)	(8,048)	(8,953)
Net revenue from mining operations	40,082	36,793	81,703	77,369
Operating expenses				
Production costs including overheads	24,009	23,002	52,228	46,422
Amortization	4,834	5,171	9,715	10,093
Administrative expenses	692	956	1,610	1,944
Provision for mine closure costs	127	139	259	272
Total operating expenses	29,662	29,268	63,812	58,731
Income from mining operations	10,420	7,525	17,891	18,638
Other income (expenses)				
Interest income	71	347	145	415
Gain (loss) on disposal of or retirement of capital assets - Note 4	(2,710)	120	(2,710)	120
Interest	-	(96)	-	(256)
Interest on long-term debt	(657)	(1,136)	(1,725)	(2,835)
Exploration	(778)	(220)	(1,101)	(341)
Foreign exchange gain	6,210	5,641	14,861	5,602
	2,136	4,656	9,470	2,705
Income before income taxes	12,556	12,181	27,361	21,343
Provision for income taxes - Note 7	2,195	4,660	8,610	7,576
Net income for the period	10,361	7,521	18,751	13,767
Deficit, beginning of period	(43,147)	(60,426)	(51,537)	(66,672)
Deficit, end of period	\$ (32,786)	\$ (52,905)	\$ (32,786)	\$ (52,905)
Net income per share	\$ 0.20	\$ 0.15	\$ 0.37	\$ 0.27
Fully diluted net income per share	\$ 0.20	\$ 0.15	\$ 0.37	\$ 0.27
Weighted average number of shares outstanding	50,744,304	50,517,450	50,711,677	50,491,950

Consolidated Statements of Cash Fows*(Canadian funds in thousands of dollars)**(Unaudited)*

	Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Cash Provided by (used in)				
Operations				
Net Income for the period	\$ 10,361	\$ 7,521	\$ 18,751	\$ 13,767
Operating items not involving cash				
Future income tax	2,048	4,454	7,959	7,155
Amortization	4,834	5,171	9,715	10,093
Unrealized foreign exchange gain	(7,674)	(7,026)	(15,627)	(7,026)
(Gain) loss on disposal of or retirement of capital assets	2,710	(120)	2,710	(120)
Provision for mine closure costs	127	139	259	272
	12,406	10,139	23,767	24,141
Changes in working capital other than cash - <i>Note 9</i>	8,417	4,606	7,415	(10,487)
	20,823	14,745	31,182	13,654
Financing Activities				
Mine closure deposit	(300)	(300)	(600)	(600)
Obligations under capital leases	(273)	1,046	(524)	802
Repayment of project term loan	(11,545)	(6,727)	(24,310)	(13,399)
Issuance of common shares	222	345	465	404
Increase in Kaiser Francis Oil Company credit facility	-	-	-	10,372
	(11,896)	(5,636)	(24,969)	(2,421)
Investing Activities				
Short term investments	(34)	(33)	(62)	(58)
Additions to plant and equipment	(7,317)	(2,929)	(9,640)	(5,017)
Mining claims, exploration and development costs	(168)	(375)	(757)	(487)
Proceeds on disposal of capital assets	108	128	108	128
	(7,411)	(3,209)	(10,351)	(5,434)
Increase (decrease) in cash	1,516	5,900	(4,138)	5,799
Cash, beginning of period	5,882	1,674	11,536	1,775
Cash, end of period	\$ 7,398	\$ 7,574	\$ 7,398	\$ 7,574

Notes to the June 30, 2003 Interim Consolidated Financial Statements

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

1. Basis of Presentation

These unaudited consolidated financial statements have been prepared using disclosure standards appropriate for interim financial statements and do not contain all the explanatory notes, descriptions of accounting policies or other disclosures required by Canadian generally accepted accounting principles for annual financial statements. Such notes, descriptions of accounting policies and other disclosures have been included in the Company's annual report to shareholders for the year ended December 31, 2002. Accordingly, these consolidated financial statements should be read in conjunction with the audited fiscal financial statements.

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. The Company has elected not to recognize compensation expense when stock options are issued to employees.

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.

	Second Quarter June 30		Six Months June 30	
	2003	2002	2003	2002
Net income as reported	\$10,361	\$ 7,521	\$18,751	\$13,767
Stock-based compensation expenses	94	53	147	53
Pro forma net income	10,267	7,468	18,604	13,714
Pro forma basic and diluted net income per share	\$ 0.20	\$ 0.15	\$ 0.36	\$ 0.27

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 and received by third-party smelters between January 2003 and June 30, 2003, including 97,171 ounces of palladium. At December 31, 2002, concentrate awaiting settlement included 93,619 ounces of palladium. Concentrate awaiting settlement was entirely from two domestic customers at June 30, 2003. 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. Loss on Disposal of or Retirement of Capital Assets

During the second quarter 2003, the damaged primary crusher was removed from service and replaced with a new crusher. The Company recorded a write-down of \$2,315 relating to the retirement of the crusher.

5. Mine Closure Deposit

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 June 30, 2003, the Company had \$4,070 on deposit with the Ministry and has agreed to make monthly deposits of \$100.

6. Palladium Sales Contract

In 2000, 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.

7. Income Taxes

The variance between the income taxes as computed at the combined statutory rate and the effective rate for the Company is reconciled as follows:

	Six Months Ended June 30	
	2003	2002
Income taxes based on a combined federal and Ontario rate of 40.6% (2002 - 41.6%)	\$ 11,114	\$ 8,883
Ontario mining tax at a rate of 12% (2002 - 14%)	3,283	2,988
Increase (decrease) in taxes resulting from:		
Resource allowance	(1,924)	(2,036)
Federal government changes in resource sector taxation	(539)	—
Unrealized foreign exchange	(1,625)	—
Mining tax rate reduction	(254)	(889)
Mining tax processing allowance	(530)	(76)
Federal large corporations taxes	396	421
Mining tax permanent differences	(1,120)	105
Other	(191)	(1,820)
Income tax provision	\$ 8,610	\$ 7,576

8. Capital Stock

As at June 30, 2003, the Company had 50,753,440 common shares issued and outstanding. At June 30, 2003, the Company had 1,085,892 stock options outstanding at a weighted average exercise price of \$9.41, expiring at various dates from March 3, 2005 to April 8, 2011.

9. Changes in Non-Cash Working Capital

	Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Decrease (increase) in:				
Concentrate awaiting settlement	\$ 4,349	\$ 6,507	\$ 3,578	\$ (6,480)
Inventories and stockpiles	(330)	559	1,519	(1,025)
Accounts receivable and other assets	527	394	639	1,256
	4,546	7,460	5,736	(6,249)
Increase (decrease) in:				
Accounts payable and accrued liabilities	4,143	(619)	1,570	(2,583)
Taxes payable	(272)	(2,235)	109	(1,655)
	3,871	(2,854)	1,679	(4,238)
Changes in non-cash working capital	\$ 8,417	\$ 4,606	\$ 7,415	\$ (10,487)

10. Revenue from Metal Sales

	Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Palladium	\$ 22,593	\$ 26,614	\$ 46,801	\$ 55,173
Palladium forward contracts	9,803	11,838	20,437	23,146
Adjustments for mark-to-market	1,483	(6,431)	685	(11,304)
Other metals	10,752	9,724	21,828	19,307
	\$ 44,631	\$ 41,745	\$ 89,751	\$ 86,322

The effect of palladium forward contracts represents the difference between the fixed price realized under the palladium forward contracts and the palladium price at the time of revenue recognition. At June 30, 2003, the Company has fully recognized the revenue relating to the palladium forward contracts. Palladium revenue includes the impact of the floor price of US\$325 per ounce under the Palladium Sales Contract.

Corporate Information

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