

Third Quarter Report
2003



North American **Palladium** Ltd.



North American
Palladium
Focused on Results

Management's Discussion and Analysis of Results

Third Quarter 2003

RESULTS OF OPERATIONS

The Company realized net income for the three months ended September 30, 2003 of \$3,535,000 or \$0.07 per share (fully diluted) on revenues of \$42,585,000 compared to a net income of \$2,894,000 or \$0.06 per share (fully diluted) on revenue from metal sales of \$46,547,000 for the corresponding period a year earlier.

For the nine months ended September 30, 2003, the Company reported net income of \$22,286,000 or \$0.44 per share on revenue of \$132,336,000 compared to net income of \$16,661,000 or \$0.33 per share on revenues of \$132,869,000 for the nine months ended September 30, 2002.

During the third quarter, the mill processed 1,307,822 tonnes of ore, or an average of 14,215 tonnes per day, with a palladium grade of 2.47 g/t, producing 76,729 ounces of palladium at a recovery rate of 74.0%. This compares with the third quarter of 2002, when the mill processed 1,210,799 tonnes of ore, or 13,161 tonnes per day, with a palladium grade of 1.83 g/t, producing 51,168 ounces of palladium at a recovery rate of 71.9%. The significant improvement in palladium production in the third quarter of 2003 is directly related to higher ore grades and the resumption of normal operations after the commissioning of a new primary crusher on June 19th. Palladium recoveries in the quarter were lower than the first half of 2003 due to disruptions and throughput variability experienced in the mill process circuits resulting from power outages caused by numerous severe electrical storms. In the first nine months of 2003, 194,589 ounces of palladium were produced compared to 167,258 ounces in the same period last year.

Production costs including overheads were \$22,338,000 during the third quarter 2003 compared to \$24,965,000 during the third quarter 2002. Total cash costs to produce palladium, net of other metal credits and royalties, decreased to US\$138 per ounce in the third quarter 2003 compared to US\$282 per ounce in the third quarter 2002. The significant decrease in cash operating costs was due to a 50% increase in palladium production. In addition, the increased production of platinum, gold, nickel and copper and the improvement in the prices for these by-product metals made a significant contribution to operations and resulted in a reduction of the cash operating costs for palladium by US\$176 per ounce. This compares to a by-product credit of US\$127 per

ounce in the third quarter of 2002. The strengthening of the Canadian dollar relative to the US dollar has continued to put pressure on operating margins. Had the US exchange rate for the current quarter been comparable to the exchange rate for the same quarter last year, cash operating costs would have been lower by US\$20 per ounce in the current quarter.

Non-cash amortization expenses increased to \$8,753,000 during the quarter compared to \$4,935,000 in the third quarter 2002. The higher amortization amount is attributable to the 50% increase in palladium production and the increase in the unit of production amortization rate due to the restatement of reserves at June 30, 2003 that resulted in a 20% reduction in palladium reserve ounces.

Exploration expenses were \$470,000 and \$1,571,000 in the three month and nine month periods ended September 30, 2003 respectively, compared to \$249,000 and \$590,000 in the corresponding 2002 periods. The increased exploration expense for the first nine months of 2003 reflects the higher level of grass root exploration activities on three recently acquired properties in the Thunder Bay region.

CASH FLOW AND FINANCIAL POSITION

Cash flow from operations (prior to changes in non-cash working capital) was \$14,243,000 in the third quarter 2003 compared to \$14,207,000 in the third quarter 2002. After allowing for working capital changes, cash provided by operations was \$11,020,000 in the third quarter of 2003 compared to \$9,547,000 in the third quarter of 2002. Cash provided by operations was \$42,202,000 in the first nine months of 2003 compared to \$23,201,000 in the first nine months of 2002.

There was a reduced amount of investing activity in the third quarter, requiring \$2,843,000 of cash, with the main capital spending activity being the expansion of the tailings management facility.

The Company's financial position was further strengthened during the quarter. Long-term debt was reduced by \$11,681,000, resulting in a long-term debt balance of \$68,711,000 (US\$50,875,000) bearing interest at an average rate of 3.02%. At September 30, 2003, the Company had cash and cash equivalents of \$9,781,000 on hand.

PRODUCTION STATISTICS

	Three Months September 30		Nine Months September 30	
	2003	2002	2003	2002
Palladium (oz)	76,729	51,168	194,589	167,258
Payable Palladium (oz)	70,207	46,819	177,889	153,042
Platinum (oz)	5,887	4,753	16,388	14,620
Gold (oz)	6,200	4,137	15,814	12,049
Copper (lbs)	1,877,355	1,445,416	4,848,416	3,997,735
Nickel (lbs)	976,533	656,240	2,665,055	2,060,292
Ore Tonnes Milled	1,307,822	1,210,799	3,659,046	3,686,233
Ore Tonnes Mined				
High grade ore	1,068,416	662,049	3,074,569	2,945,790
Regular grade	342,468	720,922	1,258,040	2,628,737
Waste Tonnes Mined	1,834,477	2,526,759	6,414,099	8,206,452
Waste Strip Ratio	1.30:1	1.83:1	1.48:1	1.47:1

EXPLORATION AND DEVELOPMENT

During the third quarter 2003, the Company continued initial geological mapping, geophysical mapping, and surface sampling at its three primary exploration properties, Chief Peter Lake, Shebandowan Lake and Roaring River. Results to date, although preliminary, are encouraging. Exploration and resource/reserve delineation continued at the Lac des Iles mine. Results from this summer's exploration activity will be compiled over the coming months and used to design next years exploration program.

Roscoe Postle Associates Inc., an independent mining engineering consulting firm has been selected to take the Company's Lac des Iles underground project from pre-feasibility to feasibility. The feasibility study will be completed by the end of first quarter, 2004.

During the quarter, the Company initiated a business development strategy to expand its precious metals mining business with an initial focus in Canada. We expect to announce specific exploration initiatives in the near future.

RISKS AND UNCERTAINTIES

The price of palladium is the most significant factor influencing the profitability of the Company. In the third quarter 2003, sales of palladium accounted for approximately 65% 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, in prior years entered into the Palladium Sales Contract and other hedge contracts. 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. In the short term, the Company does not expect to recognize palladium revenue above the Palladium Sales Contract floor price of US\$325 per ounce. Currently, the fundamentals for palladium are 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 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
November 10, 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)

	September 30 2003 (Unaudited)	December 31 2002
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,545	\$ 11,536
Short-term investments	5,236	5,127
Concentrate awaiting settlement, net - Note 3	82,895	85,312
Inventories	9,347	7,414
Crushed and broken ore stockpiles	7,367	9,157
Future tax asset	3,097	4,868
Accounts receivable and other assets	1,338	1,683
	113,825	125,097
Mining interests, net	253,143	260,985
Mine closure deposit - Note 5	4,370	3,470
Deferred financing costs	1,487	2,080
Crusher and broken ore stockpiles	6,124	7,983
Future tax asset	4,637	11,218
	\$ 383,586	\$ 410,833
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 14,273	\$ 14,813
Taxes payable	2,194	1,940
Current portion of obligations under capital lease	1,078	1,127
Current portion of project term loan	39,883	51,083
	57,428	68,963
Provision for mine closure costs	1,908	1,554
Obligations under capital leases	1,213	1,024
Project term loan	13,296	51,083
Kaiser-Francis Oil Company credit facility	15,532	18,163
Future tax liability	10,780	9,600
	100,157	150,387
Shareholders' Equity		
Capital stock - Note 10	312,680	311,983
Deficit	(29,251)	(51,537)
Total shareholders' equity	283,429	260,446
	\$ 383,586	\$ 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)

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Revenues from metal sales - Note 12	\$ 42,585	\$ 46,547	\$ 132,336	\$ 132,869
Deduct: smelter treatment, refining and freight costs	(4,425)	(3,893)	(12,473)	(12,846)
Net revenue from mining operations	38,160	42,654	119,863	120,023
Operating expenses				
Production costs including overheads	22,338	24,965	74,566	71,387
Amortization	8,753	4,935	18,468	15,028
Administrative expenses	889	1,498	2,499	3,442
Provision for mine closure costs	95	134	354	406
Total operating expenses	32,075	31,532	95,887	90,263
Income from mining operations	6,085	11,122	23,976	29,760
Other income (expenses)				
Interest income	83	82	228	497
Gain (loss) on disposal of or retirement of capital assets - Note 4	(342)	—	(3,052)	120
Interest	(11)	(115)	(11)	(371)
Interest on long-term debt	(855)	(1,446)	(2,580)	(4,281)
Exploration	(470)	(249)	(1,571)	(590)
Foreign exchange gain (loss)	1,048	(5,801)	15,909	(199)
	(547)	(7,529)	8,923	(4,824)
Income before income taxes	5,538	3,593	32,899	24,936
Provision for income taxes - Note 9	2,003	699	10,613	8,275
Net income for the period	3,535	2,894	22,286	16,661
Deficit, beginning of period	(32,786)	(52,905)	(51,537)	(66,672)
Deficit, end of period	\$ (29,251)	\$ (50,011)	\$ (29,251)	\$ (50,011)
Net income per share	\$ 0.07	\$ 0.06	\$ 0.44	\$ 0.33
Fully diluted net income per share	\$ 0.07	\$ 0.06	\$ 0.44	\$ 0.33
Weighted average number of shares outstanding	50,792,361	50,574,116	50,738,867	50,519,640

Consolidated Statements of Cash Flows

(Canadian funds in thousands of dollars)

(Unaudited)

	Three Months Ended September 30 2003		Nine Months Ended September 30 2003	
		2002		2002
Cash Provided by (used in)				
Operations				
Net Income for the period	\$ 3,535	\$ 2,894	\$ 22,286	\$ 16,661
Operating items not involving cash				
Future income tax	1,573	188	9,532	7,343
Amortization	8,753	4,935	18,468	15,028
Unrealized foreign exchange (gain) loss	(55)	6,056	(15,682)	(970)
(Gain) loss on disposal of or retirement of capital assets	342	—	3,052	(120)
Provision for mine closure costs	95	134	354	406
	14,243	14,207	38,010	38,348
Changes in working capital other than cash - <i>Note 11</i>	(3,223)	(4,660)	4,192	(15,147)
	11,020	9,547	42,202	23,201
Financing Activities				
Mine closure deposit	(300)	(300)	(900)	(900)
Obligations under capital leases	664	(395)	140	407
Repayment of project term loan	(11,626)	(6,551)	(35,936)	(19,950)
Issuance of common shares	232	521	697	925
Increase in Kaiser Francis Oil Company credit facility	—	—	—	10,372
	(11,030)	(6,725)	(35,999)	(9,146)
Investing Activities				
Short-term investments	(47)	(35)	(109)	(93)
Additions to plant and equipment	(2,703)	(1,052)	(12,343)	(6,069)
Mining claims, exploration and development costs	(99)	(1,797)	(856)	(2,284)
Proceeds on disposal of capital assets	6	—	114	128
	(2,843)	(2,884)	(13,194)	(8,318)
Increase (decrease) in cash	(2,853)	(62)	(6,991)	5,737
Cash, beginning of period	7,398	7,574	11,536	1,775
Cash, end of period	\$ 4,545	\$ 7,512	\$ 4,545	\$ 7,512

Notes to the September 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.

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Net income as reported	\$ 3,535	\$ 2,894	\$22,286	\$16,661
Stock-based compensation expenses	99	53	246	106
Pro forma net income	3,436	2,841	22,040	16,555
Pro forma basic and diluted net income per share	\$ 0.07	\$ 0.06	\$ 0.43	\$ 0.33

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 April 2003 and September 30, 2003, including 111,636 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 September 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 sales contracts and foreign exchange.

4. Loss on Disposal of or Retirement of Capital Assets

During the nine months ended September 30, 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 September 30, 2003, the Company had \$4,370 on deposit with the Ministry and has agreed to make monthly deposits of \$100 until completely funded.

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 delivered by June 30, 2005.

7. Long-Term Credit Facilities

The Company's credit facilities are denominated in US dollars. At September 30, 2003, the outstanding long-term debt, including current and long-term portions was \$68,711 (US\$50,875) compared to \$120,329 (US\$76,188) at December 31, 2002. During the nine month period ended September 30, 2003, the Company's long-term debt was reduced by \$51,618 as a result of repayments of \$35,936 and an unrealized foreign exchange gain of \$15,682.

8. Foreign Exchange Hedge Contracts

All of the Company's production is sold in US dollars, whereas its operating, administration and exploration expenses are incurred in Canadian dollars. To protect against an adverse movement in the exchange rate between the Canadian and the US dollar, the Company entered into foreign exchange hedge contracts on US\$53.0 million of its revenue for 2003 at an average C\$/US\$ exchange rate of 1.59. Of these hedge contracts, US\$13.0 million remained to be realized upon at September 30, 2003.

9. 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:

	Nine Months Ended September 30	
	2003	2002
Income taxes based on a combined federal and Ontario rate of 40.6% (2002 - 41.6%)	\$ 13,460	\$ 10,379
Ontario mining tax at a rate of 12% (2002 - 14%)	3,976	3,491
Increase (decrease) in taxes resulting from:		
Resource allowance	(1,904)	(3,214)
Federal government changes in resource sector taxation	(545)	—
Unrealized foreign exchange	(1,728)	—
Mining tax rate reduction	(272)	(1,436)
Mining tax processing allowance	(1,018)	(500)
Federal large corporations taxes	578	632
Mining tax permanent differences	(780)	1,315
Other	(1,154)	(2,392)
Income tax provision	\$ 10,613	\$ 8,275

10. Capital Stock

As at September 30, 2003, the Company had 50,806,098 common shares issued and outstanding. At September 30, 2003, the Company had 1,052,307 stock options outstanding at a weighted average exercise price of \$9.21, expiring at various dates from March 3, 2005 to September 3, 2011.

11. Changes in Non-Cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Decrease (increase) in:				
Concentrate awaiting settlement	\$ (1,161)	\$ (4,699)	\$ 2,417	\$ (11,179)
Inventories and stockpiles	197	2,065	1,716	1,040
Accounts receivable and other assets	(294)	(555)	345	701
	(1,258)	(3,189)	4,478	(9,438)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(2,110)	(1,874)	(540)	(4,457)
Taxes payable	145	403	254	(1,252)
	(1,965)	(1,471)	(286)	(5,709)
Changes in non-cash working capital	\$ (3,223)	\$ (4,660)	\$ 4,192	\$ (15,147)

12. Revenue from Metal Sales

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Palladium	\$ 27,685	\$ 22,913	\$ 74,486	\$ 78,086
Palladium forward contracts	—	11,464	20,437	34,610
Adjustments for mark-to-market	(88)	3,184	597	(8,120)
Other metals	14,988	8,986	36,816	28,293
	\$ 42,585	\$ 46,547	\$ 132,336	\$ 132,869

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 had 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.

For the nine months ended September 30, 2003, revenue from other metals is comprised of nickel - \$13,382, platinum - \$12,320, gold - \$6,305, copper - \$4,201 and other metals - \$608.

Corporate Information

Directors

Michael P. Amsden
Steven R. Berlin
André J. Douchane
Louis J. Fox
A. M. (Sandy) Laird
Richard H. Sutcliffe
Greg J. Van Staveren

Officers and Senior Management

André J. Douchane
President and Chief
Executive Officer

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

Ray J. Mason, B.Sc.
Mine Manager

Maurice J. Lavigne, P.Geo.
Vice President - Exploration

Douglas H. Bache
Treasurer

Michael C. Thompson, F.C.C.A.
Administration Manager
and Senior Controller

Mary D. Batoff, LL.B.
Corporate Secretary

Head Office

130 Adelaide Street West
Suite 2116
Toronto, Ontario
Canada M5H 3P5
Tel: (416) 360-7590
Fax: (416) 360-7709
Email: info@napalladium.com

Thunder Bay Operations

Lac des Iles Mines Ltd.
P.O. Box 10547, Station P
Thunder Bay, Ontario
Canada P7B 6T9
Tel: (807) 448-2000
Fax: (807) 448-2001

Stock Exchange Listings

Toronto Stock Exchange
(Trading Symbol "PDL")

American Stock Exchange
(Trading Symbol "PAL")

Auditors

Ernst & Young LLP
Toronto, Ontario

Transfer Agent

Computershare Trust
Company of Canada
100 University Avenue
9th Floor
Toronto, Ontario M5J 2Y1
Tel: (514) 982-7555
Toll-free: 1 (800) 564-6253
Fax: (514) 982-7635
Toll-free fax: 1 (888) 453-0330
Email: caregistryinfo@computershare.com

Computershare Trust
Company, Inc.
350 Indiana Street
Suite 800
Golden, Colorado 80401
Tel: (303) 262-0700
Fax: (303) 262-0603
Email: caregistryinfo@computershare.com

Investor Relations

Investor relations inquiries
should be directed to:
Tel: (416) 360-7590
Fax: (416) 360-7709
Email: info@napalladium.com

Website

www.napalladium.com



North American **Palladium** Ltd.