

North American
Palladium Ltd.

First Quarter
Report
2004



*Building
Value*



Management's Discussion and Analysis of Financial Results



First Quarter 2004

The following is Management's Discussion and Analysis of the financial condition and results of operations, to enable a reader to assess material changes in financial condition and results of operations for the three months ended March 31, 2004, compared to those of the prior year quarter. This Management's Discussion and Analysis has been prepared as of May 11, 2004. This Management's Discussion and Analysis is intended to supplement and complement the unaudited interim consolidated financial statements and notes thereto for the period ended March 31, 2004 (collectively, the "Financial Statements"), which are included in this Quarterly Report. You are encouraged to review the Financial Statements in conjunction with your review of this Management's Discussion and Analysis. This Management's Discussion and Analysis should be read in conjunction with both the annual audited consolidated financial statements for the three years ended December 31, 2003, and the related annual Management's Discussion and Analysis included in the 2003 Annual Report.

Overview and Strategic Activities

North American Palladium Ltd. (the "Company") operates the Lac des Iles mine located 85 km northwest of Thunder Bay, Ontario. The mine is Canada's only primary producer of platinum group metals and contains one of the largest open pit bulk mineable palladium reserves in the world. In addition to palladium, the Company earns substantial revenue from by-product nickel, platinum, gold and copper. Palladium's primary use continues to be in the auto industry where it is an important component in controlling exhaust emissions as mandated by more stringent hydrocarbon emission standards for cars, light trucks and SUVs, particularly in the United States, Europe and Japan. In addition, palladium is consumed in the dental, electronics, jewellery and chemical sectors.

During the first quarter 2004, the Company announced the development of an underground mine at the Company's Lac des Iles operations. The decision to proceed with an integrated open pit and underground mine project was based on a full feasibility study prepared by Roscoe Postle Associates Inc. Capital costs for the underground development are estimated at \$40 million for direct and indirect costs and working capital. Mining equipment accounts for an additional \$15 million of capital costs and the Company plans to finance this equipment through a vendor lease program.

The Company currently operates an open pit mine and mill at Lac des Iles with a design capacity of 15,000 tonnes per day. In late 2003, the Company commissioned a full feasibility study in response to scoping studies and a pre-feasibility study that indicated a higher grade sub-vertical ore body located directly beneath the open pit mine was a viable underground mine. The underground 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 Proven and Probable Reserves. These underground reserves contain approximately 6.62 grams of palladium per tonne at a cut-off grade of 4.5 grams per tonne. In addition, these reserves contain approximately 0.40 grams of platinum, 0.34 grams of gold, 0.07 percent copper, and 0.08 percent nickel per tonne. 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 7-year mine life at an average annual production rate of slightly over 300,000 ounces of palladium.

During the first quarter, the Company also decided to proceed with a secondary crusher installation for the Lac des Iles mill designed to maintain the fourth quarter 2003 throughput rate and reduce processing costs in the mill circuit. The estimated capital cost of this project is approximately \$10 million. The Company plans to finance a portion of the \$50 million total capital cost for the underground mine and secondary crusher projects with operating cash flow and is reviewing financing options for the balance.

The Company hedges the price of its palladium production under a long-term contract with a major automotive manufacturer (the "Palladium Sales Contract"). The hedge price is based on the monthly average spot price for palladium with a floor price of US\$325 per ounce for 100% of production and a ceiling price of US\$550 per ounce for 50% of production. The remaining 50% of production is sold at market prices or the contract floor, whichever is higher. The Palladium Sales Contract expires on June 30, 2005. In 2004, the Company also commenced a hedging strategy for a portion of its by-product metal production. The objective of this hedge strategy is to reduce the variability of cash flow associated with revenues derived from the sale of nickel, platinum, gold and copper.

Without the Palladium Sales Contract, the Company's profitability would be significantly impacted by the current depressed spot palladium price. In the near term, the Company does not expect to recognize palladium revenue above the Palladium Sales Contract floor price of US\$325 per ounce. The Company is optimistic that

the fundamentals for palladium demand will improve in the medium term with the draw-down of surplus inventories held by automotive manufacturers and consumer response to platinum's price premium to palladium. In addition, recent news of a new diesel catalyst technology which may permit the use of palladium will give automobile manufacturers a cheaper alternative in their choice of materials for diesel emission control systems as compared to platinum.



Production Statistics

	Three Months Ended March 31	
	2004	2003
Palladium (oz)	91,261	58,791
Payable Palladium (oz)	83,367	53,328
Platinum (oz)	6,983	5,285
Gold (oz)	7,755	4,564
Copper (lbs)	2,141,755	1,396,155
Nickel (lbs)	1,321,201	772,545
Ore Tonnes Milled	1,348,779	1,196,259
Ore Tonnes Mined	1,283,982	1,393,969
Waste Tonnes Mined	2,594,785	2,470,885
Waste Strip Ratio	2.02:1	1.77:1

Summary of Quarterly Results

(\$000, except per share amounts)	2nd Qtr	2002	4th Qtr	1st Qtr	2003		4th Qtr	2004
		3rd Qtr			2nd Qtr	3rd Qtr		1st Qtr
Revenue from metal sales	41,745	46,547	43,904	45,120	44,631	42,585	59,805	53,156
Net income	7,521	2,894	(1,579)	8,390	10,361	3,535	16,092	6,121
Net income (loss) per share	0.15	0.06	(0.03)	0.17	0.20	0.07	0.32	0.12
Full diluted net income (loss) per share	0.15	0.06	(0.03)	0.17	0.20	0.07	0.31	0.12

Results of Operations

In the first quarter 2004, the Company's revenues from metal sales were substantially improved primarily due to increased production of metal at the Lac des Iles mine. Palladium production increased 55% compared to the first quarter 2003. Additionally, first quarter by-product metal production was higher, particularly nickel increasing 71%, platinum increasing 32%, gold increasing 70%, and copper increasing 53%, respectively as compared to the first quarter 2003.

In the first quarter 2004, spot palladium prices averaged US\$241 per ounce, versus the previous year when spot palladium averaged US\$244 per ounce. However, the Palladium Sales Contract provides for a US\$325 per ounce minimum price, which was the realized palladium price in the first quarter, but was 31% less than the US\$469 realized price in the first quarter of 2003, when a portion of the production was sold forward at US\$899 per ounce. Realized prices for by-product metals were substantially higher in the first quarter 2004, most notably platinum at US\$847 per ounce, nickel at

Key Financial Statistics

	Three Months Ended March 31	
	2004	2003
	(\$000's)	
Revenue from metal sales	53,156	45,120
Net income	6,121	8,390
Net income per share (dollars basic and diluted)	0.12	0.17
Operating cash flow	19,481	11,361
Long-term debt, including current portion	50,346	101,511
Shareholders' Equity	308,563	269,079
Common shares outstanding (as at March 31)	51,113,097	50,694,055

US\$5.93 per lb. and copper at US\$1.18 per lb. Partially offsetting the higher realized metal prices was a strengthening Canadian dollar, which averaged US\$0.76 in the first quarter 2004, compared to US\$0.68 in the first quarter 2003.

The Company will deliver all of its palladium production for the balance of 2004 under the terms of the Palladium Sales Contract, which has a floor price of US\$325 per ounce. The realized price for palladium sales will depend upon market conditions and the selling prices of palladium, and could be above the US\$325 per ounce floor price.

The Company realized net income for the three months ended March 31, 2004 of \$6,121,000 or \$0.12 per share on revenues from metal sales of \$53,156,000 compared to net income of \$8,390,000 or \$0.17 per share on revenue from metal sales of \$45,120,000 for the corresponding period a year earlier. These results include a foreign exchange loss of \$782,000 in the current quarter compared to a foreign exchange gain of \$8,651,000 in the first quarter of 2003, which primarily relates to the

Company's US dollar denominated long-term debt.

During the first quarter, the mill processed 1,348,779 tonnes of ore, or an average of 14,822 tonnes per day, with a palladium grade of 2.72 g/t, producing 91,261 ounces of palladium at a recovery rate of 77.3%. This compares with the first quarter of 2003, when the mill processed 1,196,259 tonnes of ore, or 13,292 tonnes per day, with a palladium grade of 1.99 g/t, producing 58,791 ounces of palladium at a recovery rate of 76.9%. The significant improvement in palladium production in the first quarter of 2004 was directly related to increased palladium head grades and improved mill throughput.

Production costs including overheads but excluding non-cash amortization were \$24,998,000 during the first quarter 2004 compared to \$28,219,000 during the first quarter 2003. Total unit cash costs to produce palladium (production costs including overhead and smelter treatment, refining and freight costs, net of by-product credits and royalties) decreased to US\$115 per ounce in the first quarter 2004 compared to US\$277 per ounce in the first quarter 2003. In determining unit cash costs, the net recoverable palladium ounces were 74,523 in the first quarter 2004 and 51,009 in the first quarter 2003. The increased production of platinum, gold, nickel and copper and the improvement in the prices for these by-product metals in the first quarter of 2004 made a significant contribution to operations and resulted in a reduction of the unit cash costs for palladium by US\$196 per ounce compared to a reduction of US\$148 per ounce in the first quarter of 2003. The significant decrease in unit cash costs was primarily due to a 55% increase in palladium production.

The operating results for the first quarter 2004 were unfavourably impacted by the labour strike at the Falconbridge operations in Sudbury, Ontario. The Company was unable to ship all of the concentrate produced in the quarter, which resulted in 1,314 tonnes of concentrate being held in inventory at March 31, 2004, containing 9,863 ounces of palladium and other by-product metals, representing about 11% of first quarter palladium production. This unusually high level of concentrate inventory had a production cost of \$2,715,000 and will be recognized as revenue from metal sales in the second quarter 2004 when it is received at the smelter.

Non-cash amortization expenses increased to \$9,846,000 during the quarter compared to \$4,881,000 in the first quarter 2003. The higher amortization amount is attributable to the 55% increase in palladium production

and an increase in the unit of production amortization rate due to the restatement of reserves at June 30, 2003.

As a result of the significant reduction in outstanding long-term debt, interest expense on long-term debt was \$487,000 in the current quarter compared to \$1,068,000 in the first quarter of 2003. Exploration expense was \$429,000 in the first quarter of 2004 compared to \$323,000 in the corresponding 2003 period. The increased exploration expense for the first three months of 2004 reflects the higher level of grassroots exploration activities on three properties in the Thunder Bay region.

Cash Flow and Financial Position

Cash flow from operations, prior to changes in non-cash working capital, was \$19,481,000 in the first quarter 2004 compared to \$11,361,000 in the first quarter 2003. After allowing for working capital changes, cash provided by operations was \$12,278,000 in the first quarter of 2004 compared to \$10,359,000 in the first quarter of 2003.

Investing activity in the first quarter required \$3,727,000 of cash, with the main capital spending activity being the pre-stripping of the next phase of open pit mine development.

The Company continued to strengthen its balance sheet during the quarter. Outstanding long-term debt, including current and long-term portions was reduced by \$8,460,000, resulting in a long-term debt balance of \$48,216,000 (US\$36,813,000). During the quarter, the Company issued 217,759 common shares for total consideration of \$2,303,000, the majority of which was from the exercise of stock options. At March 31, 2004, the Company had cash and cash equivalents of \$13,075,000.

Contractual Obligations

(\$000's)	Payments Due by Period			
	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years
Project term debt	33,153	33,153	–	–
Kaiser-Francis credit facility	15,063	–	15,063	–
Capital lease obligations	2,130	1,156	867	107
Operating leases	2,360	945	1,344	71
Other purchase obligations	1,122	1,122	–	–
	53,828	36,376	17,274	178

Critical Accounting Policies and Estimates

1. Change in Accounting Policy

Hedging Relationships

In 2003, the CICA finalized amendments to Accounting Guideline AcG-13, "Hedging Relationships" that clarified certain of the requirements in AcG-13 and provided additional documentation and application guidance. AcG-13 is applicable for the Company's 2004 fiscal year. As a result of AcG-13, the Company has marked to market its forward foreign exchange contracts beginning January 1, 2004. The impact of this change is an increase to derivative income of \$470,000 in the three month period ended March 31, 2004.

2. Critical Accounting Estimates

Critical accounting estimates represent estimates that are highly uncertain and for which changes in those estimates could materially impact the Company's financial statements. The following accounting estimates are critical:

(a) Amortization of mining interests

The Company amortizes a large portion of its mining interests using the units of production method based on proven and probable reserves. Changes in reserves as at June 30, 2003 caused amortization rates to increase by approximately 25%. Changes in reserve estimates are calculated periodically and could affect amortization expense prospectively.

(b) Impairment assessments of long-lived assets

Each year, the Company reviews the mining plan for the remaining life of mine. Significant changes in the mine plan can occur as a result of mining experience, new discoveries, changes in mining methods and rates, process changes, investments in new equipment and technology, and other factors. Based on year-end ore reserves and the current mine plan, the Company reviews annually its accounting estimates and makes adjustments accordingly.

The Company assesses long-lived assets for recoverability whenever indicators of impairment exist. When the carrying value of a long-lived asset is less than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset.

(c) Asset retirement obligations

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time

through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of mining interests and amortized over the estimated life of the mine.

(d) The measurement of deferred income tax assets and liabilities and assessment of the need to record valuation allowances against those assets

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

(e) The valuation of derivative instruments and measurement of gains and losses on cash flow and fair value hedges that are recorded in derivative income

Forward Metal Sales and Metal Price Swap Contracts

In the fourth quarter of 2003, North American Palladium updated its hedge policy to allow for managing the Company's exposure to market metal prices, particularly its platinum, nickel and copper price exposure. With the adoption of this policy and from time to time, the Company will enter into forward metal sales or cash settled swaps to establish fixed metal prices in order to manage metal price volatility.

North American Palladium has used fixed-price forward platinum sales contracts, cash settled nickel and copper price swap contracts to insulate its earning and cash flows from changes in these metal prices. These contracts allow the Company to sell its platinum production to credit-worthy metal dealers at a fixed price under the forward sales contract. In the case of nickel and copper, the Company receives a fixed metal price in exchange for paying the floating price received under its physical sales contracts to acceptable counterparts under the metal price swap contracts. In the first quarter of 2004, the hedge position included an increase to 14,000 ounces of platinum, a decline to 810 tonnes of nickel and an increase to 1,800 tonnes of copper.

Forward Foreign Exchange Contracts

At March 31, 2004, the Company had forward foreign exchange contracts outstanding for US\$45,000,000

at an average exchange rate of \$1.35 maturing at various dates through December 31, 2004. At March 31, 2004, the fair value of these contracts was \$1,670,000, of which \$1,200,000 is included in revenue from metal sales as a mark-to-market adjustment for concentrate awaiting settlement, and \$470,000 is recorded as derivative income in the three months ended March 31, 2004.



Fixed-price Forward Platinum Sales Contracts (the "Pt Hedge Position")

(as of March 31, 2004)

Platinum ounces hedged	14,000 (or less than 80% of 2004's expected production)
Maturity date of platinum sales contracts	December 2004
Weighted-average estimated platinum sales contract price up to maturity date	US\$763/oz. ¹
Delivery obligations	The Company will deliver platinum produced from its operations on a monthly basis to satisfy the forward sales contracts by the maturity date (currently December 31, 2004)
Unrealized mark-to-market loss at March 31, 2004	US\$206,000 ²

¹ Weighted-average estimated platinum price is based on the aggregate value of contracted prices for the expected delivery volumes for each respective delivery month divided by the total volume of platinum sold forward.

² At a spot platinum price of US\$903 per ounce for forward sale contracts that have not been taken into revenue as at March 31.

Fixed-price Nickel Swap Contracts (the "Nickel Hedge Position")

(as of March 31, 2004)

Nickel tonnes hedged	810 (or less than 50% of 2004's expected production)
Maturity date of nickel swap contracts	December 2004
Weighted-average estimated fixed nickel price up to maturity date	US\$12,500 per tonne (US\$5.67 per lb.) ¹
Payment obligations	The Company will pay on a monthly basis the floating nickel price (average monthly LME 3-mth nickel price) for the respective volume of nickel metal swapped and receive a fixed price from the counterpart for the period up to the maturity date (currently December 31, 2004)
Unrealized mark-to-market loss at March 31, 2004	US\$636,000 ²

¹ Weighted-average estimated nickel price is based on the aggregate value of contracted fixed prices for the expected nickel volumes for each respective delivery month divided by the total volume of nickel under the swap contract.

² At a monthly average LME 3-mth nickel price of US\$13,679 per tonne for swap contracts which have not been taken into revenue as at March 31.

Fixed-price Copper Swap Contracts (the "Copper Hedge Position")

(as of March 31, 2004)

Copper tonnes hedged	1,800 tonnes (or less than 60% of 2004's expected production)
Maturity date of copper swap contracts	December 2004
Weighted-average estimated fixed copper price up to maturity date	US\$2,548 per tonne (US\$1.16 per lb.) ¹
Payment obligations	The Company will pay on a monthly basis the floating copper price (average monthly LME 3-mth copper price) for the respective volume of copper metal swapped and receive a fixed price from the counterpart for the period up to the maturity date (currently December 31, 2004)
Unrealized mark-to-market loss at March 31, 2004	US\$470,000 ²

¹ Weighted-average estimated copper price is based on the aggregate value of contracted fixed prices for the expected copper volumes for each respective delivery month divided by the total volume of copper under the swap contract.

² At a monthly average LME 3-mth copper price of US\$2,939 per tonne for swap contracts which have not been taken into revenue as at March 31.

The Company has entered into Master Trading Agreements and Master Swap Agreements with various counterparts, which govern the terms of its forward metal sales and fixed price swaps. These counterparts have a long-term credit rating assigned by Standard & Poor's of "A" or better, or equivalent rating from other international credit rating agencies.

Related Party Transactions

The Company engaged Louis J. Fox in November 1999 to provide services in connection with the negotiation of palladium end-user supply contracts, project capital financing, smelting and refining agreements, metals price forecasting and marketing other metals. The services agreement was negotiated at arms-length prior to Mr. Fox becoming a director of the Company. Mr. Fox receives a fee in connection with the negotiations related to the Palladium Sales Contract. The amount payable to Mr. Fox for the first quarter was \$136,000.

Pursuant to an agreement dated July 11, 2002, Kaiser-Francis, and certain other parties related to Kaiser-Francis, guaranteed the obligations of the Company under the Credit Facility. Kaiser-Francis is entitled to receive a guarantee fee of 0.5% per annum of the average outstanding loan balance during the previous calendar quarter. In December 2001, Kaiser-Francis also provided a US\$20 million non-revolving credit facility to finance the Company's working capital requirements. Under the Kaiser-Francis credit facility, interest payable is based upon the 30-day LIBOR plus 2.25% and the stand-by fee payable is 0.125% per annum. The amount payable to Kaiser-Francis for the guarantee fee, interest and standby fee for the first quarter was \$180,000. Kaiser-Francis holds 50.9% of the common shares of the Company.



Exploration & Development

During the first quarter of 2004, the Company continued to advance its primary exploration properties (Shebandowan Lake and Roaring River). Results to date, although preliminary, have been encouraging with the discovery of several new Ni-Cu-PGE zones of mineralization from both project areas. An Airborne VTEM Survey was conducted over the Shebandowan Lake Project. Priority targets have been identified and will be drill tested in the second quarter of 2004. At Roaring River, ground geophysical surveys have outlined several potential targets in the up-ice direction from known PGE bearing mineralized boulders. These anomalies will also be drilled in the second quarter of this year. During the quarter, exploration at the Lac des Iles Mine focused on the compilation of all the historic data. This effort is expected to generate new areas in and around the Company's operations for further evaluation during the second half of 2004.

Risks and Uncertainties

The price of palladium is the most significant factor influencing the profitability of the Company. In the first quarter of 2004, sales of palladium accounted for approximately 64% 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 as set out below.

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\$45,000,000 of its revenue for 2004 at an average C\$/US\$ exchange rate of approximately 1.35.

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 has filed a claim with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. The Company will record the effect of this insurance recovery in its financial statements when the proceeds are received.

In addition, you are encouraged to review the Company's Annual Information Form on file with Canadian Securities regulators for a discussion of other risks and uncertainties.

Outlook

During the first quarter, the mine and mill operated at levels above budget and there are a number of development activities underway. We have purchased the new underground equipment and begun construction of the portal for our new underground mine. We are finalizing the bidding process for the new secondary crusher and will begin construction shortly.

We continue to place a lot of emphasis on operating safely, strengthening our existing operation and on various initiatives to expand our business beyond the Lac des Iles mine.

While metal prices seem to be currently taking a bit of pull back, we believe the longer term fundamentals are in place to support higher palladium prices later this year, and expect to see palladium at the US\$350 per ounce level predicted by Norilsk Nickel by the end of 2004.

Other Information

Additional information regarding the Company is included in the Company's Annual Information Form and Annual Report on Form 40-F which are filed with the Canadian securities regulators and the United States Securities and Exchange Commission, respectively. A copy of the Company's Annual Information Form is posted on the SEDAR website at www.sedar.com. A copy of the Annual Report or Form 40-F can be obtained from the United States Securities and Exchange Commission's website at www.sec.gov.

Respectfully,



André J. Douchane

PRESIDENT AND
CHIEF EXECUTIVE OFFICER

May 11, 2004



North American Palladium Ltd.

Consolidated Balance Sheets

(Canadian funds in thousands of dollars)
(Unaudited)

	March 31 2004	December 31 2003
Assets		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,075	\$ 11,950
Short-term investments	1,820	1,813
Concentrate awaiting settlement, net - Note 3	100,600	94,610
Inventories	9,812	9,141
Crushed and broken ore stockpiles - Note 4	5,902	6,251
Future tax asset	8	84
Accounts receivable and other assets - Note 6(d)	1,573	1,387
	132,790	125,236
 Mining interests, net	241,134	247,116
Mine closure deposit - Note 5	5,033	4,733
Deferred financing costs	1,092	1,290
Crushed and broken ore stockpiles - Note 4	5,744	5,983
Future tax asset	6,921	9,334
	\$ 392,714	\$ 393,692
 Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 13,427	\$ 16,041
Taxes payable	2,532	1,311
Future tax liability	195	216
Current portion of obligations under capital leases	1,156	1,070
Current portion of project term loan - Note 7	33,153	34,538
	50,463	53,176
 Mine closure obligation	7,373	7,300
Obligations under capital leases	974	1,015
Project term loan - Note 7	-	7,272
Kaiser-Francis credit facility - Note 7	15,063	14,866
Future tax liability	10,278	10,108
	84,151	93,737
 Shareholders' Equity		
Capital stock - Note 9	315,976	313,489
Deficit	(7,413)	(13,534)
Total shareholders' equity	308,563	299,955
	\$ 392,714	\$ 393,692

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

March 31

2004 2003

Revenue from metal sales		
- Notes 6(d) and 11	\$ 53,156	\$ 45,120
Deduct: smelter treatment, refining and freight costs	(5,331)	(3,499)
Net revenue from mining operations	47,825	41,621
Operating expenses		
Production costs including overhead	24,998	28,219
Amortization	9,846	4,881
Administrative expenses	1,217	918
Provision for mine closure costs	243	132
Total operating expenses	36,304	34,150
Income from mining operations	11,521	7,471
Other income (expenses)		
Interest on long-term debt	(487)	(1,068)
Exploration expense	(429)	(323)
Foreign exchange gain (loss)	(782)	8,651
Derivative income - Note 2(c) and 6(d)	470	-
Interest income	47	74
Loss on disposal of capital assets	(132)	-
Interest	(10)	-
Total other income (expenses)	(1,323)	7,334
Income before income taxes	10,198	14,805
Provision for income taxes - Note 8	4,077	6,415
Net income for the period	6,121	8,390
Deficit, beginning of period	(13,534)	(51,537)
Deficit, end of period	\$ (7,413)	\$ (43,147)
Net income per share	\$ 0.12	\$ 0.17
Diluted net income per share	\$ 0.12	\$ 0.17
Weighted average number of shares outstanding - basic	50,974,943	50,678,688
Weighted average number of shares outstanding - diluted	51,126,044	50,678,720

North American Palladium Ltd.

Consolidated Statements of Cash Flows

(Canadian funds in thousands of dollars)
(Unaudited)

Three Months Ended

March 31

2004 2003

Cash provided by (used in) Operations		
Net income for the period	\$ 6,121	\$ 8,390
Operating items not involving cash		
Future income tax expense	2,797	5,911
Amortization	9,846	4,881
Foreign exchange loss (gain)	766	(7,953)
Loss on disposal of capital assets	132	-
Provision for mine closure costs	243	132
Stock-based compensation	46	-
Derivative income		
- Note 2(c) and 6(d)	(470)	-
	19,481	11,361
Changes in non-cash working capital - Note 10	(7,203)	(1,002)
	12,278	10,359
Financing Activities		
Repayment of project term loan	(9,226)	(12,765)
Issuance of common shares	2,303	243
Mine closure deposit	(300)	(300)
Obligations under capital leases	(203)	(251)
	(7,426)	(13,073)
Investing Activities		
Short-term investments	(7)	(28)
Additions to plant, equipment and pre-stripping	(3,560)	(2,323)
Mining claims, exploration and development costs	(160)	(589)
	(3,727)	(2,940)
Increase (decrease) in cash and cash equivalents	1,125	(5,654)
Cash and cash equivalents, beginning of period	11,950	11,536
Cash and cash equivalents, end of period	\$ 13,075	\$ 5,882

Notes to the March 31, 2004 Consolidated Financial Statements

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



1. Basis of Presentation

These unaudited interim 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 audited annual consolidated financial statements included in the Company's annual report to shareholders for the year ended December 31, 2003. Accordingly, these consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for 2003.

2. Changes in Accounting Policies

(a) Stock-based Compensation

As discussed in the audited annual consolidated financial statements, effective January 1, 2003, the Company changed its method of accounting for stock options from the intrinsic value method to one that recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees and directors. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. An expense of \$46 was recorded in the three months ended March 31, 2004 (three months ended March 31, 2003 - nil).

(b) Asset Retirement Obligations

Also, as disclosed in the audited annual consolidated financial statements, effective January 1, 2003, the Company adopted a new accounting standard of the Canadian Institute of Chartered Accountants ("CICA") for asset retirement obligations which harmonizes the accounting with Generally Accepted Accounting Principles in the U.S. This standard significantly changed the method of accounting for future site restoration costs. Under this new standard, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and depreciated over the estimated life of the mine. This change in accounting policy was applied retroactively and, accordingly, the consolidated financial statements of prior periods were restated. An expense of \$243 was recorded in the three months ended

March 31, 2004 for accretion of the mine closure obligation and amortization of mining interests. This change in accounting policy did not have a material impact on the three months ended March 31, 2003.

(c) Hedging Relationships

In 2003, the CICA finalized amendments to Accounting Guideline AcG-13, "Hedging Relationships" that clarified certain of the requirements in AcG-13 and provided additional documentation and application guidance. AcG-13 is applicable for the Company's 2004 fiscal year. As a result of AcG-13, the Company has marked to market its forward foreign exchange contracts beginning January 1, 2004. The impact of this change is an increase to derivative income of \$470 in the three month period ended March 31, 2004.

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 for up to a seven month period prior to the balance sheet date. At March 31, 2004, concentrate awaiting settlement included 152,458 ounces of palladium (December 31, 2003 - 147,570). Concentrate awaiting settlement was entirely from two domestic customers at March 31, 2004 and December 31, 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. Crushed and Broken Ore Stockpiles

Crushed and broken ore stockpiles are valued at the lower of average production cost and net realizable value. The amount of stockpiled ore that is not expected to be processed within one year is shown as a long-term asset.

5. 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 March 31, 2004, the Company had \$5,033 on deposit with the Ministry and has agreed to make monthly deposits of \$100.

6. Commitments

The Company enters into Forward Commodity sales contracts from time to time to hedge the effect of changes in the prices of metals it produces on the Company's revenues.

Gains and losses realized on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales when the hedge transaction occurs.



(a) Platinum Forward Contracts

At March 31, 2004, the Company had forward sales contracts for 14,000 ounces of platinum at an average price of US\$763 per ounce maturing at various dates through December 2004. As at March 31, 2004, the fair value of these forward sales contracts was below their carrying value by \$206.

(b) Nickel Swap Contracts

At March 31, 2004, the Company had swap contracts for 1,785,000 lbs. of nickel at an average fixed price of US\$5.67 per lb. maturing at various dates through December 2004. As at March 31, 2004, the fair value of these swap contracts was below their carrying value by \$636.

(c) Copper Swap Contracts

At March 31, 2004, the Company had swap contracts for 3,967,000 lbs. of copper at an average fixed price of US\$1.16 per lb. maturing at various dates through December 2004. As at March 31, 2004, the fair value of these swap contracts was below their carrying value by \$470.

(d) Forward Foreign Exchange Contracts

At March 31, 2004, the Company had forward foreign exchange contracts outstanding for US\$45,000,000 at an average exchange rate of \$1.35 maturing at various dates through December 31, 2004. At March 31, 2004, the fair value of these contracts was \$1,671, of which \$1,200 is included in revenue from metal sales as a mark-to-market adjustment for concentrate awaiting settlement, and \$471 is recorded as derivative income in the three months ended March 31, 2004.

7. Long-Term Debt

The Company's long-term debt, comprising its project term loan and Kaiser-Francis credit facility, is denominated in US dollars. At March 31, 2004, the outstanding long-term debt, including current and long-term portions was \$48,216 (US\$36,813) compared to \$56,676 (US\$43,844) at December 31, 2003. During the first quarter 2004, the Company's long-term debt was reduced by \$8,460 as a result of repayments of \$9,226 and a foreign exchange loss of \$766 due to a strengthening Canadian dollar.

8. 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:

	Three Months Ended March 31 2004
Income tax provision using statutory income tax rates	3,927
Increase (decrease) in taxes resulting from:	
Resource allowance	(950)
Non-taxable portion of capital gains	(128)
Federal large corporations taxes	216
Ontario mining taxes	986
Other	26
Income tax expense	4,077

9. Capital Stock

As at March 31, 2004, the Company had 51,113,097 common shares issued and outstanding (December 31, 2003 - 50,895,338). At March 31, 2004, the Company had 843,851 options outstanding at a weighted-average exercise price of \$8.90, expiring at various dates from March 3, 2005 to September 2, 2011.

10. Changes in Non-Cash Working Capital

	Three Months Ended March 31 2004	2003
Decrease (increase) in:		
Concentrate awaiting settlement	\$ (5,990)	\$ (771)
Inventories and stockpiles	(83)	1,849
Accounts receivable and other assets	284	112
	(5,789)	1,190
Increase (decrease) in:		
Accounts payable and accrued liabilities	(2,614)	(2,573)
Taxes payable	1,200	381
	(1,414)	(2,192)
Changes in non-cash working capital	\$ (7,203)	\$ (1,002)

11. Revenue from Metal Sales

	Three Months Ended March 31 2004	2003
Palladium (a)	\$ 31,723	\$ 24,208
Palladium forward contracts (b)	—	10,634
Adjustments for mark-to-market	2,312	(798)
Nickel	6,229	3,848
Platinum	5,534	4,144
Gold	3,306	1,615
Copper	2,912	1,281
Other metals	1,140	188
	\$ 53,156	\$ 45,120



(a) 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. Palladium revenue includes the impact of the Palladium Sales Contract.

(b) The Company entered into palladium forward contracts in 2001 for 100,800 ounces of palladium at an average price of US\$922 per ounce, the revenue from which was fully realized by June 30, 2003. 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.

Forward-Looking Statements

Certain statements included in this 2004 first quarter interim report, financial statements for the period ended March 31, 2004 and management's discussion and analysis are forward-looking statements which are made pursuant to the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. They include 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. When used herein, words such as "estimate", "expect", "intend", and other similar expressions are intended to identify forward-looking statements. In particular statements relating to estimated cash flows, capital costs, ore production, mine life, financing and construction are forward-looking statements. Such forward-looking statements involve inherent risks and uncertainties and are subject to factors, many of which are beyond our control, that may cause 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 expressed or implied by such forward-looking statements include among others metal price volatility, economic and political events affecting metal supply and demand, fluctuations in ore grade, ore tonne milled, geological, technical, mining or processing problems, future profitability and production, and availability of financing on acceptable terms. For a more comprehensive review of risk factors, please refer to 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. Readers are cautioned not to put undue reliance on these forward-looking statements.

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Bruce W. Mackie, P.Geo.
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