

North American  
Palladium Ltd.

Third Quarter  
Report  
2004



*Building  
Value*



## Management's Discussion and Analysis of Financial Results



### Third 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 and nine months ended September 30, 2004, compared to those of the respective periods in the prior year. This Management's Discussion and Analysis has been prepared as of November 9, 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 September 30, 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, jewelry and chemical sectors.

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 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.

Based on the positive feasibility study the Company commenced the development of an underground mine at its Lac des Iles operations in the second quarter 2004. 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 is financing this equipment through a vendor lease program. By the end of the third quarter the main ramp had been advanced 340 metres. The underground development is progressing toward full production in 2006.

Earlier this year, 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 final construction of the secondary crusher is progressing on schedule, with anticipated plant commissioning by the end of November. The Company plans to finance the \$50 million total capital cost for the underground mine and secondary crusher projects with operating cash flow and a new senior credit facility which was finalized in the second quarter.

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 the wide market price spread between platinum and palladium, which should accelerate consumption of palladium.

#### Production Statistics

	Third Quarter September 30		Nine Months September 30	
	2004	2003	2004	2003
Palladium (oz)	79,174	76,729	246,405	194,589
Payable Palladium (oz)	72,221	70,207	224,987	177,889
Platinum (oz)	6,352	5,887	19,654	16,388
Gold (oz)	6,745	6,200	20,749	15,814
Copper (lbs)	1,986,471	1,877,355	6,232,174	4,848,416
Nickel (lbs)	1,090,932	976,533	3,472,451	2,665,055
Ore Tonnes Milled	1,301,378	1,307,822	4,095,602	3,659,046
Ore Tonnes Mined	1,356,158	1,068,416	3,538,041	3,074,569
Waste Tonnes Mined	2,842,785	2,176,945	8,694,031	7,672,139
Waste Strip Ratio	2.10:1	2.04:1	2.46:1	2.50:1

#### Summary of Quarterly Results

(\$000, except per share amounts)	2002		2003				2004	
	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
Revenue from metal sales	43,904	45,120	44,631	42,585	59,805	53,156	51,712	45,154
Net income	(1,579)	8,390	10,361	3,535	16,092	6,121	2,834	6,598
Net income (loss) per share	(0.03)	0.17	0.20	0.07	0.32	0.12	0.06	0.13
Full diluted net income (loss) per share	(0.03)	0.17	0.20	0.07	0.31	0.12	0.06	0.13

#### Results of Operations

In the third quarter of 2004, spot palladium prices averaged US\$216 per ounce, versus the previous year when spot palladium averaged US\$189 per ounce. The Company's Palladium Sales Contract provides for a minimum floor price of US\$325 per ounce, which was the realized palladium price in the third quarter. Realized prices for by-product metals were substantially higher in the third quarter of 2004 compared to the third quarter of 2003, most notably platinum at US\$841 per ounce, nickel at US\$6.03 per lb., gold at US\$415 and copper at US\$1.18 per lb. This compares to realized prices for platinum of US\$707 per ounce, nickel at US\$4.60 per lb., gold at US\$387 per ounce and copper at \$0.81 per lb. in

#### Key Financial Statistics

	Third Quarter September 30		Nine Months Ended September 30	
(\$000's)	2004	2003	2004	2003
Revenue from metal sales	45,154	42,585	150,022	132,336
Net income	6,598	3,535	15,553	22,286
Net income per share (dollars basic and diluted)	0.13	0.07	0.30	0.44
Operating cash flow	17,851	14,243	51,101	38,010
Long-term debt, including current portion			41,817	71,002
Shareholders' Equity			324,676	283,429

Common shares outstanding  
(as at September 30) 51,629,117 50,806,098

the third quarter 2003. Partially offsetting the higher realized metal prices was a strengthening Canadian dollar, which averaged US\$0.76 in the third quarter of 2004, compared to US\$0.72 in the third quarter of 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 September 30, 2004 of \$6,598,000 or \$0.13 per share on revenues from metal sales of \$45,154,000



compared to net income of \$3,535,000 or \$0.07 per share on revenue from metal sales of \$42,585,000 for the corresponding period a year earlier. The results for the third quarter 2004 include an insurance recovery of \$7,148,000 (net of tax - \$4,352,000) relating to losses incurred in connection with the failure of the primary crusher in 2002.

For the nine months ended September 30, 2004, the Company reported net income of \$15,553,000 or \$0.30 per share on revenue of \$150,022,000 compared to net income of \$22,286,000 or \$0.44 per share on revenues of \$132,336,000 for the nine months ended September 30, 2003. The results for the latest nine month period include a foreign exchange loss of \$930,000 (net of tax - \$828,000) compared to a foreign exchange gain of \$15,909,000 (net of tax - \$11,175,000) in the nine months ended September 30, 2003, which primarily relates to the Company's US dollar denominated long-term debt. After adjusting for the insurance recovery and foreign exchange, the adjusted net income was \$12,029,000 or \$0.24 per share for the nine months ended September 30, 2004, compared to adjusted net income of \$11,111,000 or \$0.22 per share for the nine months ended September 30, 2003.

During the third quarter, the mill processed 1,301,378 tonnes of ore, or an average of 14,145 tonnes per day, with a palladium grade of 2.53 grams per tonne, producing 79,174 ounces of palladium at a recovery rate of 74.8%. This compares with the third quarter of 2003, when the mill processed 1,307,822 tonnes of ore, or 14,215 tonnes per day, with a palladium grade of 2.47 grams per tonne, producing 76,729 ounces of palladium at a recovery rate of 74.0%. Production in the current quarter was affected by a scheduled mill shutdown, which was done to accommodate the new secondary crusher facility tie-in.

Production costs including overheads but excluding non-cash amortization were \$25,020,000 during the third quarter 2004 compared to \$22,927,000 during the third quarter 2003. The higher production costs in the current quarter primarily relate to a 29% increase in tonnes of ore and waste mined and a higher ratio of secondary crushed mill feed.

Total unit cash costs to produce palladium (production costs including smelter treatment and refining costs, net of by-product credits and royalties) were US\$135 per ounce in the third quarter 2004 compared to US\$138 per ounce in the third quarter 2003.

The production of platinum, gold, nickel and copper and the significant improvement in the prices for these by-product metals in the third quarter of 2004 made a significant contribution to operations and resulted in a reduction of the unit cash costs for palladium by US\$216 per ounce compared to a reduction of US\$176 per ounce in the third quarter of 2003.

Non-cash amortization expense increased to \$9,411,000 during the quarter compared to \$8,753,000 in the third quarter 2003. Exploration expense was \$366,000 in the third quarter of 2004 compared to \$470,000 in the corresponding 2003 period. With the increased activities on the Company's exploration projects, future exploration expenses are anticipated to be significantly higher.

As a result of the reduction in outstanding long-term debt, interest expense on long-term debt reduced to \$410,000 in the current quarter compared to \$855,000 in the third quarter of 2003.

#### **Cash Flow and Financial Position**

Cash flow from operations, prior to changes in non-cash working capital, was \$17,851,000 in the third quarter 2004 compared to \$14,243,000 in the third quarter 2003. After allowing for working capital changes, cash provided by operations was \$29,783,000 in the third quarter of 2004 compared to \$11,020,000 in the third quarter of 2003. Cash flow from operations, prior to changes in non-cash working capital, was \$51,101,000 in the first nine months of 2004, a 34.4% improvement compared to the first nine months of 2003. The improvement in the nine month operating cash flow was driven by a 27% improvement in palladium production and much stronger by-products prices, offset in part by the impact of 25,200 ounces of palladium production priced at US\$899 per ounce in the year-earlier period. After allowing for working capital changes, cash provided by operations was \$62,211,000 in the first nine months of 2004 compared to \$42,202,000 in the first nine months of 2003.

Investing activity in the third quarter required \$8,392,000 of cash, with the main capital spending activities being the construction of the secondary crusher facility, ongoing underground mine development and the expansion of the tailings management facility. Final



construction of the crusher plant is progressing as scheduled and the Company expects to commission the crusher by the end of November after which milling costs are expected to be reduced by about \$2.00 per tonne.

Long-term debt, including current and long-term portions was reduced by \$3,675,000 in the third quarter as a result of repayments of \$1,264,000 and a foreign exchange gain of \$2,411,000, resulting in a long-term debt balance of \$38,549,000 (US\$30,500,000) at quarter end. During the quarter, the Company issued 300,519 common shares for total consideration of \$4,091,000, the majority of which was from a flow-through share private placement. At September 30, 2004, the Company had cash and cash equivalents of \$48,328,000 of which approximately \$32 million was invested in short-term deposits.

During the quarter, the Company received \$7,148,000 as an interim payment against a claim filed with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. The Company has included this insurance recovery in income from mining operations in the third quarter. The Company is pursuing the balance of its insurance claim and will record any additional recovery in income if and when received.

#### Contractual Obligations as at September 30, 2004

(\$000's)	Total	Payments Due by Period		
		Less Than 1 Year	1 - 3 Years	4 - 5 Years
Senior credit facility	24,014	5,056	15,166	3,792
Kaiser-Francis credit facility	14,535	–	14,535	–
Capital lease obligations	3,268	1,194	1,816	258
Operating leases	2,172	901	1,180	91
Other purchase obligations	5,088	5,088	–	–
	49,077	12,239	32,697	4,141

## 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 was an increase to derivative income of \$213,000 in the six months ended June 30, 2004. Commencing July 1, 2004 these foreign exchange contracts were designated as a hedge of U.S. dollar revenue and are accounted for in revenue as realized.

### 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, metal prices, exchange rates 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) 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, gold, 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 and cash settled nickel and copper price swap contracts to insulate its earnings 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 third quarter of 2004, the hedge position reduced to 7,678 ounces of platinum, 270 tonnes of nickel and 600 tonnes of copper.

#### (d) Forward Foreign Exchange Contracts

At September 30, 2004, the Company had forward foreign exchange contracts outstanding for US\$15,000,000 at an average exchange rate of \$1.35 maturing at various dates through December 31, 2004. At September 30, 2004, the fair value of these contracts was \$1,317,000, of which \$1,104,000 was included in revenue from metal sales as a mark-to-market adjustment for concentrate awaiting settlement in the three months ended September 30, 2004 and \$213,000 was recorded as derivative income in the nine months ended September 30, 2004.

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

(as of September 30, 2004)

Platinum ounces hedged	3,178 (or less than 15% of 2004's expected production) and 4,500 (or less than 20% of 2005's expected production)
Maturity date of platinum sales contracts	June 2005
Weighted-average estimated platinum sales contract price up to maturity date	US\$806/oz. <sup>1</sup>
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 June 30, 2005)
Unrealized mark-to-market loss at September 30, 2004	US\$94,500 <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> The September 30, 2004 spot platinum price of US\$854 per ounce was used to determine the unrealized mark-to-market loss for the platinum forward sale contracts that have been taken into revenue.

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

(as of September 30, 2004)

Nickel tonnes hedged	270 (or less than 15% 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.) <sup>1</sup>
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 position at September 30, 2004	Nil <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> At September 30, 2004, no nickel swap contracts were outstanding that have not been taken into revenue.



### Fixed-price Copper Swap Contracts (the “Copper Hedge Position”) (as of September 30, 2004)

Copper tonnes hedged	600 tonnes (or less than 20% 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.) <sup>1</sup>
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 gain at September 30, 2004	Nil <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> At September 30, 2004, no nickel swap contracts were outstanding that have not been taken into revenue.

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 third quarter of 2004 was \$161,000 and \$438,000 for the nine months ended September 30, 2004.

In December 2001, Kaiser-Francis provided a US\$20 million non-revolving credit facility to finance the Company's working capital requirements. In the second quarter 2004, the Kaiser-Francis credit facility was extended to June 30, 2006. Interest is based upon the 30-day LIBOR plus 2.50% and the stand-by fee is 0.125% per annum. The amount payable to Kaiser-Francis for interest and standby fee for the third quarter was \$109,000. Kaiser-Francis holds 50.4% of the common shares of the Company.

### Exploration & Development

During the third quarter of 2004, the Company completed a private placement of flow-through shares for gross proceeds of \$4,050,000 by issuing 270,000 common shares. The funds will be used for the upcoming diamond drill programs on various exploration projects, as well as to fund exploration on new acquisitions currently being pursued.

Drilling commenced on the Shebandowan Project late in the third quarter. Approximately 3,000 metres of drilling are planned to test selected airborne geophysical targets associated with ultramafic bodies, which have the same rocks hosting the adjoining past producing, Shebandowan nickel mine. In addition, a high-grade palladium bearing breccia occurrence and a gold bearing quartz-vein, discovered during the course of last year's prospecting program, will also be drilled.

At the Lac des Iles mine site, the Company is advancing its 2004 exploration program with a deep hole to test the extension of the High-Grade Offset Zone. The drilling program will be conducted at a vertical depth of 1,500 metres or approximately 600 metres down dip from the nearest existing drill intercepts, which delineate the one million plus ounce palladium inferred resource in the High-Grade Offset Zone. A second drill rig is scheduled to move onto the mine site to start a 5,000-metre drill program to evaluate several targets within the Lac des Iles Intrusive Complex including the Creek, Baker and South-East Roby Zones.



### Risks and Uncertainties

The price of palladium is the most significant factor influencing the profitability of the Company. In the third quarter of 2004, sales of palladium accounted for approximately 60% 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. At September 30, 2004, the Company had outstanding hedges for US\$15,000,000 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.

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.

### Non-GAAP Measure

North American Palladium has included in this document a non-GAAP performance measure for cash cost per ounce. This non-GAAP measure does not have any standardized meaning nor is it necessarily comparable with similar measures presented by other companies. North American Palladium believes that certain investors use this information to evaluate the Company's performance. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

### Reconciliation of Cash Cost per Ounce to Financial Statements

<i>(in thousands except per ounce amounts)</i>	Three Months Ended September 30 <b>2004</b>		Nine Months Ended September 30 <b>2004</b>	
Production costs including overhead	<b>24,245</b>	22,338	<b>76,732</b>	74,566
Smelter treatment and refining costs	<b>5,268</b>	4,425	<b>17,919</b>	12,473
	<b>29,513</b>	26,763	<b>94,651</b>	87,039
Less: by-product metal revenue	<b>(18,163)</b>	(14,988)	<b>(56,785)</b>	(36,817)
	<b>11,350</b>	11,775	<b>37,866</b>	50,222
Divided by ounces of palladium	<b>66,674</b>	63,073	<b>213,327</b>	165,371
Cash cost per ounce (C\$)	<b>170</b>	187	<b>178</b>	304
C\$ exchange rate at quarter end	<b>1.2639</b>	1.3506	<b>1.3047</b>	1.3921
Cash cost per ounce (US\$)	<b>135</b>	138	<b>136</b>	218





### Reconciliation Between Net Income in Accordance with Canadian GAAP and Adjusted Net Income

The adjusted net income reported in this analysis has not been calculated in accordance with Canadian GAAP, the accounting principles under which our consolidated financial statements are prepared, and there is no standard definition in such principles for such adjusted net income or loss. Accordingly, it is unlikely that comparisons can be made among different companies in terms of such adjusted results reported by them.

The following table provides a reconciliation between our adjusted net income and net income as reported in accordance with Canadian GAAP for the nine month periods ended September 30, 2004 and September 30, 2003:

<i>(in thousands except per share amounts)</i>	Net Income		Basic Net Income	
	Nine Months Ended September 30		Per Share Nine Months Ended September 30	
	2004	2003	2004	2003
Canadian GAAP net income as reported	\$ 15,553	\$ 22,286	\$ 0.30	\$ 0.44
Foreign exchange (gain) loss net of tax	828	(11,175)	0.02	(0.22)
Insurance recovery net of tax	(4,352)	-	(0.08)	-
Adjusted net income	\$ 12,029	\$ 11,111	\$ 0.24	\$ 0.22

### Management's Outlook

Production from the Lac des Iles Mine continued to be ahead of budget in the third quarter of 2004, which the Company expects to result in the total year's production also being better than planned. Both the new secondary crusher construction and the underground mine development continue to progress on schedule. The construction of our new crusher progressed as planned during the third quarter and as a result we look forward to a successful start-up later this month. The new secondary crusher is forecast to reduce our annual milling costs by about \$2.00 per tonne. The underground mine continues to advance on schedule in good and stable ground conditions. Excavation of the ventilation raise and secondary escape passageway will begin during fourth quarter of 2004.

Palladium metal prices continued to remain in a narrow trading range during the third quarter and are expected to remain as such in the short-term until consumer demand improves. However, of note, China has purchased 19.4 tonnes of palladium during the first 9 months of this year, signaling the re-emergence of palladium jewelry demand. Palladium prices are forecast to remain in the \$210 to \$220 per ounce range for the rest of the year and not subject to any significant activity until the first quarter of 2005. With the US dollar remaining weak and the South African Rand remaining strong, we expect to see continued delays in the development of planned South African platinum/palladium projects.

Management continues to focus on mine operations, corporate growth, and improving the Company's financial position. We are pleased to have improved our financial position from one of considerable net debt a year ago, to having more cash on hand than debt at September 30, 2004.



North American Palladium Ltd.

## Consolidated Balance Sheets

(Canadian funds in thousands of dollars)

### 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](http://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](http://www.sec.gov).

Respectfully,

**André J. Douchane**

PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

November 9, 2004

	September 30 2004 (Unaudited)	December 31 2003
<b>Assets</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 48,328	\$ 11,950
Restricted cash equivalents	1,116	1,813
Concentrate awaiting settlement, net - Note 3	84,242	94,610
Inventories	8,925	9,141
Crushed and broken ore stockpiles - Note 4	9,606	6,251
Accounts receivable and other assets	2,284	1,387
Future tax asset	155	84
	<b>154,656</b>	<b>125,236</b>
Mining interests, net	237,554	247,116
Mine closure deposit - Note 5	5,633	4,733
Crushed and broken ore stockpiles - Note 4	2,107	5,983
Future tax asset	2,542	9,334
Deferred financing costs	132	1,290
	<b>\$ 402,624</b>	<b>\$ 393,692</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 15,274	\$ 16,041
Taxes payable	2,983	1,311
Future tax liability	-	216
Current portion of obligations under capital leases	1,194	1,070
Current portion of senior credit facility - Note 6	5,056	34,538
	<b>24,507</b>	<b>53,176</b>
Mine closure obligation	7,519	7,300
Obligations under capital leases	2,074	1,015
Senior credit facility - Note 6	18,958	7,272
Kaiser-Francis credit facility - Note 6	14,535	14,866
Future tax liability	10,355	10,108
	<b>77,948</b>	<b>93,737</b>
<b>Shareholders' Equity</b>		
Capital stock - Note 8	322,257	313,489
Contributed surplus	400	-
Retained earnings (deficit)	2,019	(13,534)
Total shareholders' equity	<b>324,676</b>	<b>299,955</b>
	<b>\$ 402,624</b>	<b>\$ 393,692</b>

These financial statements have been prepared by Management of North American Palladium Ltd. and the prior year financial statements have not been reviewed by the auditor of 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	
	2004	2003	2004	2003
<b>Revenue from metal sales - Note 10</b>	<b>\$ 45,154</b>	<b>\$ 42,585</b>	<b>\$ 150,022</b>	<b>\$ 132,336</b>
Deduct: smelter treatment and refining costs	(4,493)	(3,836)	(15,514)	(10,724)
Net revenue from mining operations	40,661	38,749	134,508	121,612
<b>Operating expenses</b>				
Production costs, excluding amortization and asset retirement costs	25,020	22,927	79,138	76,315
Insurance recovery	(7,148)	-	(7,148)	-
Amortization	9,411	8,753	28,142	18,468
Administrative	1,500	889	3,789	2,499
Exploration	366	470	1,313	1,571
Loss on disposal of capital assets	-	342	623	3,052
Asset retirement costs	236	95	702	354
Total operating expenses	29,385	33,476	106,559	102,259
<b>Income from mining operations</b>	<b>11,276</b>	<b>5,273</b>	<b>27,949</b>	<b>19,353</b>
<b>Other income (expenses)</b>				
Interest on long-term debt	(410)	(855)	(1,308)	(2,580)
Foreign exchange gain (loss)	116	1,048	(930)	15,909
Derivative income - Note 2(c) and 11(d)	-	-	213	-
Write-off of deferred financing costs	-	-	(788)	-
Interest income	168	83	282	228
Interest expense	(12)	(11)	(23)	(11)
Total other income (expenses)	(138)	265	(2,554)	13,546
<b>Income before income taxes</b>	<b>11,138</b>	<b>5,538</b>	<b>25,395</b>	<b>32,899</b>
Provision for income taxes - Note 7	4,540	2,003	9,842	10,613
<b>Net income for the period</b>	<b>6,598</b>	<b>3,535</b>	<b>15,553</b>	<b>22,286</b>
Deficit, beginning of period	(4,579)	(32,786)	(13,534)	(51,537)
<b>Retained earnings (deficit), end of period</b>	<b>\$ 2,019</b>	<b>\$ (29,251)</b>	<b>\$ 2,019</b>	<b>\$ (29,251)</b>
<b>Net income per share</b>				
- Basic	\$ 0.13	\$ 0.07	\$ 0.30	\$ 0.44
- Diluted	\$ 0.13	\$ 0.07	\$ 0.30	\$ 0.44
Weighted average number of shares outstanding - basic	51,600,035	50,792,361	51,277,682	50,738,867

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net income for the period	\$ 6,598	\$ 3,535	\$ 15,553	\$ 22,286
Operating items not involving cash				
Future income tax expense	3,845	1,573	7,106	9,532
Amortization	9,411	8,753	28,142	18,468
Unrealized foreign exchange gain	(2,411)	(55)	(1,862)	(15,682)
Loss on disposal of capital assets	-	342	623	3,052
Write-off of deferred financing costs	-	-	788	-
Provision for mine closure costs	236	95	702	354
Stock-based compensation	172	-	262	-
Derivative income - Note 2(c) and 11(d)	-	-	(213)	-
	17,851	14,243	51,101	38,010
Changes in non-cash working capital - Note 9	11,932	(3,223)	11,110	4,192
	29,783	11,020	62,211	42,202
<b>Financing Activities</b>				
Repayment of project term loan	-	(11,626)	(41,810)	(35,936)
Increase in senior credit facility	-	-	26,809	-
Repayment of senior credit facility	(1,264)	-	(1,264)	-
Issuance of common shares	4,091	232	8,768	697
Mine closure deposit	(300)	(300)	(900)	(900)
Obligations under capital leases	(422)	664	(1,298)	140
	2,105	(11,030)	(9,695)	(35,999)
<b>Investing Activities</b>				
Additions to mining interests	(8,392)	(2,802)	(17,286)	(13,199)
Proceeds on disposal of capital assets	-	6	451	114
Short-term investments	-	(47)	697	(109)
	(8,392)	(2,843)	(16,138)	(13,194)
<b>Increase (decrease) in cash and cash equivalents</b>	23,496	(2,853)	36,378	(6,991)
Cash and cash equivalents, beginning of period	24,832	7,398	11,950	11,536
<b>Cash and cash equivalents, end of period</b>	\$ 48,328	\$ 4,545	\$ 48,328	\$ 4,545

## Notes to the September 30, 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 \$172 was recorded in the three months ended September 30, 2004 (three months ended September 30, 2003 - nil) and \$262 in the nine months ended September 30, 2004 (nine months ended September 30, 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 \$236 and \$702 was recorded in the three months and nine months ended September 30, 2004 respectively 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 financial statements for the nine months ended September 30, 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 was an increase to derivative income of \$213 in the six-months ended June 30, 2004. Commencing July 1, 2004 these foreign exchange contracts were designated as a hedge of U.S. dollar revenue and are accounted for in revenue as realized.

### 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 prior to the balance sheet date. At September 30, 2004, concentrate awaiting settlement included 137,037 ounces of palladium (December 31, 2003 - 147,570). Concentrate awaiting settlement was entirely from two domestic customers at September 30, 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 estimated 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 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, 2004, the Company had \$5,633 on deposit with the Ministry and has agreed to make monthly deposits of \$100.

## 6. Long-Term Debt

The Company’s long-term debt, comprising its senior credit facility and Kaiser-Francis credit facility, is denominated in US dollars. At September 30, 2004, the outstanding long-term debt, including current and long-term portions was \$38,549 (US\$30,500) compared to \$56,676 (US\$43,844) at December 31, 2003. The interest rate under both facilities is LIBOR plus 250 basis points, or 4.34% at September 30, 2004. The senior credit facility is a five-year amortizing loan with a maturity of June 30, 2009 and the Kaiser-Francis facility matures on June 30, 2006.

## 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:

	Nine Months Ended September 30 2004	Nine Months Ended September 30 2003
Income tax provision using statutory income tax rates	\$ 9,777	\$ 13,460
Increase (decrease) in taxes resulting from:		
Resource allowance	(1,828)	(1,904)
Non-taxable portion of capital gains	(1,179)	(1,728)
Changes in income tax rates and laws	–	(545)
Federal large corporations tax	645	578
Ontario mining taxes	1,641	1,906
Other	786	(1,154)
Income tax expense	\$ 9,842	\$ 10,613

## 8. Capital Stock

	Sept. 30, 2004		Sept. 30, 2003	
	Shares	Amount	Shares	Amount
Common shares issued, beginning of period	50,895,338	\$ 313,489	50,647,955	\$ 311,983
Common shares issued:				
Pursuant to stock options exercised	405,380	4,253	–	–
Group RRSP participants	58,399	694	158,143	698
Private placement	270,000	3,821	–	–
Common shares issued, end of period	51,629,117	\$ 322,257	50,806,098	\$ 312,681

At September 30, 2004, the Company had 879,110 options outstanding at a weighted average exercise price of \$9.77, expiring at various dates from March 3, 2005 to June 23, 2012. In the second quarter of 2004 the Company granted 287,300 options to directors, officers and employees at an exercise price of \$11.90 per share. The fair market value of the options grant was \$5.48 per option and has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.7%, expected dividend yield of nil, expected volatility of 55% and expected option life of 4 years. The estimated fair value of the options is being expensed over the three year option vesting period.

## 9. Changes in Non-Cash Working Capital

	Three Months Ended September 30 2004		September 30 2003	
Decrease (increase) in:				
Concentrate awaiting settlement	\$ 12,880	\$ (1,161)	\$ 10,368	\$ 2,417
Inventories and stockpiles	(546)	197	737	1,716
Accounts receivable and other assets	(516)	(294)	(684)	345
	11,818	(1,258)	10,421	4,478
Increase (decrease) in:				
Accounts payable and accrued liabilities	(247)	(2,110)	(767)	(540)
Taxes payable	361	145	1,456	254
	114	(1,965)	689	(286)
Changes in non-cash working capital	\$ 11,932	\$ (3,223)	\$ 11,110	\$ 4,192



## 10. Revenue from Metal Sales

	Three Months Ended September 30, <b>2004</b>		Nine Months Ended September 30, <b>2004</b>	
		2003		2003
Palladium (a)	<b>\$ 27,388</b>	\$ 27,685	<b>\$ 90,534</b>	\$ 74,486
Palladium forward contracts (b)	—	—	—	20,437
Adjustments for mark-to-market	<b>(398)</b>	(88)	<b>2,700</b>	597
Nickel	<b>6,718</b>	5,456	<b>19,976</b>	13,381
Platinum	<b>5,622</b>	4,860	<b>17,383</b>	12,321
Gold	<b>2,761</b>	2,827	<b>8,465</b>	6,305
Copper	<b>2,598</b>	1,636	<b>8,614</b>	4,200
Other metals	<b>465</b>	209	<b>2,350</b>	609
	<b>\$ 45,154</b>	\$ 42,585	<b>\$150,022</b>	\$ 132,336

(a) The Company has 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.

## 11. Commitments

The Company enters into forward contracts from time to time to hedge the effects of changes in the prices of metals it produces and foreign exchange 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 September 30, 2004, the Company had forward sales contracts for 7,678 ounces of platinum at an average price of US\$806 per ounce maturing at various dates through June 2005. As at September 30, 2004, the fair value of these forward sales contracts was below their carrying value by \$119.

### (b) Nickel Swap Contracts

At September 30, 2004, the Company had swap contracts for 595,000 lbs. of nickel at an average fixed price of US\$5.67 per lb. maturing at various dates through December 2004. As at September 30, 2004, the fair value of these swap contracts approximated their carrying value.

### (c) Copper Swap Contracts

At September 30, 2004, the Company had swap contracts for 1,322,000 lbs. of copper at an average fixed price of US\$1.16 per lb. maturing at various dates through December 2004. As at September 30, 2004, the fair value of these swap contracts approximated their carrying value.

### (d) Forward Foreign Exchange Contracts

At September 30, 2004, the Company had forward foreign exchange contracts outstanding for US\$15,000,000 at an average exchange rate of \$1.35 maturing at various dates through December 31, 2004. At September 30, 2004, the fair value of these contracts was \$1,317, of which \$1,104 was included in revenue from metal sales as a mark-to-market adjustment for concentrate awaiting settlement, and \$213 was recorded as derivative income.

## 12. Comparative Period Figures

Certain prior period amounts have been reclassified to conform to the classification adopted in the current period.



#### Forward-Looking Statements

Certain statements included in this 2004 third quarter interim report, financial statements for the period ended September 30, 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", "budget", "plan", "projection" and other similar expressions are intended to identify forward-looking statements. In particular statements relating to estimated future metal prices, cash flows, expenses, capital costs, ore production, mine life, financing, construction and commissioning 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, changes in the US/CDN dollar exchange rate, economic and political events affecting metal supply and demand, fluctuations in ore grade, ore tonnes milled, geological, technical, mining or processing problems, future profitability, production, availability of financing on acceptable terms and unexpected problems during development, construction and start-up phases of the underground mine, or the construction and commissioning of the new secondary crusher. For a more comprehensive review of risk factors, please refer to the section above titled "Risks and Uncertainties" and 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 Canada 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.

For additional information on the Company's mineral reserves and resources see the Company's most recent Annual Information Form.

## Corporate Information

#### DIRECTORS

**Michael P. Amsden**  
**Steven R. Berlin**  
**André J. Douchane**  
**James D. Excell**  
**Louis J. Fox**  
**Richard H. Sutcliffe**  
**Greg J. Van Staveren**

#### OFFICERS AND SENIOR MANAGEMENT

**André J. Douchane**  
President and Chief Executive Officer

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

**Ray J. Mason, B.Sc.**  
General Manager

**Bruce W. Mackie, P.Geo.**  
Vice President, Exploration and  
Corporate Development

**Douglas H. Bache**  
Treasurer

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

**Mary D. Batoff, LL.B.**  
Vice President, Legal and 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](mailto: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

**KPMG LLP**  
Toronto, Ontario

#### TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
100 University Avenue,  
9th Floor  
Toronto, Ontario M5J 2Y1  
*North America*  
Toll-free: 1 (800) 564-6253  
Toll-free fax: 1 (866) 249-7775

#### International

Tel: (514) 982-7555  
Fax: (416) 263-9524  
Email:  
[service@computershare.com](mailto:service@computershare.com)  
Internet:  
[www.computershare.com](http://www.computershare.com)

#### Computershare Trust Company, Inc.

350 Indiana Street, Suite 800  
Golden, Colorado 80401  
Tel: (303) 262-0600  
Fax: (303) 262-0700

#### INVESTOR RELATIONS

Investor relations inquiries  
should be directed to:  
Tel: (416) 360-2652  
Fax: (416) 360-7709  
Email:  
[kmuhr@napalladium.com](mailto:kmuhr@napalladium.com)

#### WEBSITE

[www.napalladium.com](http://www.napalladium.com)



North American **Palladium** Ltd.

130 Adelaide Street West  
Suite 2116  
Toronto, Ontario  
Canada M5H 3P5

Tel: (416) 360-7590  
Fax: (416) 360-7709  
Email: [info@napalladium.com](mailto:info@napalladium.com)

[www.napalladium.com](http://www.napalladium.com)