



North American **Palladium** Ltd.



2000 ANNUAL REPORT

THE EMERGENCE OF A SIGNIFICANT
PALLADIUM PRODUCER



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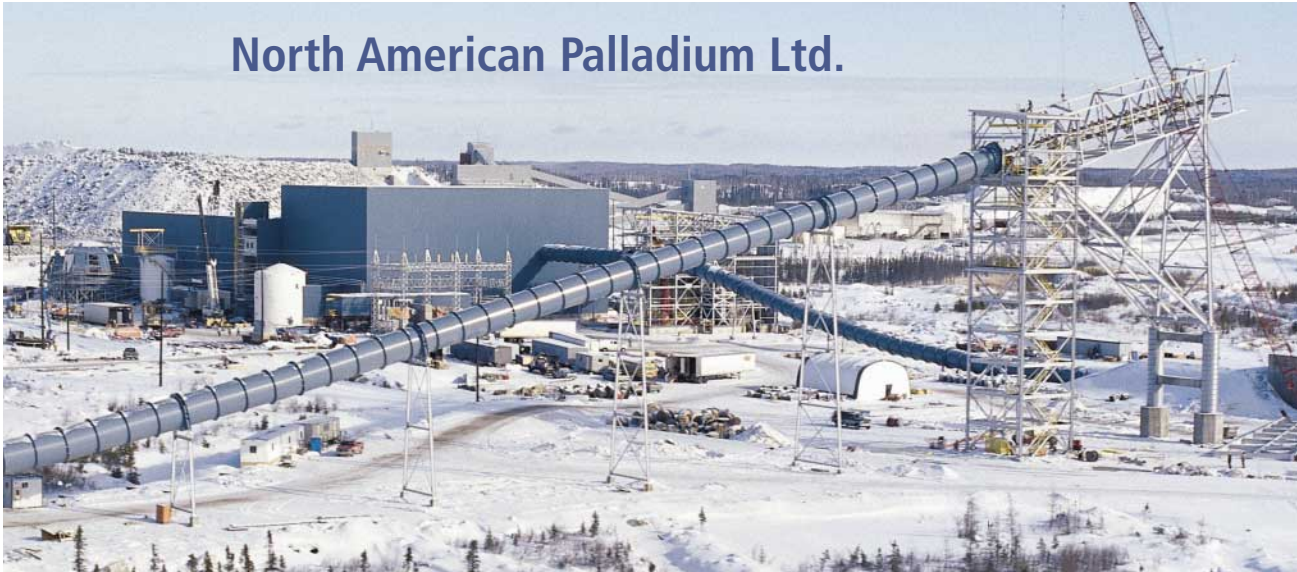
ANNUAL MEETING

North American Palladium Ltd. will hold its Annual and Special Meeting on WEDNESDAY, JUNE 6, 2001 at 10:30 am in The TSE Conference Centre Exchange Tower Main Floor 130 King Street West Toronto, Ontario Canada

2000 Annual Report

A YEAR OF ACCOMPLISHMENT

North American Palladium Ltd.



- is undertaking a \$208 million expansion of its Lac des Iles open pit mining operation 85 kilometres northwest of Thunder Bay, Ontario.
- began commissioning a new 15,000 tonnes per day concentrator in the second quarter of 2001, on schedule and on budget.
- has delineated resources containing 7.4 million ounces of palladium, and proven and probable reserves containing 4.8 million ounces of palladium, which will support a mine life of 17 years.
- expects average annual life-of-mine palladium production to increase significantly to 250,000 ounces starting in 2002.
- estimates life-of-mine cash costs will average US\$160 per ounce of palladium.
- trades on the Toronto (PDL) and American (PAL) stock exchanges. At December 31, 2000, there were 50,028,772 common shares outstanding.



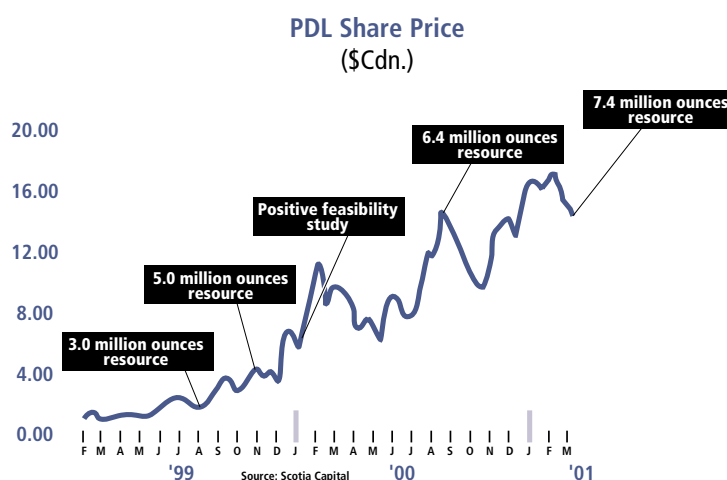
2000 Achievements

- Major mine and mill expansion at Lac des Iles on schedule and on budget.
- Resources and reserves increased by 48% and 17% respectively over 1999 estimates.
- Palladium production increased to a record 95,116 ounces.
- Six-year labour agreement ratified.
- Long-term palladium sales contract secured at favourable pricing.
- Financing arranged to fund the expansion program and strengthen the balance sheet.
- Earnings and cash flow from operations improved.
- Company's shares added to the TSE 300 Composite Index.



2001 Objectives

- Commission new concentrator in second quarter and ramp-up to full production by the end of the third quarter.
- Increase resources and reserves through additional drilling and analysis.
- Expand exploration program in Lac des Iles area.
- Target production of 200,000 ounces of palladium at a cash cost of US\$220 per ounce.



Message to Shareholders

NORTH AMERICAN PALLADIUM LTD.

THE EMERGENCE OF A SIGNIFICANT PALLADIUM PRODUCER

North American Palladium had an excellent year in 2000. We accomplished the following:

- launched a \$208 million mine expansion;
- arranged project financing and eliminated long-term debt;
- signed a long-term sales agreement and a long-term labour contract;
- and continued to increase palladium reserves and resources at our Lac des Iles mine.

Consequently, we are well along the road to becoming a significant palladium producer.

Production for the year equaled 95,116 ounces of palladium, up 48% over 1999 due primarily to the processing of higher grade ore. We reduced our cash costs to US\$142 per ounce. At the same time, the palladium price rose to new highs, as demand continued to outpace supply.

As a result of higher palladium prices and record palladium production, revenues climbed to \$109.5 million in 2000 (\$44.6 million in 1999). Net income was \$60.8 million or \$1.90 per share fully diluted compared to a net loss of \$5.2 million or \$0.84 per share the previous year. Operating cash flow improved to \$65.8 million (\$12.9 million in 1999) before changes in non-cash working capital.

Rapid progress since 1998

Three years ago, in 1998, new management initiated a detailed strategic review of the Lac des Iles mine, then being operated as a low tonnage, high grade operation. An intense exploration program followed by a detailed feasibility study completed in May 2000 confirmed that Lac des Iles could become a successful high tonnage, low grade, mining operation.

We began work immediately on the expansion which is transforming our mine from a 2,400 tonnes per day to a 15,000 tonnes per day operation. Construction of the new concentrator is on schedule and on budget. Pit preparation is well advanced, with 3.3 million tonnes of broken ore stockpiled and available to feed the new plant as we ramp-up to full-scale production. We expect to be operating at design capacity by the end of the third quarter of 2001.

Financial health restored

During 2000, the Company arranged a US\$90 million project loan with three Canadian banks and completed a \$235 million public equity issue. The proceeds from the issue were used to eliminate long-term debt and complete financing for the mine expansion. The improved operating cash flow in 2000 was used to fund capital for the expansion project, an increase in working capital and exploration activities.

We signed a long-term palladium sales agreement with a major automobile manufacturer which minimizes commodity price risk. The price we receive for our palladium is tied to the average monthly London Metal Exchange P.M. Fix. We have secured a minimum price of US\$325 per ounce on 100% of our production, and a ceiling of US\$550 per ounce on 50% of our production. The floor price provides earnings and cash flow stability, particularly when compared to the expected life-of-mine cash costs of US\$160 per ounce of palladium.

In 2000, mine-site employees ratified a six-year labour contract. One of the advantages of our Lac des Iles location is our proximity to Thunder Bay, where over 75% of our workforce resides.

CONSTRUCTION OF THE NEW CONCENTRATOR

is on schedule and on budget. As a result, we expect to be in full-scale production by the end of the third quarter of 2001.

We are pleased with our current relationship with the Ontario government which has been supportive of our expansion project. The Ontario Ministry of Northern Development and Mines provided the funding to upgrade 22 kilometres of Highway 527 to a year-round full load rating. Now trucks can transport consumables to the mine and the Company can transport concentrates to the smelters without having to incur additional costs because of weight restrictions during the spring. The Company also worked closely with the Ontario government to secure all significant environmental and land use permits for the expansion project. As a result, the province issued these permits within 60 days of application.

Exploration success

Our exploration of the Roby zone continues to be productive. Resources at December 31, 2000, were estimated to contain 7.4 million ounces of palladium, an increase of 48% since the end of 1999. To date, palladium discoveries in the Roby zone have cost North American Palladium less than US\$2.00 per ounce.

Our updated reserve figure at December 31, 2000, estimates our proven and probable reserves contained 4.8 million ounces of palladium. This is a 17% increase over the December 31, 1999, reserve estimate of 4.1 million ounces.

In 2000, we completed an \$8.5 million exploration program, drilling 232 holes for a total of 114,500 metres. With eight drills in operation at the mine site at one stage, the program was one of the largest in Canada.

Looking ahead

The new plant is expected to be operating at the designed capacity of 15,000 tonnes per day by the end of the third quarter of 2001. Palladium production for 2001 is forecast at 200,000 ounces, at a cash cost of US\$220 per ounce.

Based on the mining plan, which calls for mining of higher than average reserve grade ore in 2002 and 2003, we are estimating palladium production in excess of 300,000 ounces in each of those years. Annual production over the life of the mine is expected to average 250,000 ounces of palladium.

We shall continue our exploration drilling throughout the year in an effort to determine if further expansion of our operation might be feasible. The Roby zone has yet to be delineated laterally and at depth. In 2001, we shall continue to define the deposit to the east, west, south and at depth. The latest resource estimate was calculated using information to a depth of 640 metres. The high-grade Shear Ore was intersected to a depth of 620 metres and part of the 2001 drilling program will provide assay data for depths down to 670 metres. Testing of the mineralized zones below 670 metres is also planned.

A decision to expand production further will depend on the continuing success of our exploration program, and on engineering studies and economic conditions. Our new plant has been constructed so that future expansion can be accommodated. The primary crusher and conveying circuit have the capability of processing up to 40,000 tonnes of ore per day.

Beyond the immediate mine area we are studying the adjoining properties in the region including those which we own for potential sources of additional feed for our plant. In addition to the mine site property, North American Palladium holds considerable ground with potential for further discoveries

RESOURCES AT DECEMBER 31, 2000,

were estimated to contain 7.4 million ounces of palladium,
an increase of 48% since the end of 1999.

within a 25-kilometre radius of the Lac des Iles mine. In total, the Company holds in excess of 15,000 hectares of mining leases and claims in the area.

Outlook for palladium excellent

Demand for palladium is expected to remain robust for the next five years as governments throughout the world continue to legislate more stringent exhaust emission standards for all types of gasoline-powered engines. Palladium generally is the metal of choice for automobile manufacturers and is expected to remain so for the foreseeable future. Demand for palladium in the electronics industry increased in 2000, and is expected to remain strong in 2001. Overall, we believe that future global demand for palladium will remain strong.

To capture the current exceptional palladium prices and secure long-term profitability, the Company has hedged some of its production. We have entered into forward sales contracts for 122,900 ounces of our 2001-2003 production at an average price of US\$927 per ounce. This action provides operating margin stability and financial flexibility, including the option of accelerating the repayment of our US\$90 million project term loan. The Company will continue to hedge some of its production when the palladium price reaches acceptable target levels.

In acknowledgement

I would like to thank our Chairman, D. Joseph Graham, for the sound advice he has provided North American Palladium over the years. Joe has been involved with the Company since 1994, but has decided for personal reasons not to stand for re-election to the Board of Directors. I personally will miss him as confidant and mentor. The Board benefited from his experience and knowledge which has been invaluable, particularly when the Company was transitioning into a significant palladium producer. We all wish him well.

On behalf of the Board of Directors, our thanks go to our employees who have helped the Company move ahead so successfully over the last year. To our shareholders, old and new, we thank you for your support. We look forward to continuing our growing momentum in the years ahead.



Keith C. Minty
President and CEO

Respectfully,

A handwritten signature in dark ink, appearing to be 'K. Minty', written over a light background.

Keith C. Minty
President and Chief Executive Officer

April 7, 2001

Frequently Asked Questions

MANAGEMENT RESPONDS

- **What are the demand/supply fundamentals for palladium?**

World palladium demand has nearly doubled in the last seven years, driven primarily by increased production of autocatalysts which are used to reduce harmful air emissions. The unique physical characteristics of palladium have rendered it the metal of choice for the automobile industry. Use of palladium by automobile companies rose by 20% in 2000 and is expected to continue growing, given that global governments are enacting more stringent air emission standards. Palladium is also used in the electronics industry where demand increased by 5% in 2000, driven by increased production of multi-layer ceramic capacitors. Palladium has been in a supply deficit since 1997 and there is a general consensus that this deficit will continue over the next few years.



- **Which metals are produced from North American Palladium's Lac des Iles operation?**

We are primarily a palladium producer, with palladium accounting for 87.5% of total revenue. We also produce meaningful quantities of platinum, gold, copper and nickel, which account for the remainder of revenue.

- **Is North American Palladium exposed to palladium price risk in the event of excess Russian supply coming to market?**

North American Palladium is leveraged to the price of palladium. However, we have mitigated the downside risk to shareholders by entering into a long-term sales contract with a major automobile manufacturer. Under the terms of the agreement, we have a floor price of US\$325 per ounce on 100% of our

production, and a cap on 50% of our production at a price of US\$550 per ounce until June 2005. The remaining 50% is sold at market prices. To augment this sales contract we have sold forward 122,900 ounces at an average price of US\$927 per ounce through 2003.

- **When will the expansion project at Lac des Iles be completed and what are the estimates for average annual production and cash costs?**

Mechanical completion will be achieved in the second quarter of 2001. Mill throughput is projected to increase from the present rate of 2,400 tonnes per day to 15,000 tonnes per day by the end of the third quarter of 2001. Once commercial production has been attained, we are estimating average annual production of 250,000 ounces of palladium, 23,000 ounces of platinum, 18,000 ounces of gold, plus copper and nickel. Life-of-mine cash costs are estimated at US\$160 per ounce of palladium net of by-product metal credits and royalties.

ONCE COMMERCIAL PRODUCTION HAS BEEN ATTAINED,

average annual palladium production is estimated at 250,000 ounces at a cash cost of US\$160 per ounce.

- **What is the Company's palladium hedging policy?**

Under the terms of our long-term sales contract, 50% of our production up to June 2005 is capped at US\$550 per ounce. Our hedge policy allows only for hedging of the remaining 50% of uncapped ounces. The Company's hedge program is designed to capture current palladium prices and secure long-term profitability. Current operating margins provide the Company with financial flexibility, including the option of accelerating the repayment of the US\$90 million project term loan. Our hedge program remains short-dated and allows for participation in the upside in the event that palladium prices improve further.

- **Are there any environmental issues at the Lac des Iles mine-site?**

We anticipate the environmental impact of our operation on the region to be minimal. Our tailings are benign and non-acid generating, consisting primarily of sand and talc. The effluent requires only primary treatment for the settlement of the solids prior to discharge into the environment. There are no



air emissions at Lac des Iles as our concentrate is smelted and refined by Inco and Falconbridge at their facilities in Sudbury and Europe.

- **What are the growth prospects for North American Palladium?**

Our exploration program, one of the largest in Canada over the past three years, has driven the success of North American Palladium. As a result of this program, our resources have increased from 1.3 million ounces of palladium in 1998 to 7.4 million ounces at the end of 2000. Our proven and probable open pit reserves contained 4.8 million ounces as of December 31, 2000. Historically, our finding costs have been extremely low, at

less than US\$2.00 per ounce of palladium. We believe our immediate growth will continue to be defined by our successful exploration program within the Lac des Iles area. The deposit remains open at depth, and to the west and east. In addition, North American Palladium's total holdings in the Lac des Iles area exceed 15,000 hectares and include properties with the highest potential for future discoveries of palladium. In 2001, we intend to drill up to 65,000 metres to further delineate the resources and reserves at Lac des Iles. Exploration will also be conducted on the most promising grass roots properties.

- **Are there any expansion plans or capital requirements that would necessitate raising equity?**

In the current palladium price environment we expect to realize US\$675-725 per ounce of palladium produced in 2001. Should a secondary expansion be feasible, we expect to fund the capital requirement with internal cash flow and incremental debt financing if needed. We do not foresee the need to undertake another equity issue at the present time.

Mineral Reserves and Resources

AS AT DECEMBER 31, 2000

	Tonnes (000)	Palladium (g/t)	Palladium Contained (Ounces)	Platinum (g/t)	Gold (g/t)	Copper (%)	Nickel (%)
Reserves							
Proven	61,654	1.52	3,007,624	0.17	0.12	0.06	0.05
Probable	34,509	1.60	1,775,184	0.17	0.12	0.05	0.05
Total Proven and Probable	96,163	1.55	4,782,808	0.17	0.12	0.06	0.05

Resources (In addition to Reserves)

Measured	22,929	1.64	1,208,983	0.17	0.12	0.06	0.05
Indicated	26,911	1.60	1,384,334	0.17	0.12	0.05	0.05
Total Measured and Indicated	49,840	1.62	2,593,317	0.17	0.12	0.05	0.05

Inferred	19,700	1.69	1,070,395	0.17	0.10	0.05	0.04
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(1) Mineral Reserves and Resources calculated at a cut-off grade of 0.70 palladium grams per tonne.

(2) C. Turek, P.Eng., prepared the reserve estimate calculation and D. Kim and D. Redmond, supervised the 2000 exploration and prepared the resource estimate calculation. Messrs. Turek, Kim and Redmond are Qualified Persons and are employees of the Company.

Mineral Reserve

A Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.

Proven Mineral Reserve

A 'Proven Mineral Reserve' is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economical extraction is justified.

Probable Mineral Reserve

A 'Probable Mineral Reserve' is the economically mineable part of an indicated, and in some circumstances a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economical extraction can be justified.

Mineral Resource

A Mineral Resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Resources, which are not reserves, do not have demonstrated economic viability.

Measured Mineral Resource

A 'Measured Mineral Resource' is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

Indicated Mineral Resource

An 'Indicated Mineral Resource' is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

Inferred Mineral Resource

An 'Inferred Mineral Resource' is that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

Source: CIM Committee on Reserve Definitions

Mining Operations

CASH COSTS DECLINED TO US\$142 PER OUNCE OF PALLADIUM IN 2000



Mining Operations

Mine production in 2000 continued to improve with a third consecutive year of record performance totaling 10.2 million tonnes of combined ore and waste representing almost a two-fold increase over 1999. The mining department focused on accelerating completion of the Phase 2 Roby pit in order to begin the \$7.5 million pre-production stripping program for the Phase 3 expansion of the Roby pit. The arrival of the new haulage fleet of seven 190-tonne trucks in August, part of a \$42 million mine equipment purchase, provided the mine with the increased capacity required to complete Phase 2 mining on schedule at the end of October. Between September 2000 and January 2001, commissioning of a 17 cubic metre loader, an 18 cubic metre shovel and a 23 cubic metre shovel provided the mine with the additional capacity to accelerate pre-production stripping.

Mine production in December 2000 averaged 54,762 tonnes per day, and increased to 67,700 tonnes per day in January 2001. A further increase to over 79,000 tonnes per day is expected by the end of the third quarter of 2001 when the mine will be in full production.

Mine production of ore and waste for the year 2000 averaged 27,939 tonnes per day, almost a two-fold increase over 1999. Ore production for the year 2000 totaled 2.7 million tonnes and included the higher grade Shear Ore material situated on the east side and bottom of the Phase 2 pit. All ore from the Phase 2 pit was stockpiled to allow continuous milling operations during pre-production stripping of the Phase 3 pit and construction of the new processing facility. The broken ore stockpiles at December 31, 2000, consisted of 3.3 million tonnes grading 1.82 grams of palladium per tonne and containing 195,028 ounces of palladium. The stockpiles will continue to be processed in the existing mill and will provide a supply of feed to the new mill once it is commissioned during the second quarter of 2001.





CASH COSTS OVER THE LIFE OF THE MINE

are forecast at US\$160 per ounce of palladium,
net of by-products and royalties.

Roby Pit Production Grades

Year	Tonnes Mined (000)	Palladium (g/t)	Platinum (g/t)	Gold (g/t)	Copper (%)	Nickel (%)
2000	2,690	2.95	0.23	0.24	0.08	0.10
1999	1,272	2.65	0.24	0.24	0.09	0.11
1998	874	3.87	0.27	0.31	0.09	0.10

Historical Mine Production

	2000	1999	1998	1997	1996
Ore tonnes mined	2,689,634	1,271,816	873,929	827,875	765,350
Waste tonnes mined	7,508,117	4,115,159	3,923,731	1,704,460	3,924,809
Stripping ratio	2.79:1	3.23:1	4.49:1	2.05:1	5.12:1
Average daily production (tonnes)	27,939	14,758	13,144	6,937	12,814



Milling Operations

RECORD PALLADIUM PRODUCTION OF 95,116 OUNCES IN 2000

Milling Operations

Currently, ore from the Roby pit is processed in a conventional milling and flotation circuit that averaged 2,439 tonnes per day in 2000. A single bulk palladium-rich concentrate, also containing platinum, gold, copper and nickel, is trucked to Sudbury, Ontario, for smelting and refining by Inco and Falconbridge.

Mill palladium production reached a new record of 95,116 ounces in 2000, as a result of higher grade ore, which averaged 4.48 grams of palladium per tonne. Mill availability has increased from a low of 82.9% in 1997 to 93.5% in 2000 as a result of improved maintenance and operation. Palladium recovery averaged 74.0% by selectively milling the different ore types.

The existing mill will be operated and maintained in 2001. After the new concentrator is fully commissioned, a decision will be taken regarding the decommissioning of the smaller mill. The Company will continue to allocate the appropriate resources to ensure that commissioning of the new mill and the ramp-up to full production remains on schedule.

Mill Production

Year	Tonnes Milled	Concentrate (tonnes)	Palladium (ounces)	Platinum (ounces)	Gold (ounces)	Copper (lb)	Nickel (lb)
2000	893,017	14,271	95,116	6,074	6,035	1,362,266	1,035,485
1999	894,168	10,286	64,441	4,744	4,888	1,377,464	973,817
1998	859,942	10,843	84,228	5,535	5,079	1,229,309	914,030
1997	728,641	9,579	66,086	4,588	4,324	1,133,565	864,093
1996	686,964	7,778	60,426	4,285	3,811	941,105	740,689

In 2000, its eighth year of operation, the Lac des Iles mine produced 95,116 ounces of palladium, 6,074 ounces of platinum, 6,035 ounces of gold, 1,362,266 pounds of copper and 1,035,485 pounds of nickel. The cash cost of production was US\$142 per ounce of palladium, net of by-product credits and royalties.



Mine Expansion

ON SCHEDULE AND ON BUDGET

Concentrator steel structure



North American Palladium expects its Lac des Iles mine to be operating at its design capacity of 15,000 tonnes per day by the end of the third quarter of 2001, only 18 months after construction began. Construction of the expanded operation is expected to be completed on schedule and on budget in the second quarter of 2001.

Over the life of the expanded mine, which under the current mine plan is estimated at 17 years, annual production will average 250,000 ounces of palladium, 23,000 ounces of platinum, 18,000 ounces of gold, six million pounds of copper and two million pounds of nickel. Cash costs over the life of the mine are forecast at US\$160 per ounce of palladium, net of by-product credits and royalties.

In December 1999, AGRA Simons completed the initial feasibility study of the Lac des Iles mine which concluded that an expansion of the mine into a major palladium producer was technically feasible and economically viable. An updated detailed feasibility study was completed in May 2000. The expansion involved increasing mill throughput from 2,400 to 15,000 tonnes per day by constructing a new concentrator at the mine site, and preparing for increased production from the open pit. The capital cost of the expansion is estimated to be \$208 million.

North American Palladium acted as the general contractor for the expansion project, and AGRA Simons was hired as the engineering, procurement and construction management contractor. Early in the planning stages, efforts were made to fast-track the project in order to commission the new concentrator by the second quarter of 2001. Twenty-five construction contracts were awarded in order to complete the work on schedule, with construction manpower peaking at 350 in February 2001.



A FURTHER INCREASE TO OVER 79,000 TONNES PER DAY

is expected by the end of the third quarter of 2001
when the mine will be in full scale production.

Pre-production stripping for the Phase 3 open pit commenced in July 2000. By the end of the year, 4.1 million tonnes of overburden had been removed, and 600,000 tonnes are scheduled for removal in 2001.

A site south of the pit near the tailings management facility was selected for the new concentrator. By the end of 2000 earthwork and engineering was completed and all of the capital equipment had been purchased and was being assembled on site. In addition, the mill building had been assembled and enclosed and all concrete structures were in place.

In the first quarter of 2001 the semi-autogenous (SAG) mill and two ball mills arrived on site and were assembled and tested. By March 2001, the warehouse, the maintenance shop and the material handling facilities were operational. Activities are progressing on schedule and the last phase of the construction is currently underway with the installation of electrical, piping and instrumentation equipment at the mill. The newly constructed facilities are highly automated and include state-of-the-art equipment and components.

The new infrastructure includes a 1,522 square metre 3-bay truck shop to service the seven new 190-tonne haul trucks and other mining equipment; a 744 square metre warehouse; and a 322 square metre assay lab. The assay lab includes state-of-the-art assaying equipment and is capable of supporting the needs of both operations and exploration simultaneously.

With the continuing success of North American Palladium's exploration program at the mine-site area, the Lac des Iles operation could expand further, given continued increases to the reserve and resource base. In anticipation of such a possibility, the crushing and material handling facilities ahead of the coarse ore stockpile, and the pebble crusher, have been designed to handle over 40,000 tonnes per day.



New Mill and Concentrator

HIGHLY AUTOMATED, STATE-OF-THE-ART FACILITY

Pebble crusher building



(above) Open pit, aerial view

(right) New concentrator



New concentrator

LAROX concentrator pressure filter





THE NEW MILL AND PROCESSING PLANT

will quadruple palladium production within 6 months of its completion to 250,000 ounces of palladium per annum over the life of the mine.

Primary crusher discharge conveyor



Conveyor system



New 190 tonne trucks

SAG mill



Exploration

A PALLADIUM RESOURCE OF 7.4 MILLION OUNCES

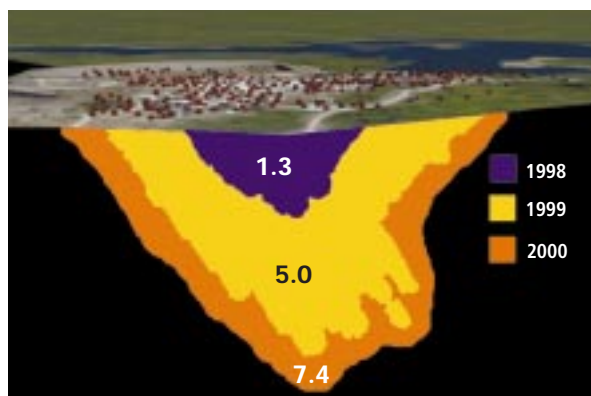


North American Palladium's exploration activities in 2000 focused on expanding the mineral resources at its Lac des Iles mine, with considerable success. As a result of the year-long core drilling program, at December 31, 2000, measured and indicated resources had increased to 146.0 million tonnes averaging 1.57 grams of palladium per tonne, and containing 7.4 million ounces of palladium. Detailed surface exploration was also carried out during the year, on the Lac des Iles, Tib Lake, Buck Lake and Wakinoo-Demars Lake properties in preparation for core drilling.

Resource expansion

The Company intensified its exploration activity within the Lac des Iles area with a core drilling program utilizing three drill rigs which began on January 15, 2000. The number of drills increased to six in May, peaked to eight in June and July, and then the program continued with six rigs until completed on December 19, 2000. As a result, information from 232 holes and approximately 114,500 metres of drilling was added to the database.

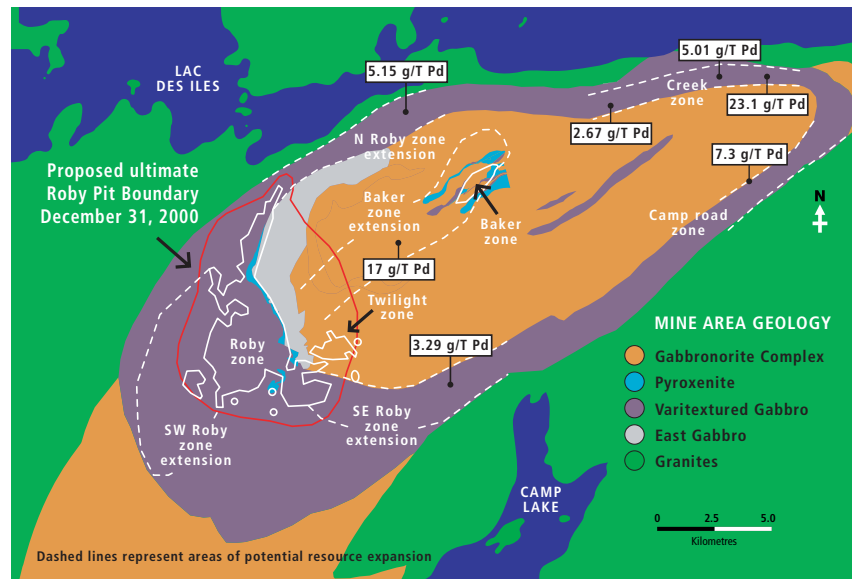
The objectives of the program were to extend and confirm by step-out drilling mineralization beyond the economic pit shell generated as part of the feasibility study, and extend the resource at depth from 450 metres to 550 metres.



• Resource Growth

Since 1998, exploration has increased palladium resources by over 450% to 7.4 million ounces

- **Mine Site Geology**
The potential to discover new palladium resources is highest near the mine.



The pit shell at the beginning of 2000 was based on a palladium price of US\$320 per ounce and a cut-off grade of 0.85 grams per tonne palladium and encased most of the previous drilling. Consequently, the extent of the resources in the Roby and adjacent Twilight zones was mostly limited by the available data. Both zones remained open for expansion at depth and to the east, with some indication that new mineralization existed beyond the western boundary of the pit shell.

The drilling program in 2000 achieved its objectives, by extending the boundaries of the Roby zone to the east, west and at depth, and the plan dimensions of the Twilight zone to 200 metres by 200 metres. In addition, a new equi-dimensional zone was discovered 60 metres beyond the southwest boundary of the Roby zone, and a new mineralized zone was discovered in the footwall of the northern half of the Roby zone.

As well as systematic step-out drilling, six deep holes were drilled to investigate mineralization at depths beyond 450 metres. Drilled from the east, these holes first encountered the high grade Shear Ore at depths ranging from 500 metres to 620 metres, and then Breccia Ore to the west, at a depth of 830 metres. The measured and indicated resources were calculated to a depth to 640 metres.

As of December 31, 2000 the Roby zone remained open to the east, west and at depth and the Twilight zone boundaries had been defined. The Roby and Twilight zones currently have a combined width of 815 metres in an east-west direction, and 950 metres in a north-south direction.

Surface exploration

Surface exploration activities in 2000 included property acquisition, prospecting, overburden stripping, detailed sampling, geological mapping and geophysical surveys. These activities took place at the Baker and Creek zones one and two kilometres east of the mine site respectively. Surface work was also conducted east of Lac des Iles, specifically at the Sutcliffe and Murphy occurrences, and at the Tib Lake, Buck Lake and Wakinoo-Demars Lake properties.

Overburden stripping, detailed sampling and geological mapping of several palladium occurrences on the Lac des Iles property advanced the understanding of the geological factors controlling the mineralization. This knowledge will prove useful for planning upcoming drill programs.

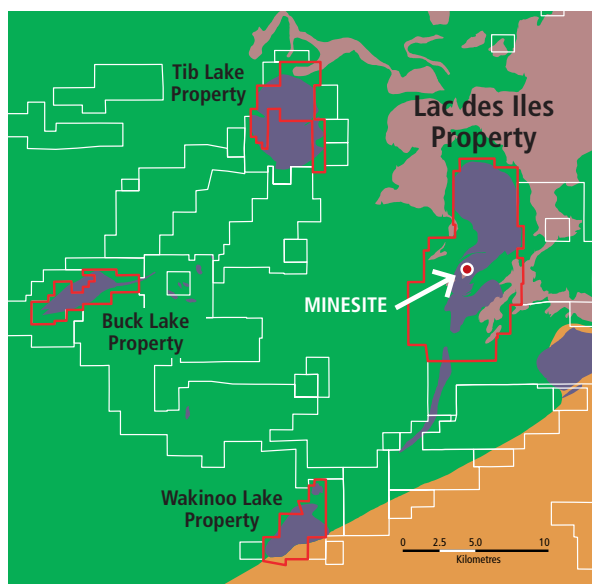
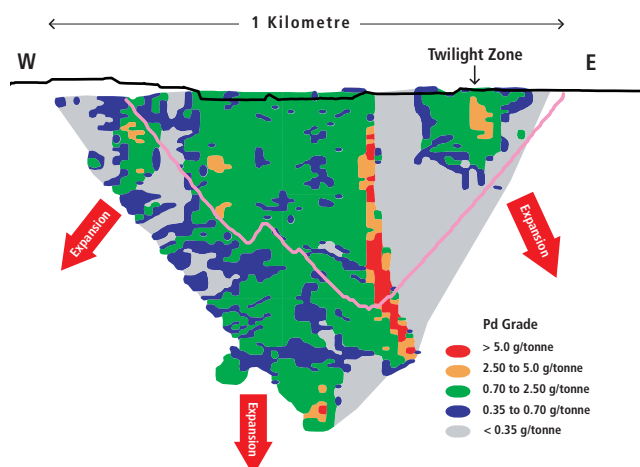


THE COMPANY HOLDS IN EXCESS OF 15,000 HECTARES

of mining claims and leases within a 25-kilometre radius of the Lac des Iles mine.

• General Cross-Section

Ongoing diamond drilling is expected to continue expanding the palladium resources on the Lac des Iles property. The orebody remains open to the east, west and at depth.



• Land Position

North American Palladium holds in excess of 15,000 hectares of mining leases and claims with the highest discovery potential in the Lac des Iles area.

Induced polarization-electromagnetic and magnetic surveys were conducted on the Buck Lake property and on selected portions of the Tib Lake and Lac des Iles properties. These surveys will help detect mineralization in areas covered by overburden where limited bedrock assays and the geological environment indicate a high discovery potential.

2001 exploration program

Drilling at the Lac des Iles mine site will continue in 2001, with several objectives. The program has been designed to upgrade inferred resources on the perimeter of the Roby zone into the measured and indicated categories. Step-out drilling is planned to test the extensions of the southeastern section of the Roby zone and the western section where recent near surface mineralization was discovered. Systematic broadly spaced exploratory holes will probe for new mineralization beyond the perimeter of the ore definition program. The high-grade Shear Ore that extends to a depth of 620 metres will be drilled systematically to an approximate depth of 750 metres. The drill program will also target some promising showings located within one kilometre of the Roby pit and the Creek zone. Geophysical targets west of Lac des Iles and on the Buck Lake property will also be tested for further mineralization. Finally, renewed emphasis will be placed on reconnaissance activities leading to potential property acquisitions.

Palladium Markets

Worldwide demand for palladium was expected to exceed supply by 480,000 ounces in 2000, according to Johnson Matthey's Platinum 2000 Interim Review, published in November 2000. This imbalance, combined with 1999's even larger deficit and continuing uncertainties about Russian supplies, resulted in the palladium price reaching record highs. During 2000, the palladium price per ounce ranged from US\$433 to US\$970, and averaged US\$681 (London P.M. Fix).

Demand for palladium has more than doubled in the last decade, from 3.8 million ounces in 1991 to an estimated 8.4 million ounces in 2000. The increase has been driven by growth in autocatalyst production, as governments around the world have begun legislating stricter emission controls. In 1991, autocatalyst production accounted for 355,000 ounces or 9% of palladium demand; in 2000, it accounted for 5.2 million ounces, or 62% of demand.

The amount of palladium used in catalysts in 2000 was expected to increase by 20%, as more cars were manufactured to meet tighter emission standards in the United States, Europe and Japan. Car production in many Asian countries with clean air legislation such as Malaysia, India and China was also much higher compared to 1999. In November 2000 Johnson Matthey opened a new autocatalyst manufacturing plant in India, capable initially of producing two million car catalysts and four million motorcycle catalysts annually.

Actual purchases of palladium by the auto industry in 2000 were expected to fall as car manufacturers



drew down on stockpiles built up over the previous two years, in response to the higher palladium prices. With consumption by the dental industry also declining, as a result of substitution in dental alloys due to higher palladium prices, total palladium demand in 2000 was expected to decline by 10% compared to 1999. Demand for palladium in electronics was expected to increase by 5% in 2000 because of growth in multi-layer ceramic capacitor production, despite increased substitution by base metals.

Total world supply of palladium in 2000 is estimated at 7.9 million ounces, about 2% less than in 1999 because of the closure of the Hartley Platinum mine in Zimbabwe, and fewer sales from Russian stockpiles. Russia

provided about 66% of supply in 2000, as a by-product from the Norilsk nickel mine and from stockpiles. South Africa accounted for about 25% of supply. North America, where the Company is one of only two primary producers, contributed about 8% of 2000 supply.

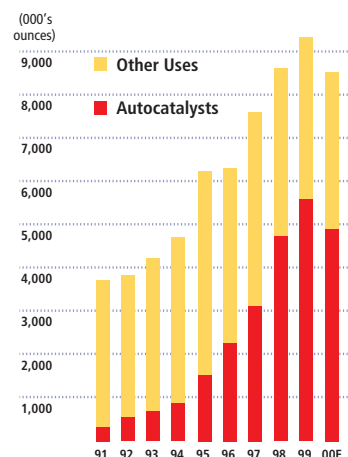
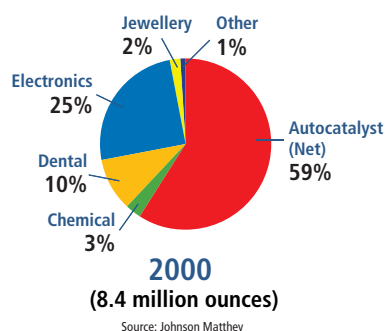
Although the rising price has increased substitution of palladium in the electronics and dental fields, and some auto makers have announced plans to reduce palladium usage, the outlook for palladium remains robust. Palladium remains the metal of choice for the automotive industry given its superior physical characteristics in reducing harmful air emissions.

According to Johnson Matthey's Platinum 2000 Interim Review, "stricter emission standards worldwide, especially for hydrocarbons, seem certain to ensure that palladium will continue to play a major role in the control of auto emissions." With demand continuing to exceed mine production, sales from Russian stockpiles will be a major influence on the palladium price, and sourcing supply will be more of an issue than price.

Palladium Uses:

- catalytic converters in the automobile industry
- technology components
- cellular phones
- medical applications
- dental
- chemical
- jewellery

Palladium Demand by Sector in 2000



Environmental Policy

COMMITTED TO THE HIGHEST LEVEL OF INTEGRITY



North American Palladium is committed to maintaining the highest level of integrity in its corporate responsibilities toward resource development and environmental stewardship. The Company is committed to environmental protection throughout the mine expansion, life and closure by applying sound judgement, by meeting or exceeding legislative requirements and by minimizing any adverse impacts its activities may have on the environment.

To achieve these goals, North American Palladium will:

Make a corporate commitment

Recognize environmental management as an important corporate priority and integrate environmental considerations into all mine expansion, operation and closure planning.

Reduce impacts

As part of the design and operating philosophy, minimize any potential for adverse impacts on the natural environment.

Make it a team effort

Instill the ethics of environmental responsibility through education and communication with all employees, contractors and suppliers.

Monitor

Evaluate environmental performance by conducting operational and environmental monitoring programs and by identifying opportunities for improvement.

Recycle

Participate in recycling programs for consumable products and reagents.

Stay current

Keep up-to-date with permit and licence requirements, changes to environmental regulations and evolving government guidelines.

Enhance affected habitat

Work to minimize the effects of mining with the goal of restoring disturbed areas and ecosystems to wildlife/recreation Crown land use.

Promote environmental responsibility

Encourage conservation and pollution prevention measures by providing operational guidelines that outline procedures and responsibilities to contractors and suppliers.

Protect the environment

Assess environmental conditions regularly at all stages of mine development and closure in order to identify issues or areas in need of attention and to establish strategies for their management.

Maintain good management practices

Be consistent with the current state of practice in the industry for environmental protection. Respond to concerns in a timely and productive manner, taking corrective measures to alleviate the cause of the concerns and prevent their recurrence.

Management's Discussion and Analysis of Financial Results

Overview and Strategic Activities

The Company operates the Lac des Iles mine located 85 kilometres northwest of Thunder Bay, Ontario. The mine is Canada's only primary producer of platinum group metals and one of the largest platinum group metal deposits in the world. Palladium is a vital and essential component in the production of auto catalysts, which significantly reduce harmful automobile emissions. The use of palladium in the auto industry continued to increase in 2000 and future demand prospects are robust and supported by more stringent hydrocarbon emission standards for cars, particularly in the United States, Europe and Japan.

Based on a successful 1999 exploration program and the completion of a detailed feasibility study by Agra Simons, the Company initiated a \$208 million capital expansion at the Lac des Iles mine in April 2000. A new 15,000 tonne per day concentrator is scheduled for mechanical completion during the second quarter of 2001, with expected average life-of-mine palladium production of 250,000 ounces per annum at an estimated cash cost of US\$160 per ounce.

Over the past year, the Company's balance sheet has been strengthened. In June 2000, a US\$90 million project term loan was arranged with a syndicate of three Canadian banks. This facility was followed by a \$235 million public equity issue and a capital restructuring which included the conversion of the issued and outstanding preferred shares, and the repayment in full of a debt facility from Kaiser-Francis Oil Company. As a result of these initiatives, the Company has sufficient financial resources and lines of credit to fund the \$208 million expansion project.

During 2000, the Company entered into a palladium sales contract ('Sales Contract') with a major automobile manufacturer. The sales 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. The initial term of the contract is five years, expiring June 30, 2005 and is subject to annual automatic extensions unless either party indicates that it does not wish to extend the term of the contract.



Results of Operations

The Company generated gross revenue from metal sales of \$109.5 million in 2000, compared to \$44.6 million in 1999. The significant increase in gross revenue was due to record palladium production and sharply higher palladium prices. Production costs declined further during 2000 to \$23.8 million compared to \$24.2 million in 1999.

During 2000, the mill processed 893,017 tonnes of ore, which was comparable to the 1999 tonnage. However, the grade of palladium in the ore was 50% higher at 4.48 grams per tonne, compared to 2.98 grams per tonne in 1999. Mill palladium recoveries in 2000 were slightly lower at 74.0% compared to 75.2% in 1999. Cash costs to produce palladium, net of other metal credits and royalties, decreased to US\$142 per ounce in 2000 compared to US\$252 per ounce in 1999. The decrease in unit cost resulted from processing higher-grade ore, combined with operating improvements and higher credits for other metals.

Income from mining operations in 2000 was \$63.1 million, an improvement of \$57.4 million compared to the previous year. The improvement was due to much stronger palladium prices and record palladium production.

Other income and expenses, which includes interest income and expense and amortization of deferred foreign exchange loss, was an expense of \$16.7 million



in 2000 compared to an expense of \$10.7 million in 1999. The future income tax recovery of \$15.0 million in 2000 is due primarily to the substantial improvement of the Company's operating results and the new Canadian Institute of Chartered Accountant recommendations with respect to accounting for income taxes (see note 14 to the consolidated financial statements) which require an assessment of whether the benefit of the Company's income tax loss carryforwards are more likely than not to be realized. The Company recorded net income for 2000 of \$60.8 million, or \$1.90 per share fully diluted, compared to a net loss of \$5.2 million, or \$0.84 per share in 1999.

Liquidity and Capital Resources

Cash flow from operations (prior to changes in non-cash working capital) was \$65.8 million in 2000, compared to cash flow from operations of \$12.9 million in 1999. The cash flow improvement of \$52.9 million was primarily due to higher metal prices and record palladium production during the year. Changes in non-cash working capital consumed \$26.0 million of cash in the current year, primarily relating to an increase in the value of concentrate awaiting settlement at the smelters and an increase in the quantity of broken ore inventory required for the start-up of the larger concentrator. After allowing for non-cash working capital changes, cash provided by operations was \$39.8 million in 2000 compared to cash used in operations of \$15.1 million in 1999.

Investing activities required \$171.2 million of cash in 2000, with the main activity being \$120.4 million incurred on the expansion project and \$10.5 million on exploration and development. This contrasts with \$4.3 million of investing activities in 1999. Financing activities raised net proceeds of \$135.7 million in the current year compared to proceeds of \$18.7 million

in the prior year. During 2000, the Company arranged a US\$90 million project term loan to partially finance the expansion project of which US\$39.2 million (Cdn\$59.0 million) had been utilized by year end. In addition, the Company raised net proceeds of \$226.5 million in a public equity issue through the issue of 24.8 million shares. An additional \$1.5 million was raised on the issue of shares pursuant to a stock option plan and a group RRSP. The proceeds from the equity issue were used in part to repay in full the term note due to Kaiser-Francis Oil Company in the amount of \$125.5 million. The balance of the funds will be used in the expansion project and for working capital purposes. The Company also repaid in full during 2000, advances on palladium settlements in the net amount of \$16.0 million.

Working capital increased to \$78.9 million at December 31, 2000, compared to \$15.2 million at December 31, 1999, reflecting the improved operating results, high palladium price, and the proceeds of the public equity issue.

Risks and Uncertainties

The price of palladium is the most significant factor influencing the profitability of the Company. In 2000, sales of palladium accounted for approximately 87.5% 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 Sales Contract and also hedges a portion of expected annual production as set out below.

The 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. Additionally, the current high price of palladium creates an incentive for the possible development of substitutes and the redesign of catalytic converters.

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 does not generally hedge the risk of foreign exchange exposures.

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.

Outlook

North American Palladium is on the verge of becoming a significant palladium producer. Based on the successful 1999 exploration program and the completion of a positive feasibility study, the Company decided

to proceed with a major expansion at the Lac des Iles mine. Funding for the \$208 million expansion capital was successfully arranged through a combination of a US\$90 million term loan and a public equity issue. The Company anticipates that the new 15,000 tonnes per day concentrator will be commissioned in the second quarter of 2001 and is expected to achieve designed production levels by the end of the third quarter of 2001. Based on the feasibility study, the expanded operation is expected to produce an annual average of 251,150 ounces of palladium, 23,440 ounces of platinum, 18,000 ounces of gold, plus copper and nickel.

The Company's 2000 exploration program increased resources by 48% from 5.0 million ounces of contained palladium in December 1999 to 7.4 million ounces of contained palladium in December 2000. The 2001 exploration program will continue to test the extensions of the Roby zone which remains open at depth, and to the east and west. The program will also evaluate some nearby zones and showings. Depending upon the success of future exploration, a further expansion from 15,000 tonnes per day is possible.

To augment the palladium sales contract, the Company has designed a hedge program to capture the current exceptional palladium prices and secure long-term profitability. The Company has sold forward 22,100 ounces at US\$955 in 2001, 50,400 ounces at US\$945 in 2002 and 50,400 ounces at US\$899 in 2003. These forward sales prices will provide the Company with operating margin stability and importantly will also provide the Company with financial flexibility, including the option to accelerate the term loan repayment schedule.



Management's Responsibility for Financial Statements

Management of North American Palladium Ltd. is responsible for the preparation, integrity and fair presentation of the financial statements and all other information contained in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles, and are based on management's best information and judgements.

In fulfilling its responsibilities, management has developed internal control systems and procedures designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are executed in accordance with appropriate authorization and that accounting records may be relied upon to properly reflect the Company's business transactions.

The Audit Committee of the Board of Directors is comprised of directors who are not employees. The committee reviews the consolidated financial statements of the Company and recommends them to the Board for approval. The Audit Committee meets with both management and the independent auditors to review the Company's operations and results, management's financial statements and the auditors' report and findings.

The financial statements were audited by Ernst & Young LLP, Chartered Accountants and their report follows.

Toronto, Canada
April 7, 2001



Keith C. Minty
President and CEO



George Faught
Vice President Finance and CFO


Auditors' Report

TO THE SHAREHOLDERS OF NORTH AMERICAN PALLADIUM LTD.

We have audited the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada,
February 23, 2001.

NORTH AMERICAN PALLADIUM LTD.
Consolidated Balance Sheets
(CANADIAN FUNDS IN THOUSANDS OF DOLLARS)

	2000	December 31 1999
Assets		
Current Assets		
Cash	\$ 4,503	\$ 157
Short-term investments	40,452	–
Concentrate awaiting settlement, net - Note 3	49,709	30,513
Inventories - Note 4	10,454	2,784
Future income tax asset	11,165	–
Accounts receivable and other assets	5,618	518
	121,901	33,972
 Mining interests, net - Note 5	 53,954	 57,013
Expansion project - Note 5	154,758	–
Mine closure deposit - Note 6	1,030	430
Deferred financing costs	2,989	–
Future income tax asset	9,372	–
Deferred foreign exchange loss	–	787
	\$ 344,004	\$ 92,202
 Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 40,406	\$ 1,464
Advances on palladium settlements - Note 3	–	15,946
Taxes payable	1,980	549
Current portion of obligations under capital lease - Note 7	584	818
	42,970	18,777
 Provision for mine closure costs - Note 6	 705	 587
Obligations under capital leases - Note 7	1,271	1,905
Notes and interest payable		
- Kaiser-Francis Oil Company - Note 8(a)	–	119,730
Project term loan - Note 9	59,039	–
	103,985	140,999
 Shareholders' Equity		
Capital stock - Note 10		
Outstanding: 50,028,772 common shares (1999 - 12,224,504)	308,834	30,774
Outstanding: Nil Series A preferred shares (1999 - 10,000,000)	–	50,000
Deficit	(68,815)	(129,571)
Total shareholders' equity (deficiency)	240,019	(48,797)
	\$ 344,004	\$ 92,202


Commitments - Note 11

Contingencies - Note 12

See accompanying notes

On Behalf of the Board


Keith C. Minty
Director


Michael P. Amsden
Director

Consolidated Statements of Operations and Deficit

(CANADIAN FUNDS IN THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Year ended December 31		
	2000	1999	1998
Revenue from metal sales	\$ 109,495	\$ 44,564	\$ 28,149
Deduct: smelter treatment, refining and freight costs	(7,571)	(5,387)	(5,991)
Net revenue from mining operations	101,924	39,177	22,158
Operating Expenses			
Production costs including overhead	23,818	24,169	25,536
Amortization	8,147	7,898	6,977
Write-down of mining interests - Note 5(c)	4,965	—	—
Administrative expenses	1,283	1,014	631
Mining tax	500	—	—
Environmental costs - Quebec	7	300	21
Provision for mine closure costs	118	118	113
Total operating expenses	38,838	33,499	33,278
Income (loss) from mining operations	63,086	5,678	(11,120)
Other income (expenses)			
Interest income	1,078	80	68
Gain on palladium forward contracts - Note 11(b)	—	302	4,567
Loss on disposal of capital assets	(304)	(3)	(53)
Interest	(1,147)	(535)	(620)
Interest on long-term debt - Note 8(a)	(9,167)	(9,087)	(8,073)
Amortization of deferred foreign exchange loss	(6,188)	(1,498)	(1,200)
Foreign exchange gain (loss)	(1,016)	29	(863)
Total other income (expenses)	(16,744)	(10,712)	(6,174)
Income (loss) before income taxes	46,342	(5,034)	(17,294)
Income taxes - Note 13	(601)	(116)	(235)
Future income tax recovery - Note 13	15,015	—	—
Net income (loss) for the year	60,756	(5,150)	(17,529)
Deficit, beginning of year	(129,571)	(124,421)	(106,892)
Deficit, end of year	\$ (68,815)	\$ (129,571)	\$ (124,421)
Net income (loss) per share	\$ 2.76	\$ (0.84)	\$ (1.90)
Fully diluted net income (loss) per share	\$ 1.90	\$ (0.84)	\$ (1.90)
Weighted average number of shares outstanding - basic	20,425,466	12,135,310	11,939,882
Weighted average number of shares outstanding - fully diluted	32,195,780	12,135,310	11,939,882

See accompanying notes

NORTH AMERICAN PALLADIUM LTD.
Consolidated Statements of Cash Flows
(CANADIAN FUNDS IN THOUSANDS OF DOLLARS)

	2000	Year ended December 31 1999	1998
Cash Provided by (used in)			
Operations			
Net income (loss) for the year	\$ 60,756	\$ (5,150)	\$ (17,529)
Operating items not involving cash			
Future income tax recovery	(15,015)	—	—
Amortization	8,147	7,898	6,977
Write-down of mining interests	4,965	—	—
Amortization of deferred foreign exchange loss	6,188	1,498	1,200
Foreign exchange loss on interest payable	331	36	994
Loss on disposal of capital assets	304	3	53
Provision for mine closure costs	118	118	113
Gain on palladium forward contracts	—	(302)	(4,567)
Unpaid interest expense - Kaiser-Francis Oil Company	—	8,842	7,638
	65,794	12,943	(5,121)
Changes in non-cash working capital - Note 14(a)	(25,999)	(28,065)	(6,358)
	39,795	(15,122)	(11,479)
Financing Activities			
Mine closure deposit	(600)	(150)	(20)
Bank indebtedness	—	—	(81)
Advances on palladium settlements	(15,946)	15,946	—
Obligations under capital leases	(868)	(952)	(2,268)
Deferred financing costs	(2,989)	—	—
Notes payable - Kaiser-Francis Oil Company	(125,462)	3,510	18,122
Project term loan	59,039	—	—
Issuance of common shares	222,538	298	277
	135,712	18,652	16,030
Investing Activities			
Short-term investments	(40,452)	—	—
Additions to plant and equipment	(46)	(2,509)	(3,668)
Expansion project	(120,352)	—	—
Mining claims, exploration and development costs	(10,539)	(6,702)	(1,217)
Proceeds on disposal of plant and equipment	228	3	1,112
Proceeds on palladium forward contracts	—	4,869	2
	(171,161)	(4,339)	(3,773)
Increase (decrease) in cash	4,346	(809)	778
Cash, beginning of year	157	966	188
Cash, end of year	\$ 4,503	\$ 157	\$ 966

See accompanying notes

Notes to the Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998
(IN THOUSANDS OF CANADIAN DOLLARS)

1. Nature of Operations and Basis of Presentation

North American Palladium Ltd. (NAP or the Company), is a Canadian company in the business of exploring and mining Platinum Group Metals (PGMs) and certain base metals. Its principal asset is the Lac des Iles mine located in the Thunder Bay District in Ontario. The Company operates in one geographical area, Canada, and in one operating segment, mining.

The Company's financial position and operating results are directly affected by the market price of the PGMs in relation to the Company's production costs. PGMs and base metal prices (palladium, platinum, gold, copper and nickel) fluctuate widely and are affected by numerous factors beyond the Company's control. The Company is under long-term contracts with two smelting firms for the sale of its concentrates. During the year the Company entered into a long-term palladium sales agreement with a major automotive manufacturer to hedge the sale of all of its palladium production (note 11(a)).

Based on a significant increase in reserves and resources and the completion of a detailed feasibility study, the Company commenced a major expansion of its operation in the first quarter 2000 at an estimated capital cost of \$207,500. The capital cost of the expansion will be funded through a combination of debt and equity. Both the debt facility and equity offering were successfully completed during 2000. The Company anticipates that the new 15,000 tonne per day concentrator will be commissioned in the second quarter of 2001.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, except as discussed in note 15, conform in all material respects with United States generally accepted accounting principles. The more significant accounting policies are summarized as follows:

Basis of Consolidation

These consolidated financial statements include accounts of the Company and its wholly owned subsidiary, Lac des Iles Mines Ltd. (LDI).

Revenue and Concentrate Awaiting Settlement

Revenue is recognized net of royalties upon the delivery of concentrate to the smelter. Concentrate awaiting settlement at the smelter is recorded at net realizable value less estimated smelting, refining and transportation costs. Final prices for concentrate awaiting settlement are determined up to six months after delivery to the smelter. Revaluations of net realizable value are included in revenue at each reporting period and are adjusted for the effects of hedging instruments and sales contracts.

Although the Company sold its metals during 2000 to a limited number of customers, the Company is not economically dependent upon them as there are other markets throughout the world for the Company's metals.

Derivative Financial Instruments

The Company enters into forward commodity sales contracts from time to time to hedge the effect of changes in the prices of palladium, platinum, and gold on the Company's revenues (notes 11(a) and (b)).

In addition, the Company from time to time enters into forward foreign exchange forward sales contracts to hedge the effect of fluctuations in the value of committed U.S. dollar denominated revenues. Those foreign exchange forward sales contracts not designated by the Company as hedges are marked to market as at the balance sheet date and the resultant gains or losses are included in earnings for the period. As at December 31, 2000 and 1999, the Company had no foreign exchange forward sales contracts outstanding.

Concentrate, Crushed and Broken Ore and Supplies Inventories

Concentrate and crushed and broken ore is valued at the lower of average cost and net realizable value. Supplies inventory is valued at the lower of average cost and replacement cost.

Mining Interests

Plant and equipment are recorded at cost with amortization generally provided either on the unit-of-production method over the estimated economic life of the mine to which they relate or on the straight-line method over their estimated useful lives, which generally range from two to five years.

The Company leases certain equipment under capital leases. These leases are capitalized based on the lower of fair market value and the present value of future minimum lease payments. The corresponding liabilities are recorded as obligations under capital leases. This equipment is being amortized on the same basis described above.

Mining leases and claims and royalty interests are recorded at cost and are amortized on the unit-of-production method over the estimated economic life of the mine to which they relate.

Exploration and development costs relating to properties that are reasonably certain of a productive result are capitalized and are being amortized on a unit-of-production method, based upon the proven and probable ore reserves of the mine. Development costs incurred to maintain current production are included in operating expenses.

Mining interests are amortized over their anticipated economic lives. Each year, the Company reviews mining plans for the remaining life of each property. 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 reviews the carrying value of all assets by comparing the net book value with the estimated undiscounted future cash flow from the related assets. Changes in significant assumptions underlying future cash flow estimates may have a material effect on future carrying values and operating results.

Provision for Mine Closure Costs

Estimated mine closure costs are based primarily on environmental and regulatory requirements and are accrued as a cost of production, when reasonably determinable, on a unit-of-production method over the remaining life of the mine.

Stock-Based Compensation Plan

The Company has a stock-based compensation plan which is described in note 10. No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Translation of Foreign Currency

Transactions recorded in United States dollars have been translated into Canadian dollars as follows:

1. Monetary items at the rate prevailing at the consolidated balance sheet dates;
2. Non-monetary items at the historical exchange rate; and
3. Revenue and expenses at the average rate in effect during the applicable accounting period.

Unrealized exchange gains and losses on long-term monetary items are deferred and amortized on a straight-line basis over the remaining life of the asset or liability. All other foreign exchange gains and losses are recorded in the consolidated statements of operations and deficit.

Income Taxes

Effective January 1, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes as provided for by the recommendations of the Canadian Institute of Chartered Accountants. 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.

For reporting periods which ended before January 1, 2000, income tax expense was determined using the deferral method of tax allocation. Under this method, future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

Fair Value of Financial Instruments

The carrying amounts of all financial instruments on the balance sheet approximate fair value due to their short-term maturities or variable interest rates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and that also affect the reported amounts of revenues and expenses during the reported year. Actual results could differ from those estimates.

Earnings per Share

Earnings per share have been determined by dividing net income by the weighted average number of common shares outstanding during the year. Fully diluted earnings per share assumes outstanding dilutive securities including options and convertible preferred shares were exercised or converted into common shares at the beginning of the year and the funds derived from options exercised into common shares were invested at an annual after tax rate of 5.0%.



3. Concentrate Awaiting Settlement and Advances on Palladium Settlements

Concentrate awaiting settlement is comprised of:

	2000	1999
Concentrate awaiting settlement, gross	\$ 52,924	\$ 32,856
Refining and smelting charges	(3,215)	(2,343)
Concentrate awaiting settlement, net	\$ 49,709	\$ 30,513
Advances on palladium settlements	\$ —	\$ 15,946

The gross value of concentrate awaiting settlement represents the value of all PGMs and base metals from production shipped to the smelters between July and December 2000, including 40,739 ounces of palladium (1999 - between April and December 1999, including 41,704 ounces of palladium).

Advances on palladium settlements bore interest at the U.S. dollar six month Libor rate effective on the date of the advances plus 1.25% per annum, representing an average rate to the Company of 7.37% in 2000 (1999 - 7.38%). Under the terms of a contract which expired March 31, 2000, the advances were due as the palladium shipments settled each month, with the last payment being made in December 2000.

Concentrate awaiting settlement was 100% from two domestic customers at December 31, 2000 (1999 - one domestic customer). No reserves for doubtful accounts have been established. In the opinion of management, full realization will occur on all such receivables.

4. Inventories

Inventories consist of the following:

	2000	1999
Concentrate	\$ 734	\$ 552
Crushed and broken ore	8,635	1,074
Supplies	1,085	1,158
	\$ 10,454	\$ 2,784

5. Mining Interests

(a) Mining interests are comprised of the following:

	2000	1999
Plant and equipment, at cost	\$ 73,223	\$ 73,262
Accumulated amortization	50,325	41,139
	22,898	32,123
Equipment under capital lease, at cost	3,315	4,565
Accumulated amortization	2,002	1,209
	1,313	3,356
Mining leases and claims, royalty interest, exploration and development, at cost	77,035	66,496
Accumulated amortization	47,292	44,962
	29,743	21,534
Mining interests, net	\$ 53,954	\$ 57,013

Included in mining leases and claims, royalty interest, exploration and development costs, is an amount of \$18,499 (1999 - \$7,960) which represents exploration and development costs not being amortized as they relate to properties not yet under production.

(b) Total amortization expensed in the year is comprised of:

	2000	1999	1998
Amortization of capital assets (including plant and equipment, equipment under capital lease)	\$ 5,817	\$ 5,693	\$ 4,733
Mining leases and claims, royalty interest, exploration and development costs	2,330	2,205	2,244
	\$ 8,147	\$ 7,898	\$ 6,977

(c) During 2000, the Company took a write-down of \$4,965 pertaining to plant and equipment which will be removed from service with the commissioning of the new expanded concentrator.

(d) During 2000, the Company capitalized interest of \$2,121 (1999 - \$Nil; 1998 - \$Nil).

(e) As at December 31, 2000, the expansion project expenditures consists of the following:

Pre-production development	\$ 6,623
Mining equipment	34,495
Mill	80,487
Tailings management	5,959
Other facilities and equipment	27,194
Total	\$ 154,758

6. Mine Closure Plan

As a prerequisite for the issuance of the required operational permits, the Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the Ministry), established a Trust Fund (the Fund) pursuant to the Company's mine closure plan. The current mine closure plan calls for a total amount of \$2,384 to be accumulated in the Fund in order to allow for the eventual clean-up and restoration of the mine site. As part of the mine expansion, the Company is required to establish a new mine closure plan.

The Fund, controlled by the Ministry, will accumulate through periodic deposits, based upon tonnage produced. At December 31, 2000, the Company had \$1,030 (1999 - \$430) on deposit with the Ministry. The deposit bears interest at current short-term deposit rates and will be returned to the Company once the mine closure is completed.

7. Lease Obligations

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments:

	2000	1999
2000	\$ -	\$ 1,000
2001	716	716
2002	711	711
2003	672	722
Total minimum lease payments	2,099	3,149
Amounts representing interest rates from 8.03% - 8.78%	244	426
Present value of minimum lease payments	\$ 1,855	\$ 2,723
Current liabilities	\$ 584	\$ 818
Long-term liabilities	\$ 1,271	\$ 1,905

8. Related Party Transactions and Commitments

(a) Notes and interest payable (US\$89,207) owing to related party Kaiser-Francis Oil Company (Kaiser-Francis), the majority shareholder of the Company was repaid on October 13, 2000 from the proceeds of the public equity issue. At December 31, 1999 the amount consisted of \$100,208 of notes payable and \$19,522 of interest payable.

The term note bore interest, compounded monthly, at a rate equal to the greater of (a) Royal Bank of Canada's prime rate of interest plus 2% per annum and (b) Chase Manhattan Bank's prime rate of interest per annum in the United States. Interest on the term note was not payable by the Company on a monthly basis until after December 31, 1998, but accrued from the date of issuance of the term note. Commencing January 1, 1999, interest was payable on a monthly basis. The outstanding principal (and any unpaid interest thereon) was due and payable in full on December 31, 2002. The principal amount of the term note and any unpaid interest thereon was collateralized by all assets of the Company. The interest rate applicable to the term note as of December 31, 1999 was 8.50%. The average interest rate charged in 2000 was 9.23% (1999 - 8.44%; 1998 - 8.75%).

Interest expense on these obligations in 2000 totalled \$9,167 (1999 - \$8,842; 1998 - \$7,639). Kaiser-Francis waived its rights to receive interest payments during 1999 and 2000, in exchange for additional notes in the amount of the accrued and unpaid interest.

(b) As consideration to Kaiser-Francis for its agreement to implement the capital restructuring related to the public equity offering, the Company paid \$7,000 to Kaiser-Francis.

(c) On January 1, 1999, the Company entered into a farm-in agreement with a mining company of which one of the Company's directors is an officer and director. Under the agreement, the Company has earned the right to a 100% interest in six mining claims in the vicinity of the Lac des Iles property by making payments to the optionor totalling \$260 prior to January 1, 2001 and by conducting exploration work in the amount of \$135 by December 31, 2000. The optionor retained a 2% net smelter royalty on the farm-in claim property.

(d) During 2000, Kaiser-Francis provided a bridge loan facility to the Company at a rate of interest of 30-day LIBOR plus 2%. The drawings under this facility were repaid through the use of the project term loan (note 9).

(e) During 2000, directors provided services to the Company in the amount of \$214 (1999 - \$Nil; 1998 - \$37).

9. Project Term Loan

On June 27, 2000, the Company closed a US\$90,000 non-revolving term credit facility in the amount of US\$90,000 with a syndicate of three Canadian chartered banks. The credit facility will finance part of the capital costs, working capital and interest during construction of the expansion project. Amounts can be drawn in either Canadian or United States dollars, in each case based on several funding options. Outstanding loans will bear interest or stamping fees based upon banker's acceptances or LIBOR rates plus a margin of 1.75% prior to final completion of the expansion project, 2.125% during the first three years and 2.375% thereafter. As of December 31, 2000, the interest rate on the outstanding loan of US\$39,200 was 8.3125%.

In return for granting the loan and in order to ensure repayment, the lenders have a secured interest in all of the Company's existing and future assets. In addition, the syndicate received an assignment of all material agreements including the palladium sales contract and a pledge of the shares of Lac des Iles Mines Ltd.

Kaiser-Francis and its shareholders have guaranteed the Company's obligations under the credit facility until completion tests are met in return for a fee of 0.5% per annum of amounts drawn under the loan facility.

Amounts not drawn under the credit facility will be subject to a standby fee of 0.5%. Amounts drawn under the credit facility will be required to be repaid in quarterly installments commencing on the earlier of (1) the last day of the first calendar quarter after final completion of the expansion project and (2) December 31, 2001. The repayment installments will be as follows: 3.75% of the total principal amount of the credit facility for the initial four installments, 7.50% for the 5th through 8th payments, 6.25% for the 9th through 12th payments, 5.00% for the 13th through 16th payments and 2.50% for the 17th through 20th payments.

If, at any time, the qualifying term of the palladium sales contract is less than four years, the loan repayment installments will be increased proportionately so as to amortize the outstanding loan balance over such qualifying term. "Qualifying term" is defined in the credit facility as any continuous period during the term of the sales contract during which the floor price is at least US\$325 per ounce of palladium at any time on or before June 30, 2005 and at least US\$300 per ounce at any time thereafter.

The Company has the right to prepay any amount outstanding under the credit facility, without penalty, and in some circumstances may be required to make prepayments equal to the amount of insurance proceeds received in connection with a major loss or 50% of excess cash flow, which is defined as cash flow less payments of principal and interest and payments to the debt service reserve amount. The final maturity date of the credit facility is September 30, 2006.

The credit facility includes customary representations, warranties and covenants, including a covenant by the Company not to pay dividends or make any other payment to shareholders prior to the final completion of the expansion project and then only when a specified financial test is met. The credit facility also provides for customary events of default, including default of performance under a material agreement or debt, as well as if a party other than Kaiser-Francis acquires more than 40% of the Company, or upon the death of Mr. Kaiser.

10. Capital Stock

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of special shares, issuable in series, including 10,000,000 Series A preferred shares.

(i) Preferred Shares:

During 1997, 10,000,000 Series A preferred shares (the Shares) were issued pursuant to a stock purchase agreement with Kaiser-Francis for \$50,000 cash consideration. The Shares were not registered pursuant to the United States Securities Act of 1933 or any securities laws of any state of the United States. On October 13, 2000, as part of the capital restructuring relating to a public equity offering, the 10,000,000 Series A preferred shares and accumulated and unpaid dividends of \$16,135 were converted into 12,510,998 common shares.

The following is a summary of the attributes of the Shares:

Dividends

The holder of the Shares was entitled to a cumulative annual dividend payable, as and when declared by the Company's Board of Directors, in priority to the NAP common shareholders or the holders of any other class of shares ranking junior to the Shares, quarterly on the last day of December, March, June and September of each year, of an amount equal to a percentage of Cdn\$5.00 per share: (a) on or before December 31, 2002, equal to the national prime rate in the United States plus 2%; (b) after December 31, 2002 and on or before December 31, 2005, equal to the national prime rate in the United States plus 4%; and (c) after December 31, 2005, equal to the national prime rate in the United States plus 6%.

No dividend was to be declared and paid on the common shares or on any other class of shares ranking junior to the Shares in any financial year, unless and until the accumulated and unpaid dividends on all Shares outstanding in respect of such financial year have had been declared and paid.

Conversion

Any holder of the Shares would, at any time, have had the option of converting any or all of such holder's Shares into fully paid NAP common shares at a conversion rate per Share that is equal to the sum of (a) Cdn\$5.00 divided by Cdn\$4.60 plus, subject to any necessary regulatory approval, (b) the amount of any accumulated but unpaid dividends per Share at the date of conversion divided by the weighted average trading price in Canadian dollars of the NAP common shares during the period of 20 trading days immediately preceding the date of conversion.

Redemption

All or any part of the then outstanding Shares could have been redeemed at any time at the option of the Company for a redemption amount equal to Cdn\$5.00 per share for each Share, together with any accumulated and unpaid dividends thereon.

Voting

The Shares were non-voting unless and until the Company failed to pay dividends on the Shares for a period aggregating two years or more. Effective January 1, 2000, the Shares became voting and the holder of the Shares was entitled to receive notice and attend meetings, and was entitled to one vote in respect of each Share held, until all arrears of such dividends on the Shares were paid to the holder thereof.

(ii) Common Shares:

The changes in issued common share capital for the year are summarized below:

	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	12,224,504	\$ 30,774	12,002,558	\$ 30,418	11,861,602	\$ 30,141
Common shares issued						
- Public issue	24,768,735	235,303	-	-	-	-
- Preferred share conversion	12,510,998	50,000	-	-	-	-
- Equity offering costs	-	(8,791)	-	-	-	-
- Pursuant to stock options exercised	481,421	1,180	11,918	58	-	-
- To Group Registered Retirement Savings Plan participants	43,114	368	210,028	298	140,956	277
Common shares issued, end of year	50,028,772	\$ 308,834	12,224,504	\$ 30,774	12,002,558	\$ 30,418

Corporate Stock Option Plan

The Company has adopted, and the shareholders have approved, the ongoing 1995 Corporate Stock Option Plan (the Plan), under which eligible directors, officers, employees and consultants of the Company are entitled to receive options to acquire common shares. The Plan is administered by the Compensation Committee, a subcommittee of the Board of Directors, which will determine the number of options to be issued, the exercise price (which may not be lower than the closing price of the Company's common shares on the Toronto Stock Exchange on the day prior to the date of grant) and expiration dates of each option, the extent to which each option is exercisable provided that the term of the option shall not exceed 10 years from the date of grant, as well as establishing a limited time period should the optionee cease to be an Eligible Person as set forth in the conditions of the Plan.

The maximum number of common shares subject to option shall not exceed 2,000,000, being approximately 4.0% of the outstanding common shares or such greater number of common shares as may be determined by the Board of Directors, and approved if required, by the shareholders of the Company and by any relevant stock exchange or other regulatory authority.

The following summary sets out the activity in outstanding common share purchase options:

	2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	853,290	\$ 2.20	540,050	\$ 2.39
Granted	942,770	10.61	371,240	2.25
Exercised	(481,421)	2.45	(11,918)	4.90
Cancelled	(56,829)	5.84	(14,500)	2.50
Expired	—	—	(31,582)	4.90
Outstanding, end of year	1,257,810	\$ 8.24	853,290	\$ 2.20
Options exercisable at end of year	453,526		430,611	

The following table summarizes information about the Company's stock options outstanding at December 31, 2000 (see also note 12(c)):

Exercise Price	Expiry Dates	Options Outstanding at Dec. 31, 2000	Options Exercisable at Dec. 31, 2000
\$ 1.40	June 3, 2002	62,993	34,480
1.50	January 19, 2002	10,700	—
2.00	September 7, 2002	50,000	50,000
2.50	April 1, 2001	169,968	169,968
3.00	May 29, 2001	7,250	7,250
3.45	November 4, 2002	75,000	50,000
8.40	March 3, 2005	142,100	47,367
9.30	July 27, 2005	160,796	50,383
9.40	March 15, 2005	100,253	25,328
9.70	November 6, 2005	116,000	—
12.25	August 22, 2005	56,250	18,750
12.75	November 29, 2005	100,000	—
12.80	December 19, 2005	50,000	—
13.90	December 14, 2005	156,500	—
		1,257,810	453,526

The Company has reserved for issuance 1,257,810 common shares in the event that these options are exercised.

11. Commitments

(a) Palladium Sales Contract

During 2000, the Company entered into a contract (the Palladium Sales Contract) whereby the Company has hedged the price of 100% of the palladium the Company is entitled to receive from its smelter customers. Under the Palladium Sales Contract the sales price is based on the monthly average spot price for palladium, as determined by the London Metal Exchange P.M. Fix, for the month prior to the month that the metal is received by the customer, but the price will be no less than US\$325 per ounce for 100% of the metal received and no more than US\$550 per ounce for 50% of the metal received. For the remaining 50% of the metal received, there is no maximum price. The Palladium Sales Contract's term commenced effective July 1, 2000 and expires on June 30, 2005. The Palladium Sales Contract provides that it will automatically extend for one year each May 1st beginning on May 1, 2001 unless either the Company or the customer indicates that they do not wish to extend the term of the Palladium Sales Contract.

(b) Palladium forward contracts

At December 31, 2000, the Company had forward sales contracts for 10,100 ounces of palladium at an average price of US\$911 per ounce, for settlement in the first six months of 2001.

Subsequent to year end, the Company entered into forward sales contracts for 12,000 ounces of palladium at US\$993 per ounce, 50,400 ounces of palladium at US\$945 per ounce and 50,400 ounces of palladium at US\$899 per ounce as a hedge against a portion of its 2001, 2002 and 2003 production respectively.

During 1999, the Company received higher spot market prices for its palladium than had been provided for when the Company entered into commitments to purchase palladium at dates ranging from February 16 to September 15, 1999. As at December 31, 1998, the fair value of these forward contracts was approximately \$4,567, based on total purchase commitments of \$14,442, representing 37,643 ounces of palladium. The Company realized an additional \$302 in 1999, as a result of higher spot palladium prices received on final settlement of the forward contracts.

(c) Sheridan Platinum Group of Companies ("SPG") Commitment

The Company is required to pay a royalty to SPG commencing May 1, 1994 equal to 3% of the defined Net Cash Proceeds up to December 31, 2000. Thereafter a royalty of 5% of the Net Cash Proceeds is to be paid until the expiration of the Lac des Iles mine leases.

12. Contingencies

(a) The Company is a defendant in an action by another mining company claiming damages in the amount of \$20,000, punitive and exemplary damages in the amount of \$5,000 and a declaration that the Company held the Compania Minerales de Copan, S.A. de C.V. (Copan) property in trust for the plaintiff. No provision has been made in the accounts as at December 31, 2000 or 1999 for any possible loss from this action as management of the Company believes it has a valid defense and it has been indemnified by SPG regarding this action.

(b) Claims of wrongful dismissal have been made against the Company totalling \$673 (1999 - \$673). No provision has been made in the accounts as at December 31, 2000 or 1999, as the Company believes it has a valid defense in all instances.

(c) Certain stock options are claimed to be held by employees of Copan. These options have not been included in note 10(ii) as the Company has been indemnified by SPG regarding such matters.

13. Income taxes

Effective January 1, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes. The consolidated financial statements for the prior reporting periods have not been restated. There was no material impact of adopting these recommendations.

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

	2000
Income taxes based upon a combined Federal and Ontario rate of 41%	\$ 19,000
Increase (decrease) in taxes resulting from:	
Benefit of income tax losses not previously recognized	(31,297)
Resource allowance	(7,184)
Permanent and other temporary differences	4,466
Federal large corporations taxes	601
Income tax recovery	\$ (14,414)

The details of the Company's income tax expense (recovery) are as follows:

	2000 (Liability Method)	1999 (Deferral Method)	1998 (Deferral Method)
Current income tax expense:			
Federal large corporations tax	\$ 601	\$ 116	\$ 235
	<u>\$ 601</u>	<u>\$ 116</u>	<u>\$ 235</u>
Future income tax recovery:			
Federal income taxes	\$ (10,395)	\$ —	\$ —
Ontario income taxes	(4,620)	—	—
	<u>\$ (15,015)</u>	<u>\$ —</u>	<u>\$ —</u>
	<u>\$ (14,414)</u>	<u>\$ 116</u>	<u>\$ 235</u>

The details of the Company's future tax assets (liabilities) are as follows:

	2000 (Liability Method)	1999 (Deferral Method)
Current:		
Non-capital loss carry-forwards	\$ 10,282	\$ -
Deferred financing costs	883	-
Net current tax asset	\$ 11,165	\$ -
Long-term:		
Capital assets (plant and equipment, equipment under capital leases)	\$ (1,367)	\$ (3,678)
Mining lease and deferred expenditures	4,647	5,628
Deferred financing costs	3,096	-
Capital loss carry-forwards	1,200	-
Non-capital loss carry-forwards	2,996	37,227
Valuation allowance for future tax assets	(1,200)	(39,177)
Net future tax asset	\$ 9,372	\$ -

During the year ended December 31, 2000, the valuation allowance decreased by \$37,977 primarily due to the utilization and recognition of loss carry-forwards for which no benefit had been previously recognized (1999 - decreased by \$4,636 primarily due to a write-down of assets for tax purposes).

At December 31, 2000, the Company had Federal non-capital loss carry-forwards of approximately \$55,000 (Ontario - \$40,000) which are available to reduce taxable income from similar operations of future years and which expire in the years 2001 through 2006. Federal non-capital loss carry-forwards at December 31, 1999 were approximately \$90,000 (Ontario - \$75,000). In addition, the Company has net capital loss carry-forwards of approximately \$3,000 (1999 - \$Nil) which are available to reduce net capital gains of future years.

14. Statement of Cash Flows

(a) The net changes in non-cash working capital balances related to operations are as follows:

	2000	1999	1998
Decrease (increase) in current assets			
Concentrate inventories awaiting settlement	\$ (19,196)	\$ (29,166)	\$ (661)
Inventories	(7,670)	511	(1,102)
Accounts receivable and other assets	(5,100)	1,578	(1,170)
	(31,966)	(27,077)	(2,933)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	4,536	(1,296)	(1,133)
Taxes payable	1,431	308	(2,292)
	5,967	(988)	(3,425)
	\$ (25,999)	\$ (28,065)	\$ (6,358)

(b) Cash outflows during the year for interest and income taxes were as follows:

	2000	1999	1998
Interest paid	\$ 10,283	\$ 536	\$ 876
Income taxes paid	\$ -	\$ -	\$ 412

(c) During 2000, capital assets (including plant and equipment and equipment under capital lease) were acquired at an aggregate cost of \$46 (1999 - \$2,509; 1998 - \$6,951) of which \$Nil (1999 - \$Nil; 1998 - \$3,283) were acquired by means of capital leases. Cash payments of \$46 (1999 - \$2,509; 1998 - \$3,668) were made to purchase capital assets.

15. Reconciliation to Accounting Principles Generally Accepted in the U.S.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which differ in some respects from those in the United States. The following table presents amounts that would have been reported had the Company's consolidated financial statements been prepared on the basis of accounting principles generally accepted in the United States (U.S. GAAP):

<i>(Canadian dollars in thousands, except share and share amounts)</i>	2000	1999	1998
Statements of operations and deficit:			
Net income (loss) and comprehensive income under Canadian GAAP	\$ 60,756	\$ (5,150)	\$ (17,529)
Exploration costs (i)	(10,539)	(6,702)	(1,217)
Capitalized interest (ii)	729	—	—
Foreign exchange gain (loss) (iii)	787	7,488	(5,062)
Net income (loss) for the period under U.S. GAAP	\$ 51,733	\$ (4,364)	\$ (23,808)
Basic income (loss) per share under U.S. GAAP	\$ 2.31	\$ (0.77)	\$ (2.43)
Diluted income (loss) per share under U.S. GAAP (iv)	\$ 1.65	\$ (0.77)	\$ (2.43)
Weighted average number of shares outstanding - basic	20,425,466	12,135,310	11,939,882
Weighted average number of shares outstanding - diluted	31,292,354	12,135,310	11,939,882
Balance sheets:			
Mining interests (i)	\$ 35,455	\$ 49,053	
Expansion project (ii)	\$ 155,487	\$ —	
Common shares (v)	\$ 314,932	\$ 36,872	
Deficit (v)	\$ (92,683)	\$ (144,416)	

(i) Canadian GAAP requires the deferral and amortization of certain exploration costs meeting certain criteria. This deferral is not allowed under U.S. GAAP

(ii) The Company capitalizes interest on major projects where direct indebtedness has occurred. Under U.S. GAAP, interest is capitalized as it arises from indebtedness incurred, directly or indirectly, to finance development and construction activities on assets that are not yet subject to depreciation and depletion.

(iii) U.S. GAAP requires that gains and losses on foreign exchange resulting from the translation of long-term debt be charged to income when incurred. Canadian GAAP requires that foreign exchange gains or losses be amortized over the remaining life of the long-term debt.

(iv) For the purposes of determining the diluted net income per share under U.S. GAAP for 2000, the net income used to determine basic income per share under U.S. GAAP was increased for the dividends in arrears for the period of \$4,418 and the weighted average number of shares outstanding was increased by 10,512,504 and 354,384 common shares for the Shares (including dividends in arrears) and common share purchase options, respectively.

(v) Canadian GAAP allows for the reduction of the stated capital of outstanding common shares with a corresponding offset to deficit. This reclassification, which the Company made in 1991, is not permitted by U.S. GAAP and would result in an increase in both capital stock and deficit of \$6,098 at December 31, 2000 and 1999.

(vi) U.S. GAAP requires that amounts totalling 5% or more of accounts payable and accrued liabilities be identified separately. As at December 31, 2000, these amounts were as follows: Trade payables and accruals - \$38,830 (1999 - \$1,194); other accruals - \$1,576 (1999 - \$270).

(vii) The Company, for purposes of preparing financial information in accordance with U.S. GAAP, continues to account for its stock-based compensation plan under Accounting Principles Board Opinion 25 'Accounting for Stock Issued to Employees,' which results in the recording of no compensation expense in the Company's circumstances. Had the fair value of options vested during the year been charged to compensation expense as permitted by FASB Statement No. 123, the 2000 net income, basic net income per share and diluted net income per share would have been \$49,084 and \$2.19 and \$1.57 respectively, (1999 - net loss of \$4,688 and net loss per share of \$0.80; 1998 - net loss of \$24,074 and net loss per share of \$2.45), after giving effect to the 2000, 1999, 1998 and 1996 options granted. The estimated fair value of the options is amortized to expense over the vesting period of the options.

The weighted average fair market value of options granted in 2000 was \$5.65 (1999 - \$1.05; 1998 - \$0.96).

The Company estimated the fair value of options granted in 2000, 1999 and 1998, using the Black-Scholes option-pricing model and used the following assumptions:

	2000	1999	1998
Risk free interest rate	5%	5%	5%
Expected life of options	3 years	3 years	3 years
Expected volatility of the Company's share price	76%	65%	68%
Expected dividend yield	0%	0%	0%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. As the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subject input assumptions, such as expected stock market price volatility, can materially affect the fair value estimate, in management's opinion, the existing pricing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Recent Developments

The Financial Accounting Standards Board (FASB) issued Statement No.133, 'Accounting for Derivative and Hedging Activities,' as amended by FASB Statements No.137 and 138 is effective for fiscal periods beginning after June 15, 2000. Based on the Company's derivative positions as December 31, 2000, the impact of adoption at January 1, 2001 is not material to its Consolidated Financial Statements.

16. Comparative Figures

Certain of the prior years' figures have been reclassified to conform to the presentation adopted in 2000.

Glossary of Terms

ball mill is a rotary grinding mill which uses metal balls to reduce ore to a fine particle size.

catalyst is a substance which, when present in small amounts, modifies the rate or efficiency of a chemical reaction of other substances without being consumed in the process.

catalytic converter is a pollution control device, fitted to the exhaust systems of vehicles powered by internal combustion engines. This device contains platinum, palladium and sometimes rhodium, which assist in the conversion (oxidation) of carbon monoxide and hydrocarbons into carbon dioxide and water.

concentrate is a product containing the valuable metal and from which most of the waste material in the ore has been eliminated.

concentrator or process plant is a plant or facility which processes ore brought from the mine and removes most of the valuable mineral or metal from the ore and discards most of the barren portion of the ore as tailings.

cut-off grade is determined by the following formula parameters: estimates over the relevant period of mining costs, ore treatment costs, general and administrative costs, refining costs, royalty expenses, process and refining recovery rates and platinum group metal prices.

feasibility study is an engineering study designed to define the technical, economic and legal viability of a mining project within a high degree of reliability and containing detailed supporting evidence.

flotation circuit is a series of flotation tanks or cells which recover metal by means of flotation. Flotation is a milling process by which some mineral particles are induced to float and others to sink. The valuable minerals are thereby concentrated and separated from the worthless waste.

head grade is the quantity of valuable mineral or metal contained in each tonne of ore delivered to the concentrator expressed in grams per tonne or ounces per ton.

mineralized material is a mineralized body which has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals to warrant further exploration. Such a deposit does not qualify as a reserve, until a comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility.

ore is a mixture of valuable and worthless minerals from which at least one of the minerals can be legally mined and processed at an economic profit.

ounce is a unit of weight measure. In the precious metals industry a troy ounce is equal to one-twelfth part of a pound.

platinum group metals include platinum, palladium, rhodium, ruthenium, osmium and iridium. All platinum group metals have catalytic qualities and resist corrosion and are chemically inert over a wide range of temperatures.

qualified person is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development,

operation or mineral project assessment or any combination of these relevant to the subject matter of the mineral project and technical report and who is a member in good standing of a professional association.

SAG mill means semi-autogenous grinding mill. A SAG mill is one in which steel balls are added to the mill charge to supplement the grinding capabilities of the large pieces of ore.

strip ratio is the ratio of waste to ore in an open-pit mining operation.

tailings are that portion of the ore which remains after the valuable minerals have been extracted.

tailings impoundment is a containment area constructed to hold tailings.

tonne is a unit of measurement equivalent to 1000 kilograms on a dry weight basis.

waste is barren rock in a mine, or mineralized material that is too low in grade to be mined and milled at a profit.

Metric Conversion Table

Imperial	Metric
1 troy ounce	31.103 grams
1 ton, short	0.907 tonnes
1 troy ounce per ton	34.286 grams per tonne
1 foot	0.305 metres
1 mile	1.609 kilometres
1 acre	0.405 hectares

Forward Looking Statements

Natural resource exploration and, ultimately, the development of deposits are activities subject to significant risks. The probability of success for any given exploration program cannot be predicted with any degree of certainty. It is impossible to know whether the current exploration programs of the Company will ultimately result in a profitable, commercial mining operation. The ultimate economic value of a discovery and the decision to bring the project into production are based on a number of factors including the attributes of the deposit (such as its size and the quantity and quality of the palladium), market conditions, mining costs, availability of financing, confirmation of land title, environmental considerations and mining permits.

At any point in time throughout this exploration and evaluation process, results and external conditions can adversely affect its progress and outcome.

Investment in an exploration venture is highly speculative. Although there are examples showing that the returns on such investment can be proportionate to the investment risk, there is no guarantee that any current or future activities of the Company will ultimately lead to similar returns for its shareholders.

This Annual Report contains forward-looking statements that are based on Management's expectations and assumptions. They include statements preceded by the words "believe," "estimate," "expect," "intend," "will," and similar expressions, and estimates of future production, costs per ounce, dates of construction completion, costs of capital projects and commencement of operations. Actual results may differ materially from expectations. Among the important factors that could cause actual results to differ materially are the following: production may vary from estimates for particular properties and for the Company as a whole because of changes in reserves, variation in ore mined from estimated grade and metallurgical characteristics, unexpected ground conditions, mining dilution, labour actions, and government restrictions. Cash costs may vary due to changes from reserve and production estimates, unexpected mining conditions, and changes in estimated costs of equipment, supplies, utilities, labour costs and exchange rates. Non-cash cost estimates, based on total capital costs and reserve estimates, change based on actual amounts of unamortized capital and changes in reserves. Capital cost estimates are based on operating experience, expected production, estimates and contract terms with third-party suppliers, expected legal requirements, feasibility reports by Company personnel and others, and other factors. Factors involved in estimated time for completion of projects include the Company's experience in completing capital projects, estimates by and contract terms with contractors, engineers, suppliers and others involved in design and construction of projects, and estimated time for the government to process applications, issue permits and take other actions. Changes in any factor may cause costs and time for completion to vary significantly from estimates. There is a greater likelihood of variation for properties and facilities not yet in production due to lack of actual experience.

Corporate Information

Directors

D. Joseph Graham*

Chairman of the Board
Financial and Management
Consultant
Sapulpa, Oklahoma

Keith C. Minty, P. Eng.

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Thunder Bay, Ontario

Michael P. Amsden, P. Eng.*

Retired Mining Executive,
Oakville, Ontario

Steven R. Berlin, C.P.A.

Vice President and
Chief Financial Officer
Kaiser-Francis Oil Company
Tulsa, Oklahoma

Louis J. Fox, J.D.

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Walter R. Ranta*

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Chief Executive Officer,
Patricia Mining Corp.
Toronto, Ontario

*Audit Committee

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President and Chief Executive
Officer

George D. Faught, C.A.

Vice President - Finance and
Chief Financial Officer

Stephen Stine, P.E.

Vice President and General
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Stock Exchange Listing

The Toronto Stock Exchange
(Trading Symbol PDL)

The American Stock Exchange
(Trading Symbol PAL)

Shares Issued

At December 31, 2000

Common shares - 50,028,772

Website

www.napalladium.com

Corporate Governance

The Company's report on its
corporate governance practices
is contained in the Management
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