



North American **Palladium** Ltd.



2002 Annual Report



North American **Palladium** Ltd.



North American  
**Palladium**  
Focused on Results



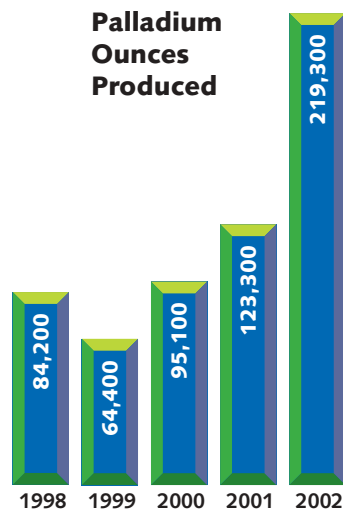
## Corporate Profile

**North American Palladium Ltd. is Canada's only primary producer of palladium. The Company's Lac des Iles open pit mine, located 85 kilometres northwest of Thunder Bay in northern Ontario, also produces platinum, gold, copper and nickel as by-products.**

Since the start-up of a new 15,000 tonnes per day mill at Lac des Iles in 2001, the Company has faced several challenges but is making steady progress towards achieving its sustainable long-term operating targets.

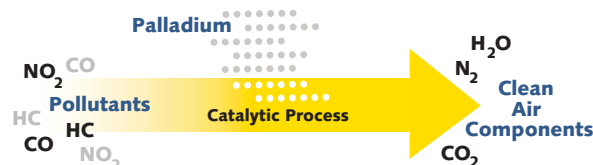
The Company's operating margins are protected by a palladium sales contract that provides a floor price of US\$325 per ounce on 100% of production through mid-2005.

Following exploration successes at the mine site, an independent feasibility study is in progress to determine the potential for an underground mining operation to complement open pit production. The Company's plans for continued growth centre on its platinum group metals exploration program.



## Palladium

Palladium plays a critical role in the reduction of harmful substances from automobile exhausts. As a catalyst, palladium encourages the following chemical reactions without actually taking part in the reaction:



## Global Demand in 2002\* by Application

Autocatalysts	57%
Electronics	15%
Dental	15%
Chemical	5%
Jewellery	5%
Other	3%

**Total 2002 Use**  
**4.9 million ounces**

\* Johnson Matthey  
Platinum 2002, Interim Review

## Cautionary Note

Some of the statements contained in the annual report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives and goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results relating to among other things, reserves, resources, results of exploration, capital costs and mine production costs could differ materially from those currently anticipated in such statements by reason of factors such as the productivity of the Company's mining properties, changes in general economic conditions and conditions in the financial markets, changes in demand and price for the metals and minerals the Company produces, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments in areas in which the Company operates, technological and operational difficulties encountered in connection with the Company's mining activities, labour relations matters and costs and other matters discussed under "Management's Discussion and Analysis of Financial Results" and in the Company's Annual Report on Form 20-F under "Risk Factors." The Company disclaims any obligation to update forward-looking statements.

Reported reserves and resources have been calculated in accordance with definitions and guidelines adopted by the Canadian Institute of Mining, Metallurgy, and Petroleum (CIM) on August 20, 2000. The reserves and resources are estimates and no assurance can be given that the indicated quantities of palladium and platinum will be produced.

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## 2003 Objectives

- *Improve mill operations to 14,250 tonnes per day and 75% recovery of palladium, with a target long-term sustainable rate of 15,000 tonnes per day and 78% palladium recovery*
- *Strengthen the Company's financial position*
- *Develop resources in the vicinity of the mine and conduct grass roots exploration within 100 kilometres of the mine site*

### Annual and Special Meeting

North American Palladium Ltd. will hold its Annual and Special Meeting on Wednesday, May 28, 2003 at 10:00am in the St. Andrews Conference Centre, 150 King Street West, 27th Floor, Toronto, Ontario, Canada

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North American  
**Palladium**  
Focused on Results



# Message to Shareholders



Michael Amsden  
Chairman and Acting  
Chief Executive Officer

**In 2002, North American Palladium's Lac des Iles mine completed its first full year as a large-scale open pit mining operation.**

**Production of palladium increased to 219,325 ounces, 78% higher than in 2001 and 130% higher than in 2000. We made considerable progress in resolving performance problems encountered during the commissioning of the new mill in 2001. The improved operating performance had a positive impact on our net revenue and operating cash flow.**

In addition, an infill drilling program conducted on the Main High Grade Zone confirmed its grade and continuity. As a result we have commissioned an independent feasibility study to determine the economic parameters necessary for a possible underground mining operation in this zone, which lies below the ultimate depth of the open pit.

Revenues in 2002 increased to \$176.8 million compared to \$121.5 million in 2001. Net income doubled to \$15.1 million or \$0.30 per share versus \$7.5 million or \$0.15 per share in 2001. Operating cash flow improved to \$47.5 million from \$34.4 million in 2001, before changes in non-cash working capital.

## OPERATIONAL PROGRESS

To improve the performance of the Lac des Iles mill in 2002, our main objectives were to operate it at its design capacity and to increase average palladium recovery towards our ultimate goal of 78%. We succeeded in both tasks. The mill achieved its design rate of 15,000 tonnes per day in August 2002, after several improvements had been made to the SAG (semi-autogenous grinding) mill circuit, including fine crushing a portion of the SAG mill feed. Palladium recovery for the year increased to 73.8%, up from 67.4% the previous year, and improved further to 76.9% in the first quarter of 2003. Intensive metallurgical testing and on-site pilot plant work conducted during 2002 demonstrated that palladium recovery can be improved by finer grinding of the ore and by expanding the capacity of the flotation cleaner circuit. Since November 2002, half of the feed to the primary flotation circuit has been undergoing fine grinding in two tower mills previously used for regrinding concentrates. The grinding test program will continue during 2003. We shall also be evaluating the most cost-effective ways to introduce more flotation capacity.

While the grinding rate in the SAG mill averaged 15,215 tonnes per day in August, unfortunately this rate was not sustained for the remainder of the year because of the failure in September of the primary crusher, which processes ore before it reaches the SAG mill. Portable contract crushers were installed to sustain the operation while the primary crusher was repaired. The repairs proved much more difficult than anticipated and although the unit was finally returned to operation in March 2003, its long-term reliability is doubtful. Consequently, we have ordered a new primary crusher at a cost of US\$3 million that is expected to be operational by mid-2003. The Company carries property damage and business interruption insurance and will make a claim to recover losses sustained by the crusher failure.

**“REVENUES IN 2002  
INCREASED TO \$176.8 MILLION  
COMPARED TO \$121.5 MILLION  
IN 2001. NET INCOME  
DOUBLED TO \$15.1 MILLION  
OR \$0.30 PER SHARE VERSUS  
\$7.5 MILLION OR \$0.15 PER  
SHARE IN 2001. OPERATING  
CASH FLOW IMPROVED  
TO \$47.5 MILLION...”**

## UNDERGROUND POTENTIAL

In response to scoping studies that suggested underground mining of the Main High Grade Zone might be feasible and economic, North American Palladium carried out 47,000 metres of infill drilling on the zone during 2002. The results confirmed its continuity and high grade nature, paving the way for the independent feasibility study currently under way.

The Main High Grade Zone is near vertical, over 350 metres long and averages 11.8 metres in width and 6.1 grams of palladium per tonne in grade. It could be accessed via a ramp from the open pit, and lends itself to conventional bulk mining methods. We envisage that higher grade ore from underground would be combined with open pit ore to feed the mill at 15,000 tonnes per day.

The feasibility study is scheduled for completion by mid-2003, at which time we expect to update our statement of reserves and resources.



Primary crusher  
stockpile conveyor

## ONGOING EXPLORATION

North American Palladium's exploration program is two-pronged. Its near-term goal is to advance mine site resources closer to development; its long-term goal is to create growth opportunities for the Company. Following on from our successes in 2002, we shall continue to balance resource development with grass roots exploration in 2003. We are drilling the southeast and southwest extensions of the Roby zone, where there is the greatest potential for increasing reserves. We are also planning to drill geophysical targets on three satellite properties and will conduct grass roots exploration on a number of recently acquired properties located within 100 kilometres of the Lac des Iles mine. A deep target magnetotelluric geophysical survey will be carried out in an effort to identify the source of several precious and base metal-rich massive sulphide pods intersected at Lac des Iles during previous drilling. If a suitable target is identified, drilling will be initiated.





## IMPROVING FINANCIAL POSITION

Our long-term sales contract provides revenue stability through mid-2005. It provides a guaranteed floor price of US\$325 per ounce on 100% of our palladium production, with a cap of US\$550 per ounce on only one half of production. We have also sold forward 50,400 ounces of palladium in 2003 at US\$899 per ounce. With the two arrangements, we are guaranteed no less than US\$440 per ounce for our expected palladium sales in 2003. In addition, we have hedged a portion of our energy requirements for 2003 to control our operating costs and have hedged US\$50 million of expected 2003 revenue at favourable exchange rates.

With our forecast stream of cash flow, we expect to satisfy an accelerated debt repayment schedule for our project term loan facility. In 2002 we repaid US\$21.1 million of the loan, leaving a year-end balance of US\$64.7 million.



Operator wet screening  
mill sample

## LOOKING FORWARD

In 2002, we demonstrated that the Lac des Iles mill is capable of operating at its design capacity of 15,000 tonnes per day, and we identified what needs to be done to improve palladium recoveries. During 2003, we shall concentrate on implementing the most cost-effective solutions. With the return to normal primary crusher operations, we expect to produce near or at design tonnages. Our target is to produce palladium at less than US\$200 per ounce net of other metal revenues and royalties.

The recent volatility in the price of palladium is of concern. However, we are protected from the current low prices by our sales contract, until mid-2005. Palladium prices were driven down in 2002 by de-stocking in the automotive sector and the substitution of palladium by platinum in automobile catalysts. Nevertheless, the current large price spread between palladium and platinum leads us to believe that the automotive sector will turn to palladium again, and this move should

lead to improved prices for the metal. The efforts of Russian and South African producers to stabilize supply should also lead to an improvement in prices.

The year past was challenging and sometimes very frustrating for our employees. However, they met the challenges and as a result of their hard work we are ready to continue improving our performance in the year ahead.

Keith Minty resigned as President, Chief Executive Officer and a director in September 2002. Mr. Minty had been with the Company since 1998, leading it through its transition to a significant palladium producer. On behalf of the Board of Directors, I would like to thank Mr. Minty for his contribution to the Company. André J. Douchane has been appointed President, Chief Executive Officer and a director effective April 1, 2003. Mr. Douchane has many years of mining experience at the executive level and we welcome him to the Company.

On behalf of the Board of Directors, my thanks go to all of our employees for their efforts and dedication during the past year. To our shareholders, our thanks for your continued support.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Michael P. Amsden'.

**Michael P. Amsden**

*Chairman of the Board and Acting Chief Executive Officer*  
March 26, 2003

**“THE CURRENT LARGE  
PRICE SPREAD BETWEEN  
PALLADIUM AND PLATINUM  
LEADS US TO BELIEVE THAT  
THE AUTOMOTIVE SECTOR  
WILL TURN TO PALLADIUM  
AGAIN, AND THIS MOVE  
SHOULD LEAD TO IMPROVED  
PRICES FOR THE METAL.”**

# Frequently Asked Questions

## Senior management responds

### Q. What are the primary uses for palladium?

**A.** More than half of global palladium demand is for the production of autocatalysts which are used to reduce harmful engine exhaust emissions from automobiles. The exhaust from most vehicles contains pollutants such as hydrocarbons, carbon monoxide and nitrogen dioxide. Palladium behaves as a catalyst in the process that converts these substances into clean air components such as water, nitrogen and carbon dioxide.

Palladium is used in the electronics industry primarily in the fabrication of multi-layer ceramic capacitors, and in the dental industry in the production of dental alloys. These two applications account for approximately 30% of global demand. Palladium is also found in chemical products and in jewellery fabrication.

### Q. What is management's outlook for palladium?

**A.** Palladium prices demonstrated continued volatility in 2002, ranging from a high of US\$435 per ounce early in the year to a low of US\$222 per ounce late in the year. The drop in the metal price was primarily due to de-stocking of palladium inventories by the automobile producers and lower demand from the electronics sector. At the end of February 2003, the palladium price traded at US\$244 per ounce.

In 2003, palladium demand is expected to recover relative to 2002 as inventories held by the manufacturers have been significantly depleted. In addition, platinum is trading at a substantial premium to palladium. This differential reached a high of US\$371 per ounce in 2002 and continued to widen in the first quarter of 2003. This is likely to support substitution from platinum-rich to palladium-rich autocatalysts in gasoline vehicles.

Air pollution in the world's largest cities is increasing and governments around the world are responding by enacting more stringent vehicle emission standards. In fact, stricter emission standards are planned within the U.S. and Europe by 2004 and 2005 respectively. Long-term demand for palladium should remain robust as automobile companies strive to meet the tougher emission standards.

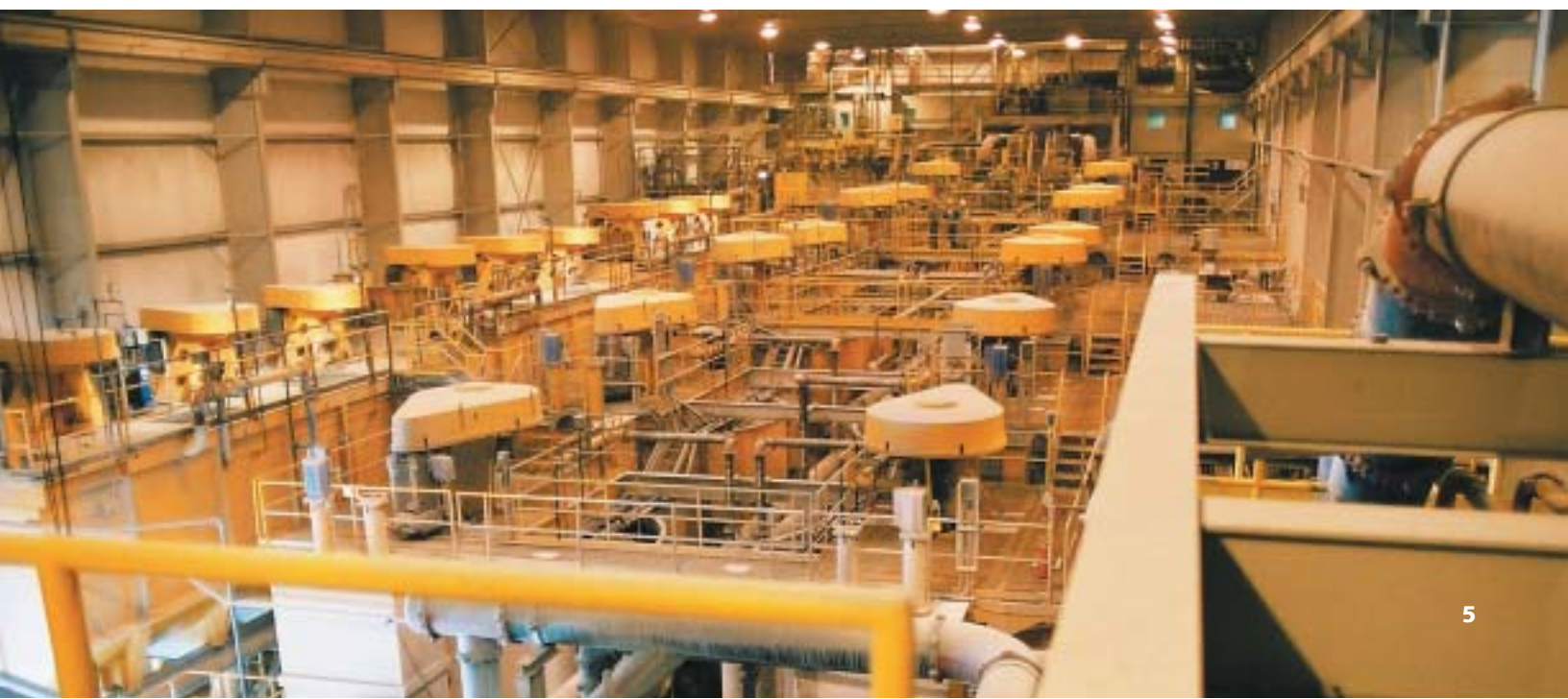
### Q. Are North American Palladium's shareholders protected from low palladium prices?

**A.** Yes. The Company has captured exceptional palladium prices to mid-2005. We have sold forward 50,400 ounces in 2003 at an average palladium price of US\$899 per ounce. In addition, we have a long-term sales contract with a major automobile manufacturer which limits our downside exposure to low palladium prices. Under the terms of the contract, we have a floor price of US\$325 per ounce on 100% of our production, and a cap of US\$550 per ounce on 50% of our production until June 2005. This contract protects the shareholders at palladium prices below US\$325 per ounce and provides upside participation to future increases in the palladium price. The combination of our forward sales position and floor price under the sales contract will result in the Company receiving not less than US\$440 per ounce for our expected 2003 palladium sales.



**George Faught**  
Vice President  
Finance and  
Chief Financial Officer

Flotation section  
of Lac des Iles mill





### **Q. Has the Company resolved the outstanding issues with the primary crusher?**

**A.** In September 2002, the primary crusher at Lac des Iles was shut down when an examination revealed that the bottom shell contained two fractures. It was reactivated in March 2003, but its long-term reliability is doubtful and it will be replaced with a new unit. The new crusher is expected to improve operating and maintenance costs and minimize the risk of any future disruption to the operation.

### **Q. Has the Company made any progress with regard to improving mill performance?**

**A.** In 2002, we made significant process improvements in the performance of the mill. In August 2002, mill throughput exceeded 15,000 tonnes per day, which is one of our key operating targets. This achievement was the result of a number of measures introduced by the Company in 2001 and 2002.

For example, contract crushing was introduced into the circuit to supply some fine ore to the SAG mill. This feed in combination with new liners in the SAG mill resulted in higher operating efficiencies and increased mill availability. Modifications to the flotation circuit and improved operator training also contributed to the improvement in mill throughput.

Our second key operating target is to achieve long-term palladium recovery of 78%. In 2002, a pilot plant program demonstrated that existing palladium recoveries could be improved with the introduction of finer ore in the mill circuit. The Company is currently utilizing its existing tower mills to test the impact of a finer ore grind in an effort to replicate the pilot plant results. In 2003, the Company expects to complete numerous testing programs and implement the necessary modifications to improve the palladium recovery.



Haulage truck  
maintenance

### **Q. What is the Company's long-term financial strategy?**

**A.** In light of the potential for an underground mine at Lac des Iles, we are committed to providing the greatest financial flexibility for the Company's plans. Ultimately, we want to be in a position to fund any future capital requirements with internal cash flow and incremental debt financing if required. In 2002, the Company paid down US\$14.6 million in net debt. In 2003, we are scheduled to make additional principal payments totaling US\$32.3 million. At the end of 2003, the Company will have a stronger balance sheet. This will better position the Company to take advantage of future opportunities including potential value enhancing options.

### **Q. What were the results of the 2002 exploration program?**

**A.** After the success of our deep exploration program in 2001, we decided to target the Main High Grade Zone at the Lac des Iles mine for further exploration in 2002. This zone is located directly beneath the open pit. The primary purpose of the drill campaign was to upgrade resources in the Main High Grade Zone into the measured and indicated categories. The 2002 drill program consisted of 47,160 metres of infill drilling resulting in 82 new intercepts in the Main High Grade. The true width of the Main High Grade Zone is now estimated to be 11.8 metres with an average palladium grade of 6.1 grams per tonne. We were successful in achieving our objectives and as a result we have hired an independent engineering firm to complete a feasibility study for a potential underground operation.

### **Q. What are the highlights of the 2003 exploration program?**

**A.** We believe that our best prospects for growth are located in and around the Lac des Iles mine property. In 2003, we intend to further delineate resources in the area. In addition, exploration will be conducted on our most promising grassroots properties.

In 2003, we will conduct exploratory drilling on the southeast and southwest extensions of the Roby Zone. In addition, the Company will perform exploratory drilling at its Buck Lake, North Lac des Iles and Weaver Lake properties. We have also discovered numerous precious and base metal-rich massive sulphide pods near the Roby Zone. In the spring of 2003, we will perform a magnetotellurics survey designed to detect massive sulphide mineralization to a depth of two kilometres. This survey will be used to determine if there is a primary source of these massive sulphides.

### **Q. Are environmental issues important to North American Palladium?**

**A.** North American Palladium is unique in the mining industry, given that the primary purpose of the palladium we produce and sell is to improve the environment. Palladium is used in autocatalysts to reduce harmful automobile engine emissions. In effect, we produce a metal to clean the air we breathe.

Our commitment to the local environment in northwestern Ontario is of paramount importance to us. At the mine site, our operation has minimal impact on the environment, because of the existing natural conditions and the design of the facility. Both the host rock and the tailings are benign, meaning they do not give rise to acid rock drainage. The tailings, which consist primarily of sand and talc, readily support vegetation. Through careful management of the facility's water balance, no effluent was discharged in 2002, and none is anticipated in 2003. Should it be necessary to discharge effluent in the future, the only requirement is the settlement of solids prior to discharge into the environment.



# Lac des Iles Mine

## Statement of Mineral Reserves and Resources <sup>(1) (2) (3)</sup>

December 31, 2002

	Tonnes (000)	Palladium (g/tonne)	Platinum (g/tonne)	Gold (g/tonne)	Copper (%)	Nickel (%)	Palladium (000 oz.)	Platinum (000 oz.)
<b>Reserves</b>								
Proven	56,834	1.48	0.17	0.12	0.06	0.05	2,702	307
Probable	31,815	1.57	0.17	0.12	0.05	0.05	1,602	172
<b>Total Proven and Probable</b>	<b>88,649</b>	<b>1.51</b>	<b>0.17</b>	<b>0.12</b>	<b>0.06</b>	<b>0.05</b>	<b>4,304</b>	<b>479</b>
<b>Resources</b> (In addition to Reserves)								
Measured	29,034	1.69	0.20	0.12	0.05	0.06	1,576	183
Indicated	36,888	1.50	0.15	0.10	0.05	0.05	1,780	180
<b>Total Measured and Indicated</b>	<b>65,922</b>	<b>1.58</b>	<b>0.17</b>	<b>0.11</b>	<b>0.05</b>	<b>0.05</b>	<b>3,356</b>	<b>363</b>
<b>Inferred Resources</b>	<b>72,999</b>	<b>1.57</b>	<b>0.15</b>	<b>0.10</b>	<b>0.05</b>	<b>0.05</b>	<b>3,683</b>	<b>364</b>

- (1) The resources, which are not reserves, do not have demonstrated economic viability and are beyond the ultimate pit dimensions. The Company is undertaking an independent feasibility study to determine the viability of an underground operation. The Company's reserve and resource estimate will be updated following completion of the feasibility study.
- (2) Mineral Reserves and Resources calculated at a cut-off grade of 0.7 grams of palladium per tonne and an average long-term palladium price of US\$400 per ounce.
- (3) C. Turek, P.Eng., prepared the reserve estimate calculation and M. Lavigne supervised the 2002 exploration program. D. Kim and D. Redmond prepared the resource estimate calculation. Messrs. Turek, Lavigne, Kim and Redmond are "qualified persons" as defined in NI43-101 and are employees of the Company.

## Mineral Reserves and Resources Definitions

### • 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.

### • 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

## Optimizing our long-term mine plan



**Ray Mason**  
Mine Manager

In 2002, total production from the Lac des Iles open pit amounted to 17.1 million tonnes or 46,793 tonnes per day of ore and waste combined. Ore production totaled 7.3 million tonnes grading 1.49 grams per tonne of palladium. The waste to ore stripping ratio declined to 1.36:1 from 3.32:1 in 2001. At the end of 2002, the broken ore stockpile consisted of 8.7 million tonnes grading 1.16 grams per tonne of palladium containing 323,000 ounces of palladium. The stockpile included 1.2 million tonnes of high grade ore averaging 1.73 grams of palladium per tonne which will be treated in 2003. This high grade ore stockpile gradually increased because of the unscheduled shutdown of the primary crusher in September and the inability to treat the larger sized ore through the contract crushers.

The 2002 mine plan included sourcing part of the mill feed from the broken ore stockpile to reduce mine operating costs. The remaining mill feed was sourced from mine production in the Roby pit. For the first eight months of 2002, mine production averaged 54,575 tonnes per day as planned which was amply sufficient to meet the mill feed requirements.



**Mike Thompson**  
Administration Manager  
and Senior Controller

In September 2002, the Company was forced to revise its mine plan in response to the shutdown of the primary crusher. Following the shutdown, portable crushers were installed on site to provide mill feed and minimize the disruption to the operation. The mining equipment was redeployed to supply more ore to the portable crushers from the broken ore stockpiles and less from the Roby pit. As a result, mine production decreased from 54,575 tonnes per day before September to an average of 31,300 tonnes per day for the remainder of the year.

By the end of 2002, the Phase 3 expansion of the open pit had increased the pit dimensions to 700 metres in length, 450 metres in width and 100 metres of vertical depth below surface. Pit dewatering commenced in July of 2002. Over 900 million litres of groundwater have been pumped out of the pit, successfully maintaining water levels below the working elevation.

An independent feasibility study on an underground operation at the Lac des Iles mine will be completed in mid-2003. The focus of the study is to optimize the long-term mine plan by combining production from the open pit with higher grade ore from an underground operation. After the study is completed, the long-term mine plan will be updated.

Looking south  
over the Lac des Iles  
open pit and mine site



<b>Roby Pit Ore Production and Grades</b>	<b>Ore Tonnes</b> (000)	<b>Palladium</b> (g/t)	<b>Platinum</b> (g/t)	<b>Gold</b> (g/t)	<b>Copper</b> (%)	<b>Nickel</b> (%)
<b>2002</b>	<b>7,251</b>	<b>1.49</b>	<b>0.16</b>	<b>0.12</b>	<b>0.05</b>	<b>0.07</b>
2001	5,768	1.44	0.16	0.10	0.04	0.06
2000	2,690	2.95	0.23	0.24	0.08	0.10
<b>Historical Mine Production</b>		<b>2002</b>	2001	2000	1999	1998
Ore Tonnes Mined		<b>7,250,963</b>	5,768,157	2,689,634	1,271,816	873,929
Waste Tonnes Mined		<b>9,828,552</b>	19,174,635	7,508,117	4,115,159	3,923,731
Stripping Ratio		<b>1.36:1</b>	3.32:1	2.79:1	3.23:1	4.49:1
Average Daily Production (Tonnes)		<b>46,793</b>	68,336	27,939	14,758	13,144



# Milling Operations

## Design capacity achieved and required upgrades to improve palladium recovery identified

Palladium production from the Lac des Iles mine reached a new record of 219,325 ounces in 2002 as a result of higher throughput in the first full year of production from the new mill. Ore processed in 2002 totaled 4,851,621 tonnes or 13,292 tonnes per day at an average palladium head grade of 1.91 grams per tonne and an average palladium recovery of 73.8%. Availability in the new mill was 90.5% during the year. Other metal production in 2002 included 19,180 ounces of platinum, 16,030 ounces of gold, 5,295,486 pounds of copper and 2,763,654 pounds of nickel.

In 2002, the Company undertook a number of initiatives to improve mill performance. They included process optimization activities, employee development programs and recovery improvement studies. A secondary crushing system was used to provide finer ore to the Semi Autogenous Grinding (SAG) mill and resulted in increased throughput. The feed conveyor to the pebble crusher was modified, the flow of water into the SAG mill was improved and new mill liners and lifters were installed. As a result, mill throughput improved from 12,086 tonnes per day in January to 15,215 tonnes per day in August. The target throughput for the mill is 15,000 tonnes per day.

In the first half of 2002, the Company conducted a pilot plant study to measure the performance of the scavenger cells and determined that higher palladium recovery is possible with finer grind. As a result, the existing tower mills are being used to conduct a full scale tertiary grinding study. In addition, the Company will study the impact of modifications to the existing scavenger cells in the flotation circuit and complete a feasibility study on the expansion of the cleaning capacity in the mill. The intent of each of these programs is to further improve palladium recovery and increase palladium production while reducing unit operating costs.

In the third quarter of 2002, a structural failure occurred in the lower frame of the primary crusher, necessitating its shutdown and impacting mill throughput. Portable contract crushers were installed to minimize the loss of palladium production during the shutdown period. The primary crusher resumed operation in early March 2003, although its reliability is limited. The Company has arranged to purchase a new crusher which is expected to be functional by mid-2003.

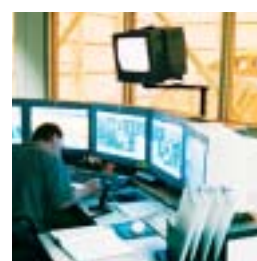


**Chris Turek**  
Mine Superintendent



**Doug Kim**  
Technical Services  
Manager

Year	Ore Milled (tonnes)	Concentrate (tonnes)	Palladium (ounces)	Platinum (ounces)	Gold (ounces)	Copper (lbs)	Nickel (lbs)
<b>2002</b>	<b>4,851,621</b>	<b>27,179</b>	<b>219,325</b>	<b>19,180</b>	<b>16,030</b>	<b>5,295,486</b>	<b>2,763,654</b>
2001	2,662,240	21,697	123,281	10,073	9,603	3,123,763	1,595,179
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



(above) Control room  
monitors mill production  
24 hours a day

(left) SAG mill and  
ball mills process ore  
before mill feed enters  
flotation circuit



# Exploration

## Creating Opportunities for Growth



**Maurice Lavigne**  
Vice President  
Exploration

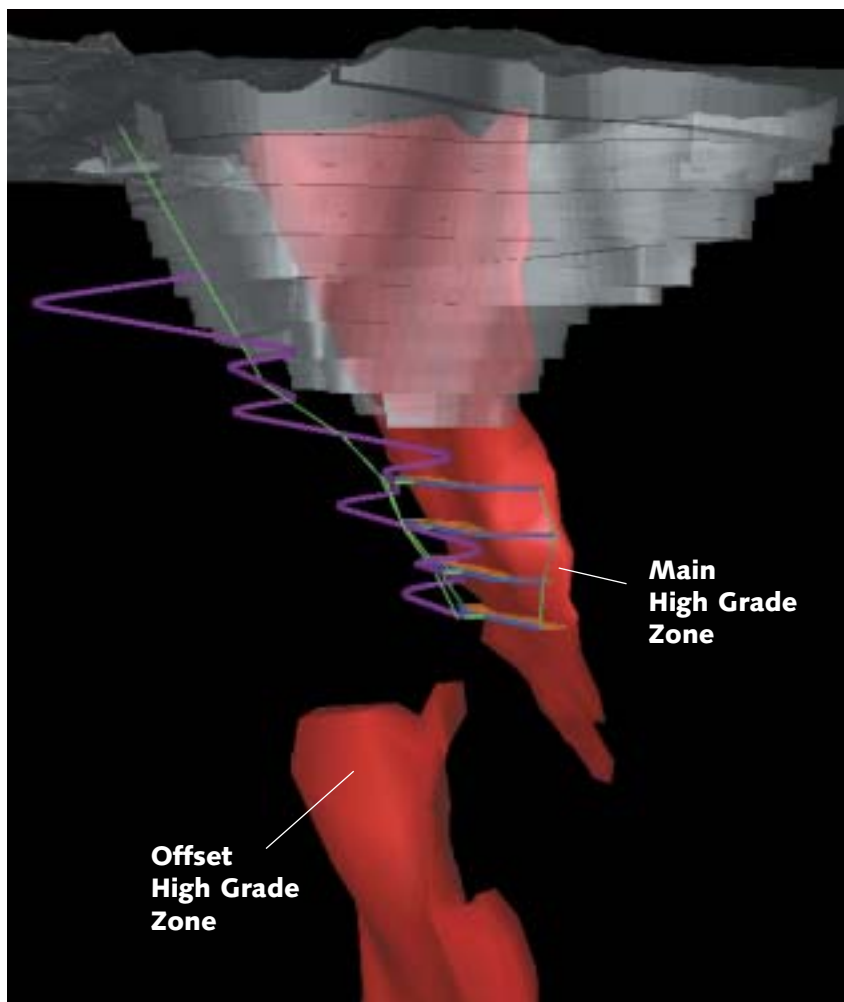
### EXPLORATION SUCCESS CONTINUES IN 2002

North American Palladium's exploration program in 2002 successfully achieved its near-term goal of advancing new mine site resources closer to development, and its long-term goal of creating growth opportunities for the Company. The primary objective of the program was to delineate fully the resource contained within the Main High Grade Zone at Lac des Iles so that a feasibility study could be conducted on an underground operation. In February 2003, the Company commissioned an independent feasibility study that is due for completion in May 2003.

The Main High Grade Zone occurs at the eastern boundary of the central portion of the Roby Zone and extends below the economic limits of the Roby pit. This near vertical planar zone has a strike length in excess of 350 metres with thickness averaging 12 metres and is ideal for exploitation by underground mining. To proceed to a feasibility study, infill drilling with 30-metre spacing between holes was carried out in 2002, to increase the density of core drill intercepts and sampling. This was sufficient to upgrade the resources to the measured and indicated categories.

From May 17 to October 4, 2002, up to five diamond drill rigs were in operation and completed 47,160 metres of drilling in the Main High Grade Zone. The program produced 82 intercepts through the zone, 77 from newly collared holes, and five from wedging of pre-existing holes. The vertical depth of the intercepts ranged from 274 to 643 metres below surface. Most of the holes provided infill information for previous drilling. Twenty holes were drilled with the intention of

Existing Roby pit model  
showing potential  
underground development  
in the Main High  
Grade Zone



expanding the resource. The results confirmed the continuity of the zone and its high grade tenor. The average true width of the Main High Grade Zone is 11.81 metres with a palladium grade of 6.1 grams per tonne. Among the highlights of the program were five intercepts greater than 10 metres in length with palladium grades in excess of 10 grams per tonne. One intercept of 19.1 metres averaged 11.9 grams of palladium per tonne. Resource and reserve estimates will be updated when the independent feasibility study on an underground mining operation is completed.



Surveyor downloading  
GPS coordinates

### THE UNDERGROUND POTENTIAL

The primary benefit of an underground operation at Lac des Iles is that higher grade ore from underground could be blended with lower grade ore from the open pit. This would result in long-term increases in palladium production at a sustained mill throughput of 15,000 tonnes per day.

The successful underground development of the Main High Grade Zone would also create a staging area for resource definition drilling of the deeper Offset High Grade Zone. This zone remains open to further resource expansion and its potential to add resources is greater than that of the Main High Grade Zone. The average true width of the Offset High Grade Zone is 23 metres, using a three grams per tonne palladium cut-off. Average palladium grade is comparable to the grade of the Main High Grade Zone.



Our exploration team



Drilling in the  
Lac des Iles area

# North American Palladium

Focused on Results



## BALANCED EXPLORATION STRATEGY FOR 2003

Exploration in 2003 will balance resource development and grass roots programs. The greatest potential for expanding resources remains within the immediate Lac des Iles area. Consequently, core drilling will be conducted on the southeast and southwest extensions of the Roby zone. Untested geophysical targets on satellite properties such as Buck Lake, North Lac des Iles and Weaver Lake will undergo core drilling. The Company will also commence grass roots exploration on recently acquired properties located within 100 kilometres of the mine.

Beyond the immediate area of the Lac des Iles mine, the Company's exploration program is focused on identifying high quality targets that might ultimately provide other sources of palladium within relatively close proximity to the Lac des Iles mill. Much of the surrounding area is underlain by granitic rocks that are not considered to have much potential for mineralization and have been little explored. Mafic intrusions do occur, however, even if their distribution appears random, and these can be associated with palladium and other platinum group elements (PGEs). The opportunity in the Lac des Iles area is to discover as yet undetected mafic intrusions, by a thorough systematic search.

In 2002, North American Palladium entered into option agreements to acquire four properties in its area of interest. Two properties have also been staked in response to a lake sediment survey released by the Ontario Geological Survey.

On the Shebandowan Lake property, 80 kilometres west of Thunder Bay, the Company plans to remove overburden and carry out bedrock sampling in 2003. The property covers a PGE and gold-enriched intrusion known as the Haines Gabbro.

Mapping and exploration are planned for the Roaring River property 60 kilometres north of

the Lac des Iles mine. The property is believed to be underlain by a complex mafic intrusion, and prospecting has located widespread PGE-bearing boulders and elevated PGE values in many of the few bedrock exposures.

A detailed magnetic survey is planned for the Chief Peter Lake property 100 kilometres southwest of Lac des Iles. Several base metal-rich, dike-like, mafic intrusions occur on the property and have to be evaluated for their PGE content.

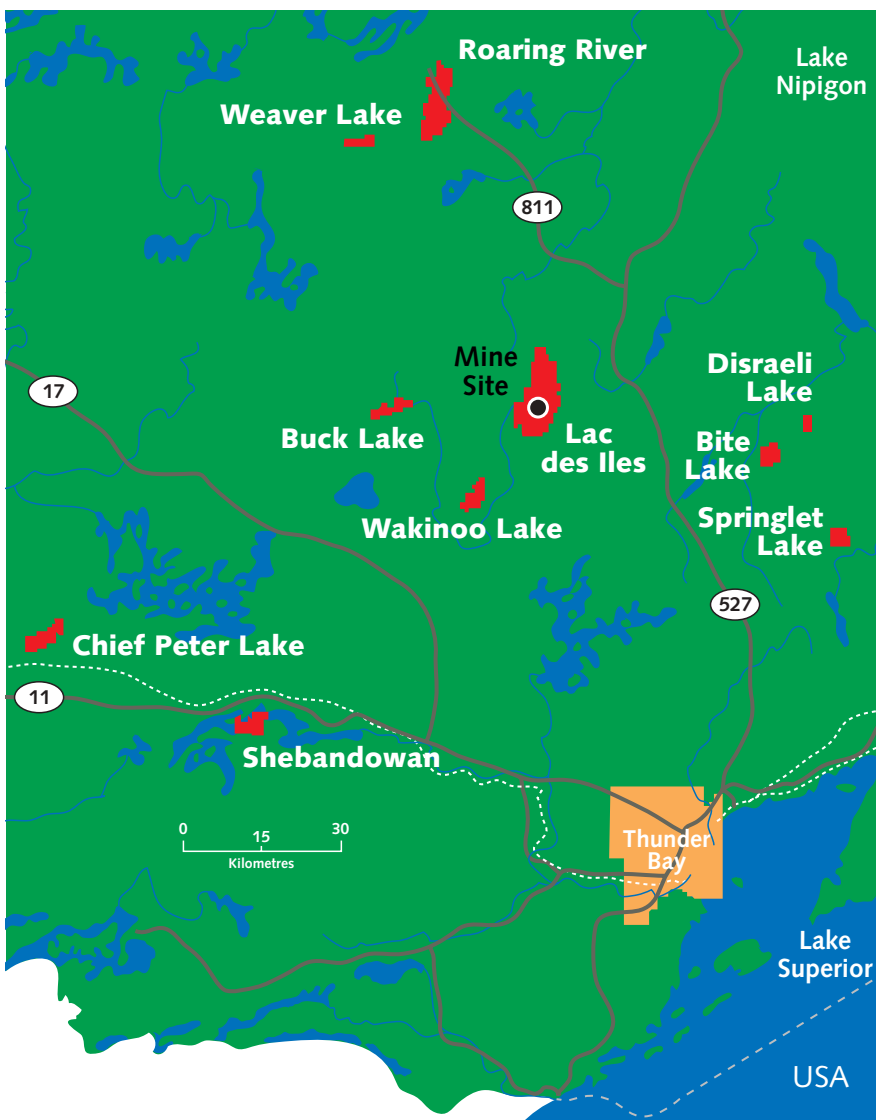
### SOURCE OF MASSIVE SULPHIDE LENSES SOUGHT

Since the inception of an expanded exploration program in 1998, North American Palladium has discovered numerous massive sulphide pods rich in precious and base metals injected into the host rocks around the Lac des Iles mine site. The Company has commenced a program designed to discover a possible deep source of these massive sulphides which might lie near the base of the Mine Block Intrusion. Initially a magnetotellurics survey, which is a deep penetrating geophysical technique, will be carried out, and followed up by core drilling if warranted.



Over 47,000 metres of core sample were examined in 2002

The Company's exploration properties are located within 100 kilometres of the Lac des Iles mine



# Management's Discussion and Analysis of Financial Results

**The following is management's discussion and analysis of operations and financial position and should be read in conjunction with the Company's consolidated financial statements that are included elsewhere in this annual report. It is intended to provide additional information on the Company's performance, financial position and outlook.**

## OVERVIEW AND STRATEGIC ACTIVITIES

North American Palladium Ltd. (the "Company") operates the Lac des Iles mine located 85 km north-west of Thunder Bay, Ontario. The mine is Canada's only primary producer of platinum group metals and contains one of the largest open pit bulk mineable palladium reserves in the world. Palladium use in the auto industry continues to be an important component in controlling exhaust emissions as mandated by more stringent hydrocarbon emission standards for cars, light trucks and SUVs, particularly in the United States, Europe and Japan.

The Company has completed a major expansion of the Lac des Iles operation which included the construction of a new 15,000 tonnes per day mill that was commissioned on June 1, 2001. During 2002, the Company made progress in optimizing the grinding and flotation circuits in the new mill, prior to the failure of the primary crusher in September. Portable contract crushers were installed to sustain the operation while the primary crusher was being repaired. The repairs proved more difficult than anticipated and although the repaired crusher was returned to service in March 2003, its long-term reliability is questionable. Consequently, the Company purchased a new primary crusher, which it expects to have operational by mid-2003. With the resumption of normal crushing operations it is anticipated that further improvements will be made in daily mill throughput and palladium recovery.

The Company's 2002 exploration program confirmed the continuity and grade of the resource contained in the Main High Grade Zone directly below the ultimate depth of the open pit. The Company is proceeding with an independent, detailed underground feasibility study based on the success of the 2002 exploration program.

The Company hedges the price of its palladium production under a long-term contract with a major automotive manufacturer (the "Palladium Sales Contract"). The hedge price is based on the monthly average spot price for palladium with a floor price of US\$325 per ounce for 100% of production and a ceiling price of US\$550 per ounce for 50% of production. The remaining 50% of production is sold at market prices or the contract floor, whichever is higher. The Palladium Sales Contract expires on June 30, 2005. To augment the Palladium Sales Contract the Company arranged for forward sales on 100,800 ounces of palladium during 2002 and 2003 at an average price of US\$922 per ounce.

## RESULTS OF OPERATIONS

The Company generated gross revenue from metal sales of \$176.8 million in 2002, compared to \$121.5 million in 2001. Revenue in 2002 from the sale of palladium before the mark-to-market effect of price changes and palladium forward contracts was \$101.3 million compared to \$80.9 million in 2001. The revenue increase was due to a 78% increase in palladium production, offset by the sharp drop in the average palladium price. Palladium forward contracts provided additional revenue of \$46.0 million in 2002 compared to \$27.8 million in 2001. The effect of palladium sales contracts represents the difference between the fixed price realized under the palladium forward contracts and the palladium price at the time of revenue recognition. During 2002, the spot price of palladium per ounce ranged from a high of US\$435 to a low of US\$222 and averaged US\$338 compared to an average of US\$604 during 2001. Palladium production sold to third-party smelters takes up to six months from time of receipt at the smelter to settle. The price adjustment relating to palladium settled and awaiting settlement was a negative \$9.2 million in 2002 due to a weakening palladium price throughout the year. Similarly, there was a negative price adjustment of \$5.8 million in 2001 when the palladium price also experienced weakness. Revenue from other metal sales was \$38.7 million in 2002 compared to \$18.6 million in 2001 reflecting the increased production and improved pricing of platinum, gold, copper and nickel from the expanded mining and milling operation.

During 2002, the mill processed 4,851,621 tonnes of ore or 13,292 tonnes per day compared to 2,662,240 tonnes of ore in 2001 from the combination of the old mill and the new larger mill. Prior to the primary crusher failure in September 2002, the targeted daily mill throughput of 15,000 tonnes per day was exceeded for the month of August. The palladium head grade in 2002 was lower at 1.91 grams per tonne as compared to 2.14 grams per tonne in 2001. Mill palladium recoveries in 2002 improved to 73.8% as compared to 67.4% in 2001. Due to the increased volumes of ore mined and treated in 2002, production costs increased to \$100.6 million compared to \$66.4 million in 2001. Cash costs to produce palladium



(production costs including overhead and smelter treatment, refining and freight costs), net of other metal revenues and royalties, decreased to US\$264 per ounce in 2002 compared to US\$340 per ounce in 2001. Steady improvement in unit cash costs was achieved in the first half of 2002, with cash costs of US\$230 per ounce. However, with the requirement for contract crushing and increased ore rehandling resulting from the crusher failure, cash costs increased to US\$301 per ounce in the second half of 2002.

Income from mining operations was \$34.3 million in 2002 compared to \$23.4 million for the previous year. Although there were improvements as compared to 2001 primarily due to increased productivity, the results for 2002 were negatively impacted by the primary crusher failure, which resulted in higher operating costs and reduced metal production. Income from mining operations in 2001 is net of a write-down of \$4.6 million pertaining to the old mill and associated equipment, which was removed from service with the commissioning of the new mill.

Other income and expense, which includes interest income and expense, exploration and foreign exchange gains and losses, was an expense of \$5.3 million in 2002 compared to \$9.8 million in 2001. On January 1, 2001 the Company adopted new CICA recommendations relating to certain of the Company's exploration activities. In the past, certain exploration costs not covered by a feasibility study were capitalized. In 2002, the Company expensed \$0.9 million of such exploration expenditures as compared to \$0.9 million in 2001.

In 2002, the Company incurred interest expense on the project term loan, and on the credit facility provided by Kaiser-Francis Oil Company ("Kaiser-Francis"), in the amount of \$5.4 million. In 2001, the Company capitalized interest costs relating to the project term loan until commissioning of the mill on June 1, 2001. For the balance of the year, the Company expensed \$3.4 million of interest costs. In 2000, interest expense of \$9.2 million was incurred on the notes and interest payable to Kaiser-Francis. On October 13, 2000, the notes and interest were repaid from the proceeds of the public equity issue.

The Company's current year provision for income tax expense of \$13.9 million consists of a current federal large corporation tax expense of \$0.8 million, a future income tax expense of \$8.6 million and a future mining tax expense of \$4.5 million. Net income for the year improved to \$15.1 million or \$0.30 per share (diluted) compared to \$7.5 million or \$0.15 per share (diluted) in 2001.

(\$000, except per share amounts)	2002				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
Revenue from metal sales	44,577	41,745	46,547	43,904	176,773
Net income (loss)	6,246	7,521	2,894	(1,526)	15,135
Net income (loss) per share	0.12	0.15	0.06	(0.03)	0.30
Fully diluted net income (loss) per share	0.12	0.15	0.06	(0.03)	0.30
(\$000, except per share amounts)	2001				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
Revenue from metal sales	20,203	21,178	23,225	56,890	121,496
Net income (loss)	1,283	7,707	(6,639)	5,159	7,510
Net income (loss) per share	0.03	0.15	(0.13)	0.10	0.15
Fully diluted net income (loss) per share	0.03	0.15	(0.13)	0.10	0.15

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations (prior to changes in non-cash working capital) was \$47.5 million in 2002, compared to \$34.4 million in 2001. The \$13.1 million increase was primarily due to an increase in income from mining operations that resulted from increased metal production, offset by lower metal prices. Changes in non-cash working capital consumed \$5.4 million of cash in the current year as compared to \$31.4 million in 2001. Palladium awaiting settlement grew to 93,619 ounces at December 31, 2002 compared to 78,445 ounces at December 31, 2001; however, this increase was offset by lower average palladium prices used to value the concentrate awaiting settlement. After allowing for non-cash working capital changes, cash provided by operations was \$42.1 million in 2002 compared to cash provided by operations of \$2.9 million in 2001.

Investing activities required \$8.1 million of cash in 2002, with the main investing activity being \$5.6 million incurred on additions to plant and equipment and \$2.9 million on deferred exploration and development costs at the Roby deposit. This contrasts with \$84.8 million of net investing activities in 2001, including \$116.7 million on the additions to plant and equipment related to the completion of the major expansion. Financing activities required \$24.3 million in the current year compared to net proceeds of \$79.1 million in the prior year. The project term loan facility is required to be repaid in quarterly installments and in 2002 the Company made repayments under this facility in the amount of \$33.2 million. During the year, the Company drew down \$10.4 million from the loan facility with Kaiser-Francis. During 2002, the Company's net debt position was reduced by \$24.4 million. The net increase in cash and cash equivalents was \$9.8 million in 2002, resulting in a year-end cash and cash equivalents balance of \$11.5 million.

## RISKS AND UNCERTAINTIES

The price of palladium is the most significant factor influencing the profitability of the Company and its estimate of reserves and resources. In 2002, sales of palladium accounted for approximately 78.1% of the Company's revenue. Many factors influence the price of palladium, including global supply and demand, speculative activities, international political and economic conditions and production levels and costs in other platinum group metal-producing countries, particularly Russia and South Africa. To offset the price risk, the Company entered into the Palladium Sales Contract and other hedge contracts to cover a portion of expected annual production as set out below.

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

Currency fluctuations may affect cash flow since production currently is sold in United States dollars, whereas the Company's administration, operating and exploration expenses are incurred in Canadian dollars. As a result, changes in the exchange rate between Canadian and United States dollars can affect revenue and profitability. The Company has hedged US\$50.0 million of its revenue for 2003 at an average C\$/US\$ exchange rate of approximately 1.59.

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

## OUTLOOK

Since the completion of its major expansion in mid 2001, North American Palladium has made gradual improvements to mill throughput and palladium recovery. Reaching our targeted operating objectives is our highest priority and will allow the Company to considerably strengthen its financial position. The Palladium Sales Contract, with a floor price of US\$325 per ounce, is an important cornerstone in achieving a stronger financial position. To further strengthen the financial position, the Company designed a hedge program to capture the exceptional palladium prices experienced in early 2001. The Company had forward sales on 50,400 ounces at US\$945 per ounce in 2002 and has sold forward 50,400 ounces at US\$899 per ounce in 2003. At December 31, 2002, concentrates awaiting settlement included the mark-to-market impact of \$22.8 million representing 25,200 ounces of these forward hedge positions. Excluding the impact of the Palladium Sales Contract, the aggregate unrealized mark-to-market value of these forward sales hedge positions based on the December 31, 2002 palladium spot price was approximately \$26.1 million. These forward sales contracts 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. In 2003, the Company has scheduled principal payments on the project term loan of US\$33.0 million.

Achieving our operating objectives and the resulting strengthening of the Company's financial position will allow the Company to exploit the future exploration potential at the Lac des Iles mine and other nearby property holdings. The focal point of the 2002 exploration program was to confirm the continuity and grade of the Main High Grade Zone below the depth of the ultimate pit bottom. This zone is almost 12 metres thick with a strike length in excess of 350 metres and an average grade of 6.1 grams palladium per tonne. An independent feasibility study has been commenced to determine the economic parameters for a possible underground mining operation. The Company's reserve and resource estimate will be updated following completion of the feasibility study.

The Company continues to be positive on the palladium fundamentals. The primary use for palladium is in the production of autocatalysts, which are used to reduce harmful air emissions from the exhaust systems of automobiles. Governments around the world are enacting more stringent emission standards, which explains why, from 1996 to 2001, annual palladium demand in autocatalysts increased by 105% to 4.6 million ounces. Given the movement by global governments to enact more stringent air emission standards, palladium demand is expected to increase. Demand for palladium is a function of global automobile sales, which continued to be above average in 2002. With platinum currently trading at more than 250% the price of palladium, the Company believes that automobile manufacturers will be encouraged to increase their use of palladium in catalytic converters away from the use of platinum. The efforts of Russian and South African producers to stabilize the supply of palladium should also lead to an improvement in palladium prices.



# Management's Responsibility for Financial Statements

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

The Company maintains adequate systems of internal accounting and administrative controls. Such systems are designed to provide reasonable assurance that the Company's assets are appropriately accounted for and adequately safeguarded and that the financial information is relevant and reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management's discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, management's discussion and analysis, the external auditors' report, examines the fees and expenses for audit services, and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board for its consideration when approving the consolidated financial statements for issuance to the shareholders. Ernst & Young LLP, the external auditors, have full and free access to the Audit Committee.

Toronto, Canada  
March 26, 2003



**Michael P. Amsden**  
Chairman and Acting  
Chief Executive Officer



**George D. Faught**  
Vice President Finance,  
and Chief Financial Officer

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## Auditors' Report

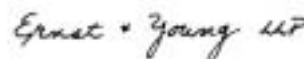
### TO THE SHAREHOLDERS OF NORTH AMERICAN PALLADIUM LTD.

We have audited the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2002 and 2001 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2002. 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, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
February 21, 2003



Chartered Accountants

**Consolidated Balance Sheets***(Canadian funds in thousands of dollars)*

	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,536	\$ 1,775
Short-term investments	5,127	4,999
Concentrate awaiting settlement, net - Note 4	85,312	82,534
Inventories - Note 5	7,414	4,326
Crushed and broken ore stockpiles	9,157	11,666
Future tax asset - Note 16	4,868	10,830
Accounts receivable and other assets	1,683	2,626
	<b>125,097</b>	<b>118,756</b>
Mining interests, net - Note 6	260,985	272,831
Mine closure deposit - Note 7	3,470	2,232
Deferred financing costs	2,080	2,870
Crushed and broken ore stockpiles	7,983	7,277
Future tax asset - Note 16	11,218	13,800
	<b>\$ 410,833</b>	<b>\$ 417,766</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 14,813	\$ 17,255
Taxes payable	1,940	3,539
Current portion of obligations under capital leases - Note 8	1,127	1,003
Current portion of project term loan - Note 9	51,083	33,620
	<b>68,963</b>	<b>55,417</b>
Provision for mine closure costs - Note 7	1,554	1,020
Obligations under capital leases - Note 8	1,024	1,053
Project term loan - Note 9	51,083	103,100
Kaiser-Francis credit facility - Note 10	18,163	7,964
Future tax liability - Note 16	9,600	5,100
	<b>150,387</b>	<b>173,654</b>
<b>Shareholders' Equity</b>		
Capital stock - Note 12	311,983	310,784
Deficit	(51,537)	(66,672)
Total shareholders' equity	<b>260,446</b>	<b>244,112</b>
	<b>\$ 410,833</b>	<b>\$ 417,766</b>

Commitments - Note 13

Contingencies - Note 15

*See accompanying notes*

On Behalf of the Board:

**Michael P. Amsden**  
Director**Greg Van Staveren**  
Director



# Consolidated Statements of Earnings and Deficit

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

	Year ended December 31		
	2002	2001	2000
Revenue from metal sales - Note 14	\$ 176,773	\$ 121,496	\$ 109,495
Deduct: smelter treatment, refining and freight costs	(16,909)	(11,140)	(7,571)
Net revenue from mining operations	159,864	110,356	101,924
Operating expenses			
Production costs including overhead	100,599	66,405	22,512
Amortization	20,190	11,515	8,147
Administrative expenses	4,212	4,112	2,589
Provision for mine closure costs	534	315	125
Write-down of mining interests - Note 6(d)	—	4,636	4,965
Total operating expenses	125,535	86,983	38,338
Income from mining operations	34,329	23,373	63,586
Other income (expenses)			
Interest income	663	1,560	1,078
Loss on disposal of capital assets	(99)	(14)	(304)
Interest	(433)	(226)	(1,147)
Interest on long-term debt - Notes 9 and 10	(5,405)	(3,406)	(9,167)
Exploration expense - Note 3	(850)	(927)	—
Foreign exchange gain (loss)	792	(6,765)	(6,417)
Total other income (expenses)	(5,332)	(9,778)	(15,957)
Income before income taxes	28,997	13,595	47,629
Provision for (recovery of) income taxes - Note 16	13,862	6,085	(13,914)
Net income for the year	15,135	7,510	61,543
Deficit, beginning of year	(66,672)	(68,815)	(130,358)
Adjustment for change in accounting policy - Note 3	—	(5,367)	—
Deficit, end of year	\$ (51,537)	\$ (66,672)	\$ (68,815)
Net income per share	\$ 0.30	\$ 0.15	\$ 2.80
Diluted net income per share	\$ 0.30	\$ 0.15	\$ 2.00
Weighted average number of shares outstanding - basic	50,544,634	50,375,690	20,425,466
Weighted average number of shares outstanding - diluted	50,593,508	50,543,134	30,761,072

See accompanying notes

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

	<b>Year ended December 31</b>		
	<b>2002</b>	2001	2000
<b>Cash provided by (used in)</b>			
<b>Operations</b>			
Net income for the year	<b>\$ 15,135</b>	\$ 7,510	\$ 61,543
Operating items not involving cash			
Future income tax expense (recovery)	<b>13,046</b>	4,428	(15,015)
Amortization of mining interests	<b>20,190</b>	11,515	8,147
Accrued interest on mine closure deposit	<b>(38)</b>	(102)	–
Foreign exchange loss (gain)	<b>(1,494)</b>	6,037	5,401
Loss on disposal of capital assets	<b>99</b>	14	304
Provision for mine closure costs	<b>534</b>	315	118
Write-down of mining interests	<b>–</b>	4,636	4,965
Foreign exchange loss on interest payable	<b>–</b>	–	331
	<b>47,472</b>	34,353	65,794
Changes in non-cash working capital - <i>Note 17(a)</i>	<b>(5,369)</b>	(31,410)	(25,999)
	<b>42,103</b>	2,943	39,795
<b>Financing Activities</b>			
Mine closure deposit	<b>(1,200)</b>	(1,100)	(600)
Obligations under capital leases	<b>(1,419)</b>	(1,043)	(868)
Notes payable - Kaiser-Francis Oil Company	<b>10,372</b>	7,819	(125,462)
Repayment of project term loan	<b>(33,233)</b>	(6,724)	–
Issuance of common shares	<b>1,199</b>	1,950	222,538
Advances on palladium settlements	<b>–</b>	–	(15,946)
Deferred financing costs	<b>–</b>	(276)	(2,989)
Increase in project term loan	<b>–</b>	78,513	59,039
	<b>(24,281)</b>	79,139	135,712
<b>Investing Activities</b>			
Short-term investments	<b>(128)</b>	35,453	(40,452)
Additions to plant and equipment	<b>(5,579)</b>	(116,704)	(120,398)
Mining claims, exploration and development costs	<b>(2,867)</b>	(3,590)	(10,539)
Proceeds on disposal of plant and equipment	<b>513</b>	31	228
	<b>(8,061)</b>	(84,810)	(171,161)
Increase (decrease) in cash and cash equivalents	<b>9,761</b>	(2,728)	4,346
Cash and cash equivalents, beginning of year	<b>1,775</b>	4,503	157
Cash and cash equivalents, end of year	<b>\$ 11,536</b>	\$ 1,775	\$ 4,503

*See accompanying notes*



# Notes to the Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 and 2000

(Canadian funds in thousands of 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. The prices of PGMs and base metals (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 2000 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 13(a)*).

## 2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, except as discussed in note 18, 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 the 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 third-party 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 the sales contracts with the smelters and hedging instruments.

Although the Company sold its metals during 2002 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 and platinum on the Company's revenues (*notes 13(a), (b) and (d)*).

From time to time the Company enters into foreign exchange forward sales contracts to manage the effect of fluctuations in the value of committed U.S. dollar denominated revenues (*note 13(e)*). For those forward exchange contracts designated by the Company as hedges, the gain or loss on settlement is recognized in the same period as the hedged transaction. 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.

The Company uses electricity swap contracts to hedge the effects of price fluctuations in its electricity purchase requirements in Ontario (*note 13(f)*). The net swap settlements are recognized in the same period as the hedge transaction.

### *Concentrate, Crushed and Broken Ore Stockpiles and Supplies Inventories*

Concentrate and crushed and broken ore stockpiles are valued at the lower of average production cost and net realizable value. The amount of stockpiled ore that is not expected to be processed by December 31, 2003 is shown as a long-term asset. Supplies inventory is valued at the lower of average direct acquisition 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 proven and probable reserves to which they relate or on the straight-line method over their estimated useful lives of seven 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 as described above.

Mining leases and claims and royalty interests are recorded at cost and are amortized on the unit-of-production method over the proven and probable reserves.

Exploration and development costs relating to properties are charged to earnings in the year in which they are incurred. When it is determined that a mining property can be economically developed as a result of established proven and probable reserves, future development and exploration expenditures are capitalized. Determination as to reserve potential is based on the results of feasibility studies, which indicate whether production from a property is economically feasible. Initial feasibility studies are optimized once drilling has confirmed the shape, grades and continuity of the mineralization. Upon commencement of the commercial production of a development project these costs are amortized using the unit-of-production method over the proven and probable reserves. Deferred expenditures, net of salvage values, relating to a property that is abandoned or considered uneconomic for the foreseeable future are written off.

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 on an undiscounted basis as a cost of production, when reasonably determinable, on a unit-of-production method over the proven and probable reserves. The estimated site reclamation and closure costs may change materially based on future changes in operations, regulatory requirements and the costs of reclamation and closure activities.

#### *Stock-Based Compensation Plan*

The Company has a stock-based compensation plan which is described in note 12(b). Effective January 1, 2002, the Company adopted the recommendations issued by The Canadian Institute of Chartered Accountants ("CICA") dealing with stock-based compensation. The new recommendations are generally applicable only to awards granted after the date of adoption. The adoption of the new recommendations did not impact these financial statements. The Company has elected not to recognize compensation expense when stock options are issued to employees; however, pro forma disclosure of the net income and earnings per share is provided as if these awards were accounted for using the fair value method as set out in note 12(b). 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.

All resulting foreign exchange gains and losses are recorded in the consolidated statements of earnings and deficit.

#### *Income Taxes*

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

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of three months or less and are stated at cost. Cash and cash equivalents at December 31, 2002 include cash equivalents of \$4,738 (2001 - nil).

#### *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.

### **3. Change in Accounting Policy**

The CICA issued Accounting Guideline No. 11, which covers certain of the Company's exploration activities. In the past the Company had capitalized certain exploration costs on the Lac des Iles property that were not covered by feasibility studies, whereas under the new guideline the Company would be required to expense these amounts in the period incurred. Effective January 1, 2001 the Company adopted these new recommendations on a retroactive basis, but has not restated prior period comparative financial statements. The impact as at January 1, 2001 of the adoption of these new recommendations was to reduce mining interests by \$8,788, increase future tax asset by \$3,421 and increase deficit by \$5,367.



#### 4. Concentrate Awaiting Settlement

Concentrate awaiting settlement is comprised of:

	2002	2001
Concentrate awaiting settlement, gross	\$ 92,533	\$ 88,769
Refining and smelting charges	(7,221)	(6,235)
Concentrate awaiting settlement, net	<u>\$ 85,312</u>	<u>\$ 82,534</u>

The gross value of concentrate awaiting settlement represents the value of all PGMs and base metals from production shipped to and received by the third-party smelters between July and December 2002, including 93,619 ounces of palladium (2001 - between July and December 2001, including 78,445 ounces of palladium).

All of the concentrate awaiting settlement is from two domestic customers at December 31, 2002 (2001 - two domestic customers). No reserves for doubtful accounts have been established. In the opinion of management, full realization will occur on all such receivables.

#### 5. Inventories

Inventories consist of the following:

	2002	2001
Concentrate	\$ 670	\$ 499
Supplies	6,744	3,827
	<u>\$ 7,414</u>	<u>\$ 4,326</u>

#### 6. Mining Interests

(a) Mining interests are comprised of the following:

	2002	2001
Plant and equipment, at cost	\$ 306,916	\$ 303,806
Accumulated amortization	81,319	64,680
	<u>225,597</u>	<u>239,126</u>
Equipment under capital lease, at cost	3,299	4,559
Accumulated amortization	311	2,255
	<u>2,988</u>	<u>2,304</u>
Mining leases and claims, royalty interest, exploration and development, at cost	81,357	78,490
Accumulated amortization	48,957	47,089
	<u>32,400</u>	<u>31,401</u>
Mining interests, net	<u>\$ 260,985</u>	<u>\$ 272,831</u>

(b) Amortization expense is comprised of:

	2002	2001	2000
Amortization of capital assets (including plant and equipment, equipment under capital lease)	\$ 17,532	\$ 10,268	\$ 5,817
Mining leases and claims, royalty interest, exploration and development costs	1,868	852	2,330
Amortization of deferred financing costs	790	395	—
	<u>\$ 20,190</u>	<u>\$ 11,515</u>	<u>\$ 8,147</u>

(c) During 2002, the Company capitalized interest of nil (2001 - \$3,190; 2000 - \$1,829).

(d) During 2001 and 2000, the Company recorded write-downs of \$4,636 and \$4,965 respectively pertaining to plant and equipment which were removed from service with the commissioning of the new mill.

## 7. Mine Closure Plan

The Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the “Ministry”), has established a trust fund (the “Fund”) pursuant to the Company’s mine closure plan. The mine closure plan calls for a total amount of \$7,800 to be accumulated in the Fund in order to allow for the eventual clean-up and restoration of the mine site.

Commencing in February 2001, the Fund, controlled by the Ministry, will accumulate through monthly deposits of \$100. At December 31, 2002, the Company had \$3,470 (2001 - \$2,232) on deposit with the Ministry including accrued interest of \$140. The funds on deposit bear interest at current short-term deposit rates and will be returned to the Company once the mine closure is completed. During 2002, \$534 was charged to the statement of earnings (2001 - \$315; 2000 - \$125) for future mine closure costs.

## 8. 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:

	2002	2001
2002	\$ –	\$ 1,103
2003	1,226	1,081
2004	465	–
2005	613	–
Total minimum lease payments	2,304	2,184
Amounts representing interest rates from 2.75% - 8.78%	153	128
Present value of minimum lease payments	\$ 2,151	\$ 2,056
Less current portion	\$ 1,127	\$ 1,003
Long-term liabilities	\$ 1,024	\$ 1,053

## 9. Project Term Loan

On June 27, 2000, the Company received a US\$90,000 non-revolving term credit facility from a syndicate of three Canadian chartered banks; the credit facility was subsequently amended on July 11, 2002. The credit facility financed 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 3/4%.

In return for granting the loan 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 (note 13(a)) and a pledge of the shares of LDI.

Kaiser-Francis Oil Company (“Kaiser-Francis”), the majority shareholder of the Company, and its shareholders have guaranteed the Company’s obligations under the credit facility in return for a fee of 0.5% per annum of amounts drawn under the loan facility. Amounts paid to Kaiser-Francis in connection with this guarantee were \$605 (2001 - \$531).

Amounts drawn under the credit facility are required to be repaid in quarterly installments, the first installment having been made on December 31, 2001. The repayment installments are as follows: US\$4,219 for the initial four installments, US\$8,438 for the 5th through 8th payments, US\$7,031 for the 9th through 12th payments, US\$5,625 for the 13th and 14th payments. The final maturity date of the credit facility is March 31, 2005.

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 66% 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 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 while the loan is outstanding. 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. Kaiser-Francis Credit Facility

On December 13, 2001, the Company entered into a US\$20,000 non-revolving credit facility with Kaiser-Francis. The loan is being used to finance the Company’s working capital requirements. The loan bears interest based upon the 30-day LIBOR rate plus 2.25%. The final maturity date of the loan is May 31, 2005. Amounts not drawn under the loan are subject to a standby fee payable quarterly at 0.125% per annum. The Company paid on closing a commitment fee of 0.75% of the total commitment (US\$150). In connection with the loan, the Company has granted Kaiser-Francis security interests in all of the assets of the Company and a pledge of the LDI shares; the security interests and pledge of LDI shares are subordinated to the security interests of the project term loan syndicate. As at December 31, 2002, the outstanding loan was US\$11,500.

The loan agreement includes customary representations, warranties and covenants, including a covenant by the Company not to pay dividends or make any other payment to shareholders while the loan is outstanding. The loan agreement also provides for customary events of default.



## 11. Related Party Transactions and Commitments

In addition to the related party transactions with Kaiser-Francis disclosed in notes 9 and 10, the Company has completed the following related party transactions:

- (a) The notes and interest payable (US\$89,207) owing to Kaiser-Francis were repaid on October 13, 2000 from the proceeds of the public equity issue. 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. The average interest rate charged in 2000 was 9.23%. Interest expense on these obligations in 2000 totaled \$9,167.
- (b) As consideration to Kaiser-Francis for its agreement to implement the capital restructuring related to the 2000 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 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 totaling \$260 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 equal to the 30-day LIBOR plus 2%. The drawings under this facility were repaid through the use of the project term loan (note 9).
- (e) In 2002, a director of the Company received a fee of \$412 (2001 - \$166; 2000 - \$112) in connection with the negotiations related to the palladium sales contract entered into by the Company in 2000 (note 13(a)). The contract was made prior to such person becoming a director of the Company. A second director received a fee of nil (2001 - \$33; 2000 - \$102) in connection with consulting services provided to the Company.

## 12. 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.

- (a) Preferred Shares:  
During 1997, 10,000,000 Series A preferred shares (the "Preferred Shares") were issued pursuant to a stock purchase agreement with Kaiser-Francis for \$50,000 cash consideration. The Preferred 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 accrued and unpaid dividends of \$16,135 were converted into 12,510,998 common shares.
- (b) Common Shares:  
The changes in issued common share capital for the year are summarized below:

	2002		2001		2000	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	50,447,630	\$ 310,784	50,028,772	\$ 308,834	12,224,504	\$ 30,774
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	115,572	490	375,355	1,475	481,421	1,180
To Group Registered Retirement Savings Plan participants	84,753	709	43,503	475	43,114	368
Common shares issued, end of year	50,647,955	\$ 311,983	50,447,630	\$ 310,784	50,028,772	\$ 308,834

### 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 TSX 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 an 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. Options granted since December 2001 vest as to 1/3 on each of the first three anniversary dates of the date of grant. Prior to December 2001, options granted under the Plan vested as to 1/3 on the date of grant and 1/3 on each of the first two anniversary dates.

The maximum number of common shares subject to option shall not exceed 2,700,000, being approximately 5.3% 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. As at December 31, 2002, 549,595 options were available to be granted under the Plan.

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

	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	1,402,278	\$ 10.74	1,257,810	\$ 8.24
Granted	148,000	10.01	643,000	11.50
Exercised	(115,572)	4.24	(375,355)	3.93
Cancelled	(367,767)	11.62	(123,175)	12.30
Expired	–	–	(2)	2.50
Outstanding, end of year	1,066,939	\$ 11.04	1,402,278	\$ 10.74
Options exercisable at end of year	753,855		732,988	

The following table summarizes information about the Company's stock options outstanding at December 31, 2002 (*see also note 15(c)*):

Exercise Price	Expiry Dates	Options Outstanding at Dec. 31, 2002	Options Exercisable at Dec. 31, 2002
\$ 8.40	March 3, 2005	75,000	75,000
7.50	October 23, 2006	71,584	71,584
7.89	December 12, 2009	73,500	24,500
9.30	July 27, 2005	126,983	126,983
9.40	March 15, 2005	34,120	34,120
9.70	November 6, 2005	70,502	70,502
12.25	August 22, 2005	21,750	21,750
12.80	December 19, 2005	50,000	50,000
13.55	June 6, 2006	254,000	169,333
13.90	December 14, 2005	47,250	47,250
14.44	February 13, 2006	94,250	62,833
10.01	June 6, 2010	148,000	–
		1,066,939	753,855

The Company has reserved for issuance 1,066,939 common shares in the event that these options are exercised.

The Company does not recognize compensation expense for stock options. Had compensation expense for options granted subsequent to January 1, 2002 under the Company's stock option plan been determined based on the fair value at the grant dates consistent with the fair value based method of accounting for stock-based compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2002
Net income as reported	\$ 15,135
Stock-based compensation expense	160
Pro forma net income	14,975
Pro forma basic and diluted net income per share	\$ 0.30

The fair value of options granted in 2002 has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 4%, expected dividend yield of nil, expected volatility of 60%, and expected option life of 3 years. For purposes of the pro forma disclosure, the estimated fair value of the options is expensed over the option's vesting period, which is 3 years. The weighted average fair market value of options granted in 2002 was \$4.33.

(c) Reconciliation of the diluted number of shares outstanding:

	2002	2001	2000
Basic Net Income per Share			
Net income	\$ 15,135	\$ 7,510	\$ 61,543
Accrued and unpaid dividends on the Preferred Shares	–	–	(4,418)
Net income available to common shareholders	\$ 15,135	\$ 7,510	\$ 57,125
Weighted number of shares outstanding	50,544,634	50,375,690	20,425,466
Basic net income per share	\$ 0.30	\$ 0.15	\$ 2.80
Diluted Net Income per Share			
Net income available to common shareholders	\$ 15,135	\$ 7,510	\$ 57,125
Accrued and unpaid dividends on Preferred Shares - Note 12(a)	–	–	4,418
Diluted net income per share	\$ 15,135	\$ 7,510	\$ 61,543
Weighted average number of shares outstanding	50,544,634	50,375,690	20,425,466
Effect of dilutive securities			
Stock options	48,874	167,444	444,075
Preferred Shares - Note 12(a)	–	–	9,891,531
Weighted average diluted number of shares outstanding	50,593,508	50,543,134	30,761,072
Diluted net income per share	\$ 0.30	\$ 0.15	\$ 2.00



### 13. Commitments

#### (a) *Palladium Sales Contract*

During 2000, the Company entered into a contract (the "Palladium Sales Contract") whereby the Company hedged the price of 100% of the palladium the Company is entitled to receive from the smelter firms. 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 provided for automatic extension beyond its original term. However, on April 24, 2001, the Company elected not to extend the contract beyond June 30, 2005. The fair value of the Palladium Sales Contract approximated its carrying value as at December 31, 2002.

#### (b) *Palladium forward contracts*

At December 31, 2002, the Company had forward sales contracts for 50,400 ounces of palladium at an average price of US\$899 per ounce for 2003. The fair value of these forward sales contracts approximated their carrying value as at December 31, 2002.

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

The Company is required to pay a royalty to SPG which commenced May 1, 1994, equal to 3% of the Net Cash Proceeds, as defined in the agreement, 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.

#### (d) *Platinum forward contracts*

At December 31, 2002, the Company had forward sales contracts for 4,496 ounces of platinum at an average price of US\$523 per ounce maturing at various dates through May 2003. The fair value of these forward sales contracts approximated their carrying value as at December 31, 2002.

#### (e) *Foreign exchange forward contracts*

At December 31, 2002, the Company had US\$50,000 foreign exchange hedge contracts outstanding. The open hedge contracts are represented by forward sales contracts of US\$45,000 at an average forward C\$/US\$ exchange rate of 1.5870 maturing at various dates during 2003 and option contracts of US\$5,000 at an average floor C\$/US\$ exchange rate of 1.5975 and an average ceiling C\$/US\$ exchange rate of 1.6129 maturing in the first quarter 2003. As at December 31, 2002, the fair value of these forward contracts exceeded their carrying value by \$74.

#### (f) *Electricity swap contracts*

At December 31, 2002, the Company had electricity swap contracts on 43,200 MWh of electricity at a fixed price of \$51.25 per MWh maturing at various dates through April 2003. As at December 31, 2002, the fair value of these swap contracts approximated their carrying value.

### 14. Revenue from Metal Sales

	2002	2001	2000
Palladium (a)	\$ 101,317	\$ 80,925	\$ 78,604
Palladium forward contracts (b)	46,033	27,825	—
Adjustments for mark-to-market	(9,243)	(5,831)	17,194
Other metals	38,666	18,577	13,697
	<u>\$ 176,773</u>	<u>\$ 121,496</u>	<u>\$ 109,495</u>

(a) Palladium revenues include the effect of the Palladium Sales Contract (note 13(a)).

(b) The effect of palladium forward contracts represents the difference between the fixed price realized under the palladium forward contracts and the palladium price at the time of revenue recognition (note 13(b)).

## 15. 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, 2002 or 2001 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 totaling \$400 (2001 - \$673). No provision has been made in the accounts as at December 31, 2002 or 2001, 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 12(b) as the Company has been indemnified by SPG regarding such matters.
- (d) The Company intends to file a claim with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. The amount of the claim has not yet been determined. The Company will record the effect of this insurance recovery when the proceeds are received.
- (e) From time to time, the Company is involved in other litigation, investigations, or proceedings related to claims arising out of its operations in the ordinary course of business. In the opinion of the Company's management, these claims and lawsuits in the aggregate, even if adversely settled, will not have a material effect on the consolidated financial statements.

## 16. Income Taxes

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

	2002	2001	2000
Income taxes based upon a combined federal and Ontario rate of 41%	\$ 11,888	\$ 5,573	\$ 19,000
Ontario mining tax at a rate of 14% (2001 - 16%; 2000 - 18.67%)	4,060	2,175	8,892
Increase (decrease) in taxes resulting from:			
Benefit of income tax losses not previously recognized	—	(2,200)	(34,197)
Resource allowance	(5,320)	(2,384)	(7,184)
Unrealized foreign exchange	—	1,389	—
Benefit of future tax asset related to mining tax duties not previously recognized	—	—	(3,828)
Mining tax rate reduction	(1,741)	(816)	(4,129)
Federal large corporations taxes	817	827	601
Mining tax permanent differences	2,038	867	1,961
Other	2,120	654	4,970
Income tax expense (recovery)	\$ 13,862	\$ 6,085	\$ (13,914)

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

	2002	2001	2000
Current income tax expense:			
Income taxes	\$ —	\$ 830	\$ —
Mining taxes	—	—	500
Federal large corporations tax	816	827	601
	\$ 816	\$ 1,657	\$ 1,101
Future income tax expense (recovery):			
Income taxes	\$ 8,546	\$ 2,228	\$ (17,915)
Mining taxes	4,500	2,200	2,900
	\$ 13,046	\$ 4,428	(15,015)
	\$ 13,862	\$ 6,085	\$ (13,914)

Future tax assets (liabilities) consist of the following temporary differences:

	2002	2001
Current future income tax asset:		
Non-capital loss carry-forwards	\$ 4,868	\$ 10,561
Deferred financing costs	–	269
Net future tax asset, current	<u>\$ 4,868</u>	<u>\$ 10,830</u>
Long-term future income tax asset:		
Capital assets (plant and equipment, equipment under capital leases)	\$ 7,038	\$ 2,826
Mining lease and deferred expenditures	1,388	2,406
Deferred financing costs	1,823	2,284
Deferred foreign exchange loss	–	1,184
Non-capital loss carry-forwards	969	5,100
Capital loss carry-forwards	1,200	1,200
Valuation allowance for capital loss carry-forwards	(1,200)	(1,200)
Net future income tax asset, long-term	<u>\$ 11,218</u>	<u>\$ 13,800</u>
Long-term future mining tax liability:		
Capital assets (plant and equipment, equipment under capital leases)	\$ (6,100)	\$ (1,950)
Mining lease and deferred expenditures	(3,500)	(3,150)
Net future mining tax liability, long-term	<u>\$ (9,600)</u>	<u>\$ (5,100)</u>

At December 31, 2002, the Company had net capital loss carry-forwards of approximately \$3,000 (2001 - \$3,000) which are available to reduce net capital gains of future years.

## 17. Statement of Cash Flows

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

	2002	2001	2000
Decrease (increase) in:			
Concentrate awaiting settlement	\$ (2,778)	\$ (32,825)	\$ (19,196)
Inventories and stockpiles	507	(12,815)	(7,670)
Accounts receivable and other assets	943	2,992	(5,100)
	<u>\$ (1,328)</u>	<u>\$ (42,648)</u>	<u>\$ (31,966)</u>
Increase (decrease) in:			
Accounts payable and accrued liabilities	\$ (2,442)	\$ 9,679	\$ 4,536
Taxes payable	(1,599)	1,559	1,431
	<u>(4,041)</u>	<u>11,238</u>	<u>5,967</u>
	<u>\$ (5,369)</u>	<u>\$ (31,410)</u>	<u>\$ (25,999)</u>

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

	2002	2001	2000
Interest paid	\$ 5,842	\$ 6,390	\$ 10,283
Income taxes paid	\$ –	\$ –	\$ –

(c) During 2002, capital assets (including plant and equipment and equipment under capital lease) were acquired at an aggregate cost of \$7,093 (2001 - \$117,948; 2000 - \$120,398) of which \$1,514 (2001 - \$1,244; 2000 - nil) were acquired by means of capital leases.



## 18. Reconciliation to Accounting Principles Generally Accepted in the U.S.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, 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 United States generally accepted accounting principles ("U.S. GAAP"):

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

	2002	2001	2000
Statements of earnings and deficit:			
Net income under Canadian GAAP	\$ 15,135	\$ 7,510	\$ 61,543
Exploration costs (a)	—	—	(1,046)
Recognition of the future income tax asset associated with exploration costs previously expensed under U.S. GAAP	—	—	3,421
Capitalized interest (b)	—	—	729
Amortization of capitalized interest	(20)	(17)	—
Concentrates and crushed and broken ore stockpiles (c)	(404)	2,914	1,841
Derivative financial instruments (d)	74	—	—
Tax effect of differences	112	(879)	(902)
Net income and comprehensive income for the year under U.S. GAAP	\$ 14,897	\$ 9,528	\$ 65,586
Basic income per share under U.S. GAAP	\$ 0.29	\$ 0.19	\$ 2.99
Diluted income per share under U.S. GAAP	\$ 0.29	0.19	\$ 2.13
Balance sheets:			
Current assets (c) and (d)	\$ 127,731	\$ 121,299	
Mining interests (a) and (b)	\$ 261,677	\$ 273,543	
Crushed and broken ore stockpiles - long-term (c)	\$ 9,774	\$ 9,489	
Future tax asset, long-term	\$ 9,549	\$ 12,019	
Common shares (e)	\$ 318,081	\$ 316,882	
Deficit	\$ 54,187	\$ 69,084	

- (a) Prior to January 1, 2001, the Company deferred and amortized certain exploration costs meeting certain criteria as allowed under Canadian GAAP. This deferral is not allowed under U.S. GAAP. Effective January 1, 2001, the Company is expensing these expenditures as incurred.
- (b) 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 or depletion.
- (c) Under Canadian GAAP, the cost of the Company's concentrate and crushed and broken ore stockpiles is determined on the average production cost and does not include an allocation of the depreciation of production related assets, whereas under U.S. GAAP the cost of these assets should include this allocation. Previously reported financial statements did not record this adjustment as a significant difference between Canadian and U.S. GAAP and thus the comparative amounts have been restated to reflect this adjustment. There was no effect on the opening deficit under U.S. GAAP as at January 1, 2000.
- (d) Under U.S. GAAP, the Company has chosen not to designate its derivative financial instruments as hedging instruments and thus they are carried on the balance sheet at their fair value and any changes in fair value are being recorded to earnings in the period of the change.
- (e) 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, 2002 and 2001.
- (f) U.S. GAAP requires that amounts totaling 5% or more of accounts payable and accrued liabilities be identified separately. As at December 31, 2002, these amounts were as follows: trade payables and accruals - \$13,339 (2001 - \$15,081); other accruals - \$1,484 (2001 - \$2,174).
- (g) U.S. GAAP does not permit the disclosure of subtotal of cash from operations before changes in non-cash working capital.
- (h) 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 Option 25 "Accounting for Stock Issued to Employees" (APB No. 25) that results in the recording of no compensation expense in the Company's circumstances. However, pro forma disclosure of the net income and earnings per share is provided as if these awards were accounted for using the fair value method. Under Canadian GAAP this disclosure is provided only for options granted after January 1, 2002. Under APB No. 25, pro forma disclosure is required for those options granted prior to January 1, 2002.

Had the amortization of the fair value of options been charged to compensation expense under U.S. GAAP, the pro forma net income would be \$12,249 and pro forma net income per share and diluted net income per share would be \$0.24 (2001 net income of \$5,884 and net income and diluted net income per share of \$0.12; 2000 net income of \$63,117 and net income per share of \$2.87 and diluted net income per share of \$2.05).

The weighted average fair market value of options granted in 2002 was \$4.33 (2001 - \$5.84; 2000 - \$5.65).

The Company estimated the fair value of options granted in 2002 and 2001 using the Black-Scholes option-pricing model and used the following assumptions:

	2002	2001	2000
Risk free interest	4%	4%	5%
Expected life of options	3 years	3 years	3 years
Expected volatility of the Company's share price	60%	71%	76%
Expected dividend yield	0%	0%	0%

## Impending Accounting Changes

### Canadian GAAP

In November 2001, the Canadian Institute of Chartered Accountants (“CICA”) issued a new Accounting Guideline, “Hedging Relationships” (AcG No. 13) to provide guidance for applying hedge accounting principles. AcG No.13’s scope is mainly limited to providing rules for determining when hedge accounting can be used. A key feature of the guideline is the need to have documentation of hedging relationships in place in order to achieve hedge accounting. In December 2002, the CICA approved proposed amendments to AcG No.13 to clarify certain of the requirements in AcG No.13 and provide additional application guidance. The proposed amendments will be finalized in the first half of 2003 and will be applicable when AcG No.13 becomes effective for fiscal years beginning on or after July 1, 2003.

In December 2002, the CICA amended Handbook Section 3475, “Disposal of Long-Lived Assets and Discontinued Operations” (“CICA 3475”). CICA 3475 provides guidance on differentiating between assets held for sale and held for disposal other than by sale and on the presentation of discontinued operations. CICA 3475 applies to disposal activities initiated on or after May 1, 2003.

Although the Company is currently reviewing CICA 3475 and AcG No.13, the impact, if any, of these pronouncements on its consolidated financial statements has not been determined.

### U.S. GAAP

In June 2001, the Financial Accounting Standards Board (“FASB”) approved FAS No. 143 “Accounting for Asset Retirement Obligations”. That standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. FAS No. 143 is applicable for years beginning after June 15, 2002.

During 2002, the FASB issued FAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”. FAS No. 146 requires that costs associated with an exit or disposal activity be recognized and measured at fair value in the period in which the liability is incurred. FAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

In 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). FIN 45 requires certain guarantees to be recorded at fair value; previously a liability was only recorded when a loss under a guarantee was probable and reasonably estimable. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (“FIN 46”). FIN 46 requires that a variable interest entity be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and apply to existing variable interest entities in the first fiscal year or interim period beginning after June 15, 2003.

Although the Company is currently reviewing FAS 143 and FAS 146 and the recognition and measurement requirements of FIN 45 and 46, the impact, if any, of these pronouncements on its consolidated financial statements as reported under U.S. GAAP has not been determined.

## 19. Comparative Figures

Certain of the prior years’ figures have been reclassified to conform to the presentation adopted in 2002.

# Corporate Information

## Directors

**Michael P. Amsden**, P. Eng.\*  
Chairman of the Board  
and Acting Chief Executive  
Officer  
North American Palladium Ltd.  
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.  
Vice Chairman of the Board  
North American Palladium Ltd.  
Private Businessman, Consultant  
Fort Lauderdale, Florida

**A. M. (Sandy) Laird**, P. Eng.  
Mining Industry Consultant  
Vancouver, British Columbia

**Walter R. Ranta\***  
President, Ranta Timber Ltd.  
Thunder Bay, Ontario

**Richard H. Sutcliffe**, Ph. D.  
Chief Executive Officer  
Patricia Mining Corp.  
Toronto, Ontario

**Greg J. Van Staveren**, C.A.  
C.M.A., C.P.A.\*  
Strategic Financial Consultant  
Toronto, Ontario

\*Audit Committee

## Officers and Senior Management

**Michael P. Amsden**, P. Eng.  
Acting Chief Executive  
Officer

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

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

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

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

**Mary Batoff**, LL.B.  
Corporate Secretary

## Head Office

130 Adelaide Street West  
Suite 2116  
Toronto, Ontario  
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Tel: (416) 360-7590  
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Email: [info@napalladium.com](mailto:info@napalladium.com)

## Thunder Bay Operations

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

## Investor Relations

Investor relations inquiries  
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Email: [info@napalladium.com](mailto:info@napalladium.com)

## Website

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

## Transfer Agent

Computershare Trust  
Company of Canada  
100 University Avenue  
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Tel: (514) 982-7555  
Toll-free: 1 (800) 564-6253  
Fax: (514) 982-7635  
Toll-free fax: 1 (888) 453-0330  
Email: [caregistryinfo@computershare.com](mailto:caregistryinfo@computershare.com)

Computershare Trust  
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350 Indiana Street  
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Golden, Colorado 80401  
Tel: (303) 262-0700  
Fax: (303) 262-0603  
Email: [caregistryinfo@computershare.com](mailto:caregistryinfo@computershare.com)

## Stock Exchange Listings

The Toronto Stock Exchange  
(Trading Symbol "PDL")

The American Stock  
Exchange  
(Trading Symbol "PAL")

## Shares Issued

At December 31, 2002  
Common shares - 50,647,955

## Auditors

Ernst & Young LLP  
Toronto, Ontario

## Corporate Governance

The Company's report on  
its corporate governance  
practices is contained in the  
Management Proxy Circular  
dated April 9, 2003.



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## 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 life and closure by applying sound judgment, by meeting or exceeding legislative requirements and by minimizing any adverse impacts its activities may have on the environment.*

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### 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 operations 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.

North American  
Palladium  
Focused on Results