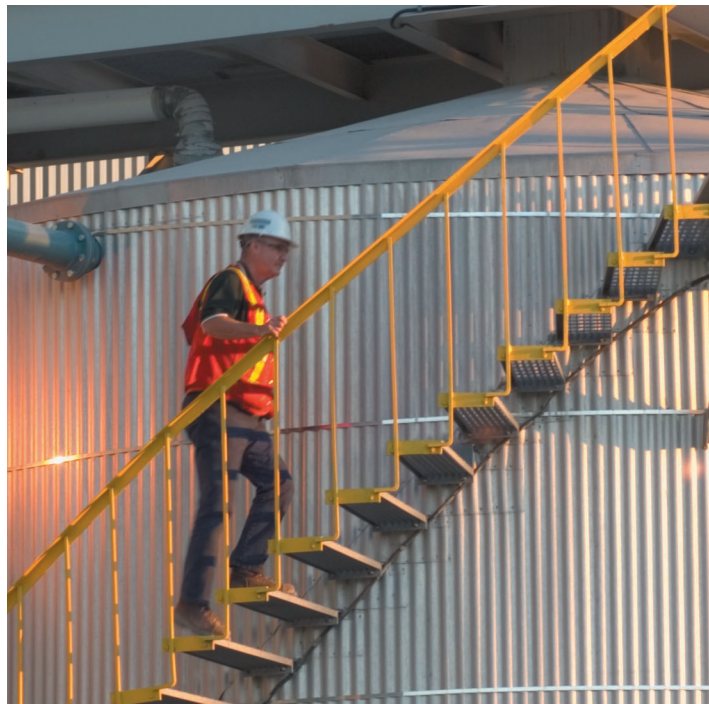


Annual Report 2004



North American **Palladium** Ltd.

North American Palladium Ltd., Canada's only primary producer of palladium, is a growth-oriented precious and base metals mining company, with revenues of \$185 million for the fiscal year ended December 31, 2004. Committed to the safe low-cost production of its metals, North American Palladium collaborates with its employees and business partners to improve metal recovery processes and increase overall productivity. With extensive mining industry and business expertise, combined with a proven track record, North American Palladium is positioned to further expand upon its current assets of exploration and operations both in Canada and internationally.

Annual Shareholders Meeting

North American Palladium Ltd. will hold its Annual Shareholders Meeting on Wednesday, May 25, 2005 at 10:00 am in the TSX Broadcast & Conference Centre, The Exchange Tower, 130 King Street West, Toronto, Ontario, Canada.

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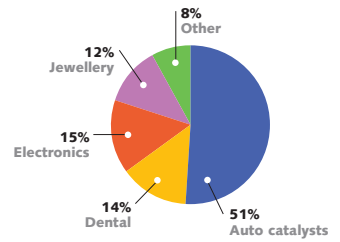


North American **Palladium** Ltd.

Our Metals in Review

The metal markets were particularly strong in the first half of 2004, with a number of base and precious metal prices reaching long-term peak levels. This trend in the metal markets reflected the continued global economic growth, particularly in China where infrastructure and consumer demand for metals was strong. Most notably, platinum rose to US\$936 per ounce in mid-April – levels not seen in over 20 years. Similarly, nickel reached a high for the year in early January at US\$7.57 per pound with copper following nickel's lead in early 2004, rising to US\$1.41 per pound in April.

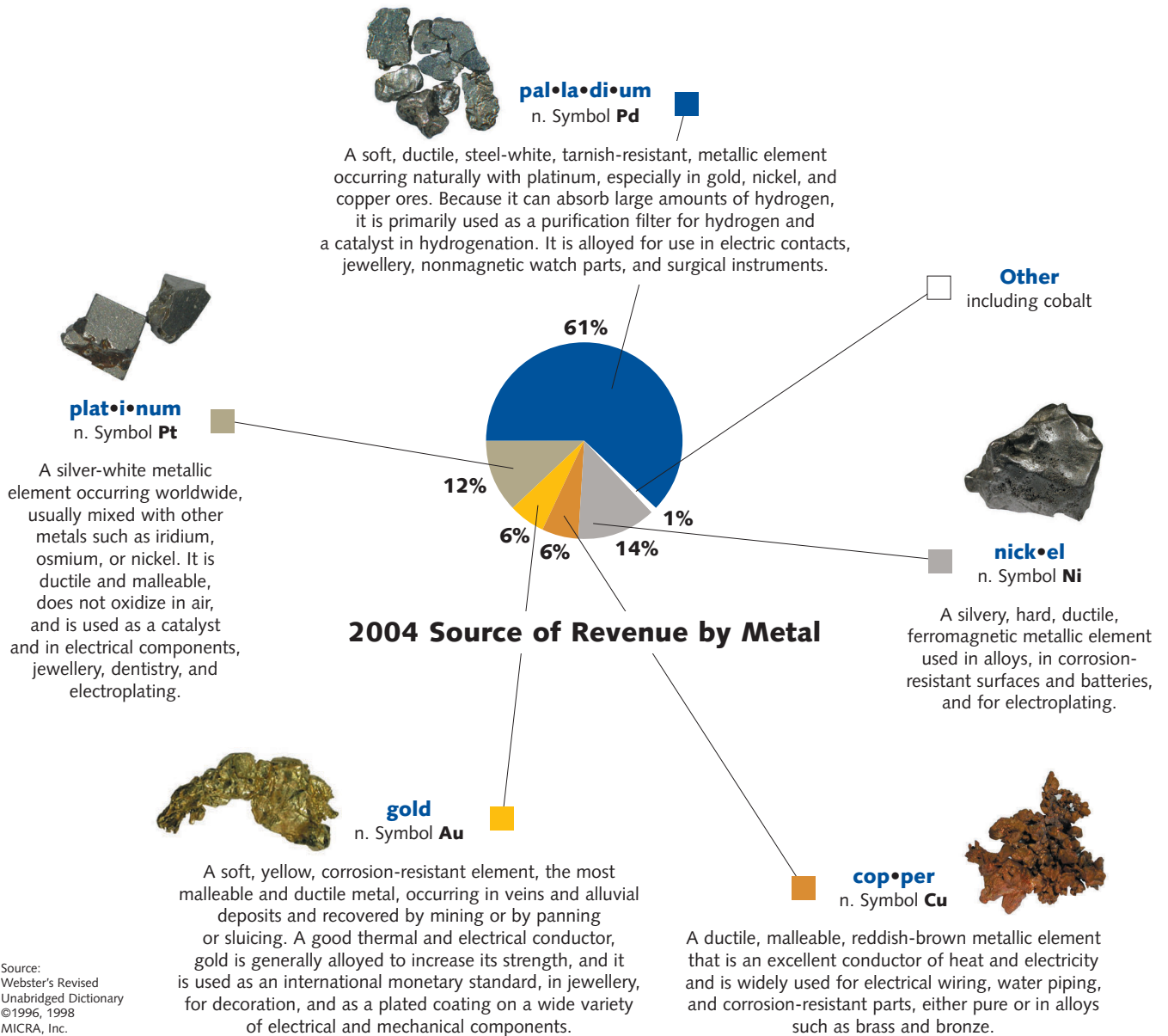
Palladium followed platinum to a high of US\$333 in early April, reversed and trended down to the US\$180 level at year-end. While platinum demand remained firm, palladium continued to be under pressure from oversupply, as the auto catalyst demand continued to post a slow recovery. Although palladium did not trend positively with its peer metals such as platinum and rhodium, North American Palladium was able to benefit significantly from high prices for its by-product metals.



2004 Palladium Demand by Application*

(Total 6,140,000 Ounces)

*Source: Johnson Matthey



* Source:
Webster's Revised
Unabridged Dictionary
©1996, 1998
MICRA, Inc.



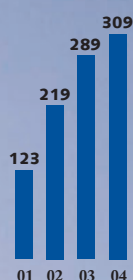
North American **Palladium** Ltd.

2004 Highlights

North American Palladium's operations at the Lac des Iles mine progressed significantly during 2004 due to the implementation of continuous improvement strategies in each of the main business units and as a result:

- Palladium and by-product metal production reached record figures.
- A new secondary crusher was installed and in operation in the fourth quarter.
- Underground mine development began in May.
- Comprehensive training continued for all employees, including advanced health and safety programs and supervisory skills development.
- A mergers and acquisitions program began in earnest.

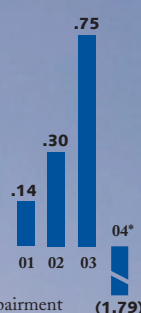
Palladium Production
(thousands of ounces)



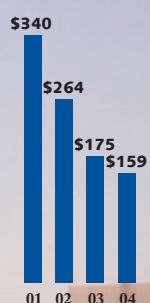
Operating Cash Flow
(millions of Cdn\$)



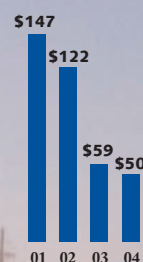
Earnings (loss) per Share
(diluted)
(Cdn\$)



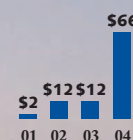
Unit Cash Cost
(US\$ per ounce palladium)



Debt
(millions of Cdn\$)



Available Cash Reserves
(millions of Cdn\$)



2005 Objectives

- Produce at least 270,000 ounces of palladium.
- Further enhance overall employee wellness, safety and productivity through additional training and development programs.
- Evaluate additional prospects, both in North America and internationally, to expand the North American Palladium resource base.
- Complete the underground mine's development, while ensuring adherence to all safety and environmental standards.
- Continue the aggressive exploration campaigns in the Lac des Iles region.

A full-page background image showing a construction or mining site. In the foreground, a man wearing a white hard hat, sunglasses, a blue long-sleeved shirt, and a yellow safety vest is walking towards the camera. Behind him is a large, conical pile of light-colored gravel or crushed stone. To the left, a large metal conveyor belt structure is visible, extending from the top left towards the center. The sky is a clear, bright blue.

Continued Focus
on Operations,
Growth and
Financial Position

Our Future

Message to Shareholders From the Chief Executive Officer

Continued progress and development at Lac des Iles, record metal production and improved financial strength marked 2004 for North American Palladium. The productivity gains and cost reductions achieved in the second half of 2003 continued through 2004, enabling the Company to greatly improve its financial position and move solidly into 2005. Also in 2004, fundamental to the Company's increasing growth and financial well-being, were the installation of the new secondary crusher and the kick-off of the underground mine construction.

Last year at this time we said that during 2004 we were going to continue to maximize the Lac des Iles operation and maintain a production level of 280,000 ounces of palladium for the year. We also said we would continue our efforts to optimize cash flow and operating costs, begin developing the underground mine at Lac des Iles, and search out opportunities for growth and diversity. We achieved these goals, and look back on 2004 as a year of accomplishment.

Record Production and Increasing Efficiency

The Lac des Iles mine processed a record amount of ore, which in turn produced record amounts of metal. We produced 308,931 ounces of palladium, 25,128 ounces of platinum, 25,679 ounces of gold, 4,320,970 pounds of nickel, and 7,836,183 pounds of copper. All of this production generated an operating cash flow of \$52 million.

The secondary crushing facility was commissioned during the fourth quarter of 2004. This crusher, integrated into the mill circuit's automation so that it can be operated remotely, has the capacity to crush up to 70% of the SAG mill feed, allowing greater flexibility in treating harder ores and adding greatly to the mill's productivity. By replacing costly contract crushing, we expect to reduce future operating costs by approximately \$10 million annually.

Development of the underground mine at Lac des Iles began in May 2004. By the end of the year, all of the surface facilities had been installed, the portal and decline were well established, and work had been initiated on the ventilation raise and secondary escape. At this time, some of the new mining equipment has already arrived at the mine site. This exciting addition to our mining operations is scheduled to begin ramping up production during the fourth quarter of 2005 and will begin producing 720,000 tonnes annually of high grade ore during 2006.

All in all, 2004 was an excellent year for North American Palladium. The Company closed out the year with \$66 million of cash on hand and \$50 million in debt and is in a great position to progress through the transition year of 2005.

Growth from Exploration

Our exploration program continued to expand throughout the year with the addition of the Legris Lake property, which is adjacent to the Lac des Iles claim block and hosts similar mineralization. An exploration project to determine the size of the Offset High Grade Zone at Lac des Iles began in the fourth quarter and will continue into 2005. In addition to the deep drill-hole testing that is currently underway on the Offset Zone, we are continuing exploration of the northern edges of the mine block intrusion.

**Total palladium demand for jewellery climbed
from 250,000 ounces in 2003 to 740,000 ounces in 2004.**

The beginning of 2005 saw a flurry of drilling on the Shebandowan project. Here we continue to follow up on promising surface sample assays discovered during the prospecting phase. Additionally, our exploration effort has been expanded from Ontario into Manitoba and Québec where we are looking at existing nickel and platinum group metal discoveries and projects. We will continue to search for exploration opportunities throughout Canada.

We are very excited about these exploration projects, and have high expectations that our drilling efforts will be rewarded this year.

Building Financial Strength

The first half of 2004 saw a number of base and precious metals reaching long-term high prices. The main catalysts for the strengthening in these metal markets were global economic growth and high metal demand, particularly in China. Most notably, platinum rose to a 20-year high of US\$936 per ounce in April. Palladium followed platinum up in price during April to a high of US\$333 per ounce. However, while platinum remained strong on physical demand and investor support, palladium reversed and trended down on a lack of support to US\$184 per ounce at year-end. Despite the decline in palladium prices, North American Palladium was able to benefit significantly from the strong market for its by-product metals and from a supply contract that provided a floor price of US\$325 per ounce for the Company's palladium production.



André J. Douchane
President and
Chief Executive Officer

The average cost to produce an ounce of palladium net of by-product credits during 2004 was US\$159 per ounce, down US\$16 from 2003's average of US\$175 per ounce. Contributing greatly to North American Palladium's cash flow and reducing palladium cash costs were our by-product metal sales. Nickel and platinum generated the most income among the by-product metals, followed by gold and copper. Palladium production generated 61% of the Company's revenue with the by-product metals making up the remaining 39%.

Future Growth

North American Palladium's strategy for future growth is two-fold. First, it is focused on direct exploration and joint ventures in Canadian platinum group metals (PGM) mining camps, including those in the vicinity of the Lac des Iles mine. Secondly, it is actively pursuing the acquisition of top-tier, global PGM properties and projects that complement our existing metal production.

This past year, the Company was very active in its exploration programs at Lac des Iles and Shebandowan. We also put a lot of effort into searching for late-stage exploration projects that North American Palladium could take to the next step and add value through our mining expertise.

On the global front, we have evaluated a number of opportunities and believe the best course for North American Palladium is to increase our production in PGMs through projects that offer attractive platinum, nickel and copper ore grades and, ultimately, a higher level of production. These metals have demonstrated attractive fundamentals, and their price levels have provided the Company with significant revenues over the past couple of years.

We are confident we are on the right track and that our efforts will result in significant growth in the Company's mining assets.

Partners

I would like to extend a sincere thank you to our partners in North American Palladium's success.

To our employees, whom without your dedication and perseverance in progressing the operational development at Lac des Iles, we would never have reached this year's record levels of production, nor would the installation of the secondary crusher have been as successful. The underground mine is a new challenge for all, and I am certain that the team at Lac des Iles will continue to put forth a tremendous effort as we strive towards achieving full production in 2006.

To our Directors, who are always ready and willing to share their excellent advice and combined wealth of experience. They are committed to ensuring the management at North American Palladium is on track to achieving long-term success.

To our strategic business partners, without you, we could not get our metals to market.

Finally, I would like to thank our shareholders for investing in North American Palladium and remaining confident in our Company's future. Our team remains dedicated to increasing the long-term value of your investment.

Sincerely,



André J. Douchane

President and Chief Executive Officer

March 10, 2005

What is management's outlook for the palladium market?

We believe that the fundamentals for palladium will continue to improve as the automotive companies increase their substitution away from platinum.



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



Bruce W. Mackie
Vice President, Exploration
and Development



Douglas H. Bache
Treasurer



Mary D. Batoff
Vice President, Legal
and Secretary



The increase in mine production from the average of 39,895 tonnes per day in 2003 to an average of 46,038 tonnes per day in 2004 resulted from the elimination of primary crusher problems, a shorter haul distance with the Phase 4 expansion, as well as a short haul to the East Waste Dump.



Open Pit Mining Operations

Total tonnes mined from the open pit for 2004 was 16.9 million tonnes or an average of 46,038 tonnes per day. Ore production totalled 4.6 million tonnes grading 2.60 grams per tonne of palladium. The waste-to-ore strip ratio increased to 2.68:1 in 2004, from 2.31:1 in 2003. The increase in total tonnes mined from the average of 39,895 tonnes per day in 2003 to an average of 46,038 tonnes per day in 2004 resulted from the elimination of primary crusher problems, a shorter haul distance with the Phase 4 expansion, as well as a short haul to the East Waste Dump.

At year-end 2004, the broken ore stockpile consisted of 1.4 million tonnes grading 1.76 grams per tonne of palladium, roughly equivalent to 79,000 palladium ounces, most of which is expected to be treated in 2005.

The Phase 3 pit completed mining in mid-October 2004, with the successful extraction of approximately 200,000 extra tonnes of high grade ore from the bottom of the pit.

The Phase 4 pit was re-optimized in 2004 to incorporate the underground mine access from inside the pit and to decrease the strip ratio.



Operations

“Total tonnes mined from the open pit for 2004 was 16.9 million tonnes or an average of 46,038 tonnes per day.”

The Phase 3 pit completed mining in mid-October 2004, with the successful extraction of approximately 200,000 extra tonnes of high grade ore from the bottom of the pit.



Did you know?

Major oil companies such as BP are investing millions of dollars in low-sulphur diesel fuel - permitting palladium use in the catalysts.



Ray J. Mason
Lac des Iles General Manager



Materials Team
(from left) **Nathaniel Wolfe, Brian Insley**
and **Courtney Makkinga** (Summer Student)

“...the team at Lac des Iles will continue to put forth a tremendous effort as we strive towards achieving full production in 2006.”

Did you know?

Except in a powder form,
palladium is steel white in colour.



David Stajkowski
Mine Development Foreman

Roby Pit Ore Production and Grades

Year	Tonnes (000)	Palladium (g/t)	Platinum (g/t)	Gold (g/t)	Nickel (%)	Copper (%)
2004	4,574	2.60	0.23	0.21	0.09	0.08
2003	4,397	2.48	0.22	0.21	0.10	0.08
2002	7,251	1.49	0.16	0.12	0.07	0.05
2001	5,768	1.44	0.16	0.10	0.06	0.04

Historical Mine Production

	2004	2003	2002	2001	2000
Ore Tonnes Mined	4,574,134	4,396,847	7,250,963	5,768,157	2,689,634
Waste Tonnes Mined	12,275,889	10,164,806	9,828,552	19,174,635	7,508,117
Stripping Ratio	2.68:1	2.31:1	1.36:1	3.32:1	2.79:1
Average Daily Production (tonnes)	46,038	39,895	46,793	68,336	27,939

Underground Operations

In March 2004, the Board of Directors approved development of a \$52 million underground mine based on a feasibility study prepared by Roscoe Postle Associates. The projected operating costs are approximately US\$152 per ounce of palladium after by-product metal credits*.

The portal was collared and development of the ramp to the Main High Grade Zone orebody began on May 6, 2004, with the aid of contractor equipment and manpower. By December 31, 2004, the ramp had advanced 435 metres from the portal entrance. The underground development will continue throughout 2005, with first ore production expected during the fourth quarter. Once in full operation, in the first quarter of 2006, 2,000 tonnes of ore a day will be delivered to the mill from the underground mine, at an average head grade of 6.62 grams per tonne of palladium. This will be combined with 13,500 tonnes a day from the open pit operations, to feed the mill ore with an approximate grade of 2.33 grams per tonne. The tonnes of ore from the underground will contribute an average of 113,000 ounces of palladium per year, bringing annual palladium production to an average of 350,000 ounces.

Work is currently being conducted successfully with a combined contractor/Lac des Iles workforce. However, a total of 80 full-time workers will be employed when the operations are in full swing, bringing the number of employees at Lac des Iles to approximately 380. Currently, engineering firms from Thunder Bay are being utilized to complete the details for ventilation and heating requirements, as well as electrical services and water supply, that will be needed to get the mine ready for full production in 2006.

** the operating costs are sensitive to the price of our by-product metals*



“The tonnes of ore from the underground will contribute an average of 113,000 ounces of palladium per year.”

With the secondary crusher installed and operating as planned, the milling process will continue to be further optimized.



Milling Operations

The Lac des Iles mill completed another record production year in 2004. Total palladium production reached 308,931 ounces, exceeding production for 2003 by approximately 20,000 ounces. The increase was primarily the result of a higher palladium feed grade combined with an increase in mill throughput. The average head grade of palladium for the year was 2.41 grams per tonne with an average recovery of 75.2%, compared to an average grade of 2.31 grams per tonne and an average recovery of 75.5% in 2003. Ore processed totalled 5,298,544 tonnes or an average of 14,477 tonnes per day. Mill operating availability was at 88.4% for the year and was primarily affected by the secondary crushing project installation and modifications to the conveyor and chute arrangements.

By-product metal production in 2004 also exceeded previously achieved records in 2003, including 25,128

ounces of platinum, 25,679 ounces of gold, 7,836,183 pounds of copper and 4,320,970 pounds of nickel.

In 2004, the secondary crushing circuit was commissioned and went into operation at the beginning of December. Contractor crushing had been drastically reduced by year end and was eliminated in early 2005. With the secondary crusher installed and operating as planned, the milling process will continue to be further optimized.

In conjunction with S.G.S. Lakefield Research Limited, flotation test work involving hydrodynamic studies commenced in mid-2004. Further plant test work involving hydrodynamics is anticipated in 2005 to improve palladium recovery. In addition, process control equipment for automated reagent addition and flow regulation, was purchased late in 2004 and will be installed in early 2005. These additions will allow for further control advancements in the flotation circuit as a part of the action plan for improving the palladium recovery.

Year	Ore Milled (tonnes)	Concentrate (tonnes)	Palladium (ounces)	Platinum (ounces)	Gold (ounces)	Nickel (lbs)	Copper (lbs)
2004	5,298,544	45,652	308,931	25,128	25,679	4,320,970	7,836,183
2003	5,159,730	36,869	288,703	23,742	23,536	4,070,785	7,142,674
2002	4,851,621	27,179	219,325	19,180	16,030	2,763,654	5,295,486
2001	2,662,240	21,697	123,281	10,073	9,603	1,595,179	3,123,763
2000	893,017	14,271	95,116	6,074	6,035	1,035,485	1,362,266

Milling

“Total palladium production reached 308,931 ounces, exceeding production for 2003 by approximately 20,000 ounces.”

**The exploration team
is committed to growing
the Company beyond
Lac des Iles.**



Growth through Exploration

During 2004, North American Palladium spent \$2.5 million in advancing its various exploration opportunities in north western Ontario. The exploration program has a double focus, the pursuit of quality projects with established base and platinum group metals, and the expansion of the current resource base at the Lac des Iles mine.

Lac des Iles

In the Lac des Iles region, the Company nearly doubled its current land holdings by optioning the adjoining Legris Lake property, which covers a complex exhibiting certain similarities to the Lac des Iles intrusive, including several platinum group bearing mineralized breccia bodies.

A detailed airborne geophysical survey was conducted over the entire Lac des Iles area to aid in the search for additional mineralization. Detailed modeling of the data identified several high priority targets that will be drill tested early in 2005.

A deep diamond drill campaign began in late 2004 to test the down-dip extension of the Offset High Grade Zone. This zone had been drilled previously to a depth of nearly one kilometre and contains over 1.0 million ounces of palladium in inferred resources. The initial

deep drill hole has a planned length of 2,000 metres while the second drill hole, collared at a -65 degree incline, will reach 1,500 metres. In addition, efforts to discover additional near-surface bulk mineable mineralization continue.

External Exploration

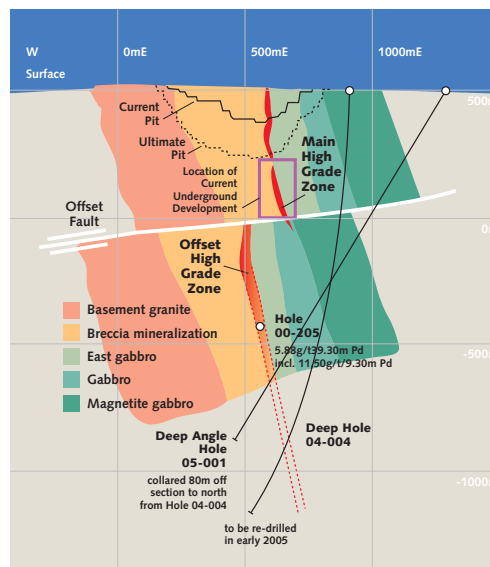
The exploration team is committed to growing the Company beyond Lac des Iles. In 2004, the Company spent a greater portion of its exploration budget on grassroots projects than on the Lac des Iles area. This expanded grassroots component of exploration was primarily focused on the Company's land holdings of approximately 8,000 hectares near Shebandowan, 85 kilometres southwest of Lac des Iles. The Shebandowan project consists of four contiguous optioned land packages in combination with claims 100% owned by North American Palladium.

The Company's Haines property was acquired on the basis of a recent palladium prospect within a magmatic breccia similar to that found at Lac des Iles.

Exploration

**“In the Lac des Iles region,
the Company nearly doubled its
current land holdings...”**

Your mouth might contain a fraction of an ounce of palladium
due to its use in producing dental alloys.



Section 506 N
Deep Hole,
Offset High
Grade Zone

In late 2003, the Company entered into an option joint venture agreement with Inco Limited for its ground surrounding its Shebandowan mine, a past producer of nickel, copper and platinum group elements. The exploration target here is additional massive sulphide deposits similar to those found at the Shebandowan mine. An airborne electromagnetic and magnetic survey was completed during 2004. Follow-up ground testing delineated several high priority targets, some of which were drill tested during the fourth quarter of 2004. The drill program will continue through the winter of 2004-05.

2005 Program

For 2005, the Company has allocated \$3.9 million to its exploration programs. This budget is flexible, depending on positive results either from the ongoing deep drilling campaign at Lac des Iles or exploration on other properties.

At Lac des Iles, total exploration drilling on the mineblock is expected to exceed 10,000 metres for 2005. Drilling has been proposed to test both near-surface bulk tonnage mineralization as well as adding to the current resources of the Offset High Grade Zone.

In addition, selected targets within the North Lac des Iles Ultramafic Complex will be pursued.

On the combined Shebandowan projects, the work will focus on extending the known palladium mineralization. An aggressive drill program is also planned along the strike of the Shebandowan mine for massive sulphide nickel, copper and platinum group elements and deposits.

A significant component of North American Palladium's exploration strategy is the continued acquisition of key opportunities within recognized or emerging mining camps, principally in North America. More grassroots activities are planned in and around the Lac des Iles operations. The Company will also continue in its pursuit of quality global exploration opportunities in its efforts to expand its resource base and add shareholder value.

Statement of Mineral Reserves

As of December 31, 2004

Open Pit

Category	Tonnes (000)	Palladium (g/tonne)	Platinum (g/tonne)	Gold (g/tonne)	Copper (%)	Nickel (%)	Palladium (000 oz.)	Platinum (000 oz.)
Proven Reserves	20,155	1.66	0.20	0.13	0.06	0.08	1,074	128
Probable Reserves	8,398	2.14	0.23	0.16	0.07	0.08	578	62
Total Proven and Probable Reserves	28,553	1.80	0.21	0.14	0.06	0.08	1,651	190

Underground

Probable Reserves	3,542	6.62	0.40	0.34	0.07	0.08	754	46
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Notes:

1. CIM definitions for mineral reserves were used to estimate the Lac des Iles mineral reserves.
2. Mineral reserves are calculated at a cut-off grade of 1.1 grams and 4.5 grams of Palladium per tonne for the open pit and for the underground respectively, assuming an average long-term Palladium price of US\$275 per ounce and including by-product metal credits.
3. Douglas Kim prepared the reserves estimate for the open pit. Douglas Kim is a "qualified person" as defined in NI 43-101 and is an employee of the Company.
4. Graham G. Clow, P.Eng., and David W. Rennie, P.Eng., of Roscoe Postle Associates Inc., an independent geological mining engineering consulting firm, are qualified persons under NI 43-101. Messrs. Clow and Rennie prepared the underground reserve estimate.

Statement of Mineral Resources

As of December 31, 2004

Open Pit

Category	Tonnes (000)	Palladium (g/tonne)	Platinum (g/tonne)	Gold (g/tonne)	Copper (%)	Nickel (%)	Palladium (000 oz.)	Platinum (000 oz.)
Measured Resources	9,714	1.70	0.20	0.14	0.07	0.08	531	62
Indicated Resources	6,617	1.64	0.19	0.13	0.06	0.08	349	40
Total Measured and Indicated Resources	16,331	1.68	0.20	0.14	0.06	0.08	880	103
Inferred Resources	135	1.49	0.16	0.11	0.06	0.07	6	1

Underground

Indicated Resources	600	7.00	0.39	0.29	0.06	0.07	135	7
Inferred Resources	5,367	6.10	0.34	0.33	0.07	0.12	1,052	59

Notes:

1. CIM definitions for mineral resources were used to estimate the Lac des Iles mineral resources.
2. Resources are in addition to the reserves. Resources which are not reserves do not have demonstrated economic viability.
3. Mineral resources are calculated at a cut-off grade of 1.1 grams and 4.5 grams of Palladium per tonne for the open pit and for the underground respectively, assuming an average long-term Palladium price of US\$275 per ounce and including by-product metal credits.
4. Douglas Kim prepared the resources estimate for the open pit and the underground. Douglas Kim is a "qualified person" as defined in NI 43-101 and is an employee of the Company.

**North American Palladium
endeavours to safeguard the
environment, protect the health
and safety of employees and
neighbouring communities, while
upholding high standards of
social responsibility.**



Responsibility

North American Palladium regards environmental management as a top priority and has incorporated environmental considerations into all mine expansion, operation and closure plans. As part of the design and operating philosophy that is rooted deep within its organizational culture, North American Palladium has measures in place to identify, minimize and monitor all activities that could adversely impact the natural surrounding environment. This has been accomplished by:

- Designing operational guidelines that outline the procedures and responsibilities for all tasks that may potentially impact the environment.
- Instilling in employees the ethics of environmental responsibility through education and communication.
- Committing to operating in a manner that is compliant with all evolving regulatory requirements.
- Implementing a formal Environmental Management System that follows the PLAN, DO, CHECK, & REVIEW philosophy.

With respect to terms of health and safety issues, the Lac des Iles mine embraces the “Internal Responsibility System”, which encourages management and the workforce to strive together to identify, prevent, and resolve potential safety issues in the workplace. This joint approach utilizes the worker/supervisor relationship as the focal point of



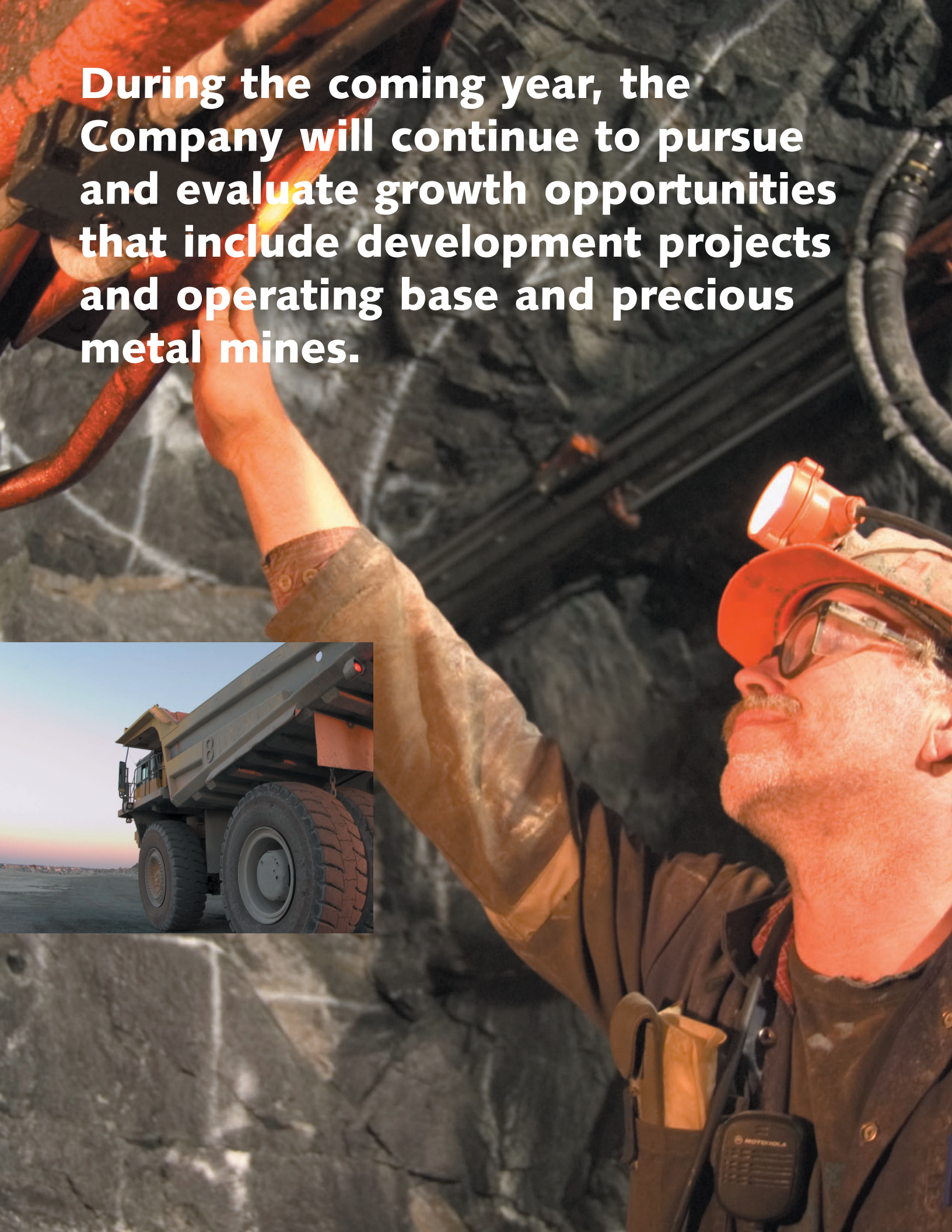
The Lac des Iles Mine Rescue Team
(from left) **Richard Bourgeois, Chrissy Legacy, Rob Ibey, Jason Chicoine, Dave Elliott, Randy Asselin, Matt Jacobsen and Michel Beaulieu.**

safety, and is supported with overall input from the Joint Health and Safety Committee, management, and the Loss Control Department. Participation in industry groups such as the Mines and Aggregates Safety and Health Association (MASHA), and the Ontario Mining Association (OMA), and the maintenance of external insurer and consultant relationships are key in ensuring the Company stays current with best practices relating to safety and loss prevention in the mining industry.

Responsibility

“...the Company stays current with best practices relating to safety and loss prevention in the mining industry.”

During the coming year, the Company will continue to pursue and evaluate growth opportunities that include development projects and operating base and precious metal mines.



Management's Discussion and Analysis - 2004

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 and prepared as of February 21, 2005. 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 northwest of Thunder Bay, Ontario. The mine is Canada's only primary producer of platinum group metals (PGM) and contains one of the largest open pit bulk mineable palladium reserves in the world. In addition to palladium, the Company earns substantial revenue from by-product nickel, platinum, gold and copper. Palladium's primary use continues to be in the auto industry where it is an important component in controlling exhaust emissions as mandated by more stringent hydrocarbon emission standards for cars, light trucks and SUVs, particularly in the United States, Europe and Japan. In addition, palladium is consumed in the dental, electronics, jewellery and chemical sectors.

Based on a positive feasibility study, the Company commenced the development of an underground mine at its Lac des Iles operations in the second quarter of 2004. The underground mine development is focused on the Main High Grade Zone below the ultimate pit depth. Capital costs for the underground development are estimated at \$40 million for direct and indirect costs and working capital. Mining equipment accounts for an additional \$12 million of capital costs and the Company is financing this equipment through a vendor lease program. By year end the main ramp had been advanced 435 metres. The underground development is progressing towards full production in 2006.

In early 2004, the Company also decided to proceed with a secondary crusher installation for the Lac des Iles mill designed to increase the throughput rate and reduce processing costs in the mill circuit. The secondary crusher was successfully commissioned in December at a capital cost of \$10.2 million.

The Company hedges the price of its palladium production under a 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

MD&A

“The mine is Canada's only primary producer of PGMs and contains one of the largest open pit bulk mineable palladium reserves in the world.”

ounce for 50% of production delivered by June 30, 2005. 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. Commencing with the first quarter of 2005, palladium production which will be available for physical delivery after June 30, 2005 will not be subject to the Palladium Sales Contract. In 2004, the Company also commenced a hedging strategy for a portion of its by-product metals production. The objective of this hedge strategy is to reduce the variability of cash flow associated with revenues derived from the sale of nickel, platinum, gold and copper.

The Company assesses long-lived assets for recoverability whenever indicators of impairment exist. At the end of 2004, the Company determined that an asset impairment charge was required as a result of changes in certain key assumptions, which were affected by a continuation of low palladium prices. Without the benefit of the floor price under the Palladium Sales Contract, the Company's profitability would be significantly impacted by the current depressed spot palladium price.

The Company remains optimistic that the fundamentals for palladium demand will improve in the medium term with the expected draw-down of surplus inventories held by automotive manufacturers. In addition, the current wide market price spread between platinum and palladium is expected to accelerate consumption of palladium in the auto catalyst and jewellery markets.

During the coming year, the Company will continue to pursue and evaluate growth opportunities that include development projects and operating base and precious metal mines.

Production Statistics

	Year Ended December 31	
	2004	2003
Palladium (oz)	308,931	288,703
Payable Palladium (oz)	281,743	261,247
Platinum (oz)	25,128	23,742
Gold (oz)	25,679	23,536
Copper (lbs)	7,836,183	7,142,674
Nickel (lbs)	4,320,970	4,070,785
Ore Tonnes Milled	5,298,544	5,159,730
Ore Tonnes Mined	4,574,134	4,396,847
Waste Tonnes Mined	12,275,889	10,164,806
Waste to Ore Strip Ratio	2.68:1	2.31:1

Key Financial Statistics

	Year Ended December 31	
	2004	2003
	(\$000's)	
Revenue from metal sales	185,204	192,141
Net income (loss)	(92,110)	38,378
Basic net income (loss)		
per share (dollars)	(1.79)	0.76
Operating cash flow	52,059	59,802
Long-term debt, including		
current portion	50,171	58,761
Shareholders' equity	217,833	299,955
Common shares outstanding (as at December 31)	51,709,075	50,895,338

Summary of Quarterly Results

(in thousands of dollars except per share amounts)	2003				2004			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Revenue from metal sales	45,120	44,631	42,585	59,805	53,156	51,712	45,154	35,182
Net income (loss)	8,390	10,361	3,535	16,092	6,121	2,834	6,598	(107,663)
Net income (loss) per share	0.17	0.20	0.07	0.32	0.11	0.06	0.13	(2.09)
Fully diluted net income (loss) per share	0.17	0.20	0.07	0.31	0.11	0.06	0.13	(2.09)

Results of Operations

The Company generated gross revenue from metal sales of \$185.2 million in 2004, compared to \$192.1 million in 2003. Revenue in 2004 from the sale of palladium before the mark-to-market effect of price changes and palladium forward contracts was \$112.9 million compared to \$109.4 million in 2003. The revenue increase was due to a 7% increase in palladium production

which was partially offset by further weakness in the US dollar. Palladium forward contracts provided additional revenue of \$20.4 million in 2003 while no revenue was realized from palladium forward contracts in 2004. 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. During 2004, the spot price of palladium per ounce ranged from a high of US\$333 to

a low of US\$178 and averaged US\$230 compared to an average of US\$200 during 2003. Throughout this period of lower palladium prices, the Company realized the hedged floor price of US\$325 per ounce provided for under the Palladium Sales Contract. Palladium production sold to third-party smelters takes up to six months from time of receipt at the smelter to settle the final delivery and pricing settlement. The price adjustment relating to palladium settled and awaiting settlement was a small positive amount of \$0.9 million compared to a negative \$1.2 million in 2003. Revenue from by-product metal sales increased by 13% to \$71.4 million in 2004 compared to \$63.4 million in 2003 reflecting the increased production and improved price levels for nickel, platinum, gold and copper. Realized prices for by-product metals were higher in 2004 compared to 2003, most notably platinum at US\$831 per ounce, nickel at US\$6.11 per lb., gold at US\$417 and copper at US\$1.24 per lb. This compares to 2003 realized prices for platinum of US\$683 per ounce, nickel at US\$5.10 per lb., gold at US\$378 per ounce and copper at US\$0.87 per lb. Partially offsetting the higher realized metal prices was a strengthening Canadian dollar, which averaged US\$0.77 in 2004, compared to US\$0.72 in 2003.

During 2004, the mill processed 5,298,544 tonnes of ore or an average of 14,477 tonnes per day compared to 5,159,730 tonnes of ore or an average of 14,136 tonnes per day in 2003. In 2004, the average palladium head grade improved to 2.41 grams per tonne as compared to 2.31 grams per tonne in 2003. The Phase 3 pit was completed in mid October, which resulted in the release of an additional approximately 200,000 tonnes of high-grade ore. During the year, palladium recoveries were 75.2% as compared to 75.5% in 2003. While palladium production increased 7% compared to the prior year, tonnes of concentrate treated increased 24% due to a drop in concentrate grade. The concentrate quality also declined in the current year resulting in higher charges for smelter penalties. In aggregate, smelter treatment, refining and freight costs increased 24% in 2004 compared to 2003. In an effort to improve the concentrate grade, various milling parameters are under investigation, including changes to the mill flow sheet, reagent mix and the quality of recycled water.

Total production costs for 2004 of \$102.9 million were comparable to \$103.7 million in the prior year. However, unit cash costs to produce palladium (production costs including overhead and smelter treatment, refining and freight costs), net of by-product metal revenues and royalties, decreased to US\$159 per ounce in 2004 compared to US\$175 per ounce in 2003. The improvement in unit cash costs was achieved by a 7% increase in palladium production to 308,931 ounces

in 2004 compared to 288,703 ounces in 2003, combined with a 13% increase in revenue from by-product metals.

The Company received \$7.1 million in 2004 as an interim payment against a claim filed with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. The insurance recovery has been included in income from mining operations in 2004. The Company is pursuing the balance of the insurance claim and will record any additional recovery in income if and when received.

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future undiscounted cash flows are less than the carrying amount of the asset. Future cash flows are estimated based on quantities of recoverable minerals, expected palladium and other commodity prices and expected foreign exchange rates (considering current, historical and expected future prices and foreign exchange rates and related factors), production levels and cash costs of production and future capital and reclamation expenditures, all based on life-of-mine plans and projections. The term "recoverable minerals" refers to the estimated amount of palladium and other commodities that will be obtained from proven and probable reserves after taking into account losses during mining, ore processing and concentrate treatment.

During the fourth quarter of 2004, the Company performed an annual impairment test which resulted in a non-cash charge of \$108.0 million (net of tax - \$103.4 million or \$2.01 per share) to write down the carrying value of mining interests. An assessment of impairment was required as a result of changes in key assumptions which were affected by a continuation of low palladium prices. The impairment charge will not affect the Company's reserves or resources, nor will it affect the future anticipated cash flow or operations at the Lac des Iles mine.

Assumptions underlying future cash flow estimates are subject to risk and uncertainty. Any differences between significant assumptions and market conditions such as metal prices, exchange rates, recoverable metal, and/or the Company's operating performance could have a material effect on the Company's ability to recover the carrying amounts of its long-lived assets resulting in possible additional impairment charges.

During 2003, there was a write-down of mining interests of \$2.3 million relating to the damaged primary crusher, which was removed from service and replaced with a new unit.

Non-cash amortization increased to \$36.7 million in 2004 compared to \$28.6 million in 2003. The higher amortization amount is attributable to the 7% increase in

palladium production and the increase in the unit of production amortization rate due to a restatement of reserves at June 30, 2003 that resulted in a 20% reduction in palladium reserve ounces. As a result of the asset impairment charge recorded in 2004, which lowered the book value of mining interests, the Company reviewed its unit of production amortization rate. It is estimated that the amortization charge for 2005 will be approximately C\$75 to \$80 per palladium ounce. This compares to a unit amortization rate of approximately C\$133 per palladium ounce in 2004.

After allowing for the \$108.0 million impairment charge, there was a \$88.1 million loss from mining operations in 2004 compared to an income from mining operations of \$31.1 million for the previous year. Although there was a 7% improvement in palladium production compared to 2003 and a 13% increase in by-product revenue, the results for 2004 did not benefit from a palladium forward sales program compared to 2003 when an additional \$20.4 million of revenue was realized from palladium forward contracts.

Other income and expense, which includes interest income and expense, exploration and foreign exchange gains and losses, was an expense of \$2.2 million in 2004 compared to an income of \$15.4 million in 2003. In the current year there was a foreign exchange loss of \$0.3 million compared to a gain of \$18.1 million in 2003. The foreign exchange gain relates primarily to the Company's US dollar denominated credit facilities which have benefited from the strengthening of the Canadian dollar compared to the US dollar.

In 2004, the Company incurred interest expense on long-term debt of \$1.8 million compared to \$3.2 million in 2003. The reduced interest expense in the current year reflects the reduction in the level of average debt year-over-year.

The Company's 2004 provision for income tax expense of \$1.8 million is significantly lower than the statutory income tax rate of approximately 39% due to the fact that no tax benefit or tax asset has been recorded on the impairment charge of \$108.0 million. The impairment charge also resulted in the reversal of assets previously tax benefited in the amount of \$2.5 million. The Company's 2003 tax provision of \$8.2 million was reduced for the non-taxable portion of a capital gain relating to the foreign exchange gain and for changes in federal and provincial income tax rates and laws affecting the resource industry.

For the year ended December 31, 2004, the Company reported a net loss of \$92.1 million or \$1.79 per share compared to net income of \$38.4 million or \$0.75 per share for the year ended December 31, 2003.

The results for 2004 include an insurance recovery of \$7.1 million relating to losses incurred in connection with the failure of the primary crusher in 2002 and a foreign exchange loss of \$0.3 million compared to a foreign exchange gain of \$18.1 million in 2003. After adjusting for the impairment charge, the insurance recovery and foreign exchange, the adjusted net income was \$7.3 million or \$0.14 per share for the year ended December 31, 2004 compared to adjusted net income of \$23.3 million or \$0.46 per share for the year ended December 31, 2003.

Liquidity and Capital Resources

Cash flow from operations (prior to changes in non-cash working capital) was \$52.1 million in 2004, compared to \$59.8 million in 2003. The \$7.7 million decrease in operating cash flow was primarily due to no revenue being realized from higher priced palladium forward contracts in 2004 compared to \$20.4 million of additional revenue in 2003 from forward contracts. The current year's operating cash flow benefited from increased metal production and higher by-product metal prices. Changes in non-cash working capital provided \$29.7 million of cash in the current year as compared to a consumption of \$5.2 million in 2003. Palladium awaiting settlement declined to 114,186 ounces at December 31, 2004 compared to 147,570 ounces at December 31, 2003. The reduction in the physical quantity of metal in the concentrate awaiting settlement combined with a weaker US dollar which is used to value the concentrate awaiting settlement resulted in a 28% reduction in the value of concentrate awaiting settlement. After allowing for non-cash working capital changes, cash provided by operations was \$81.8 million in 2004 compared to \$54.6 million in 2003.

Investing activities required \$26.5 million of cash in 2004, with short-term investments providing \$1.8 million and additions to mining interests requiring \$28.7 million. Two major projects were undertaken during the year. The secondary crusher installation was completed at a cost of \$10.2 million and the underground mine development, which commenced in mid 2004 and will extend into late 2005, required \$6.9 million excluding \$3.6 million of mining equipment purchased under capital leases. This compares with \$8.3 million of net investing activities in 2003.

During the year, the Company's financial position was further strengthened. The Company's debt position was reduced to \$50.2 million at December 31, 2004 compared to \$58.8 million at December 31, 2003 and the year-end cash and cash equivalents balance was \$65.8 million compared to \$12.0 million for the prior year.

Contractual Obligations as at December 31, 2004

(in thousands of dollars)	Total	Payments Due by Period		
		Less Than 1 Year	1 - 3 Years	4 - 5 Years
Senior credit facility	31,666	6,815	13,630	11,221
Kaiser-Francis credit facility	13,842	—	13,842	—
Capital lease obligations	4,663	1,481	2,008	1,174
Operating leases	1,818	882	910	26
Other purchase obligations	4,222	4,222	—	—
	56,211	13,400	30,390	12,421

There are no payments due after five years.

Critical Accounting Policies and Estimates

1. Change in Accounting Policy

Hedging Relationships

In 2003, the CICA finalized amendments to Accounting Guideline AcG-13, "Hedging Relationships" that clarified certain of the requirements in AcG-13 and provided additional documentation and application guidance. AcG-13 is applicable for the Company's 2004 fiscal year. As a result of the adoption of AcG-13, the Company has marked-to-market its forward foreign exchange contracts beginning January 1, 2004. The impact of this change was an increase to derivative income of \$0.2 million in the first six months of 2004. Commencing July 1, 2004, these foreign exchange contracts were designated as a hedge of US dollar revenue and are accounted for in revenue as realized.

2. Critical Accounting Estimates

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

(a) Impairment assessments of long-lived assets

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

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

Assumptions underlying future cash flow estimates are subject to risk and uncertainty. Any differences between significant assumptions and market conditions such as metal prices, exchange rates, recoverable metal, and/or the Company's operating performance could have a material effect on the Company's ability to recover the carrying amounts of its long-lived assets resulting in possible additional impairment changes.

(b) Amortization of mining interests

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

(c) Forward Metal Sales and Metal Price Swap Contracts

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

North American Palladium uses fixed-price forward platinum and gold sales contracts and cash settled nickel and copper price swap contracts to insulate its earnings and cash flows from changes in these metal prices. These contracts allow the Company to sell its platinum and gold production to credit-worthy metal dealers at a fixed price under the forward sales contract. In the case of nickel and copper, the Company receives a fixed metal price in exchange for paying the floating price received under its physical sales contracts to acceptable counterparts under the metal price swap contracts.

Fixed-price Forward Platinum Sales Contracts (the "Platinum Hedge Position")*(as of December 31, 2004)*

Platinum ounces hedged	10,500 (or less than 50% of 2005's expected production)
Maturity date of platinum sales contracts	December 2005
Weighted-average estimated platinum sales contract price up to maturity date	US\$831/oz. ¹
Delivery obligations	The Company will deliver platinum produced from its operations on a monthly basis to satisfy the forward sales contracts by the maturity date
Unrealized mark-to-market loss at December 31, 2004	US\$260,000 ²

Fixed-price Forward Gold Sales Contracts (the "Gold Hedge Position")*(as of December 31, 2004)*

Gold ounces hedged	12,000 (or less than 75% of 2005's expected production)
Maturity date of gold sales contracts	December 31, 2005
Weighted-average gold sales contract price up to maturity date	US\$435/oz. ³
Delivery obligations	The Company will deliver gold production from its operations on a monthly basis to satisfy the forward sales contracts by the maturity date
Unrealized mark-to-market loss at December 31, 2004	US\$116,000 ⁴

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

² The December 31, 2004 spot platinum price of US\$860 per ounce was used to determine the unrealized mark-to-market loss for the platinum forward sales contracts.

³ Weighted-average estimated gold price is based on the aggregate value of contracted prices for the expected delivery volumes for each respective delivery month divided by the total volume of gold sold forward.

⁴ The December 31, 2004 spot gold price of US\$438 per ounce was used to determine the unrealized mark-to-market loss for the gold forward sales contracts.

Fixed-price Nickel Swap Contracts (the "Nickel Hedge Position")*(as of December 31, 2004)*

Nickel tonnes hedged	540 (or less than 50% of 2005's expected production)
Maturity date of nickel swap contracts	June 2005
Weighted-average estimated fixed nickel price up to maturity date	US\$14,500 per tonne (US\$6.58 per lb.) ⁵
Payment obligations	The Company will pay on a monthly basis the floating nickel price (average monthly LME 3-month nickel price) for the respective volume of nickel metal swapped and receive a fixed price from the counterpart for the period up to the maturity date
Unrealized mark-to-market loss at December 31, 2004	US\$102,000 ⁶

Fixed-price Copper Swap Contracts (the "Copper Hedge Position")*(as of December 31, 2004)*

Copper tonnes hedged	900 (or less than 50% of 2005's expected production)
Maturity date of copper swap contracts	December 2005
Weighted-average estimated fixed copper price up to maturity date	US\$2,755 per tonne (US\$1.25 per lb.) ⁷
Payment obligations	The Company will pay on a monthly basis the floating copper price (average monthly LME 3-month copper price) for the respective volume of copper metal swapped and receive a fixed price from the counterpart for the period up to the maturity date
Unrealized mark-to-market loss at December 31, 2004	US\$146,000 ⁸

⁵ Weighted-average estimated nickel price is based on the aggregate value of contracted fixed prices for the expected nickel volumes for each respective delivery month divided by the total volume of nickel under the swap contract.

⁶ The December 31, 2004 spot nickel price of US\$6.89 per lb. was used to determine the unrealized mark-to-market loss for the nickel swap contracts.

⁷ Weighted-average estimated copper price is based on the aggregate value of contracted fixed prices for the expected copper volumes for each respective delivery month divided by the total volume of copper under the swap contract.

⁸ The December 31, 2004 spot copper price of US\$1.43 per lb. was used to determine the unrealized mark-to-market loss for the copper swap contracts.

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

Related Party Transactions

The Company engaged Louis J. Fox in November 1999 to provide services in connection with the negotiation of palladium end-user supply contracts, project capital financing, smelting and refining agreements, metals price forecasting and marketing other metals. The services agreement was negotiated at arms-length prior to Mr. Fox becoming a director of the Company. Mr. Fox receives a fee in connection with the negotiations related to the Palladium Sales Contract. The amount payable to Mr. Fox was \$581,000 in 2004 compared to \$400,000 in 2003.

In December 2001, Kaiser-Francis provided a US\$20 million non-revolving credit facility to finance the Company's working capital requirements. In the second quarter of 2004, the Kaiser-Francis credit facility was extended to June 30, 2006 as part of a debt restructuring plan. Interest is based upon the 30-day LIBOR plus 2.50% and there is a stand-by fee of 0.125% per annum. The amount payable to Kaiser-Francis for interest, standby fee and guarantee fee was \$585,000 in 2004 compared to \$687,000 in 2003. Kaiser-Francis holds 50.4% of the common shares of the Company.

Risks and Uncertainties

The price of palladium is the most significant factor influencing the profitability of the Company. In 2004, sales of palladium accounted for approximately 61% 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.

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

Non-GAAP Measure

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

Reconciliation of Cash Cost per Ounce to Financial Statements

	Year Ended December 31	
<i>(in thousands of dollars except per ounce amounts)</i>	2004	2003
Production costs including overhead	102,936	103,654
Smelter treatment, refining and freight costs	23,602	19,048
	126,538	122,702
Less: by-product metal revenue	(71,416)	(63,424)
	55,122	59,278
Divided by ounces of palladium	270,448	248,173
Cash cost per ounce (C\$)	204	239
C\$ exchange rate	1.2795	1.3672
Cash cost per ounce (US\$)	159	175

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

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

The following table provides a reconciliation between our adjusted net income and net income (loss) as reported in accordance with Canadian GAAP for the years ended December 31, 2004 and December 31, 2003:

	Net Income Year Ended December 31		Basic Net Income Per Share Year Ended December 31	
<i>(in thousands of dollars except per share amounts)</i>	2004	2003	2004	2003
Canadian GAAP net income (loss) as reported	(92,110)	38,378	(1.79)	0.76
Impairment charge net of tax	103,376	—	2.01	—
Foreign exchange (gain) loss net of tax	340	(15,055)	0.01	(0.30)
Insurance recovery net of tax	(4,352)	—	(0.09)	—
Adjusted net income	7,254	23,323	0.14	0.46

Other Information

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

United States Securities and Exchange Commission's website at www.sec.gov.

Outstanding Share Data

As of February 21, 2005, there were 51,732,213 common shares of the Company outstanding and options issued to pursuant to the 1995 Corporate Stock Option Plan entitling the holders thereof to acquire 814,664 common shares in the aggregate.

Management Outlook

During 2004, North American Palladium established the solid foundation to complete the underground mine and transition through 2005 into 2006. The secondary crusher was successfully commissioned in December 2004, paving the way for increased mill throughput and further cost reductions. The underground mine development commenced in May 2004 and in combination with the open pit, average palladium production beginning in 2006 is expected to be about 350,000 ounces per year. Production of by-product metals, which provided an increase of 13% in revenues for the Company in 2004 compared to 2003, will only slightly increase once full production from the underground commences.

The Company's aggressive exploration program will continue in 2005, with almost \$4.0 million being allocated to exploration activities. The main focus will remain on the Lac des Iles campaign and the surrounding grassroots projects such as Shebandowan and Legris Lake. In addition, a key strategy moving forward will be to continue the pursuit of quality nickel/PGM opportunities.

The platinum group metal (PGM) markets continue to benefit from strong global fundamentals, particularly from the expectation of further economic growth in China and the United States. Recent economic data released from both countries suggest consumer spending and business investment will remain firm in 2005. Platinum has traded up on these fundamentals and is testing levels above US\$850 per ounce, while palladium has not responded and continues to test support in the US\$200 per ounce range. In view of the large discount between the platinum and palladium prices, jewellery and catalyst fabricators are switching to palladium in order to protect their profit margins. The Company expects the spread between platinum and palladium to narrow as the platinum market stagnates and the palladium over-supply is consumed by increased substitution.

The Company's Palladium Sales Contract at a floor price of US\$325 per ounce ends June 30, 2005. At the current depressed spot price, the Company more than likely will not enter into a new long-term sales contract for its palladium production. The Company strongly

believes that the fundamentals are in place for increased metal demand, which will ultimately lead to a higher palladium price.

For 2005, management is committed to concentrating its efforts on the Company's strategy for future growth. The Company continues to search for additional reserves and resources at the mine site and on favourable grassroots exploration projects. Emerging ore bodies and projects, both in Canada and internationally, are being investigated to further enhance North American Palladium's strategic expansion plan.

Impending US GAAP Accounting Changes

(i) In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment" which replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion 25. SFAS 123(R) requires compensation costs related to share-based payments to be recognized in the financial statement and the cost must be measured based on the fair value of the equity of liability instruments used. Under SFAS 123(R) all share-based payment plans must be valued using option-pricing models. SFAS 123(R) is effective for the Company's year ending December 31, 2005.

(ii) In December 2004, FASB issued SFAS 153 which deals with the accounting for the exchanges of non-monetary assets. SFAS 153 is an amendment of APB Opinion 29. APB Opinion 29 requires that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. SFAS 153 amends APB Opinion 29 to eliminate the exception from using fair market value for non-monetary exchanges of similar productive assets and introduces a broader exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe that the application of SFAS 153 will have an impact on the financial statements.

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 Canadian 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 transactions are properly authorized and recorded, 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 of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors 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 of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. KPMG LLP, the external auditors, have full and free access to the Audit Committee.

Toronto, Canada
February 21, 2005



André J. Douchane
President and CEO



George D. Faught
Vice President Finance,
and CFO


Auditors' Report to the Shareholders of North American Palladium Ltd.

We have audited the consolidated balance sheet of North American Palladium Ltd. as at December 31, 2004 and the consolidated statements of earnings (loss) and deficit and cash flows for the year then ended. 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 audit.

We conducted our audit 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2003 and for the two years ended December 31, 2003 were audited by another firm of chartered accountants, who expressed an opinion without reservation on those statements in their auditors' report dated February 20, 2004.



Chartered Accountants

Toronto, Canada,
February 21, 2005

Consolidated Balance Sheets

(Canadian funds in thousands of dollars)

December 31

2004

2003

Assets**Current Assets**

Current Assets

Cash and cash equivalents	\$ 65,755	\$ 11,950
Restricted cash equivalents	–	1,813
Concentrate awaiting settlement, net - Note 3	68,259	94,610
Inventories - Note 4	8,954	9,141
Crushed and broken ore stockpiles	9,256	6,251
Accounts receivable and other assets	1,615	1,387
Future tax asset - Note 16	–	84
	153,839	125,236

Mining interests, net - Note 5	136,009	247,116
Mine restoration deposit - Note 7	5,973	4,733
Crushed and broken ore stockpiles	1,379	5,983
Future tax asset - Note 16	–	9,334
Deferred financing costs - Note 6	697	1,290
	\$ 297,897	\$ 393,692

Liabilities and Shareholders' Equity**Current Liabilities**

Accounts payable and accrued liabilities	\$ 20,231	\$ 16,041
Taxes payable	521	1,311
Future tax liability - Note 16	–	216
Current portion of obligations under capital leases - Note 8	1,481	1,070
Current portion of long-term debt - Note 9	6,815	34,538
	29,048	53,176

Mine restoration obligation	7,592	7,300
Obligations under capital leases - Note 8	3,182	1,015
Long-term debt - Note 9	24,851	7,272
Kaiser-Francis credit facility - Note 10	13,842	14,866
Future mining tax liability - Note 16	1,549	10,108
	80,064	93,737

Shareholders' Equity

Capital stock - Note 12	322,904	313,489
Contributed surplus	573	–
Deficit	(105,644)	(13,534)
Total shareholders' equity	217,833	299,955
	\$ 297,897	\$ 393,692

Commitments - Note 13

Contingencies - Note 15

See accompanying notes to the consolidated financial statements.

On Behalf of the Board:

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

Consolidated Statements of Earnings (Loss) and Deficit

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

		Year ended December 31		
	2004	2003	2002	
Revenue from metal sales - Note 14	\$ 185,204	\$ 192,141	\$ 176,773	
Operating expenses				
Production costs, excluding amortization and asset retirement costs	102,936	103,654	100,599	
Smelter treatment, refining and freight costs	23,602	19,048	16,909	
Insurance recovery	(7,148)	—	—	
Amortization - Note 5(b)	36,710	28,590	20,190	
Administrative	5,557	3,788	4,212	
Exploration expense	2,479	1,942	850	
Loss on disposal of capital assets	277	788	99	
Asset retirement costs	905	921	587	
Write-down of mining interests - Note 5(c)	108,000	2,315	—	
Total operating expenses	273,318	161,046	143,446	
Income (loss) from mining operations	(88,114)	31,095	33,327	
Other income (expenses)				
Interest on long-term debt - Notes 9 and 10	(1,756)	(3,158)	(5,405)	
Write-off of deferred financing costs	(788)	—	—	
Foreign exchange gain (loss)	(340)	18,138	792	
Interest income	494	474	663	
Derivative income	213	—	—	
Interest expense	(29)	(17)	(433)	
Total other income (expenses)	(2,206)	15,437	(4,383)	
Income (loss) before income taxes	(90,320)	46,532	28,944	
Provision for income taxes - Note 16	1,790	8,154	13,862	
Net income (loss) for the year	(92,110)	38,378	15,082	
Deficit, beginning of year	(13,534)	(51,912)	(66,994)	
Deficit, end of year	\$ (105,644)	\$ (13,534)	\$ (51,912)	
Net income (loss) per share				
Basic	\$ (1.79)	\$ 0.76	\$ 0.30	
Diluted - Note 12(b)	\$ (1.79)	\$ 0.75	\$ 0.30	
Weighted-average number of shares outstanding - basic	51,379,542	50,763,566	50,544,634	
Weighted-average number of shares outstanding - diluted - Note 12(b)	51,379,542	50,832,904	50,593,508	

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(Canadian funds in thousands of dollars)

		Year ended December 31	
	2004	2003	2002
Cash provided by (used in)			
Operations			
Net income (loss) for the year	\$ (92,110)	\$ 38,378	\$ 15,082
Operating items not involving cash			
Future income tax expense - Note 16	643	7,392	13,046
Amortization	36,710	28,590	20,190
Accrued interest on mine closure deposit	(40)	(63)	(38)
Write-down of mining interests	108,000	2,315	—
Unrealized foreign exchange gain	(3,687)	(18,519)	(1,494)
Loss on disposal of capital assets	277	788	99
Provision for asset retirement costs	905	921	587
Write-off of deferred financing costs	788	—	—
Stock-based compensation	573	—	—
	52,059	59,802	47,472
Changes in non-cash working capital - Note 17(a)	29,731	(5,235)	(5,369)
	81,790	54,567	42,103
Financing Activities			
Repayment of long-term debt	(44,290)	(45,134)	(33,233)
Increase in long-term debt	36,809	—	—
Issuance of common shares	9,415	1,506	1,199
Mine restoration deposit	(1,200)	(1,200)	(1,200)
Repayment of obligations under capital leases	(1,751)	(1,046)	(1,419)
Deferred financing costs	(504)	—	—
Increase in Kaiser-Francis credit facility	—	—	10,372
	(1,521)	(45,874)	(24,281)
Investing Activities			
Additions to mining interests	(28,728)	(11,707)	(8,446)
Proceeds on disposal of mining interests	451	114	513
Restricted cash equivalents	1,813	3,314	(128)
	(26,464)	(8,279)	(8,061)
Increase in cash and cash equivalents	53,805	414	9,761
Cash and cash equivalents, beginning of year	11,950	11,536	1,775
Cash and cash equivalents, end of year	\$ 65,755	\$ 11,950	\$ 11,536

Supplementary information - Note 17(b) and (c)

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

for the years ended December 31, 2004, 2003 and 2002

(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 and precious 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 (palladium, platinum) and by-product metals (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 for the sale of all of its palladium production for deliveries of metal up to June 30, 2005 (*note 13(a)*). Commencing with the first quarter of 2005, palladium production which will be available for delivery after June 30, 2005 will not be subject to the palladium sales agreement.

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"). All intercompany balances and transactions have been eliminated.

Revenue and Concentrate Awaiting Settlement

Revenue from the sale of palladium and by-product metals is recognized net of royalties upon the delivery of concentrate to the smelter, which is when title transfers and the rights and obligations of ownership pass. The Company's metals are sold under contracts that provide for final prices that are determined by quoted market prices in a period subsequent to the date of sale. Variations from the provisionally priced sales are recognized as revenue adjustments as they occur until the price is finalized. The effect of hedging instruments is also included in revenue. Concentrate awaiting settlement at the smelter is net of estimated treatment and refining costs.

Although the Company sold its metals during 2004 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 metals it produces on the Company's revenues (*notes 13(a), (c), (d) (e) and (f)*). Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales (*note 14*) over the term of the hedging contract.

From time to time the Company enters into foreign exchange forward sales contracts to manage the effect of fluctuations in the value of committed US dollar denominated revenues. For those forward exchange contracts designated by the Company as hedges, the related revenue is recorded at the forward contract rate. 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 fair value of the Company's derivative financial instruments is determined based on forward prices supplied by knowledgeable, independent third parties.

The Company used electricity swap contracts to hedge the effects of price fluctuations in its electricity purchase requirements in Ontario. The net swap settlements are recognized in the same period as the hedge transaction.

The Company does not hold financial instruments or derivative financial instruments for trading purposes. Cash flows arising in respect of hedging transactions are recognized under cash flows from operating activities.

The Company does not consider the credit risk associated with its financial instruments to be significant. Foreign currency contracts and commodity hedge contracts are maintained with high-quality counter-parties, and the Company does not anticipate that any counter-party will fail to meet its obligations.

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. Average production cost does not include an allocation of the amortization of production related assets. Crushed and broken ore stockpiles represent course ore that has been extracted from the mine and is available for further processing. Stockpile tonnages are verified by periodic surveys. The amount of stockpiled ore that is not expected to be processed within one year 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 a straight-line method over their estimated useful lives ranging from three to seven years. The Company capitalizes interest on major projects where direct indebtedness has occurred.

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 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.

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 assesses long-lived assets for recoverability whenever indicators of impairment exist. When the carrying value of a long-lived asset is less than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset is less than the carrying value. Future cash flows are estimated based on quantities of recoverable minerals, expected palladium and other commodity prices and expected foreign exchange rates (considering current, historical and expected future prices and foreign exchange rates and related factors), production levels and cash costs of production and capital and reclamation expenditures, all based on detailed life-of-mine plans and projections. The term "recoverable minerals" refers to the estimated amount of palladium and other commodities that will be obtained from proven and probable reserves after taking into account losses during mining, ore processing and concentrate treatment. Assumptions underlying future cash flow estimates are subject to risk and uncertainty. Any differences between significant assumptions and market conditions such as metal prices, exchange rates, recoverable metal, and/or the Company's operating performance could have a material effect on the Company's ability to recover the carrying amounts of its long-lived assets resulting in possible additional impairment changes (*note 5(c)*).

Asset Retirement Obligations

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement obligation is capitalized as part of mining interests and amortized over the estimated life of the mine. Total undiscounted cash flows required to settle the obligations are estimated to be approximately \$7.8 million, the majority of which is to be paid at the end of the mine life, which is currently expected to end in 2010. A credit adjusted risk-free rate of 5% has been utilized to determine the obligation recorded on the balance sheet. The estimated asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

The following is a reconciliation of the changes in the asset retirement obligation during the year:

	2004	2003
Balance, beginning of the year	\$ 7,300	\$ 7,019
Accretion expense	292	281
Balance at the end of year	\$ 7,592	\$ 7,300

Stock-Based Compensation Plan

The Company has a stock-based compensation plan which is described in note 12(a). Effective January 1, 2003, the Company changed its method of accounting for stock options from the intrinsic value method to one that recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees and directors. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model. For options granted from January 1, 2002 to December 31, 2002, the Company elected to not recognize compensation expense when stock options were issued to employees and directors. Any consideration paid by employees and directors 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 actual 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 asset and liability method of tax allocation for accounting for income taxes. Under the asset and 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/Restricted 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.

Short-term investments with maturities of three months or less that are subject to security arrangements are included in restricted cash equivalents.

Deferred Financing Costs

Deferred financing costs represents the costs of negotiating and securing the Company's long-term debt facilities and share issue costs in connection with the filing of a shelf prospectus. The amortization of the costs of securing the long-term debt facilities is included in amortization expense on a straight-line basis over the term of the debt facility. The share issue costs will be offset against share proceeds at the time an equity financing is completed and if an equity financing is not completed before the expiration of the shelf prospectus, the share issue costs will be written off.

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. Concentrate Awaiting Settlement

Concentrate awaiting settlement is comprised of:

	2004	2003
Concentrate awaiting settlement, gross	\$ 76,491	\$ 104,880
Refining and smelter treatment charges	(8,232)	(10,270)
Concentrate awaiting settlement, net	\$ 68,259	\$ 94,610

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 June and December 2004, including 114,186 ounces of palladium (2003 - between June and December 2003, including 147,570 ounces of palladium).

All of the concentrate awaiting settlement is from two domestic customers at December 31, 2004 (2003 - two domestic customers). No reserves for doubtful accounts have been established. In the opinion of management, full realization will occur on all such receivables.

4. Inventories

Inventories consist of the following:

	2004	2003
Concentrate	\$ 587	\$ 1,669
Supplies	8,367	7,472
	\$ 8,954	\$ 9,141

5. Mining Interests

(a) Mining interests are comprised of the following:

	2004	2003
Plant and equipment, at cost	\$ 345,588	\$ 322,966
Underground mine development, at cost	6,920	–
Accumulated amortization	140,413	108,972
	212,065	213,994
Equipment under capital lease, at cost	6,346	3,758
Accumulated amortization	859	1,056
	5,487	2,702
Mining leases and claims, royalty interest, exploration and development, at cost	82,537	82,353
Accumulated amortization	56,080	51,933
	26,457	30,420
Mining interests before impairment charge	244,009	247,116
Impairment charge	108,000	–
Mining interests, net	\$ 136,009	\$ 247,116

(b) Amortization expense is comprised of:

	2004	2003	2002
Capital assets (including plant and equipment, and equipment under capital lease)	\$ 32,149	\$ 24,746	\$ 17,505
Mining leases and claims, royalty interest, exploration and development costs	4,147	3,054	1,895
Deferred financing costs	414	790	790
	\$ 36,710	\$ 28,590	\$ 20,190

(c) During the fourth quarter of 2004 the Company performed an annual impairment test which resulted in a non-cash charge of \$108,000 to write-down the carrying value of mining interests. An assessment of impairment was required as a result of changes in certain key assumptions which were affected by a continuation of low palladium prices.

In 2003, the Company recorded a write-down of \$2,315 pertaining to the retirement of a damaged primary crusher.

6. Deferred Financing Costs

	2004	2003
Financing costs	\$ 716	\$ 3,265
Accumulated amortization	19	1,975
	\$ 697	\$ 1,290

7. Mine Restoration 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 for eventual clean-up and restoration of the mine site. The mine closure plan calls for a total amount of \$7,802 to be accumulated in the Fund.

Commencing in February 2001, the Fund, controlled by the Ministry, started to accumulate through monthly deposits of \$100. At December 31, 2004, the Company had \$5,973 (2003 - \$4,733) on deposit with the Ministry including accrued interest of \$243. 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.

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:

	2004	2003
2004	\$ -	\$ 1,098
2005	1,632	620
2006	1,223	257
2007	951	171
2008	763	-
2009	452	-
Total minimum lease payments	5,021	2,146
Amounts representing interest rates from 3.5% - 8.3%	358	61
Present value of minimum lease payments	\$ 4,663	\$ 2,085
Less current portion	\$ 1,481	\$ 1,070
Long-term liabilities	\$ 3,182	\$ 1,015

9. Long-Term Debt

(a) Project Term Loan

The project term loan was a non-revolving credit facility with an interest margin of 1.75% over LIBOR or Bankers Acceptance. In return for granting the loan the lender received a security in all of the Company's existing and future assets. In addition, the lender received an assignment of all material agreements including the palladium sales contract (*note 13(a)*) and a pledge of the shares of LDI.

Amounts drawn under the credit facility were required to be repaid in quarterly installments, with the final maturity date of the credit facility being March 31, 2005.

In June 2004, the Company entered into a new senior credit facility and used a portion of this new facility to repay the Company's project term loan totalling approximately US\$19,000.

(b) Senior Credit Facility

On June 28, 2004, the Company entered into a new US\$20,000 and C\$10,000 senior credit facility with a leading equipment finance company which were fully drawn. The US\$20,000 credit facility is repayable in equal quarterly installments of US\$1,000 commencing on September 30, 2004 and has a final maturity on June 30, 2009. The C\$10,000 credit facility is repayable in equal quarterly installments of C\$500 commencing February 24, 2005 and has a final maturity of November 24, 2009. The credit facility has an interest margin of 2.5% over LIBOR or Bankers Acceptances. In return for granting the loan the lender received a first priority security in all of the Company's existing and future assets excluding its production leases and claims. The credit facility allows in certain circumstances, full repayment of outstanding loans at any time during the term of the facility.

10. Kaiser-Francis Credit Facility

At the time the Company entered into the new senior credit facility, certain terms under the US\$20,000 non-revolving credit facility with Kaiser-Francis Oil Company ("Kaiser-Francis") were amended. The final maturity date was extended to June 30, 2006 from May 31, 2005 and the interest rate was reset based upon the 30 day LIBOR rate plus 2.50%. 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 a security interest in all of the assets of the Company and a pledge of the LDI shares. The security interests in all of the assets of the Company are subordinated to the security interests of the senior credit facility. As at December 31, 2004, the outstanding loan was US\$11,500 (2003 - 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

Kaiser-Francis is the controlling shareholder of the Company. In addition to the related party transactions with Kaiser-Francis disclosed in note 10, the Company has completed the following related party transactions:

(a) 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.

(b) In 2004, a director of the Company received a fee of \$581 (2003 - \$400; 2002 - \$412) 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.

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) Common Shares:

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

	2004		2003	
	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	50,895,338	\$ 313,489	50,647,955	\$ 311,983
Common shares issued				
Pursuant to stock options exercised	459,380	4,637	13,450	101
To Group Registered Retirement Savings Plan participants	84,357	956	190,605	905
Private placement	270,000	3,822	43,328	500
Common shares issued, end of year	51,709,075	\$ 322,904	50,895,338	\$ 313,489

Group Registered Retirement Savings Plan

The Company has a group registered retirement savings plan, which all employees can participate in at their option. The Company is required to make matching contributions to a maximum of \$5 per employee per annum. The Company matching contribution can be made either in cash or treasury shares of the company. During 2004 the Company contributed 84,357 shares at a stated capital of \$956, being fair value (2003 - 190,605 shares at a stated capital of \$905).

Private Placement

On July 9, 2004, the Company completed a private placement of 270,000 flow through common shares. The gross proceeds of \$4,050 must be spent on Canadian exploration expenses as defined in Section 66 of the Income Tax Act (Canada) by December 31, 2005. In 2003, the Company completed a private placement of 43,328 flow through common shares. The gross proceeds of \$500 were spent on Canadian exploration expenses by December 31, 2004. Under the terms of the flow through common share issue, the tax attributes of the related expenditures will be renounced to investors and the share capital will be reduced and future income tax liabilities will be increased by the estimated income tax benefits renounced by the Company to the investors.

Corporate Stock Option Plan

The Company has adopted, and the shareholders have approved, the ongoing 1995 Corporate Stock Option Plan (the "Plan"), under which eligible directors, officers, employees and consultants of the Company are entitled to receive options to acquire common shares. The Plan is administered by the Compensation Committee, a subcommittee of the Board of Directors, which will determine the number of options to be issued, the exercise price (which may not be lower than the closing price of the Company's common shares on the Toronto Stock Exchange ("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 5.2% 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, 2004, 318,094 options were available to be granted under the Plan.

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

	2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	1,038,857	\$ 9.24	1,066,939	\$ 11.04
Granted	316,800	11.87	258,000	3.71
Exercised	(459,380)	10.10	(13,450)	7.50
Cancelled	(70,667)	7.96	(272,632)	11.15
Total	825,610	\$ 9.88	1,038,857	\$ 9.24
Options exercisable at end of year	389,265	\$ 10.08	685,057	\$ 11.27

The following table summarizes information about the Company's stock options outstanding at December 31, 2004 (see also note 15(a)):

Exercise Price	Expiry Dates	Options Outstanding at Dec. 31, 2004	Options Exercisable at Dec. 31, 2004
\$ 3.42	April 7, 2011	103,334	34,445
\$ 3.70	April 1, 2011	33,400	11,133
\$ 4.75	February 27, 2011	7,500	2,500
\$ 5.92	September 2, 2011	20,000	6,667
\$ 7.89	December 12, 2009	51,900	51,900
\$ 8.40	March 3, 2005	35,000	35,000
\$ 9.30	July 27, 2005	34,499	34,499
\$ 9.40	March 15, 2005	14,760	14,760
\$ 9.76	November 1, 2012	15,000	—
\$ 10.01	June 6, 2010	73,667	49,111
\$ 11.90	June 23, 2012	287,300	—
\$ 13.55	June 6, 2006	90,750	90,750
\$ 13.90	December 14, 2005	25,500	25,500
\$ 14.44	February 13, 2006	33,000	33,000
		825,610	389,265

Prior to January 1, 2003, the Company did not recognize compensation expense for stock options. Had compensation expense for options granted in 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:

	2004	2003	2002
Net income (loss) as reported	\$ (92,110)	\$ 38,378	\$ 15,082
Stock-based compensation	160	160	160
Pro forma net income (loss)	\$ (92,270)	\$ 38,218	\$ 14,922
Pro forma basic and diluted income (loss) per share	\$ (1.80)	\$ 0.75	\$ 0.30

The fair value of options granted in 2004 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 3.7% (2003 - 4%; 2002 - 4%), expected dividend yield of nil (2003 - nil; 2002 - nil), expected volatility of 55% (2003 - 48%; 2002 - 60%), and expected option life of 4 years (2003 - 3 years; 2002 - 3 years). 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 2004 was \$5.43 (2003 - \$2.13; 2002 - \$4.33).

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

	2004	2003	2002
Net income (loss) available to common shareholders	\$ (92,110)	\$ 38,378	\$ 15,082
Weighted average number of shares outstanding	51,379,542	50,763,566	50,544,634
Effect of dilutive securities stock options	–	69,338	48,874
Weighted average diluted number of shares outstanding	51,379,542	50,832,904	50,593,508
Diluted net income (loss) per share	\$ (1.79)	\$ 0.75	\$ 0.30

The effect of stock options has not been included in the determination of diluted loss per share for 2004 because to do so would be antidilutive.

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 its palladium production. 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.

(b) **Sheridan Platinum Group of Companies (“SPG”) Commitment**

The Company is required to pay a royalty to SPG equal to 5% of the Net Cash Proceeds, as defined in the agreement from mining operations until the expiration of the Lac des Iles leases.

(c) **Platinum forward contracts**

At December 31, 2004, the Company had forward sales contracts for 10,500 ounces of platinum at an average price of US\$831 per ounce maturing at various dates through December 2005. The fair value of these forward sales contracts was below their carrying value by \$313 as at December 31, 2004.

(d) **Nickel swap contracts**

At December 31, 2004, the Company had swap contracts for 1,190,000 lbs. of nickel at an average fixed price of US\$6.58 per lb. maturing at various dates through June 2005. The fair value of these swap contracts was below their carrying value by \$123 as at December 31, 2004.

(e) **Copper swap contracts**

At December 31, 2004, the Company had swap contracts for 1,984,000 lbs. of copper at an average fixed price of US\$1.25 per lb. maturing at various dates through December 2005. The fair value of these swap contracts was below their carrying value by \$176 as at December 31, 2004.

(f) **Gold forward contracts**

At December 31, 2004, the Company had forward sales contracts for 12,000 ounces of gold at an average price of US\$435 per ounce maturing at various dates through December 2005. The fair value of these forward sales contracts was below their carrying value by \$140 as at December 31, 2004.

14. Revenue from Metal Sales

	2004	2003	2002
Palladium (a)	\$ 112,879	\$ 109,443	\$ 101,317
Palladium forward contracts (b)	–	20,437	46,033
Adjustments for mark-to-market	909	(1,163)	(9,243)
Nickel	25,735	26,010	12,111
Platinum	21,476	18,847	14,069
Gold	10,665	9,826	7,094
Copper	10,945	7,722	4,723
Other metals	2,595	1,019	669
	\$ 185,204	\$ 192,141	\$ 176,773

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

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

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, 2004 or 2003 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. In addition, certain stock options are claimed to be held by employees of Copan. These options have not been included in note 12(a) as the Company has been indemnified by SPG regarding such matters.

(b) The Company has filed a claim with its insurance company relating to losses incurred in connection with the failure of the primary crusher in 2002. During 2004, the Company received \$7,148 as an interim payment against this claim and has included this amount in income from mining operations. The Company is pursuing the balance of its insurance claim and will record any additional recovery in income if and when received.

(c) 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 provision for income and mining taxes differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of approximately 39%.

	2004	2003	2002
Income tax provision using statutory income tax rates	\$ (35,406)	\$ 18,147	\$ 11,888
Increase (decrease) in taxes resulting from:			
Write-down of mining interests not tax benefited	35,694	–	–
Resource allowance	6,439	(3,342)	(5,320)
Non-taxable portion of capital gains	(2)	(2,908)	–
Increase in valuation allowance on assets previously recognized	2,525	–	–
Changes in income tax rates and laws	–	(3,546)	–
Benefit of income tax losses not previously recognized	(437)	(811)	–
Federal large corporations taxes	465	837	817
Ontario mining taxes	(7,979)	983	4,357
Other	491	(1,206)	2,120
Income tax expense	\$ 1,790	\$ 8,154	\$ 13,862

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

	2004	2003	2002
Current income tax expense:			
Income taxes	\$ 102	\$ (550)	\$ –
Mining taxes	580	475	–
Federal large corporations tax	465	837	816
	\$ 1,147	\$ 762	\$ 816
Future income tax expense:			
Income taxes	\$ 9,202	\$ 6,884	\$ 8,546
Mining taxes	(8,559)	508	4,500
	\$ 643	\$ 7,392	\$ 13,046
	\$ 1,790	\$ 8,154	\$ 13,862

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

	2004	2003
Current future income tax asset:		
Cash and cash equivalents	\$ 389	\$ –
Non-capital loss carry-forwards	–	84
Valuation allowance	(389)	–
Net future income tax asset, current	\$ –	\$ 84
Long-term future income tax asset:		
Mining interests, net	\$ 34,630	\$ 7,472
Deferred financing costs	(11)	1,022
Mine restoration obligation	3,495	–
Future mining tax liability	343	2,157
Other assets	174	231
Ontario corporate minimum tax credits	327	257
Capital loss carry-forwards	927	1,308
Valuation allowance	(38,728)	(1,308)
Net future income tax asset, long-term	1,157	11,139
Future income tax liability, long-term:		
Long-term debt	(420)	(1,243)
Kaiser-Francis credit facility	(737)	(562)
	(1,157)	(1,805)
Net future income tax asset, long-term	\$ –	\$ 9,334
Current future tax liability:		
Deferred financing costs	\$ –	\$ 216
Future tax liability, current	\$ –	\$ 216
Future mining tax liability, long-term:		
Mining interests, net	\$ 1,549	\$ 10,108
Future mining tax liability, long-term	\$ 1,549	\$ 10,108

At December 31, 2004, the Company had net capital loss carry-forwards of approximately \$5,100 (2003 - \$3,700), 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:

	2004	2003	2002
Cash provided by (used in):			
Concentrate awaiting settlement	\$ 26,351	\$ (9,298)	\$ (2,778)
Inventories and stockpiles	1,786	3,179	507
Accounts receivable and other assets	(229)	296	943
Accounts payable and accrued liabilities	2,613	1,218	(2,442)
Taxes payable	(790)	(630)	(1,599)
	\$ 29,731	\$ (5,235)	\$ (5,369)

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

	2004	2003	2002
Interest paid on long-term debt	\$ 1,929	\$ 3,433	\$ 5,842
Income and mining taxes paid	\$ 436	\$ –	\$ –

(c) During 2004, mining interests were acquired at an aggregate cost of \$33,058 (2003 - \$12,687; 2002 - \$9,960) of which \$4,330 (2003 - \$980; 2002 - \$1,514) 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)

	2004	2003	2002
Statements of earnings (loss) and deficit:			
Net income (loss) under Canadian GAAP	\$ (92,110)	\$ 38,378	\$ 15,082
Amortization of capitalized interest (a)	(95)	(39)	(20)
Concentrates and crushed and broken ore stockpiles (b)	295	(1,702)	(404)
Derivative financial instruments (c)	2,041	(2,867)	74
Reversal of asset retirement obligation under Canadian GAAP (e)	—	—	53
Tax effect of differences	—	1,459	112
Net income (loss) and comprehensive income under U.S. GAAP before cumulative impact of change in accounting policy	\$ (89,869)	\$ 35,229	\$ 14,897
Cumulative impact of change in accounting policy for asset retirement obligations (e)	—	(375)	—
Net income (loss) and comprehensive income under U.S. GAAP	\$ (89,869)	\$ 34,854	\$ 14,897
Basic and diluted income (loss) per share under U.S. GAAP before cumulative impact of change in accounting policy	\$ (1.75)	\$ 0.69	\$ 0.29
Basic and diluted income (loss) per share under U.S. GAAP	\$ (1.75)	\$ 0.69	\$ 0.29
Balance sheets:			
Current assets (b) and (c)	\$ 155,842	\$ 124,186	
Mining interests (a)	\$ 136,567	\$ 247,769	
Crushed and broken ore stockpiles - long-term (b)	\$ 1,568	\$ 6,889	
Future tax asset, long-term	\$ —	\$ 9,124	
Capital stock (d)	\$ 329,002	\$ 319,587	
Deficit	\$ (108,992)	\$ (19,333)	

(a) 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 amortization or depletion. The current year adjustment relates entirely to the amortization of these amounts under U.S. GAAP.

(b) 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 amortization of production related assets, whereas under U.S. GAAP the cost of these assets should include this allocation.

(c) 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.

(d) 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, 2004 and 2003.

(e) Effective January 1, 2003, the Company adopted FAS 143, "Accounting for Asset Retirement Obligations" which requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they occur. A corresponding increase to the carrying amount of the related asset is generally recorded and depreciated over the life of the asset. The amount of the liability is subject to re-measurement at each reporting period. The cumulative effect of the change through January 1, 2003 was to increase mining assets by \$6,489, increase the mine closure obligation to \$7,019 and a one time after-tax charge to net earnings of \$375.

(f) U.S. GAAP requires that amounts totaling 5% or more of accounts payable and accrued liabilities be identified separately. As at December 31, 2004, these amounts were as follows: trade payables and accruals - \$15,235 (2003 - \$13,756); other accruals - \$4,996 (2003 - \$2,285).

(g) U.S. GAAP does not permit the disclosure of subtotal of cash from operations before changes in non-cash working capital.

(h) Effective January 1, 2003, the Company prospectively adopted FAS No. 123 "Accounting for Stock-based Compensation" as amended by FAS No. 148, whereby compensation expense for options granted after January 1, 2003 is measured at fair value at the grant date using the Black-Scholes valuation model and recognized over the remaining vesting period of the options granted. Previously, the Company, for purposes of preparing financial information in accordance with U.S. GAAP, accounted for its stock-based compensation plan under Accounting Principles Board Opinion 25 "Accounting for Stock Issued to Employees" (APB No. 25) which did not result in the recognition of compensation expense. Under FAS 148, pro forma disclosure is still required for those options granted prior to January 1, 2003 as follows:

	2004	2003	2002
Net income (loss) as reported under U.S. GAAP	\$ (89,869)	\$ 34,854	\$ 14,897
Stock-based compensation	168	(1,000)	2,648
Pro forma net income (loss) under U.S. GAAP	\$ (90,037)	\$ 35,854	\$ 12,249
Pro forma basic and diluted income (loss) per share	\$ (1.75)	\$ 0.71	\$ 0.24

19. Comparative Figures

Certain of the prior years' figures have been reclassified to conform to the presentation adopted in 2004.

Forward-Looking Statements

The Company's annual report 2004, consolidated balance sheets as at December 31, 2004 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three year period ended December 31, 2004 (collectively the "Financial Statements") and management's discussion and analysis of operations and financial position ("MD&A") for the Financial Statements, contain certain that are forward-looking statements which are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. They include estimates and statements that describe the Company's future plans, objectives and goals, including words to the effect that the Company or management expects a stated condition or result to occur. When used herein, words such as "estimate", "expect", "believe", "intend", "budget", "projection", "strategy", "will", "continue" and other similar expressions are intended to identify forward-looking statements. In particular statements relating to the impairment charge and the estimated future metal prices, cash flows, expenses, capital costs, ore production, mine life, financing, construction and commissioning are forward-looking statements. Such forward-looking statements involve inherent risks and uncertainties and are subject to factors, many of which are beyond our control, that may cause actual results or performance to differ materially from those currently anticipated in such statements. Important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include among others metal price volatility, changes in the US/CDN dollar exchange rate, the salvage value of equipment, economic and political events affecting metal supply and demand, fluctuations in ore grade, ore tonnes milled, geological, technical, mining or processing problems, recoverability of metals, future profitability and production, availability of financing on acceptable terms and unexpected problems during the development, construction and start-up phases of the underground mine, exploration programs may not result in increased reserves and competition for acquisition of new properties. For a more comprehensive review of risk factors, please refer to the Company's MD&A and Annual Information Form under "Risk Factors" on file with the U.S. Securities and Exchange Commission and Canadian provincial securities regulatory authorities. The Company disclaims any obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise. Readers are cautioned not to put undue reliance on these forward-looking statements.

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