North American **Palladium** Ltd.

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# News Release

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FOR IMMEDIATE RELEASE

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# North American Palladium Ltd. Announces Second Quarter 2001 Results

**North American Palladium Ltd.** announces results for the second quarter ended June 30, 2001.

## Highlights

- Major mine expansion successfully commissioned.
- Mined ore tonnage increased by 79%, resulting in reduced waste strip ratio.
- Drilling intersects "High-Grade Shear Ore" to a vertical depth of 705 metres.

## Results of Operations

The Company achieved a net income for the three months ended June 30, 2001 of $5,255,000 or $0.10 per share (fully diluted) on revenues of $21,178,000 compared to a net income of $11,670,000 or $0.46 per share (fully diluted) on revenue from metal sales of $25,358,000 for the corresponding period a year earlier. The decrease in revenue compared to the prior period is primarily the result of a 21.5% reduction in palladium production.

For the six months ended June 30, 2001 the Company reported net income of $8,990,000 or $0.17 per share on revenues of $41,381,000 compared to net income of $20,762,000 or $0.81 per share on revenues of $48,660,000 for the six months ended June 30, 2000.

During the second quarter the old concentrator processed 203,001 tonnes prior to being shut down on June 24th and decommissioned. The new 15,000 tonne per day concentrator was commissioned on June 1st and processed 179,060 tonnes during the month of June. In aggregate, the two concentrators processed 382,061 tonnes of ore during the second quarter at a palladium grade of 2.394 g/t, producing 20,274 ounces of palladium. In the second quarter 2000, 216,988 tonnes of ore grading 4.892 g/t were processed, producing 25,842 ounces of palladium. Mill palladium recoveries in the second quarter 2001 were 68.9% compared to 75.7% in the second quarter 2000. Recoveries, which were adversely affected by the start-up of the new concentrator, are expected to improve during the second half of the year as the new concentrator ramps up to its rated throughput of 15,000 tonnes per day.

Production costs including overhead were $9,359,000 during the second quarter 2001 compared to $5,763,000 during the second quarter 2000. The increase in costs during the quarter was due to the much higher volume of waste stripping (2001-4,565,948 tonnes vs. 2000-633,219 tonnes) compared to the volume of ore processed, as well as the impact of increased fuel and energy costs. Ore mined during the quarter was 1,755,845 tonnes compared to 819,213 tonnes in the second quarter 2000. Of the ore mined in the second quarter, 698,306 tonnes were classified as high grade (greater than 1.49 g/t palladium), 408,929 tonnes were classified as medium grade (1.1 to 1.49 g/t palladium) and 648,610 tonnes were classified as regular grade (0.7 to 1.09 g/t palladium). The high and medium grade material added to the broken ore inventory in the second quarter was valued at a mining cost of $8.11 per tonne. It should be noted that the broken ore stockpile at the end of the quarter increased to 5.4 million tonnes grading 1.5 g/t palladium and containing approximately 267,000 ounces of palladium. The stockpile contains 2.2 million tonnes of higher grade material (1.9 g/t palladium) and is more than sufficient to meet the much higher ore throughput of the new concentrator.

Cash costs to produce palladium, net of other metal credits and royalties, decreased to US$274 per ounce in the second quarter 2001 compared to US$330 per ounce in the first quarter 2001. The decrease in unit cash costs resulted from producing 8% more palladium combined with a reduction in the waste stripping. In addition, higher production quantities for the other metals lead to improved credits. As the volume of ore processed in the new concentrator ramps up to full design throughput of 15,000 tonnes per day during the fourth quarter, the unit cash costs are expected to significantly improve.

The net income for the quarter was affected by the provision for income taxes, which increased by $2,669,000 during the second quarter 2001 as compared to the second quarter 2000. For the first three quarters of 2000, the corporate income tax provisions were offset by the benefit of tax loss carryforwards that were recognized as the tax loss carryforwards were utilized. As a result of the sustained improved operating results of the Company and the completion of the public equity offering, a future tax asset related to the recognition of the future benefit of the remaining unrecognized tax loss carryforwards was recorded during the fourth quarter of 2000. Approximately $2,634,000 of the second quarter 2001 tax provision is a draw down of this future tax asset and thus a non-cash transaction.

## Liquidity and Capital Resources

Cash flow from operations (prior to changes in non-cash working capital) was $9,014,000 in the second quarter 2001 and $15,931,000 for the six months ended June 30, 2001. This compares to cash provided by operations of $17,566,000 in the second quarter 2000 and $31,571,000 for the six months ended June 30, 2000. The reduction in cash flow was primarily due to reduced revenue and the increased production costs as discussed above. Changes in non-cash working capital provided $1,936,000 of cash in the second quarter 2001. After allowing for non-cash working capital changes, cash provided by operations was $21,357,000 in the first six months of 2001 compared to cash provided by operations of $12,979,000 in the first six months of 2000.

The primary investing activity during the second quarter was the expansion project, which required $32,652,000 of cash. Financing activities raised net proceeds of $8,340,000 in the current quarter compared to proceeds of $3,702,000 in the second quarter of 2000. During the second quarter 2001, the expansion project funding requirements were met by drawing $7,375,000 under the project term loan with the balance coming from cash resources. As a result, working capital decreased to $73,642,000 at June 30, 2001, compared to $83,778,000 at March 31, 2001.

## Production Statistics

| | Second Quarter June 30, 2001 | 2000 | Six Months June 30, 2001 | 2000 |
|---|---|---|---|---|
| Palladium (oz) | 20,274 | 25,842 | 39,112 | 46,214 |
| Payable Palladium (oz) | 18,551 | 23,516 | 35,741 | 41,851 |
| Platinum (oz) | 1,679 | 1,520 | 2,981 | 2,790 |
| Gold (oz) | 1,611 | 1,391 | 3,167 | 2,676 |
| Copper (lbs) | 559,740 | 303,756 | 942,712 | 581,062 |
| Nickel (lbs) | 368,225 | 218,018 | 652,835 | 418,705 |
| Ore Tonnes Milled | 382,061 | 216,988 | 605,168 | 436,693 |
| Ore Tonnes Mined | | | | |
| High grade ore | 698,306 | 728,297 | 988,511 | 1,059,960 |
| Medium grade ore | 408,929 | 90,916 | 640,920 | 100,232 |
| Regular grade ore | 648,610 | - | 1,107,791 | - |
| Waste Tonnes Mined | 4,565,948 | 633,219 | 9,804,442 | 1,627,613 |
| Waste Strip Ratio | 2.60 : 1 | 0.77:1 | 3.58 : 1 | 1.40:1 |

## Mine Expansion Project

The new 15,000 tonne per day concentrator was commissioned on June 1, 2001. On commissioning it was determined that the refurbished 400hp pebble crusher could not meet rated throughput. A new 800hp pebble crusher has been ordered and will be operational by late October. In the interim, we are operating the refurbished pebble crusher and have made provisions for temporary back-up crushing capacity if required. The problems with the pebble crusher have resulted in a slower than anticipated production ramp-up. Currently the concentrator is averaging 12,000 tonnes per day and we expect that the throughput will be gradually increased during the third and fourth quarters of 2001 while the operators fine-tune the grinding and flotation circuits to achieve an optimum balance between recovery and concentrate grade.

Construction activities for the new facilities got underway in late April 2000, and were substantially complete 12 months later in late April 2001. Twenty-five construction contractors were required to complete the work over the 12-month construction period, with construction manpower peaking at 350 in mid to late February 2001. During the 12-month construction period, an additional $12.5 million of out-of-scope facilities were designed and constructed to enhance the operability and maintainability of the new production facilities.

## Exploration

During the second quarter, the Company completed and released results of a 9-hole step-out core drilling program and resumed drilling with 3 diamond drill core rigs subsequent to a 2-week pause to evaluate results. This drilling is evaluating the depth extension of the “High Grade Shear Ore” beneath the expected bottom of the Roby Pit.

The recent results include 9 metres grading 16.95 g/t Pd in hole 01-001 and 81 metres grading 3.8 g/t Pd in hole 01-007 (true width of 76 metres). A second deeper intercept in hole 01-007 (51 metres grading 3.72 g/t Pd) is the result of a westward displacement of the Shear Ore beneath a fault. The program was adjusted so that the holes will also intercept the Shear Ore beneath the fault at 100 metre spacings to depths up to 875 metres.

A total of 13 holes (11,869 metres) were completed during the program. These holes generated 11 intercepts through the Shear Ore above the fault, and 6 intercepts of Shear Ore below the fault. This program will be completed with the drilling of 4 additional holes and the deepening of 11 holes previously drilled during the year 2000 exploration program. This will result in additional intercepts above and below the fault. Subsequent to the completion of this drilling program and the receipt of all assays, an evaluation of the results will be undertaken to determine the next drill priority.

In addition to this deep drilling, shallower step-out drilling will be completed to extend known mineralization to the west and east of the Roby Zone and to investigate additional higher grade zones within the mineralized complex.

Surface exploration activities are in progress at the minesite area. Additional exploration activities consisting of detail mapping and sampling occurred at the Baker Zone, located 1 kilometre east of the Roby Pit. Other targets within the Mine Block Intrusion are being evaluated.

North of the minesite and at the Buck Lake property to the west, field crews are conducting follow up mapping and sampling subsequent to the past winter's geophysical surveys. These programs will prioritize geophysical targets in anticipation of testing by core drilling.

**NORTH AMERICAN PALLADIUM LTD.**

## CONSOLIDATED BALANCE SHEETS

[Canadian Funds in Thousands of Dollars]

[Unaudited]

| | June 30 2001 | December 31 2000 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 4,479 | $ 4,503 |
| Short-term investments | 14,150 | 40,452 |
| Concentrate awaiting settlement, net | 46,339 | 49,709 |
| Inventories | 16,725 | 10,454 |
| Future income tax asset | 10,131 | 11,165 |
| Accounts receivable and other assets | 1,244 | 5,618 |
| | 93,068 | 121,901 |
| Mining interests, net | 47,616 | 53,954 |
| Expansion project | 205,776 | 154,758 |
| Mine closure deposit | 1,530 | 1,030 |
| Deferred financing costs | 3,025 | 2,989 |
| Future income tax asset | 9,372 | 9,372 |
| | $ 360,387 | $ 344,004 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 15,436 | $ 40,406 |
| Taxes payable | 2,309 | 1,980 |
| Current portion of obligations under capital lease | 1,681 | 584 |
| | 19,426 | 42,970 |
| Provision for mine closure costs | 781 | 705 |
| Obligations under capital leases | 964 | 1,271 |
| Project term loan | 94,069 | 59,039 |
| | 115,240 | 103,985 |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock | | |
| Outstanding: 50,419,833 common shares (2000 – 50,028,772) | 310,339 | 308,834 |
| Deficit | (65,192) | (68,815) |
| Total shareholders' equity | 245,147 | 240,019 |
| | $ 360,387 | $ 344,004 |

**NORTH AMERICAN PALLADIUM LTD.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**
[Canadian Funds in Thousands of Dollars Except Share and Per Share Amounts]
[Unaudited]

| | Quarter Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| **Revenues from metal sales** | $ 21,178 | $ 25,358 | $ 41,381 | $ 48,660 |
| Deduct: smelter treatment, refining and freight costs | (1,878) | (1,762) | (2,781) | (3,273) |
| **Net revenue from mining operations** | 19,300 | 23,596 | 38,600 | 45,387 |
| **Operating expenses** | | | | |
| Production costs including overheads | 9,359 | 5,763 | 19,733 | 12,746 |
| Amortization | 1,078 | 1,976 | 2,410 | 3,992 |
| Administrative expenses | 990 | 89 | 1,960 | 443 |
| Provision for mine closure costs | 47 | 28 | 76 | 57 |
| Total operating expenses | 11,474 | 7,856 | 24,179 | 17,238 |
| **Income from mining operations** | 7,826 | 15,740 | 14,421 | 28,149 |
| **Other income (expenses)** | | | | |
| Interest income | 383 | 26 | 949 | 57 |
| Loss on disposal of capital assets | -- | (348) | -- | (348) |
| Interest | (51) | (45) | (91) | (301) |
| Interest on long-term debt | -- | (3,030) | -- | (5,687) |
| Exploration expense | (340) | -- | (613) | -- |
| Amortization of deferred foreign exchange loss | -- | (130) | -- | (196) |
| Foreign exchange gain (loss) | 212 | (437) | (150) | (759) |
| **Total other income (expenses)** | 204 | (3,964) | 95 | (7,234) |
| Income before income taxes | 8,030 | 11,776 | 14,516 | 20,915 |
| Provision for income taxes | (2,775) | (106) | (5,526) | (153) |
| **Net income for the period** | 5,255 | 11,670 | 8,990 | 20,762 |
| **Deficit, beginning of period** | (70,447) | (120,479) | (68,815) | (129,571) |
| **Adjustment for change in accounting policy** | -- | -- | (5,367) | -- |
| **Deficit, end of period** | $ (65,192) | $ (108,809) | $ (65,192) | $ (108,809) |
| **Net income per share** | $ 0.10 | $ 0.82 | $ 0.17 | $ 1.45 |
| **Fully-diluted net income per share** | $ 0.10 | $ 0.46 | $ 0.17 | $ 0.81 |
| **Weighted average number of shares outstanding** | 50,373,022 | 12,473,320 | 50,314,643 | 12,421,564 |

**NORTH AMERICAN PALLADIUM LTD.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
[Canadian Funds in Thousands of Dollars]
[Unaudited]

| | Quarter Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| **Cash Provided by (used in)** | | | | |
| **Operations** | | | | |
| Net Income for the period | $ 5,255 | $ 11,670 | $ 8,990 | $ 20,762 |
| Operating items not involving cash | | | | |
| Future income tax | 2,634 | -- | 4,455 | |
| Amortization | 1,078 | 1,977 | 2,410 | 3,992 |
| Amortization of deferred foreign exchange loss | -- | 130 | -- | 196 |
| Foreign exchange loss on interest payable | -- | 383 | -- | 529 |
| Loss on disposal of capital assets | -- | 348 | -- | 348 |
| Provision for mine closure costs | 47 | 28 | 76 | 57 |
| Unpaid interest expense - Kaiser-Francis Oil Company | -- | 3,030 | -- | 5,687 |
| | 9,014 | 17,566 | 15,931 | 31,571 |
| Changes in non-cash working capital | 1,936 | (11,416) | 5,426 | (18,592) |
| | 10,950 | 6,150 | 21,357 | 12,979 |
| **Financing Activities** | | | | |
| Mine closure deposit | (300) | (250) | (500) | (300) |
| Advances on palladium settlements | -- | (4,796) | -- | (1,558) |
| Obligations under capital leases | 931 | (335) | 790 | (543) |
| Deferred financing costs | (1) | -- | (36) | -- |
| Notes payable issued | -- | 8,875 | -- | 8,875 |
| Project term loan | 7,375 | -- | 35,030 | -- |
| Issuance of common shares | 335 | 208 | 1,505 | 742 |
| | 8,340 | 3,702 | 36,789 | 7,216 |
| **Investing Activities** | | | | |
| Short term investments | (7) | -- | 26,302 | -- |
| Additions to plant and equipment | (3,052) | -- | (3,274) | (15) |
| Expansion Project | (32,652) | (8,651) | (79,611) | (15,301) |
| Mining claims, exploration and development costs | (1,122) | (2,557) | (1,587) | (4,053) |
| Proceeds on disposal of plant and equipment | -- | 175 | -- | 175 |
| | (36,833) | (11,033) | (58,170) | (19,194) |
| Increase (decrease) in cash | (17,543) | (1,181) | (24) | 1,001 |
| Cash, beginning of period | 22,022 | 2,339 | 4,503 | 157 |
| Cash, end of period | $ 4,479 | $ 1,158 | $ 4,479 | $ 1,158 |

## Notes to the June 30, 2001 Interim Financial Statements

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

### 1) Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting policies as set out in the Company's audited fiscal 2000 consolidated financial statements, except as described in note 2.

These interim financial statements by their nature do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim financial statements should be read in conjunction with the audited fiscal 2000 financial statements.

In the opinion of management, the unaudited interim financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position of the Company as at June 30, 2001 and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2001 and 2000.

### 2) Changes in Accounting Policy

(i) The Canadian Institute of Chartered Accountants (the "CICA") issued new accounting recommendations for the presentation and disclosure of basic and diluted earnings per share. Effective January 1, 2001, the Company adopted these new recommendations on a retroactive basis. The most significant change under the new recommendations is the use of the "treasury stock method" instead of the "imputed earnings approach" in computing diluted earnings per share. The retroactive impact of adopting the new recommendations on the six-month period ended June 30, 2000 had no impact on earnings per share but decreased the weighted number of diluted shares by 471,698.

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

### 3) Concentrate Awaiting Settlement

The gross value of concentrate awaiting settlement represents the value of all platinum group metals and base metals from production shipped to the smelters between October 2000 and June 2001, including 39,071 ounces of palladium. Concentrate awaiting settlement was 100% from two domestic customers at June 30, 2001. Revaluations of the net realizable value of concentrate awaiting settlement are included in revenue at each reporting period and are adjusted for the effects of hedging instruments and sales contracts.

### 4) Expansion Project Capital Cost

At June 30, 2001, $205,776 of capital cost had been incurred on the expansion project representing 94% of the forecasted capital cost. Net of accounts payable and accrued liabilities, $199,963 of cash had been expended at June 30, 2001, funded as to $94,069 (US$61,900) from the project term loan with the balance from the proceeds of the October 2000 public equity issue and cash from operations. The Company has sufficient cash resources and lines of credit to fund the completion of the expansion project capital.

**5) Mine Closure Plan**

As part of the expansion project, the Company has established a revised mine closure plan with the Ontario Ministry of Northern Development and Mines (the "Ministry"), which requires a total amount of $7,800 to be accumulated in a Trust Fund controlled by the Ministry. At June 30, 2001, the Company had $1,530 on deposit with the Ministry and has agreed to make monthly deposits of $100.

**6) Palladium Sales Contract**

On April 24, 2001, the Company elected not to extend its Palladium Sales Contract with a major automobile manufacturer beyond its original term of June 30, 2005. The current contract provides for a floor price of US$325 per ounce on 100% of palladium production and a cap of US$550 per ounce on 50% of palladium production until June 30, 2005. The palladium sales contract was required as a condition to the US$90 million project term loan. As a result of not extending the sales contract, the September 30, 2006 maturity date for the project term loan has been accelerated to June 30, 2005.

**7) Palladium Forward Sales Contracts**

At June 30, 2001, to augment the palladium sales contract, the Company had forward sales contracts for 14,000 ounces of palladium at US$908 per ounce, 50,400 ounces of palladium at US$945 per ounce and 50,400 ounces of palladium at US$899 per ounce as a hedge against a portion of its 2001, 2002 and 2003 production respectively. Based on the June 30, 2001 London PM Fix (US$602 per ounce) the mark-to-market value of the palladium forward sales contracts was US$31,200.

**8) Share Capital**

As at June 30, 2001, the Company had 50,419,833 common shares issued and outstanding (December 31, 2000 – 50,028,772). At June 30, 2001, the Company had 1,270,781 stock options outstanding at a weighted average exercise price of $11.39, expiring at various dates from January 19, 2002 to June 6, 2006.

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**North American Palladium's Lac des Iles Mine** is Canada's only primary producer of platinum group metals and is one of the largest open pit bulk mineable palladium reserves in the world. **Palladium** use in the auto industry continues to be an important component in controlling exhaust emissions as mandated by more stringent hydrocarbon emissions standards for cars, particularly in the United States, Europe and Japan.

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