# NORTH AMERICAN PALLADIUM LTD

## FORM 6-K
(Report of Foreign Issuer)

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| Fiscal Year | 12/31 |

# FORM 6-K

# SECURITIES AND EXCHANGE COMMISSION

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act of 1934

For the month of April, 2004 Commission File Number: 0-20235

# NORTH AMERICAN PALLADIUM LTD.

(Name of Registrant)

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

(Address of Principal Executive Offices)

Indicate by checkmark whether the registrant files or will file annual reports
under cover of Form 20-F or Form 40-F:

**Form 20-F [ ] Form 40-F [X]**

Indicate by check mark if the registrant is submitting the Form 6-K in paper as
permitted by Regulation S-T Rule 101(b)(1): __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as
permitted by Regulation S-T Rule 101(b)(7): __

Indicate by checkmark whether the registrant, by furnishing the information contained in this Form is also thereby furnishing the information to the SEC pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes [ ] Assigned File No. _____ No [X]

If "Yes" is marked, indicate the file number assigned to the Registrant in connection with Rule 12g3-2(b).

This report on Form 6-K, dated April 6, 2004, is specifically incorporated by reference into North American Palladium's registration statement on Form S-8, filed in July 2001.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NORTH AMERICAN PALLADIUM LTD.**

*Date: April 6, 2004* *By: /s/ Mary Batoff*

*Mary Batoff*

Title: Secretary

# EXHIBIT INDEX

| Exhibit | Description of Exhibit |
|---|---|
| 1 | Management's Discussion and Analysis of Operations and Financial Results for the 2003 Audited Annual Financial Statements |
| 2 | Audited Annual Consolidated Balance Sheets as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003. |
| 3 | Audited Annual Consolidated Balance Sheets as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003, with Item 18 US GAAP Note Disclosure. |
| 4 | Confirmation of Mailing of Items 1 and 2 above. |

**EXHIBIT 1**

**NORTH AMERICAN PALLADIUM LTD.**

## Management's Discussion and Analysis

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

## Overview and Strategic Activities

North American Palladium Ltd. (the "Company") operates the Lac des Iles mine located 85 km northwest of Thunder Bay, Ontario. The mine is Canada's only primary producer of platinum group metals and contains one of the largest open pit bulk mineable palladium reserves in the world. In addition to palladium, the Company earns substantial revenue from by-product nickel, platinum, gold and copper. Palladium's primary use continues to be in the auto industry where it is an important component in controlling exhaust emissions as mandated by more stringent hydrocarbon emission standards for cars, light trucks and SUVs, particularly in the United States, Europe and Japan. In addition, palladium is consumed in the dental, electronics, jewellery and chemical sectors.

During 2003, the Company replaced the damaged primary crusher and made substantial progress in optimizing the grinding and flotation circuits in the
mill. With the resumption of normal crushing operations and the improvement in mill availability, average throughput improved to over 15,000 tonnes per day in the second half of 2003. With continued mill circuit optimization, and normal availability, the mill is expected to operate at an average rate of 15,000 tonnes per day in 2004.

During 2003, the Company continued to investigate the feasibility of an underground development of the Main High Grade Zone, which lies directly below the ultimate depth of the open pit. Based on the completion of a positive feasibility study, a decision has been made to proceed with an underground mine development at Lac des Iles. The Company plans to finance a portion of the underground mine development with operating cash flow and is reviewing financing options for the balance.

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

## Results of Operations

The Company generated gross revenue from metal sales of $192.1 million in 2003, compared to $176.8 million in 2002. Revenue in 2003 from the sale of palladium before the mark-to-market effect of price changes and palladium forward contracts was $109.4 million compared to $101.3 million in 2002. The revenue increase was due to a 32% increase in palladium production, offset by a drop in the average palladium price. 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 had been fully recognized by June 30, 2003. These palladium forward contracts provided additional revenue of $20.4 million in 2003 compared to $46.0 million in 2002. 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 2003, the spot price of palladium per ounce ranged from a high of US$269 to a low of US$148 and averaged US$200 compared to an average of US$338 during 2002. Palladium production sold to third-party smelters takes up to seven months from time of receipt at the smelter to settle the final pricing. The price adjustment relating to palladium settled and awaiting settlement was a small negative amount of $1.2 million compared to a negative $9.2 million in 2002 when the palladium price weakened throughout the year. Revenue from by-product metal sales increased by 64% to $63.4 million in 2003 compared to $38.7 million in 2002 reflecting the increased production and much improved price levels for nickel, platinum, gold and copper.

During 2003, the mill processed 5,159,730 tonnes of ore or an average of 14,136 tonnes per day compared to 4,851,621 tonnes of ore or an average of 13,292 tonnes per day in 2002. Mining in 2003 moved into a higher-grade

section of the pit, with the average palladium head grade improving to 2.31 grams per tonne as compared to 1.91 grams per tonne in 2002. During the year, mill palladium recoveries also improved to 75.5% as compared to 73.8% in 2002. While total production costs for 2003 of $103.7 million were comparable to $100.6 million in the prior year, unit cash costs to produce palladium (production costs including overhead and smelter treatment, refining and freight costs), net of other metal revenues and royalties, decreased to US$175 per ounce in 2003 compared to US$264 per ounce in 2002. The improvement in unit cash costs was achieved by a 32% increase in palladium production to 288,703 ounces in 2003 compared to 219,325 ounces in 2002 combined with higher revenue from by-product metals. With the activation of the new primary crusher in June 2003, continued improvement in mill throughput and availability, and stronger by-product revenue, cash costs improved to US$108 per ounce in the last half of 2003.

Non-cash amortization increased to $28.6 million in 2003 compared to $20.2 million in 2002. The higher amortization amount is attributable to the 32% 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.

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. There was no write down of mining interests in 2002.

Income from mining operations was $33.8 million in 2003 compared to $34.3 million for the previous year. Although there was a significant improvement in palladium production compared to 2002, the results for 2003 were negatively impacted by a lower average realized palladium price and a reduction of $25.6 million in revenue from the palladium forward sales program compared to 2002.
Other income and expense, which includes interest income and expense, exploration and foreign exchange gains and losses, was an income of $12.7 million in 2003 compared to an expense of $5.3 million in 2002. In the current year there was a foreign exchange gain of $18.1 million compared to gain of $0.8 million in 2002. The foreign exchange gain in the current year 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 2003, the Company incurred interest expense on the project term loan, and on the credit facility provided by Kaiser-Francis Oil Company ("Kaiser-Francis"), in the amount of $3.2 million compared to $5.4 million in 2002. The Company's current year provision for income tax expense of $8.2 million consists of a current federal large corporation tax expense of $0.8 million and a future income and mining tax expense of $7.4 million. The Company's 2003 tax provision 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. Net income for the year improved by 154% to $38.4 million or $0.75 per share (diluted) compared to $15.1 million or $0.30 per share (diluted) in 2002.

| | | | 2003 | | |
|---|---|---|---|---|---|
| ($000, except per share amounts) | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | Full Year |
| Revenue from metal sales | 45,120 | 44,631 | 42,585 | 59,805 | 192,141 |
| Net income | 8,390 | 10,361 | 3,535 | 16,092 | 38,378 |
| Net income per share | 0.17 | 0.20 | 0.07 | 0.32 | 0.76 |
| Fully diluted net income (loss) per share | 0.17 | 0.20 | 0.07 | 0.31 | 0.75 |

| | | | 2002 | | |
|---|---|---|---|---|---|
| ($000, except per share amounts) | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | Full Year |
| Revenue from metal sales | 44,577 | 41,745 | 46,547 | 43,904 | 176,773 |
| Net income (loss) | 6,246 | 7,521 | 2,894 | (1,579) | 15,082 |
| Net income (loss) per share | 0.12 | 0.15 | 0.06 | (0.03) | 0.30 |
| Fully diluted net income per share | 0.12 | 0.15 | 0.06 | (0.03) | 0.30 |

## Changes in Accounting Policy

Effective January 1, 2003, the Company changed its method of accounting for stock options from the intrinsic value method to one that recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees and directors. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. As a result of this change in accounting policy, which was applied prospectively, an expense of $138 was recorded in 2003 to reflect the fair value of stock options granted to employees and directors in 2003.

Effective January 1, 2003, the Company adopted a new accounting standard of the Canadian Institute of Chartered Accountants ("CICA") for asset retirement obligations which harmonizes with U.S. General Accepted Accounting Principles. This standard significantly changed the method of accounting for future site restoration costs. Under this new standard, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and amortized over the estimated life of the mine. This change in accounting policy was applied retroactively and, accordingly, the consolidated financial statements of prior periods were restated. As a result of this change, certain balance sheet accounts as of December 31, 2002 were restated as follows:
mining interests increased by $6.5 million and the mine closure obligation increased to $7.0 million. An expense of $0.9 million was recorded in 2003 for accretion of the mine closure obligation and amortization for asset retirements.

## Liquidity and Capital Resources

Cash flow from operations (prior to changes in non-cash working capital) was $59.8 million in 2003, compared to $47.5 million in 2002. The $12.3 million increase was primarily due to an increase in income from mining operations that resulted from increased palladium and by-product metal production, offset by lower palladium prices. Changes in non-cash working capital consumed $5.2 million of cash in the current year as compared to $5.4 million in 2002. Palladium awaiting settlement grew to 147,570 ounces at December 31, 2003 compared to 93,619 ounces at December 31, 2002; however, this increase was offset by lower average palladium prices and a weaker US dollar, which are used to value the concentrate awaiting settlement. After allowing for non-cash working capital changes, cash provided by operations was $54.6 million in 2003 compared to $42.1 million in 2002.

Investing activities required $8.3 million of cash in 2003, with short-term investments providing $3.3 million and additions to plant and equipment and deferred exploration and development costs at the Roby deposit requiring $11.7 million. This compares with $8.1 million of net investing activities in 2002.

During the year, the Company's financial position was further strengthened by a disciplined debt reduction program. In 2003, long-term debt was reduced by $63.6 million as a result of repayments of $45.1 million and a foreign exchange gain of $18.5 million. The Company's net debt position was reduced to $45.0 million at December 31, 2003 compared to $105.8 million at December 31, 2002. The year-end cash and cash equivalents balance was $12.0 million compared to $11.5 million for the prior year.

## Risks and Uncertainties

The price of palladium is the most significant factor influencing the profitability of the Company. In 2003, sales of palladium accounted for approximately 67% of the Company's revenue. Many factors influence the price of palladium, including global supply and demand, speculative activities, international political and economic conditions and production levels and costs in other platinum group metal-producing countries, particularly Russia and South Africa. To offset the price risk, the Company entered into the Palladium Sales Contract and other hedge contracts to cover a portion of expected annual production as set out below.

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

Currency fluctuations may affect cash flow since production currently is sold in United States dollars, whereas the Company's administration, operating and exploration expenses are incurred in Canadian dollars. As a result, changes in the exchange rate between Canadian and United States dollars can affect revenue and profitability.

The Company 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 when the proceeds are received.

## Outlook

North American Palladium made a significant improvement in operating performance in the second half of 2003. Achieving our targeted operating objectives at the Lac des Iles mine and the resulting strengthening of our financial position will allow the Company to exploit the future exploration and development potential at the Lac des Iles mine. The immediate priority is to develop the Main High Grade Zone where the economic viability of a conventional underground mining operation has been demonstrated. The development of the Main High Grade Zone will be fast-tracked by ramp access with commercial production expected in the second half of 2005. This zone is almost 12 metres thick with a strike length in excess of 350 metres and an average grade of 6.6 grams palladium per tonne.

The Company expects to spend over $2.0 million on its 2004 exploration program focusing on three primary properties that have given encouraging preliminary results. In particular, work on our 100% owned Haines claim block and the contiguous Inco Limited Shebandowan joint venture properties totaling more than 16,000 acres, will figure prominently in the 2004 exploration program.

The Company continues to hold a positive view on the long-term palladium fundamentals and believes that there is the potential for a sustained rally in the price of palladium. The primary use for palladium is in the production of autocatalysts, which are used to reduce harmful air emissions from the exhaust systems of automobiles over the medium term. Governments around the world have announced more stringent emission standards. Given the movement by global governments to enact more stringent air emission standards, palladium demand is expected to increase. With platinum currently trading at more than three times the price of palladium, the Company continues to believe that automobile manufacturers will be encouraged to increase their use of palladium in catalytic converters. The switch back to palladium will be further encouraged by the reliability of supply, which has improved over the past year.

During the second half of 2003, the Company initiated a corporate development strategy to expand its precious metals mining business with an initial focus in Canada. During the coming year, we will continue to evaluate opportunities that include existing base and precious metal operation and development projects. We are targeting advanced stage projects with the potential to host world-class base and precious metal deposits where our demonstrated operating strength will enhance shareholder value.

## FORWARD-LOOKING STATEMENTS

Enclosed are the Company's consolidated balance sheets as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003 (collectively the "Financial Statements") and management's discussion and analysis of operations and financial position ("MD&A") for the Financial Statements. Certain statements included the Financial Statements and MD&A are forward-looking statements which are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. They include estimates and statements that describe the Company's future plans, objectives and goals, including words to the effect that the Company or management expects a stated condition or result to occur. When used herein, words such as "estimate", "expect", "intend", and other similar expressions are intended to identify forward-looking statements. In particular, statements relating to estimated mineral reserves, cash flows, capital costs, ore production, mine life, financing, construction and strategic plans 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, economic and political events affecting metal supply and demand, fluctuations in ore grade, ore tonnes milled, geological, technical, mining or processing problems, future profitability and production, and availability of financing on acceptable terms. For a more comprehensive review of risk factors, please refer to the Company's most recent "Management's Discussion and Analysis" (enclosed) and Annual Information Form under "Risk Factors" on file with the U.S. Securities and Exchange Commission and Canada provincial securities regulatory authorities. Given these uncertainties, readers are cautioned not to put undue reliance on these forward-looking statements. The Company disclaims any obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise.

**NORTH AMERICAN PALLADIUM LTD.**
**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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

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

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

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

Toronto, Canada
February 20, 2004

| | |
|---|---|
| "Andre J. Douchane" (signed) | "George D. Faught" (signed) |
| --- | --- |
| ANDRE J. DOUCHANE | GEORGE D. FAUGHT |
| President and CEO | Vice President Finance, and CFO |

**Auditors' Report**

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

We have audited the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

As described in note 3(b) to the consolidated financial statements, the Company has changed its accounting policies for asset retirement obligations effective January 1, 2003 and has restated its provision for mine closure costs, mining interests and mine closure obligation.

"Ernst & Young LLP" (signed)

**Chartered Accountants**

Toronto, Canada,
February 20, 2004.

NORTH AMERICAN PALLADIUM LTD.
CONSOLIDATED BALANCE SHEETS
(Canadian funds in thousands of dollars)

| | December 31 2003 | December 31 2002 Restated, Note 3(b) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 11,950 | $ 11,536 |
| Short-term investments | 1,813 | 5,127 |
| Concentrate awaiting settlement, net - Note 4 | 94,610 | 85,312 |
| Inventories - Note 5 | 9,141 | 7,414 |
| Crushed and broken ore stockpiles | 6,251 | 9,157 |
| Future tax asset - Note 16 | 84 | 4,868 |
| Accounts receivable and other assets | 1,387 | 1,683 |
| | 125,236 | 125,097 |
| Mining interests, net - Note 6 | 247,116 | 266,075 |
| Mine closure deposit - Note 7 | 4,733 | 3,470 |
| Deferred financing costs | 1,290 | 2,080 |
| Crushed and broken ore stockpiles | 5,983 | 7,983 |
| Future tax asset - Note 16 | 9,334 | 11,218 |
| | $ 393,692 | $ 415,923 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 16,041 | $ 14,813 |
| Taxes payable | 1,311 | 1,940 |
| Future tax liability - Note 16 | 216 | - |
| Current portion of obligations under capital leases - Note 8 | 1,070 | 1,127 |
| Current portion of project term loan - Note 9 | 34,538 | 51,083 |
| | 53,176 | 68,963 |
| Mine closure obligation - Note 3(b) | 7,300 | 7,019 |
| Obligations under capital leases - Note 8 | 1,015 | 1,024 |
| Project term loan - Note 9 | 7,272 | 51,083 |
| Kaiser-Francis credit facility - Note 10 | 14,866 | 18,163 |
| Future tax liability - Note 16 | 10,108 | 9,600 |
| | 93,737 | 155,852 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock - Note 12 | 313,489 | 311,983 |
| Deficit | (13,534) | (51,912) |
| Total shareholders' equity | 299,955 | 260,071 |
| | $ 393,692 | $ 415,923 |

Commitments - Note 13
Contingencies - Note 15

See accompanying notes
On Behalf of the Board

"Michael P. Amsden" (signed)
MICHAEL P. AMSDEN
Director

"Greg Van Staveren" (signed)
GREG VAN STAVEREN
Director

NORTH AMERICAN PALLADIUM LTD.
CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT
(Canadian funds in thousands of dollars, except share and per share amounts)

| | Year ended December 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | Restated, Note 3(b) | Restated, Note 3(b) |
| REVENUE FROM METAL SALES - Note 14 | $ 192,141 | $ 176,773 | $ 121,496 |
| Deduct: smelter treatment, refining and freight costs | (19,048) | (16,909) | (11,140) |
| Net revenue from mining operations | 173,093 | 159,864 | 110,356 |
| OPERATING EXPENSES | | | |
| Production costs including overhead | 103,654 | 100,599 | 66,405 |
| Amortization - Note 6(b) | 28,590 | 20,190 | 11,515 |
| Administrative expenses | 3,788 | 4,212 | 4,112 |
| Provision for mine closure costs - Note 3(b) | 921 | 587 | 637 |
| Write-down of mining interests - Note 6(d) | 2,315 | -- | 4,636 |
| Total operating expenses | 139,268 | 125,588 | 87,305 |
| INCOME FROM MINING OPERATIONS | 33,825 | 34,276 | 23,051 |
| OTHER INCOME (EXPENSES) | | | |
| Interest income | 474 | 663 | 1,560 |
| Loss on disposal of capital assets | (788) | (99) | (14) |
| Interest | (17) | (433) | (226) |
| Interest on long-term debt - Notes 9 and 10 | (3,158) | (5,405) | (3,406) |
| Exploration expense | (1,942) | (850) | (927) |
| Foreign exchange gain (loss) | 18,138 | 792 | (6,765) |
| Total other income (expenses) | 12,707 | (5,332) | (9,778) |
| INCOME BEFORE INCOME TAXES | 46,532 | 28,944 | 13,273 |
| Provision for income taxes - Note 16 | 8,154 | 13,862 | 6,085 |
| NET INCOME FOR THE YEAR | 38,378 | 15,082 | 7,188 |
| Deficit, beginning of year | (51,912) | (66,994) | (74,182) |
| Deficit, end of year | $ (13,534) | $ (51,912) | $ (66,994) |
| Net income per share | $ 0.76 | $ 0.30 | $ 0.14 |
| Diluted net income per share - Note 12(b) | $ 0.75 | $ 0.30 | $ 0.14 |
| Weighted average number of shares outstanding - basic | 50,763,566 | 50,544,634 | 50,375,690 |
| Weighted average number of shares outstanding - diluted - Note 12(b) | 50,832,904 | 50,593,508 | 50,543,134 |

See accompanying notes

NORTH AMERICAN PALLADIUM LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian funds in thousands of dollars)

| | Year ended December 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | Restated, Note 3(b) | Restated, Note 3(b) |
| CASH PROVIDED BY (USED IN) | | | |
| OPERATIONS | | | |
| Net income for the year | $ 38,378 | $ 15,082 | $ 7,188 |
| Operating items not involving cash | | | |
| Future income tax expense | 7,392 | 13,046 | 4,428 |
| Amortization | 28,590 | 20,190 | 11,515 |
| Accrued interest on mine closure deposit | (63) | (38) | (102) |
| Write-down of mining interests | 2,315 | -- | 4,636 |
| Foreign exchange loss (gain) | (18,519) | (1,494) | 6,037 |
| Loss on disposal of capital assets | 788 | 99 | 14 |
| Provision for mine closure costs | 921 | 587 | 637 |
| | 59,802 | 47,472 | 34,353 |
| Changes in non-cash working capital - Note 17(a) | (5,235) | (5,369) | (31,410) |
| | 54,567 | 42,103 | 2,943 |
| FINANCING ACTIVITIES | | | |
| Repayment of project term loan | (45,134) | (33,233) | (6,724) |
| Issuance of common shares | 1,506 | 1,199 | 1,950 |
| Mine closure deposit | (1,200) | (1,200) | (1,100) |
| Obligations under capital leases | (1,046) | (1,419) | (1,043) |
| Notes payable - Kaiser-Francis Oil Company | -- | 10,372 | 7,819 |
| Deferred financing costs | -- | -- | (276) |
| Increase in project term loan | -- | -- | 78,513 |
| | (45,874) | (24,281) | 79,139 |
| INVESTING ACTIVITIES | | | |
| Short-term investments | 3,314 | (128) | 35,453 |
| Additions to plant and equipment | (10,711) | (5,579) | (116,704) |
| Mining claims, exploration and development costs | (996) | (2,867) | (3,590) |
| Proceeds on disposal of plant and equipment | 114 | 513 | 31 |
| | (8,279) | (8,061) | (84,810) |
| Increase (decrease) in cash and cash equivalents | 414 | 9,761 | (2,728) |
| Cash and cash equivalents, beginning of year | 11,536 | 1,775 | 4,503 |
| Cash and cash equivalents, end of year | $ 11,950 | $ 11,536 | $ 1,775 |

See accompanying notes

for the years ended December 31, 2003, 2002 and 2001

(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 and by-product metals (palladium, platinum, gold, copper and nickel) fluctuate widely and are affected by numerous factors beyond the Company's control. The Company is under long-term contracts with two smelting firms for the sale of its concentrates. During 2000 the Company entered into a long-term palladium sales agreement, which expires on June 30, 2005, with a major automotive manufacturer to hedge the sale of all of its palladium production (note 13(a)).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, except as discussed in note 18, conform in all material respects with United States generally accepted accounting principles. The more significant accounting policies are summarized as follows:

### BASIS OF CONSOLIDATION

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

### REVENUE AND CONCENTRATE AWAITING SETTLEMENT

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

Although the Company sold its metals during 2003 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) and (d)). Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales (note 14) when the hedged transaction occurs.

From time to time the Company enters into foreign exchange forward sales contracts to manage the effect of fluctuations in the value of committed U.S. dollar denominated revenues.

For those forward exchange contracts designated by the Company as hedges, a gain or loss is recognized in metal sales when the hedged transaction occurs. Those foreign exchange forward sales contracts not designated by the Company as hedges are marked to market as at the balance sheet date and the resultant gains or losses are included in earnings for the period.

The Company uses electricity swap contracts to hedge the effects of price fluctuations in its electricity purchase requirements in Ontario (note 13(e). The net swap settlements are recognized in the same period as the hedged 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 credit-worthy 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. 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 of seven years.

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

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

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

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.

## 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 cost is capitalized as part of mining interests and amortized over the estimated life of the mine. In determining the estimated obligation and asset, the total undiscounted cash flows estimated were approximately $5.8 million to $9.8 million, the majority of which is to be paid at the end of the mine life.

## 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 prospectively adopted the fair value method of accounting for stock-based compensation in accordance with the recommendations issued by The Canadian Institute of Chartered Accountants ("CICA"). For options granted from January 1, 2002 to December 31, 2002, the Company elected to not recognize compensation expense when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

## TRANSLATION OF FOREIGN CURRENCY

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

1. Monetary items at the rate prevailing at the consolidated balance sheet dates;
2. Non-monetary items at the historical exchange rate; and
3. Revenue and expenses at the 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 liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of three months or less and are stated at cost. Cash and cash equivalents at December 31, 2003 include cash equivalents of nil (2002 - $4,738).

## 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. CHANGES IN ACCOUNTING POLICIES

### (a) Stock-based compensation

Effective January 1, 2003, the Company changed its method of accounting for stock options from the intrinsic value method to one that recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees and directors. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option-pricing model. As a result of this change in accounting policy, which was applied prospectively, an expense of $138 was recorded in 2003 to reflect the fair value of stock options granted to employees and directors in 2003.

### (b) Asset retirement obligations

Effective January 1, 2003, the Company adopted a new accounting standard of the Canadian Institute of Chartered Accountants ("CICA") for asset retirement obligations which harmonizes the accounting with Generally Accepted Accounting Principles in the U.S. This standard significantly changed the method of accounting for future site restoration costs. Under this new standard, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and amortized over the estimated life of the mine. This change in accounting policy was applied retroactively and, accordingly, the consolidated financial statements of prior periods were restated. As a result of this change, certain balance sheet accounts as of December 31, 2002 were restated as follows: mining interests increased by $6,489 and the mine closure obligation increased to $7,019. An expense of $921 was recorded in 2003 for accretion of the mine closure obligation and amortization for asset retirements. This accounting policy change increased the provision for mine closure costs by $53 in 2002 (reduced net income per share - nil) and $322 in 2001 (reduced net income per share - $0.01).

## 4. CONCENTRATE AWAITING SETTLEMENT

Concentrate awaiting settlement is comprised of:

| | 2003 | 2002 |
|---|---|---|
| Concentrate awaiting settlement, gross | $ 104,880 | $ 92,533 |
| Refining and smelter treatment charges | (10,270) | (7,221) |
| Concentrate awaiting settlement, net | $ 94,610 | $ 85,312 |

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 2003, including 147,570 ounces of palladium (2002 - between July and December 2002, including 93,619 ounces of palladium).

All of the concentrate awaiting settlement is from two domestic customers at December 31, 2003 (2002 - two domestic customers). No reserves for doubtful accounts have been established. In the opinion of management, full realization will occur on all such receivables.

5. INVENTORIES

Inventories consist of the following:

| | 2003 | 2002 |
|---|---|---|
| Concentrate | $ 1,669 | $ 670 |
| Supplies | 7,472 | 6,744 |
| | $ 9,141 | $ 7,414 |

6. MINING INTERESTS

(a) Mining interests are comprised of the following:

| | 2003 | 2002 |
|---|---|---|
| Plant and equipment, at cost | $ 322,966 | $ 313,405 |
| Accumulated amortization | 108,972 | 82,718 |
| | 213,994 | 230,687 |
| Equipment under capital lease, at cost | 3,758 | 3,299 |
| Accumulated amortization | 1,056 | 311 |
| | 2,702 | 2,988 |
| Mining leases and claims, royalty interest, exploration and development, at cost | 82,353 | 81,357 |
| Accumulated amortization | 51,933 | 48,957 |
| | 30,420 | 32,400 |
| Mining interests, net | $ 247,116 | $ 266,075 |

(b) Amortization expense is comprised of:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Capital assets (including plant and equipment, and equipment under capital lease) | $ 24,746 | $ 17,505 | $ 10,268 |
| Mining leases and claims, royalty interest, exploration and development costs | 3,054 | 1,895 | 852 |
| Deferred financing costs | 790 | 790 | 395 |
| | $ 28,590 | $ 20,190 | $ 11,515 |

(c) During 2003, the Company capitalized interest of nil (2002 - nil; 2001 - $3,190).

(d) The Company recorded a write-down of $2,315 in 2003 pertaining to the retirement of a damaged primary crusher and $4,636 in 2001 when plant and equipment was removed from service with the commissioning of the new mill.

7. MINE CLOSURE PLAN

The Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the "Ministry"), has established a trust fund (the "Fund") pursuant to the Company's mine closure plan. The mine closure plan calls for a total amount of $7,802 to be accumulated in the Fund in order to allow for the eventual clean-up and restoration of the mine site.

Commencing in February 2001, the Fund, controlled by the Ministry, started to accumulate through monthly deposits of $100. At December 31, 2003, the Company had $4,733 (2002 - $3,470) on deposit with the Ministry including accrued interest of $203. 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:

| | 2003 | 2002 |
|---|---|---|
| 2003 | $ - | $ 1,226 |
| 2004 | 1,098 | 465 |
| 2005 | 620 | 613 |
| 2006 | 257 | - |
| 2007 | 171 | - |
| Total minimum lease payments | 2,146 | 2,304 |
| Amounts representing interest rates from 3.62 % - 7.7% | 61 | 153 |
| Present value of minimum lease payments | $ 2,085 | $ 2,151 |
| Less current portion | $ 1,070 | $ 1,127 |
| Long-term liabilities | $ 1,015 | $ 1,024 |

9. PROJECT TERM LOAN

On June 27, 2000, the Company received a US$90,000 non-revolving term credit facility, which was amended on July 11, 2002. The credit facility financed part of the capital costs, working capital and interest during construction of the expansion project. Outstanding loans bear interest or stamping fees based upon banker's acceptances or LIBOR rates plus a margin of 1 3/4%.

In return for granting the loan the lender received a secured interest 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.

Kaiser-Francis Oil Company ("Kaiser-Francis"), the majority shareholder of the Company, and its shareholders have guaranteed the Company's obligations under the credit facility in return for a fee of 0.5% per annum of amounts drawn under the loan facility. Amounts paid to Kaiser-Francis in connection with this guarantee were $338 (2002 - $605; 2001 - $531).

Amounts drawn under the credit facility are required to be repaid in quarterly installments. At December 31, 2003, there were five remaining installment payments as follows: US$7,031

for each of the first three quarters of 2004 and US$5,625 for the last quarter of 2004 and the first quarter of 2005. The final maturity date of the credit facility is March 31, 2005.

The Company has the right to prepay any amount outstanding under the credit facility, without penalty, and in some circumstances may be required to make prepayments equal to the amount of insurance proceeds received in connection with a major loss or 66% of excess cash flow, which is defined as cash flow less payments of principal and interest and payments to the debt service reserve amount.

The credit facility includes customary representations, warranties and covenants, including a covenant by the Company not to pay dividends or make any other payment to shareholders while the loan is outstanding. The credit facility also provides for customary events of default, including default of performance under a material agreement or debt, as well as if a party other than Kaiser-Francis acquires more than 40% of the Company, or upon the death of Mr. Kaiser the controlling shareholder of Kaiser-Francis.

10. KAISER-FRANCIS CREDIT FACILITY

On December 13, 2001, the Company entered into a US$20,000 non-revolving credit facility with Kaiser-Francis. The loan was used to finance the Company's working capital requirements. The loan bears interest based upon the 30-day LIBOR rate plus 2.25%. The final maturity date of the loan is May 31, 2005. Amounts not drawn under the loan are subject to a standby fee payable quarterly at 0.125% per annum. The Company paid on closing a commitment fee of 0.75% of the total commitment (US$150). In connection with the loan, the Company has granted Kaiser-Francis security interests in all of the assets of the Company and a pledge of the LDI shares. The security interests and pledge of LDI shares are subordinated to the security interests of the project term loan facility. As at December 31, 2003, the outstanding loan was US$11,500 (2002 - US$11,500).

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

11. RELATED PARTY TRANSACTIONS AND COMMITMENTS

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

(a) 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 2003, a director of the Company received a fee of $400 (2002 - $412; 2001 - $166) in connection with the negotiations related to the palladium sales contract entered into by the Company in 2000 (note 13(a)). The contract was made prior to such person becoming a director of the Company. A second director received a fee of nil (2002 - nil; 2001 - $33) in connection with consulting services provided to the Company.

12. CAPITAL STOCK

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

(a) COMMON SHARES The changes in issued common share capital for the year are summarized below:

| | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Common shares issued, beginning of year | 50,647,955 | $311,983 | 50,447,630 | $310,784 | 50,028,772 | $ 308,834 |
| Common shares issued | | | | | | |
| Pursuant to stock options exercised | 13,450 | 101 | 115,572 | 490 | 375,355 | 1,475 |
| To Group Registered Retirement Savings Plan participants | 190,605 | 905 | 84,753 | 709 | 43,503 | 475 |
| Private placement | 43,328 | 500 | -- | -- | -- | -- |
| Common shares issued, end of year | 50,895,338 | $313,489 | 50,647,955 | $311,983 | 50,447,630 | $ 310,784 |

(b) GROUP REGISTERED RETIREMENT SAVINGS PLAN The Company has arranged 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 2003 the Company contributed 190,605 shares at a stated capital of $905 (2002 - 84,753 shares at a stated capital of $709; 2001 - 43,503 shares at a stated capital of $475).

(c) PRIVATE PLACEMENT On December 22, 2003, the Company completed a private placement of 43,328 flow through common shares. The gross proceeds of $500 must be spent on Canadian exploration expenses as defined in section 66 of the Income Tax Act (Canada) by December 31, 2004.

(d) 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 5.3% of the outstanding common shares or such greater number of common shares as may be determined by the Board of Directors, and approved if required, by the shareholders of the Company and by any relevant stock exchange or other regulatory authority. As at December 31, 2003, 591,127 options were available to be granted under the Plan.

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

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding, beginning of year | 1,066,939 | $ 11.04 | 1,402,278 | $ 10.74 |
| Granted | 258,000 | 3.71 | 148,000 | 10.01 |
| Exercised | (13,450) | 7.50 | (115,572) | 4.24 |
| Cancelled | (272,632) | 1.15 | (367,767) | 11.62 |
| Grand total | 1,038,857 | $ 9.24 | 1,066,939 | $ 11.04 |
| Options exercisable at end of year | 685,057 | $ 11.27 | 753,855 | $ 11.02 |

The following table summarizes information about the Company's stock options outstanding at December 31, 2003 (see also note 15(a):

| Exercise Price | Expiry Dates | Options Outstanding at Dec. 31, 2003 | Options Exercisable at Dec. 31, 2003 |
|---|---|---|---|
| $ 3.42 | April 7, 2011 | 180,500 | -- |
| $ 3.70 | April 1, 2011 | 50,000 | -- |
| $ 4.75 | February 27, 2011 | 7,500 | -- |
| $ 5.92 | September 2, 2011 | 20,000 | -- |
| $ 7.50 | October 23, 2006 | 24,217 | 24,217 |
| $ 7.89 | December 12, 2009 | 59,400 | 39,600 |
| $ 8.40 | March 3, 2005 | 75,000 | 75,000 |
| $ 9.30 | July 27, 2005 | 126,983 | 126,983 |
| $ 9.40 | March 15, 2005 | 26,839 | 26,839 |
| $ 9.70 | November 6, 2005 | 24,168 | 24,168 |
| $ 10.01 | June 6, 2010 | 114,000 | 38,000 |
| $ 13.55 | June 6, 2006 | 217,750 | 217,750 |
| $ 13.90 | December 14, 2005 | 47,250 | 47,250 |
| $ 14.44 | February 13, 2006 | 65,250 | 65,250 |
| | | 1,038,857 | 685,057 |

The Company has reserved for issuance 1,038,857 common shares in the event that these options are exercised.

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:

| | 2003 | 2002 |
|---|---|---|
| Net income as reported | $ 38,378 | $ 15,082 |
| Stock-based compensation | 160 | 160 |
| Pro forma net income | $ 38,218 | $ 14,922 |
| Pro forma basic and diluted income per share | $ 0.75 | $ 0.30 |

The fair value of options granted in 2003 has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 4% (2002 - 4%), expected dividend yield of nil (2002 - nil), expected volatility of 48% (2002 - 60%), and expected option life of 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 2003 was $2.13 (2002 - $4.33).

Reconciliation of the diluted number of shares outstanding:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income available to common shareholders | $ 38,378 | $ 15,082 | $ 7,188 |
| Weighted average number of shares outstanding | 50,763,566 | 50,544,634 | 50,375,690 |
| Effect of dilutive securities Stock options | 69,338 | 48,874 | 167,444 |
| Weighted average diluted number of shares outstanding | 50,832,904 | 50,593,508 | 50,543,134 |
| Diluted net income per share | $ 0.75 | $ 0.30 | $ 0.14 |

13. COMMITMENTS

(a) PALLADIUM SALES CONTRACT During 2000, the Company entered into a contract (the "Palladium Sales Contract") whereby the Company hedged the price of 100% of the palladium the Company is entitled to receive from the smelter firms. Under the Palladium Sales Contract the sales price is based on the monthly average spot price for palladium, as determined by the London Metal Exchange P.M. Fix, for the month prior to the month that the metal is received by the customer, but the price will be no less than US$325 per ounce for 100% of the metal received and no more than US$550 per ounce for 50% of the metal received. For the remaining 50% of the metal received, there is no maximum price. The Palladium Sales Contract's term commenced effective July 1, 2000 and expires on June 30, 2005. The fair value of the Palladium Sales Contract approximated its carrying value as at December 31, 2003.

(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 until the expiration of the Lac des Iles mine leases.

(C) PLATINUM FORWARD CONTRACTS At December 31, 2003, the Company had forward sales contracts for 13,677 ounces of platinum at an average price of US$754 per ounce maturing at various dates through December 2004. The fair value of these forward sales contracts was below their carrying value by $142 as at December 31, 2003.

(D) NICKEL SWAP CONTRACTS
At December 31, 2003, the Company had swap contracts for 2,381,000 lbs. of nickel at an average fixed price of US $5.67 per lb. maturing at various dates through December 2004. The fair value of these swap contracts was below their carrying value by $2,651 as at December 31, 2003.

(E) ELECTRICITY SWAP CONTRACTS At December 31, 2003, the Company had electricity swap contracts on 65,755 MWh of electricity at a fixed price of $54.00 per MWh maturing at various dates through December 2004. As at December 31, 2003, the fair value of these swap contracts approximated their carrying value.

14. REVENUE FROM METAL SALES

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Palladium (a) | $ 109,443 | $ 101,317 | $ 80,925 |
| Palladium forward contracts (b) | 20,437 | 46,033 | 27,825 |
| Adjustments for mark-to-market | (1,163) | (9,243) | (5,831) |
| Other metals | 63,424 | 38,666 | 18,577 |
| | $ 192,141 | $ 176,773 | $ 121,496 |

(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, 2003 or 2002 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. The Company will record the effect of this insurance recovery when the proceeds are 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%.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Income tax provision using statutory income tax rates | $ 18,147 | $ 11,888 | $ 5,573 |
| Increase (decrease) in taxes resulting from: | | | |
| Changes in income tax rates and laws | (3,546) | -- | -- |
| Resource allowance | (3,342) | (5,320) | (2,384) |
| Non-taxable portion of capital (gains) losses | (2,908) | -- | 1,389 |
| Benefit of income tax losses not previously recognized | (811) | -- | (2,200) |
| Federal large corporations taxes | 837 | 817 | 827 |
| Ontario mining taxes | 983 | 4,357 | 2,226 |
| Other | (1,206) | 2,120 | 654 |
| Income tax expense | $ 8,154 | $ 13,862 | $ 6,085 |

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current income tax expense: | | | |
| Income taxes | $ (550) | $ -- | $ 830 |
| Mining taxes | 475 | -- | -- |
| Federal large corporations tax | 837 | 816 | 827 |
| | $ 762 | $ 816 | $ 1,657 |
| Future income tax expense: | | | |
| Income taxes | $ 6,884 | $ 8,546 | $ 2,228 |
| Mining taxes | 508 | 4,500 | 2,200 |
| | $ 7,392 | $ 13,046 | $ 4,428 |
| | $ 8,154 | $ 13,862 | $ 6,085 |

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

| | 2003 | 2002 |
|---|---|---|
| Current future income tax asset: | | |
| Non-capital loss carry-forwards | $ 84 | $ 4,868 |
| Net future tax asset, current | $ 84 | $ 4,868 |

| | 2003 | 2002 |
|---|---|---|
| Long-term future income tax asset: | | |
| Mining interests, net | $ 7,472 | $ 8,426 |
| Deferred financing costs | 1,022 | 1,823 |
| Non-capital loss carry-forwards | -- | 969 |
| Future mining tax liability | 2,157 | -- |
| Other assets | 231 | -- |
| Ontario corporate minimum tax credits | 257 | -- |
| Capital loss carry-forwards | 1,308 | 2,100 |
| Valuation allowance for capital loss carry-forwards | (1,308) | (2,100) |
| Net future income tax asset, long-term | 11,139 | 11,218 |
| Future income tax liability, long-term: | | |
| Project term loan and Kaiser-Francis credit facility | (1,805) | -- |
| Net future income tax asset, long-term | $ 9,334 | $ 11,218 |
| Current future income tax liability: | | |
| Deferred financing costs | $ 216 | $ -- |
| Net future tax asset, current | $ 216 | $ -- |
| Future mining tax liability, long-term: | | |
| Mining interests, net | $ 10,108 | $ 9,600 |
| Net future mining tax liability, long-term | $ 10,108 | $ 9,600 |

At December 31, 2003, the Company had net capital loss carry-forwards of approximately $3,700 (2002 - $5,700), 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:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Decrease (increase) in: | | | |
| Concentrate awaiting settlement | $ (9,298) | $ (2,778) | $ (32,825) |
| Inventories and stockpiles | 3,179 | 507 | (12,815) |
| Accounts receivable and other assets | 296 | 943 | 2,992 |
| | $ (5,823) | $ (1,328) | $ (42,648) |
| Increase (decrease) in: | | | |
| Accounts payable and accrued liabilities | $ 1,218 | $ (2,442) | $ 9,679 |
| Taxes payable | (630) | (1,599) | 1,559 |
| | $ 588 | $ (4,041) | $ 11,238 |
| | $ (5,235) | $ (5,369) | $ (31,410) |

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Interest paid | $ 3,433 | $ 5,842 | $ 6,390 |
| Income taxes paid | $ -- | $ -- | $ -- |

(c) During 2003, capital assets (including plant and equipment and equipment under capital lease) were acquired at an aggregate cost of $11,691 (2002 - $7,093; 2001 - $117,948) of which $980 (2002 - $1,514; 2001 - $1,244) 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)

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Statements of earnings and deficit: | | | |
| Net income under Canadian GAAP | $ 38,378 | $ 15,082 | $ 7,188 |
| Amortization of capitalized interest (a) | (39) | (20) o | (17) |
| Concentrates and crushed and broken ore stockpiles (b) | (1,702) | (404) | 2,914 |
| Derivative financial instruments (c) | (2,867) | 74 | -- |
| Reversal of asset retirement obligation under Canadian GAAP (e) | -- | 53 | 322 |
| Tax effect of differences | 1,459 | 112 | (879) |
| Net income and comprehensive income under U.S. GAAP before cumulative impact of change in accounting policy | $ 35,229 | $ 14,897 | $ 9,528 |
| Cumulative impact of change in accounting policy for asset retirement obligations (e) | (375) | -- | -- |
| Net income and comprehensive income under U.S. GAAP | $ 34,854 | $ 14,897 | $ 9,528 |
| Basic and diluted income per share under U.S. GAAP before cumulative impact of change in accounting policy | $ 0.69 | $ 0.29 | $ 0.19 |
| Basic and diluted income per share under U.S. GAAP | $ 0.69 | $ 0.29 | $ 0.19 |
| Balance sheets: | | | |
| Current assets (b) and (c) | $ 124,186 | $ 127,731 | |
| Mining interests (a) | $ 247,769 | $ 267,143 | |
| Crushed and broken ore stockpiles - long-term (b) | $ 6,889 | $ 9,774 | |
| Future tax asset, long-term | $ 9,124 | $ 9,549 | |
| Capital stock (d) | $ 319,587 | $ 318,081 | |
| Deficit | $ (19,333) | $ (54,187) | |

(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, 2003 and 2002.

(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 amortized 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. The equivalent accounting policy was retroactively adopted under Canadian GAAP, with restatement of prior year's financial statements (note 2). Under US GAAP, a change in accounting policy is adopted retroactively, without restatement of prior year's financial statements, by recording a cumulative catch-up adjustment through current year net income.

(f) U.S. GAAP requires that amounts totaling 5% or more of accounts payable and accrued liabilities be identified separately. As at December 31, 2003, these amounts were as follows: trade payables and accruals - $13,756 (2002 - $13,339); other accruals - $2,285 (2002 - $1,484).

(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.

Had the amortization of the fair value of options been charged to compensation expense under U.S. GAAP, the pro forma net income would be $36,014 and pro forma net income per share and diluted net income per share would be $0.71 (2002 net income of $12,249 and net income and diluted net income per share of $0.24; 2001 net income of $5,884 and net income and diluted net income per share of $0.12).

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

The Company estimated the fair value of options granted in 2001 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate 4%, expected life of options of 3 years, expected volatility of the Company's share price of 71%, expected dividend yield of nil.

**IMPENDING ACCOUNTING CHANGES**

**CANADIAN GAAP**

In 2003, the CICA issued Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities", to provide guidance for applying the principles in Handbook
Section 1590, "Subsidiaries", to certain entities. Although the CICA is contemplating amendments to the Guideline, it is expected to be effective for the Company's 2005 fiscal year. The Company will review AcG-15, the impact of the Guideline, if any, on the Company's consolidated financial statements when the CICA issues the amended Guideline.

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 application guidance. AcG-13 is applicable for the Company's 2004 fiscal year. The Company does not expect the adoption of this Guideline to have a material impact on its consolidated financial statements.

**U.S. GAAP**

In 2003, the FASB amended Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R requires that a variable interest entity ("VIE") be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities and/or is entitled to receive a majority of the VIE's residual returns. For the Company, the requirements of FIN 46R apply to VIE's created after January 31, 2003. For VIEs created before January 31, 2003, the requirements of FIN46R apply as of December 31, 2004 for a VIE that does not meet the definition of a special-purpose entity ("SPE") and as of January 1, 2004 for a VIE that is an SPE.

Although the Company is currently reviewing FIN 46R, the impact, if any, of these pronouncements on the Company's consolidated financial statements has not been determined.

19. COMPARATIVE FIGURES

Certain of the prior years' figures have been reclassified to conform to the presentation adopted in 2003.

## FORWARD-LOOKING STATEMENTS

Enclosed are the Company's consolidated balance sheets as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003 (collectively the "Financial Statements") and management's discussion and analysis of operations and financial position ("MD&A") for the Financial Statements. Certain statements included the Financial Statements and MD&A are forward-looking statements which are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. They include estimates and statements that describe the Company's future plans, objectives and goals, including words to the effect that the Company or management expects a stated condition or result to occur. When used herein, words such as "estimate", "expect", "intend", and other similar expressions are intended to identify forward-looking statements. In particular, statements relating to estimated mineral reserves, cash flows, capital costs, ore production, mine life, financing, construction and strategic plans 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, economic and political events affecting metal supply and demand, fluctuations in ore grade, ore tonnes milled, geological, technical, mining or processing problems, future profitability and production, and availability of financing on acceptable terms. For a more comprehensive review of risk factors, please refer to the Company's most recent "Management's Discussion and Analysis" (enclosed) and Annual Information Form under "Risk Factors" on file with the U.S. Securities and Exchange Commission and Canada provincial securities regulatory authorities. Given these uncertainties, readers are cautioned not to put undue reliance on these forward-looking statements. The Company disclaims any obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise.

**EXHIBIT 3**

**NORTH AMERICAN PALLADIUM LTD.**
**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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

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

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

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

Toronto, Canada
February 20, 2004

| | |
|---|---|
| "ANDRE J. DOUCHANE" | "GEORGE D. FAUGHT" |
| --- | --- |
| ANDRE J. DOUCHANE | GEORGE D. FAUGHT |
| President and CEO | Vice President Finance, and CFO |

**Auditors' Report**

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

We have audited the consolidated balance sheets of North American Palladium Ltd. as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

As described in note 3(b) to the consolidated financial statements, the Company has changed its accounting policies for asset retirement obligations effective January 1, 2003 and has restated its provision for mine closure costs, mining interests and mine closure obligation.

"Ernst & Young" (signed)
Chartered Accountants

Toronto, Canada,
February 20, 2004.

NORTH AMERICAN PALLADIUM LTD.
CONSOLIDATED BALANCE SHEETS
(Canadian funds in thousands of dollars)

| | December 31 2003 | December 31 2002 Restated, Note 3(b) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 11,950 | $ 11,536 |
| Short-term investments | 1,813 | 5,127 |
| Concentrate awaiting settlement, net - Note 4 | 94,610 | 85,312 |
| Inventories - Note 5 | 9,141 | 7,414 |
| Crushed and broken ore stockpiles | 6,251 | 9,157 |
| Future tax asset - Note 16 | 84 | 4,868 |
| Accounts receivable and other assets | 1,387 | 1,683 |
| | 125,236 | 125,097 |
| Mining interests, net - Note 6 | 247,116 | 266,075 |
| Mine closure deposit - Note 7 | 4,733 | 3,470 |
| Deferred financing costs | 1,290 | 2,080 |
| Crushed and broken ore stockpiles | 5,983 | 7,983 |
| Future tax asset - Note 16 | 9,334 | 11,218 |
| | $ 393,692 | $ 415,923 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 16,041 | $ 14,813 |
| Taxes payable | 1,311 | 1,940 |
| Future tax liability - Note 16 | 216 | - |
| Current portion of obligations under capital leases - Note 8 | 1,070 | 1,127 |
| Current portion of project term loan - Note 9 | 34,538 | 51,083 |
| | 53,176 | 68,963 |
| Mine closure obligation - Note 3(b) | 7,300 | 7,019 |
| Obligations under capital leases - Note 8 | 1,015 | 1,024 |
| Project term loan - Note 9 | 7,272 | 51,083 |
| Kaiser-Francis credit facility - Note 10 | 14,866 | 18,163 |
| Future tax liability - Note 16 | 10,108 | 9,600 |
| | 93,737 | 155,852 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock - Note 12 | 313,489 | 311,983 |
| Deficit | (13,534) | (51,912) |
| Total shareholders' equity | 299,955 | 260,071 |
| | $ 393,692 | $ 415,923 |

Commitments - Note 13
Contingencies - Note 15

See accompanying notes
On Behalf of the Board

| "MICHAEL P. AMSDEN" (SIGNED) | "GREG VAN STAVEREN" (SIGNED) |
|---|---|
| MICHAEL P. AMSDEN | GREG VAN STAVEREN |
| Director | Director |

NORTH AMERICAN PALLADIUM LTD.
CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT
(Canadian funds in thousands of dollars, except share and per share amounts)

| | Year ended December 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | Restated, Note 3(b) | Restated, Note 3(b) |
| REVENUE FROM METAL SALES - Note 14 | $ 192,141 | $ 176,773 | $ 121,496 |
| Deduct: smelter treatment, refining and freight costs | (19,048) | (16,909) | (11,140) |
| Net revenue from mining operations | 173,093 | 159,864 | 110,356 |
| OPERATING EXPENSES | | | |
| Production costs including overhead | 103,654 | 100,599 | 66,405 |
| Amortization - Note 6(b) | 28,590 | 20,190 | 11,515 |
| Administrative expenses | 3,788 | 4,212 | 4,112 |
| Provision for mine closure costs - Note 3(b) | 921 | 587 | 637 |
| Write-down of mining interests - Note 6(d) | 2,315 | -- | 4,636 |
| Total operating expenses | 139,268 | 125,588 | 87,305 |
| INCOME FROM MINING OPERATIONS | 33,825 | 34,276 | 23,051 |
| OTHER INCOME (EXPENSES) | | | |
| Interest income | 474 | 663 | 1,560 |
| Loss on disposal of capital assets | (788) | (99) | (14) |
| Interest | (17) | (433) | (226) |
| Interest on long-term debt - Notes 9 and 10 | (3,158) | (5,405) | (3,406) |
| Exploration expense | (1,942) | (850) | (927) |
| Foreign exchange gain (loss) | 18,138 | 792 | (6,765) |
| Total other income (expenses) | 12,707 | (5,332) | (9,778) |
| INCOME BEFORE INCOME TAXES | 46,532 | 28,944 | 13,273 |
| Provision for income taxes - Note 16 | 8,154 | 13,862 | 6,085 |
| NET INCOME FOR THE YEAR | 38,378 | 15,082 | 7,188 |
| Deficit, beginning of year | (51,912) | (66,994) | (74,182) |
| Deficit, end of year | $ (13,534) | $ (51,912) | $ (66,994) |
| Net income per share | $ 0.76 | $ 0.30 | $ 0.14 |
| Diluted net income per share - Note 12(b) | $ 0.75 | $ 0.30 | $ 0.14 |
| Weighted average number of shares outstanding - basic | 50,763,566 | 50,544,634 | 50,375,690 |
| Weighted average number of shares outstanding - diluted - Note 12(b) | 50,832,904 | 50,593,508 | 50,543,134 |

See accompanying notes

NORTH AMERICAN PALLADIUM LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian funds in thousands of dollars)

| | Year ended December 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | Restated, Note 3(b) | Restated, Note 3(b) |
| CASH PROVIDED BY (USED IN) | | | |
| OPERATIONS | | | |
| Net income for the year | $ 38,378 | $ 15,082 | $ 7,188 |
| Operating items not involving cash | | | |
| Future income tax expense | 7,392 | 13,046 | 4,428 |
| Amortization | 28,590 | 20,190 | 11,515 |
| Accrued interest on mine closure deposit | (63) | (38) | (102) |
| Write-down of mining interests | 2,315 | -- | 4,636 |
| Foreign exchange loss (gain) | (18,519) | (1,494) | 6,037 |
| Loss on disposal of capital assets | 788 | 99 | 14 |
| Provision for mine closure costs | 921 | 587 | 637 |
| | 59,802 | 47,472 | 34,353 |
| Changes in non-cash working capital - Note 17(a) | (5,235) | (5,369) | (31,410) |
| | 54,567 | 42,103 | 2,943 |
| FINANCING ACTIVITIES | | | |
| Repayment of project term loan | (45,134) | (33,233) | (6,724) |
| Issuance of common shares | 1,506 | 1,199 | 1,950 |
| Mine closure deposit | (1,200) | (1,200) | (1,100) |
| Obligations under capital leases | (1,046) | (1,419) | (1,043) |
| Notes payable - Kaiser-Francis Oil Company | -- | 10,372 | 7,819 |
| Deferred financing costs | -- | -- | (276) |
| Increase in project term loan | -- | -- | 78,513 |
| | (45,874) | (24,281) | 79,139 |
| INVESTING ACTIVITIES | | | |
| Short-term investments | 3,314 | (128) | 35,453 |
| Additions to plant and equipment | (10,711) | (5,579) | (116,704) |
| Mining claims, exploration and development costs | (996) | (2,867) | (3,590) |
| Proceeds on disposal of plant and equipment | 114 | 513 | 31 |
| | (8,279) | (8,061) | (84,810) |
| Increase (decrease) in cash and cash equivalents | 414 | 9,761 | (2,728) |
| Cash and cash equivalents, beginning of year | 11,536 | 1,775 | 4,503 |
| Cash and cash equivalents, end of year | $ 11,950 | $ 11,536 | $ 1,775 |

See accompanying notes

for the years ended December 31, 2003, 2002 and 2001

(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 and by-product metals (palladium, platinum, gold, copper and nickel) fluctuate widely and are affected by numerous factors beyond the Company's control. The Company is under long-term contracts with two smelting firms for the sale of its concentrates. During 2000 the Company entered into a long-term palladium sales agreement, which expires on June 30, 2005, with a major automotive manufacturer to hedge the sale of all of its palladium production (note 13(a)).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, except as discussed in note 18, conform in all material respects with United States generally accepted accounting principles. The more significant accounting policies are summarized as follows:

### BASIS OF CONSOLIDATION

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

### REVENUE AND CONCENTRATE AWAITING SETTLEMENT

All revenue, including by-product metals is recognized net of royalties upon the delivery of concentrate to the third-party smelter. Concentrate awaiting settlement at the smelter is recorded at net realizable value less estimated smelting, refining and transportation costs. Final prices for concentrate awaiting settlement are determined up to seven months after delivery to the smelter. Revaluations of net realizable value are included in revenue at each reporting period and are adjusted for the effects of the sales contracts with the smelters and hedging instruments. Although the Company sold its metals during 2003 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) and (d)). Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales (note 14) when the hedged transaction occurs.

From time to time the Company enters into foreign exchange forward sales contracts to manage the effect of fluctuations in the value of committed U.S. dollar denominated revenues.

For those forward exchange contracts designated by the Company as hedges, a gain or loss is recognized in metal sales when the hedged transaction occurs. 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 uses electricity swap contracts to hedge the effects of price fluctuations in its electricity purchase requirements in Ontario (note 13(e). The net swap settlements are recognized in the same period as the hedged 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 credit-worthy 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 crushed and broken ore stockpiles contain a minimum grade of 1.1 grams of palladium per tonne, which is the cut-off grade used to determine mineral reserves and resources. 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 of seven years.

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

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

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

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. Future cash flows are estimated based on quantities of recoverable minerals, expected palladium and other commodity prices (considering current and historical prices, price trends and related factors), production levels and cash costs of production and capital, all based on detailed engineering life-of-mine plans. 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 ore processing and treatment. Assumptions underlying future cash flow estimates are subject to risk and uncertainty.

## 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 cost is capitalized as part of mining interests and amortized over the estimated life of the mine. In determining the estimated obligation and asset, the total undiscounted cash flows estimated were approximately $5.8 million to $9.8 million, the majority of which is to be paid at the end of the mine life. The estimated asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

## 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 prospectively adopted the fair value method of accounting for stock-based compensation in accordance with the recommendations issued by The Canadian Institute of Chartered Accountants ("CICA"). For options granted from January 1, 2002 to December 31, 2002, the Company elected to not recognize compensation expense when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

## TRANSLATION OF FOREIGN CURRENCY

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

1. Monetary items at the rate prevailing at the consolidated balance sheet dates;
2. Non-monetary items at the historical exchange rate; and
3. Revenue and expenses at the 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 liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of three months or less and are stated at cost. Cash and cash equivalents at December 31, 2003 include cash equivalents of nil (2002 - $4,738).

## 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. CHANGES IN ACCOUNTING POLICIES

(a) Stock-based compensation

Effective January 1, 2003, the Company changed its method of accounting for stock options from the intrinsic value method to one that recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees and directors. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option-pricing model. As a result of this change in accounting policy, which was applied prospectively, an expense of $138 was recorded in 2003 to reflect the fair value of stock options granted to employees and directors in 2003.

(b) Asset retirement obligations

Effective January 1, 2003, the Company adopted a new accounting standard of the Canadian Institute of Chartered Accountants ("CICA") for asset retirement obligations which harmonizes the accounting with Generally Accepted Accounting Principles in the U.S. This standard significantly changed the method of accounting for future site restoration costs. Under this new standard, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and amortized over the estimated life of the mine. This change in accounting policy was applied

retroactively and, accordingly, the consolidated financial statements of prior periods were restated. As a result of this change, certain balance sheet accounts as of December 31, 2002 were restated as follows: mining interests increased by $6,489 and the mine closure obligation increased to $7,019. An expense of $921 was recorded in 2003 for accretion of the mine closure obligation and amortization for asset retirements. This accounting policy change increased the provision for mine closure costs by $53 in 2002 (reduced net income per share - nil) and $322 in 2001 (reduced net income per share - $0.01).

4. CONCENTRATE AWAITING SETTLEMENT

Concentrate awaiting settlement is comprised of:

| | 2003 | 2002 |
|---|---|---|
| Concentrate awaiting settlement, gross | $ 104,880 | $ 92,533 |
| Refining and smelter treatment charges | (10,270) | (7,221) |
| Concentrate awaiting settlement, net | $ 94,610 | $ 85,312 |

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 2003, including 147,570 ounces of palladium (2002 - between July and December 2002, including 93,619 ounces of palladium).

All of the concentrate awaiting settlement is from two domestic customers at December 31, 2003 (2002 - two domestic customers). No reserves for doubtful accounts have been established. In the opinion of management, full realization will occur on all such receivables.

5. INVENTORIES

Inventories consist of the following:

| | 2003 | 2002 |
|---|---|---|
| Concentrate | $ 1,669 | $ 670 |
| Supplies | 7,472 | 6,744 |
| | $ 9,141 | $ 7,414 |

6. MINING INTERESTS

(a) Mining interests are comprised of the following:

| | 2003 | 2002 |
|---|---|---|
| Plant and equipment, at cost | $ 322,966 | $ 313,405 |
| Accumulated amortization | 108,972 | 82,718 |
| | 213,994 | 230,687 |
| Equipment under capital lease, at cost | 3,758 | 3,299 |
| Accumulated amortization | 1,056 | 311 |
| | 2,702 | 2,988 |
| Mining leases and claims, royalty interest, exploration and development, at cost | 82,353 | 81,357 |
| Accumulated amortization | 51,933 | 48,957 |
| | 30,420 | 32,400 |
| Mining interests, net | $ 247,116 | $ 266,075 |

(b) Amortization expense is comprised of:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Capital assets (including plant and equipment, and equipment under capital lease) | $ 24,746 | $ 17,505 | $ 10,268 |
| Mining leases and claims, royalty interest, exploration and development costs | 3,054 | 1,895 | 852 |
| Deferred financing costs | 790 | 790 | 395 |
| | $ 28,590 | $ 20,190 | $ 11,515 |

(c) During 2003, the Company capitalized interest of nil (2002 - nil; 2001 - $3,190).

(d) The Company recorded a write-down of $2,315 in 2003 pertaining to the retirement of a damaged primary crusher and $4,636 in 2001 when plant and equipment was removed from service with the commissioning of the new mill.

7. MINE CLOSURE PLAN

The Company, in conjunction with the Ontario Ministry of Northern Development and Mines (the "Ministry"), has established a trust fund (the "Fund") pursuant to the Company's mine closure plan. The mine closure plan calls for a total amount of $7,802 to be accumulated in the Fund in order to allow for the eventual clean-up and restoration of the mine site.

Commencing in February 2001, the Fund, controlled by the Ministry, started to accumulate through monthly deposits of $100. At December 31, 2003, the Company had $4,733 (2002 - $3,470) on deposit with the Ministry including accrued interest of $203. 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:

| | 2003 | 2002 |
|---|---|---|
| 2003 | $ - | $ 1,226 |
| 2004 | 1,098 | 465 |
| 2005 | 620 | 613 |
| 2006 | 257 | - |
| 2007 | 171 | - |
| Total minimum lease payments | 2,146 | 2,304 |
| Amounts representing interest rates from 3.62 % - 7.7% | 61 | 153 |
| Present value of minimum lease payments | $ 2,085 | $ 2,151 |
| Less current portion | $ 1,070 | $ 1,127 |
| Long-term liabilities | $ 1,015 | $ 1,024 |

9. PROJECT TERM LOAN

On June 27, 2000, the Company received a US$90,000 non-revolving term credit facility, which was amended on July 11, 2002. The credit facility financed part of the capital costs, working capital and interest during construction of the expansion project. Outstanding loans bear interest or stamping fees based upon banker's acceptances or LIBOR rates plus a margin of 1 3/4%.

In return for granting the loan the lender received a secured interest 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.

Kaiser-Francis Oil Company ("Kaiser-Francis"), the majority shareholder of the Company, and its shareholders have guaranteed the Company's obligations under the credit facility in return for a fee of 0.5% per annum of amounts drawn under the loan facility. Amounts paid to Kaiser-Francis in connection with this guarantee were $338 (2002 - $605; 2001 - $531).

Amounts drawn under the credit facility are required to be repaid in quarterly installments. At December 31, 2003, there were five remaining installment payments as follows: US$7,031 for each of the first three quarters of 2004 and US$5,625 for the last quarter of 2004 and the first quarter of 2005. The final maturity date of the credit facility is March 31, 2005.

The Company has the right to prepay any amount outstanding under the credit facility, without penalty, and in some circumstances may be required to make prepayments equal to the amount of insurance proceeds received in connection with a major loss or 66% of excess cash flow, which is defined as cash flow less payments of principal and interest and payments to the debt service reserve amount.

The credit facility includes customary representations, warranties and covenants, including a covenant by the Company not to pay dividends or make any other payment to shareholders while the loan is outstanding. The credit facility also provides for customary events of default, including default of performance under a material agreement or debt, as well as if a party other than Kaiser-Francis acquires more than 40% of the Company, or upon the death of Mr. Kaiser the controlling shareholder of Kaiser-Francis.

10. KAISER-FRANCIS CREDIT FACILITY

On December 13, 2001, the Company entered into a US$20,000 non-revolving credit facility with Kaiser-Francis. The loan was used to finance the Company's working capital requirements. The loan bears interest based upon the 30-day LIBOR rate plus 2.25%. The final maturity date of the loan is May 31, 2005. Amounts not drawn under the loan are subject to a standby fee payable quarterly at 0.125% per annum. The Company paid on closing a commitment fee of 0.75% of the total commitment (US$150). In connection with the loan, the Company has granted Kaiser-Francis security interests in all of the assets of the Company and a pledge of the LDI shares. The security interests and pledge of LDI shares are subordinated to the security interests of the project term loan facility. As at December 31, 2003, the outstanding loan was US$11,500 (2002 - US$11,500).

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

11. RELATED PARTY TRANSACTIONS AND COMMITMENTS

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

(a) 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 2003, a director of the Company received a fee of $400 (2002 - $412; 2001 - $166) in connection with the negotiations related to the palladium sales contract entered into by the Company in 2000 (note 13(a)). The contract was made prior to such person becoming a director of the Company. A second director received a fee of nil (2002 - nil; 2001 - $33) in connection with consulting services provided to the Company.

12. CAPITAL STOCK

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

(a) COMMON SHARES The changes in issued common share capital for the year are summarized below:

| | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Common shares issued, beginning of year | 50,647,955 | $311,983 | 50,447,630 | $310,784 | 50,028,772 | $ 308,834 |
| Common shares issued | | | | | | |
| Pursuant to stock options exercised | 13,450 | 101 | 115,572 | 490 | 375,355 | 1,475 |
| To Group Registered Retirement Savings Plan participants | 190,605 | 905 | 84,753 | 709 | 43,503 | 475 |
| Private placement | 43,328 | 500 | -- | -- | -- | -- |
| Common shares issued, end of year | 50,895,338 | $313,489 | 50,647,955 | $311,983 | 50,447,630 | $ 310,784 |

(b) GROUP REGISTERED RETIREMENT SAVINGS PLAN The Company has arranged 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 2003 the Company contributed 190,605 shares at a stated capital of $905 (2002 - 84,753 shares at a stated capital of $709; 2001 - 43,503 shares at a stated capital of $475).

(c) PRIVATE PLACEMENT On December 22, 2003, the Company completed a private placement of 43,328 flow through common shares. The gross proceeds of $500 must be spent on Canadian exploration expenses as defined in section 66 of the Income Tax Act (Canada) by December 31, 2004.

(d) 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 5.3% of the outstanding common shares or such greater number of common shares as may be determined by the Board of Directors, and approved if required, by the shareholders of the Company and by any relevant stock exchange or other regulatory authority. As at December 31, 2003, 591,127 options were available to be granted under the Plan.

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

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding, beginning of year | 1,066,939 | $ 11.04 | 1,402,278 | $ 10.74 |
| Granted | 258,000 | 3.71 | 148,000 | 10.01 |
| Exercised | (13,450) | 7.50 | (115,572) | 4.24 |
| Cancelled | (272,632) | 1.15 | (367,767) | 11.62 |
| Grand total | 1,038,857 | $ 9.24 | 1,066,939 | $ 11.04 |
| Options exercisable at end of year | 685,057 | $ 11.27 | 753,855 | $ 11.02 |

The following table summarizes information about the Company's stock options outstanding at December 31, 2003 (see also note 15(a):

| Exercise Price | Expiry Dates | Options Outstanding at Dec. 31, 2003 | Options Exercisable at Dec. 31, 2003 |
|---|---|---|---|
| $ 3.42 | April 7, 2011 | 180,500 | -- |
| $ 3.70 | April 1, 2011 | 50,000 | -- |
| $ 4.75 | February 27, 2011 | 7,500 | -- |
| $ 5.92 | September 2, 2011 | 20,000 | -- |
| $ 7.50 | October 23, 2006 | 24,217 | 24,217 |
| $ 7.89 | December 12, 2009 | 59,400 | 39,600 |
| $ 8.40 | March 3, 2005 | 75,000 | 75,000 |
| $ 9.30 | July 27, 2005 | 126,983 | 126,983 |
| $ 9.40 | March 15, 2005 | 26,839 | 26,839 |
| $ 9.70 | November 6, 2005 | 24,168 | 24,168 |
| $ 10.01 | June 6, 2010 | 114,000 | 38,000 |
| $ 13.55 | June 6, 2006 | 217,750 | 217,750 |
| $ 13.90 | December 14, 2005 | 47,250 | 47,250 |
| $ 14.44 | February 13, 2006 | 65,250 | 65,250 |
| | | 1,038,857 | 685,057 |

The Company has reserved for issuance 1,038,857 common shares in the event that these options are exercised.

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:

| | 2003 | 2002 |
|---|---|---|
| Net income as reported | $ 38,378 | $ 15,082 |
| Stock-based compensation | 160 | 160 |
| Pro forma net income | $ 38,218 | $ 14,922 |
| Pro forma basic and diluted income per share | $ 0.75 | $ 0.30 |

The fair value of options granted in 2003 has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 4% (2002 - 4%), expected dividend yield of nil (2002 - nil), expected volatility of 48% (2002 - 60%), and expected option life of 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 2003 was $2.13 (2002 - $4.33).

Reconciliation of the diluted number of shares outstanding:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income available to common shareholders | $ 38,378 | $ 15,082 | $ 7,188 |
| Weighted average number of shares outstanding | 50,763,566 | 50,544,634 | 50,375,690 |
| Effect of dilutive securities | | | |
| Stock options | 69,338 | 48,874 | 167,444 |
| Weighted average diluted number of shares outstanding | 50,832,904 | 50,593,508 | 50,543,134 |
| Diluted net income per share | $ 0.75 | $ 0.30 | $ 0.14 |

13. COMMITMENTS

(a) PALLADIUM SALES CONTRACT During 2000, the Company entered into a contract (the "Palladium Sales Contract") whereby the Company hedged the price of 100% of the palladium the Company is entitled to receive from the smelter firms. Under the Palladium Sales Contract the sales price is based on the monthly average spot price for palladium, as determined by the London Metal Exchange P.M. Fix, for the month prior to the month that the metal is received by the customer, but the price will be no less than US$325 per ounce for 100% of the metal received and no more than US$550 per ounce for 50% of the metal received. For the remaining 50% of the metal received, there is no maximum price. The Palladium Sales Contract's term commenced effective July 1, 2000 and expires on June 30, 2005. The fair value of the Palladium Sales Contract approximated its carrying value as at December 31, 2003.

(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 until the expiration of the Lac des Iles mine leases.

(C) PLATINUM FORWARD CONTRACTS At December 31, 2003, the Company had forward sales contracts for 13,677 ounces of platinum at an average price of US$754 per ounce maturing at various dates through December 2004. The fair value of these forward sales contracts was below their carrying value by $142 as at December 31, 2003.

(D) NICKEL SWAP CONTRACTS
At December 31, 2003, the Company had swap contracts for 2,381,000 lbs. of nickel at an average fixed price of US $5.67 per lb.

maturing at various dates through

December 2004. The fair value of these swap contracts was below their carrying value by $2,651 as at December 31, 2003.

(E) ELECTRICITY SWAP CONTRACTS At December 31, 2003, the Company had electricity swap contracts on 65,755 MWh of electricity at a fixed price of $54.00 per MWh maturing at various dates through December 2004. As at December 31, 2003, the fair value of these swap contracts approximated their carrying value.

14. REVENUE FROM METAL SALES

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Palladium (a) | $ 109,443 | $ 101,317 | $ 80,925 |
| Palladium forward contracts (b) | 20,437 | 46,033 | 27,825 |
| Adjustments for mark-to-market | (1,163) | (9,243) | (5,831) |
| Other metals | 63,424 | 38,666 | 18,577 |
| | $ 192,141 | $ 176,773 | $ 121,496 |

(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, 2003 or 2002 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. The Company will record the effect of this insurance recovery when the proceeds are 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%.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Income tax provision using statutory income tax rates | $ 18,147 | $ 11,888 | $ 5,573 |
| Increase (decrease) in taxes resulting from: | | | |
| Changes in income tax rates and laws | (3,546) | -- | -- |
| Resource allowance | (3,342) | (5,320) | (2,384) |
| Non-taxable portion of capital (gains) losses | (2,908) | -- | 1,389 |
| Benefit of income tax losses not previously recognized | (811) | -- | (2,200) |
| Federal large corporations taxes | 837 | 817 | 827 |
| Ontario mining taxes | 983 | 4,357 | 2,226 |
| Other | (1,206) | 2,120 | 654 |
| Income tax expense | $ 8,154 | $ 13,862 | $ 6,085 |

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current income tax expense: | | | |
| Income taxes | $ (550) | $ -- | $ 830 |
| Mining taxes | 475 | -- | -- |
| Federal large corporations tax | 837 | 816 | 827 |
| | $ 762 | $ 816 | $ 1,657 |
| Future income tax expense: | | | |
| Income taxes | $ 6,884 | $ 8,546 | $ 2,228 |
| Mining taxes | 508 | 4,500 | 2,200 |
| | $ 7,392 | $ 13,046 | $ 4,428 |
| | $ 8,154 | $ 13,862 | $ 6,085 |

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

| | 2003 | 2002 |
|---|---|---|
| Current future income tax asset: | | |
| Non-capital loss carry-forwards | $ 84 | $ 4,868 |
| Net future tax asset, current | $ 84 | $ 4,868 |
| Long-term future income tax asset: | | |
| Mining interests, net | $ 7,472 | $ 8,426 |
| Deferred financing costs | 1,022 | 1,823 |
| Non-capital loss carry-forwards | -- | 969 |
| Future mining tax liability | 2,157 | -- |
| Other assets | 231 | -- |
| Ontario corporate minimum tax credits | 257 | -- |
| Capital loss carry-forwards | 1,308 | 2,100 |
| Valuation allowance for capital loss carry-forwards | (1,308) | (2,100) |

| | 2003 | 2002 |
|---|---|---|
| Net future income tax asset, long-term | 11,139 | 11,218 |
| Future income tax liability, long-term: | | |
| Project term loan and Kaiser-Francis credit facility | (1,805) | -- |
| Net future income tax asset, long-term | $ 9,334 | $ 11,218 |
| Current future income tax liability: | | |
| Deferred financing costs | $ 216 | $ -- |
| Net future tax asset, current | $ 216 | $ -- |
| Future mining tax liability, long-term: | | |
| Mining interests, net | $ 10,108 | $ 9,600 |
| Net future mining tax liability, long-term | $ 10,108 | $ 9,600 |

At December 31, 2003, the Company had net capital loss carry-forwards of approximately $3,700 (2002 - $5,700), 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: 2003 2002 2001

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Decrease (increase) in: | | | |
| Concentrate awaiting settlement | $ (9,298) | $ (2,778) | $ (32,825) |
| Inventories and stockpiles | 3,179 | 507 | (12,815) |
| Accounts receivable and other assets | 296 | 943 | 2,992 |
| | $ (5,823) | $ (1,328) | $ (42,648) |
| Increase (decrease) in: | | | |
| Accounts payable and accrued liabilities | $ 1,218 | $ (2,442) | $ 9,679 |
| Taxes payable | (630) | (1,599) | 1,559 |
| | $ 588 | $ (4,041) | $ 11,238 |
| | $ (5,235) | $ (5,369) | $ (31,410) |

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Interest paid | $ 3,433 | $ 5,842 | $ 6,390 |
| Income taxes paid | $ -- | $ -- | $ -- |

(c) During 2003, capital assets (including plant and equipment and equipment under capital lease) were acquired at an aggregate cost of $11,691 (2002 - $7,093; 2001 - $117,948) of which $980 (2002 - $1,514; 2001 - $1,244) 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)

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Statements of earnings and deficit: | | | |
| Net income under Canadian GAAP | $ 38,378 | $ 15,082 | $ 7,188 |
| Amortization of capitalized interest (a) | (39) | (20) o | (17) |
| Concentrates and crushed and broken ore stockpiles (b) | (1,702) | (404) | 2,914 |
| Derivative financial instruments (c) | (2,867) | 74 | -- |
| Reversal of asset retirement obligation under Canadian GAAP (e) | -- | 53 | 322 |
| Tax effect of differences | 1,459 | 112 | (879) |
| Net income and comprehensive income under U.S. GAAP before cumulative impact of change in accounting policy | $ 35,229 | $ 14,897 | $ 9,528 |
| Cumulative impact of change in accounting policy for asset retirement obligations (e) | (375) | -- | -- |
| Net income and comprehensive income under U.S. GAAP | $ 34,854 | $ 14,897 | $ 9,528 |
| Basic and diluted income per share under U.S. GAAP before cumulative impact of change in accounting policy | $ 0.69 | $ 0.29 | $ 0.19 |
| Basic and diluted income per share under U.S. GAAP | $ 0.69 | $ 0.29 | $ 0.19 |
| Balance sheets: | | | |
| Current assets (b) and (c) | $ 124,186 | $ 127,731 | |
| Mining interests (a) | $ 247,769 | $ 267,143 | |
| Crushed and broken ore stockpiles - long-term (b) | $ 6,889 | $ 9,774 | |
| Future tax asset, long-term | $ 9,124 | $ 9,549 | |
| Capital stock (d) | $ 319,587 | $ 318,081 | |
| Deficit | $ (19,333) | $ (54,187) | |

(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, 2003 and 2002.

(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 amortized 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. The equivalent accounting policy was retroactively adopted under Canadian GAAP, with restatement of prior year's financial statements (note 2). Under US GAAP, a change in accounting policy is adopted retroactively, without restatement of prior year's financial statements, by recording a cumulative catch-up adjustment through current year net income.

(f) U.S. GAAP requires that amounts totaling 5% or more of accounts payable and accrued liabilities be identified separately. As at December 31, 2003, these amounts were as follows: trade payables and accruals - $13,756 (2002 - $13,339); other accruals - $2,285 (2002 - $1,484).

(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.

Had the amortization of the fair value of options been charged to compensation expense under U.S. GAAP, the pro forma net income would be $36,014 and pro forma net income per share and diluted net income per share would be $0.71 (2002 net income of $12,249 and net income and diluted net income per share of $0.24; 2001 net income of $5,884 and net income and diluted net income per share of $0.12).

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

The Company estimated the fair value of options granted in 2001 using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate 4%, expected life of options of 3 years, expected volatility of the Company's share price of 71%, expected dividend yield of nil.

**IMPENDING ACCOUNTING CHANGES**

**CANADIAN GAAP**

In 2003, the CICA issued Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities", to provide guidance for applying the principles in Handbook
Section 1590, "Subsidiaries", to certain entities. Although the CICA is contemplating amendments to the Guideline, it is expected to be effective for the Company's 2005 fiscal year. The Company will review AcG-15, the impact of the Guideline, if any, on the Company's consolidated financial statements when the CICA issues the amended Guideline.

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 application guidance. AcG-13 is applicable for the Company's 2004 fiscal year. The Company does not expect the adoption of this Guideline to have a material impact on its consolidated financial statements.

**U.S. GAAP**

In 2003, the FASB amended Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R requires that a variable interest entity ("VIE") be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities and/or is entitled to receive a majority of the VIE's residual returns. For the Company, the requirements of FIN 46R apply to VIE's created after January 31, 2003. For VIEs created before January 31, 2003, the requirements of FIN46R apply as of December 31, 2004 for a VIE that does not meet the definition of a special-purpose entity ("SPE") and as of January 1, 2004 for a VIE that is an SPE.

Although the Company is currently reviewing FIN 46R, the impact, if any, of these pronouncements on the Company's consolidated financial statements has not been determined.

19. COMPARATIVE FIGURES Certain of the prior years' figures have been reclassified to conform to the presentation adopted in 2003.

## FORWARD-LOOKING STATEMENTS

Enclosed are the Company's consolidated balance sheets as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2003 (collectively the "Financial Statements") and management's discussion and analysis of operations and financial position ("MD&A") for the Financial Statements. Certain statements included the Financial Statements and MD&A are forward-looking statements which are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. They include estimates and statements that describe the Company's future plans, objectives and goals, including words to the effect that the Company or management expects a stated condition or result to occur. When used herein, words such as "estimate", "expect", "intend", and other similar expressions are intended to identify forward-looking statements. In particular, statements relating to estimated mineral reserves, cash flows, capital costs, ore production, mine life, financing, construction and strategic plans 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, economic and political events affecting metal supply and demand, fluctuations in ore grade, ore tonnes milled, geological, technical, mining or processing problems, future profitability and production, and availability of financing on acceptable terms. For a more comprehensive review of risk factors, please refer to the Company's most recent "Management's Discussion and Analysis" (enclosed) and Annual Information Form under "Risk Factors" on file with the U.S. Securities and Exchange Commission and Canada provincial securities regulatory authorities. Given these uncertainties, readers are cautioned not to put undue reliance on these forward-looking statements. The Company disclaims any obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise.

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Commission des valeurs mobilieres du Quebec
Securities Division, Saskatchewan Financial Services Commission
Securities Registry, Government of the Northwest Territories
Registrar of Securities, Government of the Yukon Territories
The Toronto Stock Exchange
The American Stock Exchange

Dear Sirs:

SUBJECT: North American Palladium Ltd.

We confirm that the following English material was sent by pre-paid mail on April 5, 2004, to the registered shareholders of Common shares of the subject Corporation:

1. Letter to Shareholders
2. Audited Annual Financial Statements / Management's Discussion and Analysis

In compliance with regulations made under the Securities Act, we are providing this confirmation to you in our capacity as agent for the subject Corporation.

Yours truly,

("Signed Carol Allen")

Assistant Account Manager Stock
Transfer Services
(416) 263-9688
(416) 981-9800 Fax

c.c. North American Palladium Ltd.