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NORTH AMERICAN PALLADIUM LTD  
Form 40-F  
March 31, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 40-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13(A) OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004                      Commission File Number 1-15142

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NORTH AMERICAN PALLADIUM LTD.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CANADA  
(PROVINCE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

1099  
(PRIMARY STANDARD INDUSTRIAL  
CLASSIFICATION CODE NUMBER)

NOT APPLICABLE  
(I.R.S. EMPLOYER  
IDENTIFICATION NO..)

130 ADELAIDE STREET WEST  
SUITE 2116, TORONTO, ONTARIO  
M5H 3P5  
(416) 360-7590  
(ADDRESS AND TELEPHONE NUMBER OF REGISTRANTS' PRINCIPAL EXECUTIVE OFFICES)

CT CORPORATION SYSTEM  
111 EIGHTH AVENUE  
NEW YORK, NY 10011  
(212) 894-8940  
(NAME, ADDRESS (INCLUDING ZIP CODE) AND TELEPHONE NUMBER  
(INCLUDING AREA CODE) OF AGENT FOR SERVICE IN THE UNITED STATES)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED:
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COMMON SHARES, NO PAR VALUE	AMERICAN STOCK EXCHANGE

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d)

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of the Act.

NONE

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by this annual report.

THE REGISTRANT HAD 51,709,075 COMMON SHARES  
OUTSTANDING AS AT DECEMBER 31, 2004

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the registrant in connection with such Rule.

Yes                    82-                    No                    X  
-----                    -----                    -----

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes                    X                    No                    -----  
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DOCUMENTS FILED UNDER COVER OF THIS FORM

- Document No. 1:      Renewal Annual Information Form for the fiscal year ended December 31, 2004, dated March 29, 2005.
- Document No. 2:      Audited Comparative Consolidated Financial Statements for the fiscal year ended December 31, 2004, prepared in accordance with Canadian generally accepted accounting principles, and reconciled to United States generally accepted accounting principles in accordance with Item 18 of Form 20-F, and the notes thereto.
- Document No. 3:      Management's Discussion and Analysis of Operations and Financial Position for the fiscal year ended December 31, 2004.

NORTH AMERICAN PALLADIUM LTD.

RENEWAL ANNUAL INFORMATION FORM

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For the year ended December 31, 2004

Dated March 29, 2005

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## METRIC CONVERSION TABLE

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

All dollar amounts referred to herein are in Canadian dollars unless stated otherwise. Unless otherwise indicated, all financial information included herein has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which may differ from United States generally accepted accounting principles ("U.S. GAAP"). See note 18 to the audited consolidated financial statements for a reconciliation of financial results from

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Canadian GAAP to U.S. GAAP.

Descriptions of mineral reserve and mineral resource estimates included herein under Canadian standards may not be comparable to similar information made public by U.S. companies subject to reporting and disclosure requirements of the United States Securities and Exchange Commission. See "Mineral Reserve and Resource Estimates - Note to U.S. Shareholders" herein.

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### CORPORATE STRUCTURE

North American Palladium Ltd. (the "Corporation") is the successor to Madeleine Mines Ltd., a company incorporated under the QUEBEC MINING COMPANIES ACT by letters patent dated February 2, 1968. In January 1992: (i) Madeleine Mines Ltd. was amalgamated with a wholly owned Quebec subsidiary of 2750538 Canada Inc., a company incorporated under the CANADA BUSINESS CORPORATIONS ACT by articles of incorporation dated September 12, 1991; (ii) the amalgamated company was wound up into 2750538 Canada Inc.; and (iii) 2750538 Canada Inc. changed its name to "Madeleine Mines Ltd." By articles of amendment dated July 24, 1993, Madeleine Mines Ltd. changed its name to "North American Palladium Ltd." The Corporation has one operating subsidiary, Lac des Iles Mines Ltd., incorporated under the CANADA BUSINESS CORPORATIONS ACT, and wholly owned by the Corporation. Unless otherwise indicated, all references in this annual information form ("AIF") to the "Corporation" include North American Palladium Ltd., together with its wholly-owned subsidiary, Lac des Iles Mines Ltd.

The Corporation's registered office is at Suite 2116, 130 Adelaide Street West, Toronto, Ontario M5H 3P5, telephone: (416) 360-7590, fax: (416) 360-7709. The Corporation's mining operations are situated approximately 85 kilometres northwest of Thunder Bay at Lac des Iles, in northern Ontario. The postal address is P.O. Box 10547, Station P, Thunder Bay, Ontario P7B 6T9, telephone: (807) 448-2000, fax: (807) 448-2001.

### GENERAL DEVELOPMENT OF THE BUSINESS

The following description of the Corporation's business includes many geological terms that may not be familiar to the reader. For a description of the meaning of some of these terms, please see the "Glossary of Terms" included in this AIF.

### OVERVIEW

The Corporation owns and operates an open pit mine known as the Lac des Iles Mine and processing plant with a design capacity of 15,000 tonnes per day. The mining and processing operation produces by flotation a palladium rich concentrate that also contains platinum, gold, copper and nickel. The concentrate is delivered to the Sudbury operations of each of Falconbridge Limited ("Falconbridge") and Inco Limited ("Inco") for smelting, and is further processed at their respective European operations for refining.

The Corporation's current operations are the result of an expansion of the mining operations commenced in March 2000 to increase the ore processing rate from 2,400 tonnes per day to 15,000 tonnes per day. The expansion involved the construction of a new concentrator at the mine site and preparing for increased production from the open pit. The new concentrator was commissioned in June 2001. Initially, the new concentrator did not operate at design capacity as a number of modifications were required to improve production throughput and recoveries. In the fourth quarter of 2001 the concentrator throughput and recoveries improved as a result of these changes.

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In 2002, certain modifications were made to the semi-autogenous grinding (SAG) mill circuit, including fine crushing a portion of the SAG mill feed and, in August 2002, the mill achieved its design rate of 15,000 tonnes per day. However, this rate was not sustained for the remainder of the year because of the failure in late August 2002 of the primary crusher, which processes ore before it reaches the SAG mill. Portable third party contract crushers were installed to sustain the operation while the primary crusher was repaired. The repairs were more difficult than anticipated and the unit did not return to operation until early March 2003. As the long-term reliability of the primary crusher was doubtful, a new primary crusher was purchased and was put into operation in June 2003. The Corporation carries property

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damage and business interruption insurance and submitted a claim to recover losses sustained by the crusher failure. The Corporation received \$7.1 million as an interim payment and is pursuing the balance of the claim.

In late 2003 the Corporation commissioned a full feasibility study in response to scoping studies and a pre-feasibility study that indicated a higher grade sub-vertical ore body located directly beneath the open pit was viable as an underground mine. The feasibility study confirmed that an underground operation is economically viable operating concurrently with the open pit to provide a blended higher grade mill feed. The Corporation commenced the development of an underground mine at its Lac des Iles operations in the second quarter of 2004. The underground mine development is focused on the Main High Grade Zone below the ultimate pit depth. Capital costs for the underground development are estimated at \$40 million for direct and indirect costs and working capital. Mining equipment accounts for an additional \$12 million of capital costs and the Corporation is financing this equipment through a vendor lease program. By December 31, 2004 the main ramp had been advanced 435 metres. The underground development is progressing towards full production in 2006. Construction and development of the underground mine is proceeding on schedule to meet commercial production in the fourth quarter of 2005 and within budget.

In 2004, total tonnes mined amounted to 16.9 million tonnes or 46,038 tonnes per day, containing 4.6 million tonnes of ore grading 2.60 grams of palladium per tonne.

Palladium production from the Lac des Iles mill reached a new record of 308,931 ounces in 2004, primarily as a result of higher palladium feed grade combined with higher mill throughput. Ore processed in 2004 totalled 5,298,544 tonnes or 14,477 tonnes per calendar day at an average palladium head grade of 2.41 grams per tonne and an average palladium recovery of 75.2%. Other metal production in 2004 included 25,128 ounces of platinum, 25,679 ounces of gold, 7,836,183 pounds of copper and 4,320,970 pounds of nickel.

In 2004 the Corporation decided to proceed with a secondary crusher installation for the mill designed to increase the throughput rate and reduce processing costs in the mill circuit. The secondary crushing circuit was commissioned at a capital cost of \$10.2 million and commenced operation at the beginning of December 2004.

With the secondary crusher installed and operating as planned, the milling process will continue to be further optimized. In conjunction with S.G.S. Lakefield Research Limited, flotation test work involving hydrodynamic studies commenced in mid-2004. Further plant test work involving hydrodynamics is being carried out in 2005 and is expected to improve palladium recovery. In addition, process control equipment for automated reagent addition and flow regulation, was purchased in late 2004 and will be installed in the first half of 2005.

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These additions will allow for further control advancements in the flotation circuit as a part of the action plan for improving the palladium recovery.

Reference is made to the section entitled "Mining Operations" for further information about the Corporation's operations.

The Corporation has a palladium sales contract (the "Palladium Sales Contract") with a major automotive manufacturer (the "Automotive Manufacturer"), whereby the Corporation has hedged the price of 100% of the palladium it is entitled to receive from its smelter customers. Under the Palladium Sales Contract, the Automotive Manufacturer purchases all of the refined palladium that the Corporation is entitled to receive from the smelters. The actual amount purchased depends on how much palladium is delivered, less the amount due under a royalty agreement with the Sheridan Platinum Group Inc. and John Patrick Sheridan. See "Royalty Agreement".

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The price of the palladium under the Palladium Sales Contract is the average monthly London Metal Exchange afternoon fixing price minus a modest specified discount; however, the price for palladium cannot be less than US\$325 per ounce for all production delivered in each month under the Palladium Sales Contract. The Palladium Sales Contract expires on June 30, 2005. Commencing with the first quarter of 2005, palladium production which will be available for physical delivery after June 30, 2005 will not be subject to the Palladium Sales Contract.

The Corporation has entered into a palladium sales contract for the sale of an aggregate of 36,000 ounces of palladium from June to December 2005. The other party to the contract is an international bank that is purchasing the metal for further sale to an end-user of palladium. The price of the palladium is average monthly London Metal Exchange afternoon fixing price minus a modest specified discount.

The Corporation also enters into forward commodity sales contracts from time to time to hedge the effect of changes in certain metal prices on the Corporation's revenues.

Reference is made to the section entitled "Metal Sales Agreements" for further information about the metal sales agreements.

The Corporation has agreements with Falconbridge and Inco providing for the sale of the Corporation's concentrates produced at the Lac des Iles Mine and, ultimately, the smelting and refining of the principal metals contained in the concentrates. The agreement with Falconbridge ends on March 31, 2006 and the agreement with Inco ends on August 31, 2005. The Corporation is in discussions with each smelter and expects to renew the contracts with the smelters. (See "Smelting and Refining Agreements")

In June 2004, the Corporation entered into a new US\$20 million and \$10 million senior credit facility with a leading equipment finance company which were fully drawn. Each of the credit facilities is repayable in equal quarterly instalments over a five-year term. The Corporation also has a US\$20 million non-revolving credit facility provided by Kaiser-Francis Oil Company ("Kaiser-Francis") to finance the Corporation's working capital requirements. In the second quarter of 2004, the Kaiser-Francis credit facility was extended to June 30, 2006 as part of a debt restructuring plan. As at December 31, 2005, US\$11.5 million was drawn on the facility. Kaiser-Francis holds 50.4% of the common shares of the Corporation. (See "Financing")

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## OPEN PIT LAC DES ILES MINE

The Lac des Iles Mine property consists of four mining leases from the Government of Ontario numbered 104108 to 104111, inclusive, comprising 85 single unit mining claims and covering an aggregate of 1,465 hectares. The mining leases are dated August 16, 1985 and are set to expire on August 31, 2006. If an application is made within 90 days of expiry of the leases, and the terms and conditions of the leases have been complied with, the leases are renewable for a further term of 21 years. In addition to the mining leases, the Corporation holds mining claims covering approximately 7,226 hectares within a 52 kilometer radius of the Lac des Iles Mine.

The Lac des Iles Mine and surrounding property are located approximately 85 kilometres northwest of the city of Thunder Bay, Ontario. Paved road access is provided by Ontario Provincial Highway 527, followed by 15 kilometres of an all weather gravel road, maintained by the Corporation. Approximately 87% of the employees reside in the Thunder Bay area.

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## MINING OPERATIONS

The Corporation mines ore and waste from the open pit using conventional hydraulic 23 cubic meter and 19 cubic meter shovels, 190 tonne trucks, 229 millimeter blast hole drills and a fleet of conventional ancillary equipment. Mine waste is stockpiled outside of design pit limits.

In 2004, total tonnes mined from the Lac des Iles open pit amounted to 16.9 million tonnes or 46,038 tonnes per day of ore and waste combined compared to 14.6 million tonnes or 39,895 tonnes per day in 2003. Ore production for 2004 totaled 4.6 million tonnes grading 2.60 grams per tonne of palladium compared to 4.4 million tonnes grading 2.48 grams of palladium per tonne in 2003. The increase in the total tonnes mined from an average of 39,895 tonnes per day in 2003 to an average of 46,038 tonnes per day in 2004 resulted from the elimination of primary crusher problems and a shorter haul distance for both ore and waste with the Phase 4 expansion.

During the fourth quarter, the waste strip ratio increased to 3.46:1 compared to 1.89:1 in the fourth quarter of 2003. In 2004, mining moved into Phase Four and required a higher level of waste removal whereas in the fourth quarter of 2003, mining was from the final stage of Phase Three. The waste to ore strip ratio increased to 2.68:1 in 2004 compared to 2.31:1 in 2003. The strip ratio is expected to return to normal levels in 2005 as Phase Four mining advances.

At the end of 2004, the broken ore stockpile consisted of 1.4 million tonnes grading 1.76 grams per tonne palladium containing approximately 79,000 ounces of palladium compared to 2.1 million tonnes grading 1.57 grams of palladium per tonne containing 107,000 ounces of palladium at the end of 2003.

The following table sets forth information concerning the production from the Lac des Iles Mine for each of the five years ended December 31, 2004:

Year	2004	2003	2002	2001
Ore Mined (Tonnes)	4,574,134	4,396,847	7,250,963	5,768,1

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Waste Mined (Tonnes)	12,275,889	10,164,806	9,828,552	19,174,6
Total Mined (Tonnes)	16,850,023	14,561,653	17,079,515	24,942,7
Stripping Ratio	2.68:1	2.31:1	1.36:1	3.32
Average Daily Production (Tonnes)	46,038	39,895	46,793	68,3

### UNDERGROUND OPERATIONS

In late 2003 the Corporation commissioned a full feasibility study in response to scoping studies and a pre-feasibility study that indicated a higher grade sub-vertical ore body located directly beneath the open pit was viable as an underground mine. The feasibility study confirmed that an underground operation is economically viable operating concurrently with the open pit to provide a blended higher grade mill feed. See section referenced "Underground Mine" for additional information on the underground mine.

The Corporation commenced the development of an underground mine at its Lac des Iles operations in the second quarter of 2004. The underground mine development is focused on the Main High Grade Zone below the ultimate pit depth. Capital costs for the underground development are estimated at \$40

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million for direct and indirect costs and working capital. Mining equipment accounts for an additional \$12 million of capital costs and the Corporation is financing this equipment through a vendor lease program. By December 31, 2004 the main ramp had been advanced 435 metres from the portal entrance. The underground development will continue throughout 2005, with first ore production expected during the fourth quarter. Once in full production, in the first quarter of 2006, the underground mine is expected to produce 2,000 tonnes of ore per day at an average head grade of 6.62 grams of palladium per tonne. This will be combined with 13,500 tonnes of ore per day from the open pit operations, to feed the mill ore with an approximate grade of 2.33 grams per tonne.

Mobile equipment for the mine is expected to include two electric hydraulic drill jumbos, one longhole drill, one emulsion truck, two 8 cubic yard scooptrams and one 11 cubic yard scooptram, and three 60 tonne trucks, along with other service and support equipment. To date the Corporation has acquired one electric hydraulic drill jumbo, one emulsion truck, one eight cubic yard scoop tram, one 60 tonne truck and certain other service and support equipment. Total intake ventilation for the mine is designed to be 425,000 cubic feet per minute. There will be one intake ventilation raise/secondary egress situated outside the ultimate open pit limits and air will exhaust up the main ramp.

Work is currently being conducted using the Corporation's workforce and contractors. When the underground mine is in full production approximately 80 full-time employees will have been added to the workforce, bringing the number of employees at the Lac des Iles Mine to approximately 380.

Local Thunder Bay engineering firms have been engaged to complete the details for ventilation, heating, electrical services and water supply for the underground mine.

Construction and development of the underground mine is on schedule to meet commercial production in the fourth quarter of 2005 and within budget.



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### MILLING OPERATIONS

The concentrator facility used at the mine has a design capacity of 15,000 tonnes per day. Ore is crushed in a gyratory crusher and conveyed to a coarse ore stockpile. A portion of the coarse ore is crushed in the secondary crusher (an HP 800 pebble crusher) and the finer material blended with the coarse ore as it is fed to the SAG mill. The blending of the fine and coarse ore is automated providing greater control over the process. The ore is ground to a nominal P80 (the size of an opening through which 80% of the product will pass) of 74 microns in a conventional semi-autogenous mill/ball mill/pebble crusher (SABC) circuit. The ground ore feeds a flotation circuit that is comprised of rougher/scavengers, four stages of cleaning and includes a regrind circuit. The flotation circuit in the old concentrator is currently connected to the new concentrator to provide additional cleaner flotation capacity. The final concentrate is thickened and dewatered using two pressure filters. Tailings are contained in the existing tailings impoundment facility which is required to be expanded on an annual basis, for the life of the mine.

The concentrator processed 5,298,544 tonnes of ore or 14,477 tonnes per calendar day in 2004 at an average palladium head grade of 2.41 grams per tonne and an average palladium recovery of 75.2%. The concentrator throughput was 5,159,730 tonnes of ore in 2003 at an average palladium grade of 2.31 grams per tonne and an average palladium recovery of 75.5%. The Corporation produced 308,931 ounces, 288,703 ounces and 219,325 ounces of palladium in 2004, 2003 and 2002, respectively. Palladium production reached a record high primarily as a result of higher palladium feed grade combined with increased mill throughput.

The average grade of palladium milled was 2.41 grams per tonne in 2004, 2.31 grams per tonne in 2003 and 1.91 grams per tonne in 2002. Production costs per tonne of ore milled were \$19.43 in 2004, \$20.09

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in 2003 and \$20.74 in 2002. Cash costs, which include direct and indirect operating costs, smelting, refining, transportation and sales costs, royalties, net of credits for by-products, were US\$159 per ounce in 2004, US\$175 per ounce in 2003 and US\$264 per ounce in 2002. The improvement in unit cash costs in 2004 compared to 2003 was achieved by a 7% increase in palladium production combined with a 13% increase in revenue from by-product metals.

The Company decided to proceed with the secondary crusher installation for the mill in 2004. The secondary crusher is designed to increase the throughput rate and reduce processing costs in the mill circuit. The secondary crushing circuit was commissioned at a capital cost of \$10.2 million and commenced operation at the beginning of December 2004. Contractor crushing was significantly reduced by year-end and was eliminated in early 2005.

With the secondary crusher installed and operating as planned, the milling process will continue to be further optimized. In conjunction with S.G.S. Lakefield Research Limited, flotation test work involving hydrodynamic studies commenced in mid-2004. Further plant test work involving hydrodynamics is being carried out in 2005 and is expected to improve palladium recovery. In addition, process control equipment for automated reagent addition and flow regulation, was purchased in late 2004 and will be installed in the first half of 2005. These additions will allow for further control advancements in the flotation circuit as a part of the action plan for improving the palladium recovery.

The concentrator produces a palladium rich concentrate that is shipped off-site for final processing. See "Smelting and Refining Agreements". The following table set forth the tonnes milled and the metal production of the concentrate

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for each of the five years ended December 31, 2004:

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

### FACILITIES AND INFRASTRUCTURE

The mining operation includes, in addition to the concentrator, an assay laboratory, a warehouse, electrical shop, a three bay truck shop to service the larger haul trucks, an operations camp, a water treatment plant, a propane storage facility, a fuel storage area and an electrical substation. Power is delivered to the site by a 65 kilometer power line, which ties directly into the northwestern Ontario power grid.

The present tailings management facility ("TMF") has been operating since 1990. Until 1998, the dams were primarily constructed as water retaining dams, comprising rock fill, filters and glacial till or high density polyethylene facing. In 1998 and 1999, dams at the north end of the facility were raised using rock fill and tailings. Further TMF expansion commenced in 2000 and is designed to accommodate successive lifts when required to store the tailings produced over the current 5.5 year mine life. The dams have been raised and are constructed of non-reactive rock fill, filters and geotextile. The TMF is a stable impoundment, where erosion is minimized, runoff is managed, water is returned to the concentrator as needed and excess water is stored until it can be treated and released. The design of the operation provides for closure and reclamation of the facility.

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### METAL SALES AGREEMENTS

The Corporation has a palladium sales contract (the "Palladium Sales Contract") with a major automotive manufacturer (the "Automotive Manufacturer"), whereby the Corporation has hedged the price of 100% of the palladium it is entitled to receive from its smelter customers. Under the Palladium Sales Contract, the Automotive Manufacturer purchases all of the refined palladium that the Corporation is entitled to receive from the smelters. The actual amount purchased depends on how much palladium is delivered, less the amount due under a royalty agreement with the Sheridan Platinum Group Inc. and John Patrick Sheridan. See "Royalty Agreement".

The price of the palladium under the Palladium Sales Contract is the average monthly London Metal Exchange afternoon fixing price minus a modest specified discount; however, the price for palladium cannot be less than US\$325 per ounce for all production delivered in each month under the Palladium Sales Contract.

The Palladium Sales Contract expires on June 30, 2005. Commencing with the first quarter of 2005, palladium production which will be available for physical delivery after June 30, 2005 will not be subject to the Palladium Sales

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Contract.

The Corporation has entered into a palladium sales contract for the sale of an aggregate of 36,000 ounces of palladium from June to December 2005. The other party to the contract is an international bank that is purchasing the metal for further sale to an end-user of palladium. The selling price of the palladium is the average monthly London Metal Exchange afternoon fixing price minus a modest specified discount.

The Corporation also enters into forward commodity sales contracts from time to time to hedge the effect of changes in certain metal prices on the Corporation's revenues. At December 31, 2004, the Corporation had forward sales contracts for 10,500 ounces of platinum at an estimated weighted-average price of US\$831 per ounce, 12,000 ounces of gold at an estimated weighted-average price of \$435 per ounce, 510 tonnes of nickel at an estimated weighted-average price of US\$14,500 per tonne (US\$6.58 per pound) and 900 tonnes of copper at an estimated weighted-average price of US\$2,755 per tonne (US\$1.25 per pound).

### ROYALTY AGREEMENT

On August 31, 1994, the Corporation entered into a royalty agreement with The Sheridan Platinum Group Inc. and John Patrick Sheridan (together referred to as the "Sheridan Group"). Under the agreement, the Corporation is obligated to pay to the Sheridan Group a royalty equal to 5% of "net cash proceeds" received from concentrates and other products produced at the Lac des Iles Mine. The term "net cash proceeds" is defined in the royalty agreement generally as the net proceeds of sale receivable by Lac des Iles Mines Ltd. from the production and sale of concentrates from the Lac des Iles Mine, after deducting the costs of sampling, assaying, transporting and insuring the concentrate; smelter, processing and refining charges and penalties (excluding Lac des Iles Mines Ltd.'s own processing costs) and all applicable taxes and royalties that must be paid in respect of the mining operations. Under the royalty agreement, the Sheridan Group may elect, and has elected, to receive payment of the royalty in kind in respect of palladium and platinum, rather than in cash, and in respect of other metals, the Sheridan Group has elected to receive cash. All mining operations at the Lac des Iles Mine are on the mining leases and are covered by the royalty agreement.

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### SMELTING AND REFINING AGREEMENTS

The Corporation has agreements with Falconbridge and Inco providing for the sale of the Corporation's concentrates produced at the Lac des Iles Mine and, ultimately, the smelting and refining of the principal metals contained in the concentrates.

The agreement with Falconbridge ends on March 31, 2006. Under the agreement, Falconbridge purchases the Corporation's concentrates and, will settle in cash or, at the Corporation's discretion, make available to the Corporation the refined palladium, platinum and gold at Falconbridge's refining facilities in Kristiansand, Norway. In certain circumstances, such as default of performance, insolvency or ceasing to carry on business, the agreement can be terminated by the party not in default, insolvent or ceasing to carry on business. The agreement can be suspended in the event of a force majeure.

The agreement with Inco ends on August 31, 2005. Under the terms of the agreement, Inco purchases the Corporation's concentrates and will settle in cash or, at the Corporation's discretion, make available to the Corporation the refined palladium and platinum at Inco's Acton Refinery in London, England. The

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agreement can be suspended in the event of a force majeure.

The Corporation is in discussions with each smelter and expects to renew the contracts with the smelters.

### FINANCING

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

In December 2001, Kaiser-Francis Oil Company ("Kaiser-Francis") provided a US\$20 million non-revolving credit facility to finance the Corporation's working capital requirements. In the second quarter of 2004, the Kaiser-Francis credit facility was extended to June 30, 2006 as part of a debt restructuring plan. Interest is based upon the 30-day LIBOR plus 2.50% and there is a stand-by fee of 0.125% per annum. The amount payable to Kaiser-Francis for interest, standby fee and guarantee fee was \$585,000 in 2004 compared to \$687,000 in 2003. As at December 31, 2004, US\$11.5 million was drawn on the facility. Kaiser-Francis holds 50.4% of the common shares of the Corporation.

### MINERAL PROPERTIES

#### REGIONAL GEOLOGY

The Lac des Iles area is underlain by Archean-age rocks of the Superior Province of the Canadian Shield which are overlain and intruded by rocks of the Proterozoic-age Southern Province. The Superior Province can be subdivided into areas of plutonic, granite-greenstone, metasedimentary and gneissic rocks. The Southern Province consists of a blanket of sedimentary rocks extensively intruded by gabbroic magma.

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In the Archean, mafic to ultramafic intrusions scattered throughout northwestern Ontario host, or have the potential to host, platinum group metal mineralization. Platinum group metal mineralization of Proterozoic age is also known to occur in northwestern Ontario.

In the Lac des Iles area, the Lac des Iles Intrusive Complex is one of many platinum group metal-bearing, mafic to ultramafic, intrusions that define a circular feature (of speculative origin) with a diameter of 30 kilometres. The 30-square kilometer Lac des Iles Intrusive Complex consists of three separate magma chambers partially separated by tonalite septum. The ultramafic North Lac des Iles Intrusive Complex is centered on Lac des Iles (the lake). The gabbroic Mine Block Intrusion and Camp Lake Intrusion occur south of Lac des Iles. The Camp Lake Intrusion is a relatively homogeneous hornblende gabbro and contains minor base metal sulphides and platinum group metals. The Mine Block Intrusion to the north is complex in structure, texture and composition, and contains abundant platinum group metal mineralization. The most significant zones of

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platinum group metal mineralization are in the Mine Block Intrusion and are the Roby, Twilight, Creek Baker, South Roby zones and the VT Rim Target. The Roby and Twilight zones are the only defined areas of mineralization on the Lac des Iles property.

### MINERALIZATION - MINE BLOCK INTRUSION GEOLOGY

The Roby zone is a breccia zone, currently measuring 950 metres long, 815 metres wide and 905 metres deep, and remains open to the west, southeast and at depth. Platinum group metal mineralization is associated with pyroxenite, gabbro and gabbro in areas that have been invaded and brecciated by copper-nickel-platinum group metal bearing melanogabbro, which also generated abundant pegmatitic gabbro. The ore typically contains from a trace to 5% pyrrhotite, chalcopyrite, pyrite and pentlandite. The platinum group metals include vysotskite, isomerticite, kotulskite, sperrylite, merenskyite and palladium arsenide. Similar breccia mineralization occurs at other locations within the intrusive complex.

The Roby zone contains two distinct types of mineralization separated by a zone of sheared and mineralized pyroxenite that trends north-northwest. North of the shear zone, the North Roby ore is hosted by varitextured gabbro and gabbro that strikes northeast and dips to the east-southeast variably at 45 to 60 degrees. This mineralization tends to be sulphide-poor. Southwest of the shear zone the breccia ore (the "Breccia Ore") is hosted by a heterolithic gabbro breccia with abundant pegmatitic and varitextured gabbro. From the pyroxenite contact, the grades diminish gradually to the west. This zone typically contains 2% to 5% sulphides. The pyroxenite is well mineralized and contains high grade ore associated with intense talc alteration. The Main High Grade Zone occurs at the eastern boundary of the central portion of the Roby Zone and extends below the economic limits of the Roby pit. This near vertical planar zone has a strike length exceeding 350 metres with thickness averaging 12 metres and is ideal for exploitation by underground mining. It is continuous to a depth of 675 metres where it is truncated and offset to the west by a fault. Below this fault, the Offset High Grade zone has been traced to a depth of 905 metres, over a strike length of 300 metres, and remains open.

The Twilight zone lies 50 to 70 metres east of the east boundary of the Roby zone. The Baker zone is located one kilometer east of the Roby zone and the Creek Zone is located less than two kilometres from the Roby Zone.

The South Roby Zone is located southeast of the Roby Zone and lies entirely outside the ultimate pit limits as contemplated by the current mine plan. It is separated from the Roby Zone by a horst or older, barren rock known as East Gabbro.

Most of the significant platinum group and base metal mineralization in the Lac des Iles Intrusive Complex is associated with distinctly varied textured ("VT"), mafic-ultramafic lithologies. These rock

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units tend to occur along the rim of the complex. The VT Rim Target, which is one to two kilometres from the Roby Zone, has been identified for further exploration.

### EXPLORATION

Concurrently with the development of the underground mine, the Corporation is exploring five targets proximate to the Mine: the potential down dip extension of the Offset High Grade Zone, the Creek Zone, the Baker Zone, the South Roby

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Zone, and VT Rim Target (hereinafter individually referred to as the "Target" and collectively as the "Targets").

The Corporation believes that the High Grade Zone is cut off at depth or displaced approximately 250 metres to the west along a flat lying structure where it forms what is called the Offset High Grade Zone. An alternate hypothesis is that the Offset High Grade Zone is a separate, sub-parallel mineralized zone.

The Corporation completed a deep 2000 metre diamond drill hole to test the potential down dip extension (the "Deep Target") of the Offset High Grade Zone at a vertical depth of 1500 metres from surface. A second hole was also completed intersecting the Offset High Grade Zone approximately 300 metres below the limit of the underground inferred resource and 300 metres above the projected intercept of the first drill hole. If the results from these holes warrant further exploration, the Corporation will drill wedges off this "master hole". The anticipated "pierce" points of these holes would be in the order of approximately 600 to 900 metres vertical below any proposed underground development of the current combined open pit/underground operation.

Each of the other Targets is beyond the limit of the ultimate pit boundary as currently planned. It is anticipated that each Target, if sufficient reserves are identified, would be mined by open pit method independently of the Roby Zone pit. Each pit would require pre-stripping of overburden, road access and a facility for staging and supply access for truck haulage and drill blasting.

Mine production from each of the Targets would be processed at the current milling facility at the Lac des Iles Mine.

Anomalous PGM values occur within breccia bodies along the northeast margin of the LDI Mafic Intrusive Complex. Grab samples taken from surface trenches on the Creek Zone had values that warrant further exploration and the Corporation plans to conduct drilling on the property.

Surface trenching on the Baker Zone has exposed mineralized breccias. The Corporation proposes to drill test an IP Resistivity Anomaly coincident with low grade mineralization. It also proposes to drill an east-west hole under Shorty Lake to test for a north-south structure believed to be similar to the structure hosting the High Grade Zone.

A previous drilling program on the South Roby Zone showed encouraging values and further drilling will be conducted on this zone. As mentioned previously, most of the significant platinum group and base metal mineralization in the Lac des Iles Intrusive Complex is associated with distinctly textured, varied textured, mafic-ultramafic lithologies. The Corporation proposes to conduct a systematic drill program to explore for blind mineralized breccia bodies along the VT Rim Target.

The drilling programs for the Targets were conducted by Chibougamau Diamond Drilling and Bradley Brothers Limited and supervised by employees of the Corporation.

Exploration for 2005 will include both resource development and grass roots programs. The greatest potential for expanding resources remains within the immediate Lac des Iles area. Consequently, core

drilling will be conducted on the southeast extensions of the Roby zone as well as the Targets; the drilling programs are expected to commence in the second

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quarter of 2005. The Corporation will also continue grass roots exploration on recently acquired properties located within 100 kilometres of the mine.

### OTHER PROPERTIES

In 2004, the Corporation continued to pursue new properties beyond the Lac des Iles Mine, with a focus on those with established base and platinum group metals resources.

The Corporation entered into an option and joint venture agreement with Inco relating to Inco's Haines and Conacher properties, located approximately 80 kilometres southwest of Thunder Bay, which surround Inco's former Shebandowan mine and are contiguous with the Corporation's Haines property. Combined with the Corporation's options on two adjacent properties, the Shebandowan Lake project in the Haines and Conacher districts now covers approximately 8,000 hectares.

In 2004 the combined Shebandowan Lake properties were subject to an airborne geophysical survey and diamond drilling to test priority targets. The drill program will continue through the first quarter of 2005.

In June 2004 the Corporation entered into an option agreement to earn a 100% interest in a property known as the Legris Lake Project which is adjacent to the Lac des Iles Mine. The property covers a mafic-ultramafic intrusive complex that exhibits certain similarities to the Lac des Iles Intrusive. Previous work successfully identified several PGM bearing heterolithic gabbro breccias. The proposed 2005 exploration program will include ground geophysical surveys and approximately 2000 meters in diamond drilling.

In March 2005 the Corporation entered into an option and joint venture agreement with Gossan Resources Limited to earn up to a 75% interest on a property known as Bird River Property located in south-east Manitoba. The Corporation plans to conduct a detailed airborne geophysical survey in the second quarter of 2005, followed by mapping and prospecting, and diamond drilling of priority targets in the third quarter 2005.

The Corporation had an option to acquire a 60% interest in the Roaring River property located 60 kilometres north of Lac des Iles. The 5,404 hectare Roaring River property contains a large complex mafic intrusion, similar to the Lac des Iles intrusion. Prospecting discovered numerous large boulders containing elevated base metal and PGM values; however, efforts to locate the bedrock source of the boulders were unsuccessful and the Corporation terminated its option in November 2004.

### DRILLING, SAMPLING, ASSAYING AND SECURITY

On the Corporation's Lac des Iles property all hole collars have been surveyed using known mine survey stations. Since 1995 all holes have been surveyed downhole either with a Tropari instrument or the Reflex Maxibor, a light log method that is not affected by magnetism. Core recovery is excellent throughout the deposit and is reported to average close to 100%. The loss of core is nominal, occurring occasionally when a drill hole intersects a fault.

The drillers deliver the core daily to the core logging facilities in a secure wooden building where the geologists measure and photograph the core, then take RQD measurements and specific gravity samples every 30 metres. The core is then logged and marked for sampling. Sections of the hole are split using a hydraulic core splitter on a one to three-metre sample. Lithology and geological contacts occasionally necessitate smaller sample intervals. The drill procedures, core handling and logging are in compliance with accepted industry standards and accepted industry practices.

Split core is assayed by Accurassay Laboratories Ltd. of Thunder Bay. Precious metals values are determined by fire assay followed by atomic absorption finish and base metal values by atomic absorption. Pulverized rock standards are inserted at every thirtieth sample, a blank split core sample is inserted every twentieth sample, and for every twentieth sample, two subsamples of the coarse crush reject are sent to one independent laboratory (ALS Chemex or Lakefield Research), and the minesite laboratory.

The database used in construction of the geological and resource model meets industry standards. Further the block models for the open pit are checked against a block model derived from the blast hole samples on a regular basis, and there is reasonable agreement between the block model and the blast hole samples.

#### MINERAL RESERVE AND MINERAL RESOURCE ESTIMATES

The resource and reserve model developed by the Corporation utilizes the classification system and definitions set forth in National Instrument 43-101 Standards Of Disclosure For Mineral Projects ("National Instrument 43-101") which classifies resources into measured, indicated and inferred confidence categories and classifies reserves as proven and probable. The standards applied by the Corporation conform to the definitions adopted by the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Reserves - Definitions and Guidelines adopted by the CIM Council on August 20, 2000.

Mr. Douglas Kim, P. Geo., Quality Control and Metals Accounting Manager prepared the reserve and resource estimates for the open pit mine and the resource estimate for the underground mine. Mr. Kim is an employee of the Corporation and he is a qualified person under National Instrument 43-101. Graham G. Clow, P. Eng. and David W. Rennie, P. Eng. of Roscoe Postle Associates Inc. ("RPA"), an independent geological mining engineering consulting firm, prepared the reserve estimate for the underground mine. Each of Mr. Clow and Mr. Rennie is a qualified person under National Instrument 43-101.

Resources are in addition to reserves. Reserves are presently defined on a palladium-only basis. The deposit is polymetallic by nature, with economically recoverable credits for platinum, gold, copper, nickel and cobalt. The majority of revenue is derived from palladium averaging about 61% of revenues in 2004. Geochemical and statistical correlations between the metals are sufficiently robust that grade control based on palladium only is sufficient for making economic decisions.

The reserve estimates are diluted and based upon a cut off grade of 1.1 grams and 4.5 grams of palladium per tonne for the open pit and the underground, respectively, assuming a long-term palladium metal price of US\$275 per troy ounce and including by-product metal prices.

#### NOTE TO U.S. SHAREHOLDERS

The Corporation is required under Canadian law (National Instrument 43-101) to report mineral reserves and resources using the classification system set out in the CIM standards. These guidelines establish definitions for the reporting of exploration information, mineral resources and mineral reserves in Canada. These definitions have not been adopted for use in the United States by the Securities and Exchange Commission (the "SEC").

The CIM definitions of proven and probable reserves are substantially similar to



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the definitions of proven and probable reserves as set out Industry Guide No. 7 under the U.S. Securities Act of 1933, as amended. In addition, Canadian law requires disclosure of mineral resources be classified as measured, indicated and inferred resources if such resources are material to the company. While the terms "mineral resource",

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"measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are recognized by Canadian securities regulators, they are not defined terms under the standards in the United States. As such, the information contained in this AIF (and in particular the sections entitled "Reserves" and "Resources") concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to reporting and disclosure requirements of the SEC. "Indicated mineral resource" and "inferred mineral resource" have a great amount of uncertainty as to their existence and a great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category. Investors are cautioned not to assume that all or any part of the mineralization classified in these categories will ever be reclassified as reserves.

### RESERVES

The following table sets forth the estimated OPEN PIT reserves at the Lac des Iles Mine as at December 31, 2004:

RESERVES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)	NICKEL (%)	PAL (00)
Proven	20,155	1.66	0.20	0.13	0.06	0.08	
Probable	8,398	2.14	0.23	0.16	0.07	0.08	
Total	28,553	1.80	0.21	0.14	0.06	0.08	

A basic dilution strategy is applied on a selective basis to the reserve model. With the higher grade Roby High Grade and gabbronorite rock types, grades are diluted by 10%. Within the other ore-bearing rock units, material is diluted by 10% with the diluting material assumed at a 0.4 g/t palladium grade (the average grade of the surrounding waste material). Mining recovery in all cases is assumed at 90%.

The following table sets forth the estimated UNDERGROUND reserves at the Lac des Iles Mine as at December 31, 2004:

RESERVES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)	NICKEL (%)	PAL (00)
Probable	3,542	6.62	0.40	0.34	0.07	0.08	

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 A basic dilution strategy is applied on a selective basis to the reserve model. Overall dilution is 16% on average, at a palladium grade of 1.1 gram per tonne. Mining recovery in all cases is assumed at 83 %.

See "Note to U.S. Shareholders".

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RESOURCES

The following table sets forth the estimated OPEN PIT resources at the Lac des Iles Mine as at December 31, 2004:

RESOURCES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)	NICKEL (%)	PALLADIUM (000)
Measured	9,714	1.70	0.20	0.14	0.07	0.08	5
Indicated	6,617	1.64	0.19	0.13	0.06	0.08	3
Total	16,331	1.68	0.20	0.14	0.06	0.08	8
Inferred	135	1.49	0.16	0.11	0.06	0.07	

The following table sets forth the estimated UNDERGROUND resources at the Lac des Iles Mine as at December 31, 2004:

RESOURCES	TONNES (000)	PALLADIUM (g/t)	PLATINUM (g/t)	GOLD (g/t)	COPPER (%)	NICKEL (%)	PALLADIUM (000)
Indicated	600	7.00	0.39	0.29	0.06	0.07	1
Inferred	5,367	6.10	0.34	0.33	0.07	0.12	1,

THE RESOURCES IN THE FOREGOING TABLES ARE IN ADDITION TO RESERVES. The resources were estimated using a cut-off grade of 1.1 grams and 4.5 grams of palladium per tonne for the open pit and underground, respectively, assuming an average long-term palladium price of US\$275 per ounce and including by-product metal credits. The cut-off grade used in the resource estimates reflect the current estimated life-of-mine costs of mining and processing, in conjunction with smelting and transportation costs consistent with current contracts. The metal ounces listed in the table above are on a contained basis without adjustment for processing or smelting recoveries. Resources which are not reserves do not have demonstrated economic viability.

See "Note to U.S. Shareholders".

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### ENVIRONMENTAL MATTERS

The expansion of operations at the Lac des Iles Mine in 2000 and 2001 involved numerous amendments to the existing approvals, as well as new approvals pursuant to various provincial statutes relating to environmental matters. The ONTARIO WATER RESOURCES ACT required amendments to the existing permit to take water, a certificate of approval for domestic (human) subsurface sewage disposal, and a certificate of approval for industrial sewage that includes expansion of the tailings facility. The amendments and approvals under the ONTARIO WATER RESOURCES ACT were obtained. The Corporation received approval for an amendment to the certificate for industrial sewage to permit the new effluent treatment plant and increase effluent discharge volume. The Corporation obtained the permit required for the tailings facility under the Ontario LAKES AND RIVERS IMPROVEMENT ACT because of the expanded area of the tailings pond. The Corporation obtained a certificate of approval for air emissions for the site required under the Ontario ENVIRONMENTAL PROTECTION ACT.

The Corporation amended the existing closure plan under the Ontario MINING ACT, which includes an increase in the amount of financial assurance required by the Ministry of Northern Development and

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Mines ("MNDM"). The closure plan and financial assurance agreement was submitted to the MNDM in April 2001. Under this agreement, the Corporation will provide financial assurance of \$7.8 million payable in installments of \$100,000 per month over six years. As at December 31, 2004, the Corporation had approximately \$6 million on deposit with the MNDM. The closure plan and financial assurance were accepted on June 21, 2001.

The Corporation has designed the expanded operations so as not to infringe on any navigable waters or fish habitat. Consequently, management believes no federal approvals or permits are required pursuant to either the NAVIGABLE WATERS PROTECTION ACT or the FISHERIES ACT. In addition, because federal approvals are not required, an environmental assessment under the Canadian Environmental Assessment Act should not be necessary. However, when production increases beyond 15,000 tonnes per day, federal permits may be necessary which would trigger an environmental assessment which may be in the form of a comprehensive study.

Permitting and approvals for the underground mine are minimal as the underground mine will be an extension of the much larger and higher impact open pit operations. A work permit for the camp extension was submitted to and approved by the Ministry of Natural Resources. The Corporation has submitted the following applications in connection with operations: notices of material change regarding the expansion and the east waste dump were submitted to the MNDM; and an amendment to the Certificate of Approval (Air) for the secondary crusher was submitted to the Ministry of the Environment. The Corporation will prepare and submit applications for: an amendment to the Municipal Sewage Certificate of Approval; a further amendment to the Certificate of Approval (Air); and an amendment to the Closure Plan.

### UNDERGROUND MINE

RPA prepared a feasibility study titled "Feasibility Study for the Underground Mine at the Lac des Iles Mine" (the "RPA Feasibility Study"). The purpose of the RPA Feasibility Study was to demonstrate the economic viability of a palladium underground mining operation (the "Project") below the existing Roby open pit (the "Roby Pit"). Certain of the technical information contained in this AIF

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relating to the Project has been taken from the RPA Feasibility Study. A technical report (the "Technical Report") dated April 2, 2004, prepared by Graham G. Clow, P. Eng and David W. Rennie, P. Eng of RPA, incorporating certain information from the RPA Feasibility Study has been filed on SEDAR. Messrs. Clow and Rennie are employees of RPA, have confirmed their independence to the Corporation and are qualified persons under National Instrument 43-101. Messrs. Clow and Rennie prepared the reserve and resource estimates, as set out in the Technical Report, for the proposed underground mine at the Roby High Grade Zone. The mineral resource estimate for the underground mine was subsequently re-estimated by the Corporation's personnel (see "Mineral Reserves and Resources").

The underground portion of the Roby deposit is a continuation to depth of the Roby High Grade Zone that forms the core of the Roby Pit reserves. The underground deposit lies below the ultimate pit bottom of the Roby Pit at an elevation of 209 metres above sea level, and extends to a depth of 170 metres below sea level, for a total dip length of 444 metres.

A nominal target of 2,000 tonnes of ore per day from underground was determined to be the most appropriate rate for both the size of the deposit and the allowable time for pre-production development. Several constraints were identified in assessing access alternatives and coordinating the underground operations with the open pit. It was concluded that ramp access from within the open pit would be the most economical alternative. It was also determined that the portal be located in the pit wall, and ore be hauled in 60 tonne trucks directly from the mine to a stockpile area near the surface crusher.

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The chosen mining method is sublevel retreat longitudinal longhole stoping with no fill. The mining block interval is 70 metres floor to floor including a 15 metre to 25 metre sill pillar below each haulage level. Stopes will be 45 metres to 55 metres high by the width of the orebody.

Mobile equipment for the mine is expected to include two electric hydraulic drill jumbos, one longhole drill, one emulsion truck, three 8 cubic yard scooptrams, and three 60 tonne trucks, along with other service and support equipment. Total intake ventilation for the mine is designed to be 425,000 cubic feet per minute. There will be one intake ventilation raise/secondary egress situated outside the ultimate open pit limits and air will exhaust up the main ramp.

The Corporation has carried out metallurgical test work on the underground ore and has determined that no modifications are required to process a blend of underground and open pit ore. The Corporation expects that the palladium recovery of underground ore will be higher (+80%) than that being achieved on the open pit ore in the mill (75% to 80%).

At full complement there will be an underground workforce of 70 hourly and 11 management and technical staff. Hourly employees will work two ten-hour shifts per day on a two week on/one week off rotation. Contractors will be retained during the pre-production period to install the ventilation raise. During the mine life, there will be an ongoing contractor presence for infill diamond drilling. A contract crew will continue to extend the ventilation raise into production as lower levels of the mine are reached.

### CAPITAL COSTS AND RETURN OF CAPITAL

The estimated capital costs of the Project (in constant 2004 dollars) is approximately \$30.4 million.

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The capital cost estimate covers a 16-month pre-production period and includes all costs for the development of the underground mine based upon 2,000 tonnes ore per day for its 4.7 year mine life.

During pre-production, approximately 100,000 tonnes of ore will be produced, generating revenue of \$6.5 million. For evaluation purposes it is assumed that this was in addition to and does not replace open pit feed.

Closure costs related to the overall underground site are assumed to be minimal. These include removal of underground equipment and services, and capping of the ventilation raises. Costs are expected to be recovered from the salvage value of equipment.

At current palladium prices (\$216 per ounce) for the underground mine on a stand-alone basis, the undiscounted pre-tax cash flow is approximately \$61.3 million, and simple payback occurs in approximately 22.5 months from the start of commercial production. However, with the large discount between platinum and palladium prices, the Corporation believes that jewellery and catalyst fabricators will switch to palladium to protect their profit margins. The Corporation expects the result to be a narrowing of the spread between the platinum and palladium prices as the platinum market stagnates and the palladium over-supply is consumed by increased substitution.

### OPERATING COSTS

The average total unit cash operating cost over the mine life is estimated to be \$39.79 per tonne milled, or \$152 per ounce of palladium (net of by-product credits). This includes mining, ore haul, milling, power, equipment leases, and general and administrative costs.

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### PROJECT RISK

According to the RPA Feasibility Study, this is a relatively low risk mine project from a technical standpoint. The underground mine is being developed beneath an existing open pit where the surface infrastructure is in place, including crusher and concentrator. Resources and reserves have been estimated in accordance with the requirements of National Instrument 43-101 from an extensive database built up over five years. The underground mineral deposit lies within the same competent rocks as in the overlying open pit, and ground conditions are expected to be good. Development and production plans have been prepared from a zero base using known operating and productivity specifications. Costing has been derived from firm quotations from equipment suppliers and contractors.

Geomechanics testwork has indicated that large openings created with longhole retreat mining need to be supported by a recoverable central main rib pillar and a side rib pillar to minimize the chance of major ground falls in the later stages of mining. It is expected that 83% of the reserves will be recoverable using this method, where the majority of the non-recoverable ore will be in thin, lower grade pillars.

### DIVIDENDS

The Corporation has not paid any dividends to date on its common shares. In addition, the payment of dividends on the common shares is restricted under the Corporation's credit facility with Kaiser-Francis. Accordingly, it is not anticipated that the Corporation will pay any dividends on its common shares in

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the near future. The actual timing, payment and amount of any dividends will be determined by the board of directors from time to time based upon, among other things, cash flow, results of operations and financial condition, the need for funds to finance ongoing operations and such other business considerations as the board of directors may consider relevant.

### CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of special shares, issuable in series and an unlimited number of common shares. There are no special shares outstanding.

The special shares may be issued in series. The Corporation's directors may, by resolution, fix the number of shares in, the designation of, and determine the rights, privileges, restrictions and conditions attaching to, each series of special shares. The special shares of each series rank on a parity with the special shares of any other series in respect of dividends or the return of capital. The holders of special shares are entitled to receive, in priority to the holders of common shares and the shares of any other class ranking junior to the special shares, as and when declared by the directors, dividends in the amounts specified or determinable in accordance with the provisions of the series of which such special shares form a part. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, before any amount is paid to the holders of common shares or shares of any other class ranking junior to the special shares, the holders of special shares shall be entitled to receive, to the extent provided for with respect to such series, an amount equal to the price at which such shares were issued, such premium, if any, as has been provided for with respect to such series, and all unpaid cumulative dividends or declared and unpaid non-cumulative dividends. The special shares of any series may also be given such other preferences over the common shares and any other class of shares ranking junior to the special shares as may be determined in the case of such series. The holders of special shares are not entitled to vote separately as a class and the holders of any series of special shares are not entitled to vote separately as a series except as required by the CANADA BUSINESS CORPORATIONS ACT.

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Each common share entitles the shareholder to one vote at all meetings of shareholders other than meetings at which only the holders of another class or series of shares are entitled to vote. Each common share entitles the holder thereof, subject to the prior rights of the holders of the special shares, to receive any dividends declared by the board of directors and the remaining property of the Corporation upon dissolution.

The Corporation has not issued any debt securities or preferred shares to the public and accordingly is not rated by any commercial rating organization.

### MARKET FOR SECURITIES

The common shares are listed on the Toronto Stock Exchange under the symbol "PDL" and on the American Stock Exchange under the symbol "PAL".

The following table sets out the reported high and low closing prices and aggregate trading volume of the common shares on the AMEX and TSX for the periods indicated:

AMEX

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	HIGH	LOW	VOLUME	HIGH	LOW
	(US\$)	(US\$)		(CDN\$)	(CDN\$)
2004					
January	9.40	7.75	7,916,200	12.20	9.99
February	10.00	7.93	5,282,900	13.16	10.46
March	11.78	9.37	7,924,200	15.58	12.20
April	13.67	8.68	17,168,900	17.85	11.60
May	10.50	8.87	6,887,200	14.41	12.20
June	10.01	8.30	3,453,200	13.72	11.60
July	9.55	7.90	3,328,600	12.49	10.46
August	8.27	6.32	4,511,500	10.08	8.65
September	8.33	6.50	4,643,900	10.50	8.65
October	9.21	7.90	5,290,500	11.60	9.99
November	9.67	7.75	7,204,100	11.55	9.99
December	8.82	7.53	6,152,200	10.48	9.99
2005					
January	8.19	7.54	3,052,300	9.99	9.99
February	8.55	7.23	4,056,700	10.46	8.65
March 1 - March 29	8.65	7.24	4,872,000	10.56	8.65

DIRECTORS AND OFFICERS

NAME, RESIDENCE AND POSITION(S) HELD WITH THE CORPORATION	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Michael P. Amsden, P.Eng. (1) (4) Chairman Oakville, Ontario, Canada	Retired senior mining executive	April 1995
Steven R. Berlin, C.P.A. (1) (2) Director Tulsa, Oklahoma, USA	Vice President, Kaiser-Francis Oil Company	February 2003

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NAME, RESIDENCE AND POSITION(S) HELD WITH THE CORPORATION	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Andre J. Douchane (4) Director, President and Chief Executive Officer Toronto, Ontario, Canada	Officer of the Corporation	April 2003
James D. Excell (3) (4) Director Kelowna, British Columbia, Canada	Chairman, BHP Billiton Diamonds Inc., a diamond mining company and President Narego Solutions Inc., a strategic planning consulting	June 2004

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	services company	
Louis J. Fox, Esquire (2) (3) Director Fort Lauderdale, Florida, USA	Private Businessman; Consultant	June 2000
Richard H. Sutcliffe, Ph.D., P.Ge. (2) (4) Director Ancaster, Ontario, USA	President and Chief Executive Officer, URSA Major Minerals Incorporated, a base and precious metals exploration company and Chairman, Patricia Mining Corp., a precious metals exploration and development company	January 199
Gregory J. Van Staveren, C.A., C.M.A., C.P.A. (1) (3) Director Toronto, Ontario, Canada	Strategic Financial Consultant	February 20
George D. Fought, C.A. Vice President Finance and Chief Financial Officer Toronto, Ontario, Canada	Officer of the Corporation	
Ray J. Mason, B.Sc. General Manager Thunder Bay, Ontario, Canada	Officer of the Corporation	
Bruce W. Mackie, P.Ge. Vice President, Exploration and Corporate Development Oakville, Ontario, Canada	Officer of the Corporation	
Douglas H. Bache Treasurer Burlington, Ontario, Canada	Officer of the Corporation	
Michael C. Thompson, F.C.C.A. Manager Administration and Senior Controller Thunder Bay, Ontario, Canada	Officer of the Corporation	
Mary D. Batoff, LL.B. Vice President, Legal and Secretary Toronto, Ontario, Canada	Officer of the Corporation	

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Governance and Nominating Committee
- (4) Member of the Technical Committee

The term of office for each director expires at each annual meeting of shareholders.

Each director or officer listed above has held the same principal occupation during the past five years except as described below:



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Mr. Berlin has been a Vice President of Kaiser-Francis Oil Company ("Kaiser-Francis"), the Corporation's principal shareholder, since February 1999 on a part-time basis and since September 1999 on a full-time basis. From November 1999 until January 30, 2004, he was also Chief Financial Officer and Treasurer of PetroCorp Incorporated, an oil and natural gas company.

Mr. Douchane was President of Management Inc., a management consulting firm prior to April 2003. Prior to April 2002, he was President and Chief Operating Officer of Chief Consolidated Mining Co., a mineral resources company and prior to June 2001 he was Vice-President Operations of Franco-Nevada Mining Corporation Limited., a mining and metals royalty company.

Mr. Excell, prior to January 2004, was President and Chief Operating Officer of EKATI Diamond Mine, operated by BHP Billiton Diamonds Inc. BHP Billiton Diamonds Inc., a diamond mining company, is part of the BHP Billiton Group, a diversified resource company. Narego Solutions Inc. is a consulting company that provides strategic planning services to junior mining companies.

Mr. Sutcliffe, prior to being appointed Chairman in May 2004, was President and Chief Executive Officer of Patricia Mining Corp.

Mr. Van Staveren, prior to September 2001, was Vice President Finance and Chief Financial Officer of Martinrea International (formerly Royal Laser Tech Corporation) an automotive parts manufacturer.

Mr. Mason was resident manager of Wabush Mines, Labrador prior to July 2001, and previously held senior positions with a number of mines in Canada.

Mr. Mackie was an independent consultant providing services to junior mining companies prior to February 2004. Prior to 2002 he was the senior geologist/analyst for Battle Mountain Canada Ltd., a gold and silver mining company.

Mr. Bache was Director, Strategic Planning and Corporate Development of Inco Limited ("Inco"), a nickel mining and processing company, prior to May 2004. Prior to October 2002 he was Assistant Comptroller, Financial Planning and Analysis of Inco.

Mr. Thompson was a consultant prior to June 2000.

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Ms. Batoff was a consultant prior to November 1, 2004, serving as legal counsel and corporate secretary to certain public companies, including the Corporation, in the mining and mineral exploration sector.

Mr. Berlin is the nominee of Kaiser-Francis, the Corporation's principal shareholder, which has advised the Corporation that it intends to vote the common shares which it owns in favour of his re-election as a director at the 2005 annual shareholder meeting.

The number of common shares beneficially owned, directly or indirectly, or over which control or direction is exercised, by all directors and senior officers of the Corporation is 96,671, less than 1% of the common shares issued and outstanding.

### CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Mr. Berlin was a director of Ozark Airlines, Inc., doing business as Great Plains Airlines, which filed for creditor protection under Chapter 11 of the

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United States Bankruptcy Code in an Oklahoma court on December 14, 2004. Mr. Berlin resigned from the board of Ozark Airlines, Inc. on December 14, 2004.

### CONFLICTS OF INTEREST OR DUTY

There are potential conflicts to which the directors of the Corporation are subject in connection with the business and operations of the Corporation. The individuals concerned shall be governed in any conflicts or potential conflicts by applicable law. As of the date hereof, the following directors and officers of the Corporation hold positions with other companies that explore for or produce platinum group metals or have other business interests which may potentially conflict with the interests of the Corporation.

Dr. Sutcliffe is the President and Chief Executive Officer and a director of Ursa Major Minerals Incorporated ("Ursa Major") and Mr. Faught was a director of Ursa Major from February 2004 to March 2005. Ursa Major has active base and precious metal exploration projects in Wyoming, U.S.A. and the Sudbury area of Ontario, Canada.

Mr. Sutcliffe is Chairman of Patricia Mining Corp. ("Patricia Mining"). Patricia Mining has active gold exploration and mining interests in the Wawa area of Ontario, Canada. Patricia Mining has a 2% net smelter return royalty on six mining claims acquired by the Corporation from Patricia Mining.

Mr. Fox is a director of Southern Platinum Corp. ("Southern Plats"), a company listed on the Toronto Stock Exchange and Messina Limited, a South African company listed on the Johannesburg Stock Exchange. Southern Plats owns a 91.5% interest in Messina Limited which in turn owns 100% of Messina Platinum Mines Limited, a platinum group metals producer in South Africa.

### LEGAL PROCEEDINGS

The Corporation, along with J. Patrick Sheridan, Minerale De Copan and two other individuals, are defendants in an action brought by Cambridge Resources Corp. ("Cambridge"), in the Superior Court of Justice (Ontario). In its amended statement of claim dated September 27, 1991 Cambridge claims damages in the amount of \$20 million, punitive and exemplary damages in the amount of \$5 million, a declaration that the defendants hold any interest in an unidentified mining concession located in Honduras, about forty miles southeast of Tegucigalpa (defined therein as the "Mining Property") on constructive trust for Cambridge, a mandatory order requiring the defendants to deliver up all proceeds, equity interest, security or debenture interest in whatever form relating to the Mining Property,

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pre-judgment and post-judgment interest and costs. The Corporation filed a statement of defense dated February 7, 1992 which states, among other things, that the Mining Property was previously known to one of the individual defendants to be of insufficient quality to merit commercial development and that, accordingly, the Corporation had declined to proceed any further with the investigation or purchase of the Mining Property. Partial discoveries of certain of the parties were conducted on October 6, 7 and 8, 1993. There have been no further proceedings in the action. No provision in the financial statements has been made in respect of any possible loss from the action as management believes that the Corporation has a valid defense and the Sheridan Group has indemnified the Corporation.

From time to time, the Corporation is involved in other litigation, investigations or proceedings related to claims arising out of its operations in

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the ordinary course of business. In the opinion of the Corporation's management, these claims and lawsuits in the aggregate, even if adversely settled, will not have a material effect on the consolidated financial statements of the Corporation.

### INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described below, no director, executive officer, shareholder owning, directly or indirectly, or exercising control or direction over, 10% or more of the voting securities of the Corporation or any associate of any of the foregoing has or had a material interest in any transaction since January 1, 2002 that has materially affected or will materially affect the Corporation.

In November 1999, the Corporation entered into a services agreement with Mr. Fox pursuant to which Mr. Fox was engaged to provide services in connection with the negotiation of palladium end-user supply contracts, project capital financing, smelting and refining agreements, metals price forecasting and marketing other metals. The services agreement was negotiated at arms-length prior to Mr. Fox becoming a director of NAP. During 2004, 2003 and 2002 Mr. Fox received \$581,000, \$400,000 and \$412,000, respectively, pursuant to the agreement.

### TRANSFER AGENT

Computershare Trust Company of Canada is the registrar and transfer agent of the Corporation's common shares in Canada and Computershare Trust Company, Inc. is the registrar and co-transfer agent for the Corporation's common shares in the United States.

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### MATERIAL CONTRACTS

The Senior Credit Facility described in the section titled "Financings" is the only contract that is material to the Corporation and that was entered into within the most recently completed financial year.

### INTERESTS OF EXPERTS

RPA was engaged to prepare the RPA Feasibility Study and the Technical Report and the reserve estimate for the underground mine as at December 31, 2004. None of Messrs. Clow and Rennie and RPA owned securities of the Corporation when the services were provided and no securities of the Corporation were issued to Messrs. Clow and Rennie or to RPA as compensation for their services in connection with the RPA Feasibility Study, the Technical Report or the recent underground mineral reserve estimate.

KPMG LLP, the external auditors of the Corporation, prepared the "Auditor's Report to the Shareholders of North American Palladium Ltd." with respect to the consolidated financial statements of the Corporation as at December 31, 2004 and for the year then ended. As at March 29, 2005, KPMG LLP and its partners did not hold any registered or beneficial ownership interests, directly or indirectly, in the securities of the Corporation or its associates or affiliates.

### RISK FACTORS

The Corporation's securities are subject to the following risks. If any of the risks occur, the Corporation's business, operating results and financial condition could be materially adversely affected, the trading price of the common shares could decline and all or part of any investment may be lost.

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THE CORPORATION CANNOT ASSURE THAT IT WILL MEET ITS GOALS FOR PRODUCTION AND OPERATING COSTS AND IF IT DOES NOT, ITS OPERATING RESULTS WILL BE ADVERSELY AFFECTED.

Planned production levels and operating costs are estimated based on the Corporation's experience in operating its mine. These estimates are subject to numerous uncertainties, many of which are beyond the Corporation's control. The Corporation cannot make assurances that its actual production levels will not be substantially lower than its estimates or that its operating costs will not be materially higher than anticipated.

IF RESERVE ESTIMATES ARE NOT ACCURATE, PRODUCTION MAY BE LESS THAN ESTIMATED WHICH WOULD ADVERSELY AFFECT THE CORPORATION'S FINANCIAL CONDITION AND RESULT OF OPERATIONS.

Reserve estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, which may prove unreliable, and assumptions about operating costs and metal prices. The Corporation cannot be certain that the reserve estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals. Future production could differ dramatically from such estimates for the following reasons:

- o mineralization or formations at the mine could be different from those predicted by drilling, sampling and similar examinations;
- o declines in the market price of palladium may render the mining of some or all of the reserves uneconomic; and

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- o the grade of ore may vary significantly from time to time and the Corporation cannot give any assurances that any particular quantity of metal will be recovered from the reserves.

The occurrence of any of these events may cause the Corporation to adjust the reserve estimates or change its mining plans, which could negatively affect the Corporation's financial condition and results of operation. Moreover, short-term factors, such as the need for additional development of the ore body or the processing of new or different grades, may impair its profitability in any particular accounting period.

THE RISKS AND HAZARDS ASSOCIATED WITH MINING AND PROCESSING MAY INCREASE COSTS AND REDUCE PROFITABILITY IN THE FUTURE.

Mining and processing operations involve many risks and hazards, including among others:

- o environmental hazards;
- o mining and industrial accidents;
- o metallurgical and other processing problems;
- o unusual and unexpected rock formations;
- o pit slope failures;
- o flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature;
- o mechanical equipment and facility performance problems; and
- o unavailability of materials, equipment and personnel.

These risks could result in:

- o damage to, or destruction of, the Corporation's properties or

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- production facilities;
- o personal injury or death;
- o environmental damage;
- o delays in mining;
- o increased production costs;
- o asset write downs;
- o monetary losses; and
- o possible legal liability.

The Corporation cannot be certain that its insurance will cover the risks associated with mining or that it will be able to maintain insurance to cover these risks at affordable premiums. The Corporation might also become subject to liability for pollution or other hazards against which it cannot insure or against which the Corporation may elect not to insure because of premium costs or other reasons. Losses from such events may increase costs and decrease profitability.

IF THE CORPORATION FAILS TO DEVELOP ITS UNDERGROUND MINING OPERATIONS AT A REASONABLE COST, OR AT ALL, OR TO ACHIEVE PROJECTED PRODUCTION LEVELS FOR ITS UNDERGROUND MINING OPERATIONS, ITS ABILITY TO GENERATE REVENUE AND PROFITS WILL BE ADVERSELY AFFECTED.

The Corporation's future prospects will be negatively affected if the underground mine fails to achieve projected production levels. Due to the complexity and uncertainty involved in developing an underground mine, it is difficult to provide reliable time and cost estimates for completion. Unforeseen conditions or developments could arise during the development and construction of the underground mine which could delay or prevent its completion or substantially increase the cost of such project, adversely

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affecting the Corporation's ability to generate revenue and profits. These events may include, among others:

- o delays or difficulties in obtaining required permits;
- o shortages of equipment, materials or labor;
- o delays in delivery of equipment or materials;
- o labor disruptions;
- o local or political opposition;
- o adverse weather conditions or natural disasters;
- o unanticipated increases in costs of labor, supplies and equipment;
- o accidents; and
- o unforeseen engineering, design, environmental or geological problems.

THE CORPORATION MAY EXPERIENCE HIGHER COSTS AND LOWER REVENUES THAN ESTIMATED DUE TO UNEXPECTED PROBLEMS AND DELAYS.

New mining operations often experience unexpected problems during the development and start-up phases and such problems can result in substantial delays in reaching commercial production. Delays in construction or reaching commercial production in connection with the Corporation's development of its underground mine would increase its operating costs and delay revenue growth.

IF THE COSTS OF COMPLETING THE UNDERGROUND MINE ARE GREATER THAN ANTICIPATED, THE CORPORATION MAY NEED TO OBTAIN ADDITIONAL FUNDS WHICH MAY NOT BE AVAILABLE ON FAVOURABLE TERMS OR AT ALL.

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The costs of developing the underground mine are subject to many uncertainties which may cause such costs to be higher than anticipated. In such event, the Corporation may need to obtain additional capital to pursue its mining plan. There is no assurance that the Corporation will be able to obtain such capital on favourable terms, if at all. If additional capital is raised by incurring debt, the Corporation will be obligated to make greater interest payments which will reduce funds available for the mining operations. If capital is raised through the sale of equity securities, shareholders may experience substantial dilution. If the Corporation is unable to raise additional funds when and if required, it may have to delay or abandon its development of the underground mine or restrict its operations.

FUTURE EXPLORATION AT LAC DES ILES MINE OR ELSEWHERE MAY NOT RESULT IN INCREASED RESERVES, WHICH WOULD PREVENT THE CORPORATION FROM SUSTAINING ITS TARGETED PRODUCTION LEVELS.

This AIF contains reserve estimates as at December 31, 2004 based on exploration to that date. The Corporation conducts exploration programs at and surrounding the Lac des Iles Mine with the objective of increasing reserves. Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Corporation discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals. There is no assurance that current or future exploration programs will result in any new economically viable mining operations or yield new reserves to replace and expand current reserves at the Lac des Iles Mine. In the event that new reserves are not discovered, the Corporation may not be able to sustain production beyond 2010.

THE CORPORATION FACES STRONG COMPETITION FROM OTHER MINING COMPANIES FOR THE ACQUISITION OF NEW PROPERTIES.

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Mines have limited lives and, as a result, the Corporation continually seeks to replace and expand its reserves through the acquisition of new properties. In addition, there is a limited supply of desirable mineral lands available in areas where the Corporation would consider conducting exploration and/or production activities. Because the Corporation faces strong competition for new properties from other mining companies, some of which have greater financial resources than it, the Corporation may be unable to acquire attractive new mining properties on terms acceptable to it.

THE CORPORATION DEPENDS ON A SINGLE MINE TO GENERATE REVENUES AND, IF MINING OPERATIONS ARE INTERRUPTED, THE CORPORATION'S BUSINESS WILL SUFFER.

All of the Corporation's revenues are derived from its mining operations at the Lac des Iles Mine, which is the Corporation's only mine and the only place it has reserves. If there is an interruption in operations at the Lac des Iles Mine, or if the Corporation can no longer extract ore from this mine for any reason, the Corporation's business will suffer significantly. In addition, any adverse condition affecting mining conditions at the Lac des Iles Mine could have a material adverse effect on the Corporation's financial performance and results of operations until such time as the condition is remedied.

THE CORPORATION DEPENDS ON A SINGLE PALLADIUM SALES CONTRACT TO GENERATE MOST OF ITS REVENUES AND REDUCE ITS EXPOSURE TO FLUCTUATIONS OF THE PRICE OF PALLADIUM AND, AFTER THIS CONTRACT IS TERMINATED, THE CORPORATION MAY NOT BE ABLE TO FIND OTHER PURCHASERS FOR ITS PALLADIUM ON SIMILAR TERMS OR AT ALL.

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Pursuant to the Palladium Sales Contract with the Automotive Manufacturer, the Corporation has committed to sell all of the refined palladium it is entitled to receive from the smelters to the Automotive Manufacturer until June 30, 2005. After the Palladium Sales Contract is suspended or terminated, the Corporation may not be able to sell its palladium on similar terms, and the Corporation's business could suffer significantly.

THE CORPORATION IS DEPENDENT ON THIRD PARTIES FOR SMELTING AND REFINING ITS PALLADIUM AND IF THEY ARE UNABLE TO ACCOMMODATE THE CORPORATION'S SMELTING AND REFINING REQUIREMENTS OR THE EXISTING CONTRACTS ARE TERMINATED OR NOT RENEWED THE CORPORATION'S ABILITY TO GENERATE REVENUES COULD BE HARMED.

The Corporation has smelter agreements with Inco and Falconbridge which provide for the smelting and refining of the principal metals contained in the concentrates produced at Lac des Iles Mine. The existing agreements with Inco and Falconbridge end on August 31, 2005 and March 31, 2006, respectively, and do not provide for automatic renewal or additional terms at the expiry of the initial term. The agreement with Falconbridge can be terminated in certain circumstances, such as default of performance. The inability to renew one or both of these agreements under similar terms or the termination of the Falconbridge agreement could have a material adverse affect on the Corporation's financial performance and results of operations until such time as alternative smelting and refining arrangements can be made or alternative purchasers of the Corporation's concentrates can be found.

THE CORPORATION'S VULNERABILITY TO CHANGES IN METAL PRICES MAY CAUSE ITS COMMON SHARE PRICE TO BE VOLATILE AND MAY AFFECT THE CORPORATION'S OPERATIONS AND FINANCIAL RESULTS..

The Corporation's primary source of revenue is the sale of palladium. In fiscal 2004, sales of palladium accounted for approximately 61% of the Corporation's revenues. Historically, changes in the market price of palladium have significantly impacted the Corporation's profitability and common share price. Following the expiry of the Palladium Sales Contract, market prices will directly impact profitability and may cause wide fluctuations in the market price for the Corporation's common shares. In addition, the financial results are very sensitive to external economic criteria related to the palladium price. A major risk will arise if there is a significant weakening of the U.S. dollar combined with a prolonged period of

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lower palladium prices. Many factors beyond the Corporation's control influence the market price of palladium. These factors include:

- o global supply and demand;
- o availability and costs of metal substitutes;
- o speculative activities;
- o international political and economic conditions; and
- o production levels and costs in other platinum group metal-producing countries, particularly Russia and South Africa.

Economic and political events in Russia could result in declining market prices. If Russia disposes of substantial amounts of palladium, platinum, rhodium, ruthenium, osmium and iridium, which are referred to as platinum group metals, from stockpiles or otherwise, the increased supply could reduce the market prices of palladium and platinum and adversely affect the Corporation's profitability and common share price. Russia's economic problems make Russian stockpiles difficult to predict and the risk of sales from stockpiles more significant.

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SINCE THE CORPORATION'S REVENUES ARE IN UNITED STATES DOLLARS AND EXPENDITURES ARE IN CANADIAN DOLLARS, THE CORPORATION IS SUBJECT TO FLUCTUATIONS IN EXCHANGE RATES BETWEEN THE UNITED STATES AND CANADIAN DOLLARS.

Currency fluctuations may affect cash flow since the Corporation's production currently is sold in United States dollars, whereas the Corporation's administration, operating and exploration costs are incurred in Canadian dollars. Significant long term fluctuations in relative currency values could adversely affect the Corporation's results of operations. In particular, the Corporation may be adversely affected by a significant strengthening of the Canadian dollar against the United States dollar. In addition, the financial results are sensitive to fluctuations in the exchange rate. A major risk will arise if there is a significant weakening of the U.S. dollar combined with a prolonged period of lower palladium spot prices.

THE CORPORATION'S COLLECTIVE AGREEMENT WITH ITS EMPLOYEES EXPIRES IN FEBRUARY 2006 AND THE INABILITY TO RENEW THE COLLECTIVE AGREEMENT ON SIMILAR TERMS COULD HAVE A MATERIAL ADVERSE AFFECT ON THE CORPORATION.

The Corporation has a collective agreement with the United Steel Workers of America, the union representing the employees at the Lac des Iles Mine (other than employees at or above the rank of foreman, safety co-ordinator, surveyors, dispatchers, technical staff and office, clerical and security personnel). The collective agreement expires in February 2006 and the inability to renew the agreement on similar terms could have a material adverse affect on the Corporation, including the affect of work stoppages or strikes on the results of operations and financial performance of the Corporation.

THE CORPORATION IS SUBJECT TO EXTENSIVE ENVIRONMENTAL LEGISLATION AND THE COSTS OF COMPLYING WITH THESE REGULATIONS MAY BE SIGNIFICANT.

Environmental legislation relating to land, air and water affects nearly all aspects of the Corporation's operations. This legislation requires the Corporation to obtain various operating licenses and also imposes standards and controls on activities relating to the exploration, development and production of palladium and associated metals. The cost of obtaining operating licenses and abiding by standards and controls on its activities may be significant. Further, if the Corporation fails to obtain or maintain such operating licenses or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Corporation may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results.

The Corporation will be responsible for all costs of closure and reclamation at the Lac des Iles Mine. Under applicable environmental legislation, the Corporation was required to establish a trust fund to prepare for closure and reclamation. The current amended mine closure plan requires \$7.8 million for clean-up and restoration of the mine site. The trust fund, maintained by the Ontario Ministry of Northern Development and Mines, is designed to collect \$7.8 million through instalments of \$100,000 per month. The money in the trust fund will become available to the Corporation when the mine closure is completed. At December 31, 2004, approximately \$6.0 million was on deposit in the trust fund. Development of the underground mine as planned will require an amendment to the existing closure plan and will result in an increase in the amount of financial assurance required by the Ontario Ministry of Northern Development and Mines. The actual amount needed for the closure of the Lac des Iles Mine may be materially more than the original estimate. Recent changes in the Province of



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Ontario mining regulations may require the Corporation to provide a letter of credit or other financial instrument as security for the closure of the Lac des Iles Mine.

CHANGES IN ENVIRONMENTAL LEGISLATION COULD INCREASE THE COSTS OF COMPLYING WITH APPLICABLE REGULATIONS AND REDUCE LEVELS OF PRODUCTION.

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Corporation's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues currently under review by environmental agencies include reducing or stabilizing air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Corporation to predict their impact. The Corporation anticipates capital expenditures and operating expenses will increase as a result of compliance with the introduction of new and more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean up orders, imposition of penalties, liability for related damages and the loss of operating permits. The Corporation cannot make assurances that it will at all future times be in compliance with all federal and provincial environmental regulations or that steps to bring the Corporation into compliance would not have a negative effect on its financial condition and results of operations.

COMPLIANCE WITH CURRENT AND FUTURE GOVERNMENT REGULATIONS MAY CAUSE THE CORPORATION TO INCUR SIGNIFICANT COSTS AND SLOW ITS GROWTH.

The Corporation's activities are subject to extensive Canadian federal and provincial laws and regulations governing matters relating to mine safety, occupational health, labor standards, prospecting, exploration, production, exports and taxes. Compliance with these and other laws and regulations could require the Corporation to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have a harmful effect on the Corporation. The Corporation cannot make assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

THE CORPORATION IS REQUIRED TO OBTAIN AND RENEW GOVERNMENTAL PERMITS IN ORDER TO CONDUCT MINING OPERATIONS, WHICH IS OFTEN A COSTLY AND TIME-CONSUMING PROCESS.

In the ordinary course of business, the Corporation is required to obtain and renew governmental permits for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Corporation's efforts to obtain and renew permits are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting authority. The Corporation may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what the Corporation expects. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a

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mine, which could adversely affect the Corporation's revenues and future growth.

THE CORPORATION FACES COMPETITION WITH OTHER LARGER SUPPLIERS OF PLATINUM GROUP METALS AND FROM POTENTIAL NEW SOURCES OF PLATINUM GROUP METALS.

The Corporation competes with other suppliers of platinum group metals, some of which are significantly larger than it is and have access to greater mineral reserves and financial resources than it does. In addition, new mines may open which would increase supply of palladium and platinum. Furthermore, in certain industrialized countries an industry has developed for the recovery of platinum group metals from scrap sources, mostly from spent automobile and industrial catalysts. The Corporation may not be successful in competing with these existing and emerging platinum group metal producers.

THE DEVELOPMENT OF NEW TECHNOLOGY OR NEW ALLOYS COULD REDUCE THE DEMAND FOR PALLADIUM AND PLATINUM.

The development of a substitute alloy or synthetic material which has catalytic characteristics similar to platinum group metals would result in a decrease in demand for palladium and platinum. Furthermore the development by the automobile industry of automobiles that do not use catalytic converters could reduce the demand for palladium and platinum. Demand might also be reduced by manufacturers in such industries as automobiles, electronics and dentistry finding substitutes for palladium. The dentistry and electronics industries have already experienced advances in new technology which use base metals as a substitute for palladium in certain component parts. High prices for palladium would create an incentive for the development of substitutes. Any such developments could have a material adverse effect on the Corporation's financial condition and results of operations.

IF THE CORPORATION LOSES KEY PERSONNEL OR IS UNABLE TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL, THE CORPORATION'S MINING OPERATIONS AND PROSPECTS COULD BE HARMED.

The Corporation is dependent upon the services of a small number of members of senior management including Andre J. Douchane, the President and Chief Executive Officer, and George D. Faught, the Chief Financial Officer. The Corporation's current mining operations, its successful development of the underground mine and its future prospects depends on the experience and knowledge of these individuals. The loss of one or more of these individuals could have a material adverse affect on the Corporation's mining operations.

THE MINING LEASES CONSTITUTING THE LAC DES ILES MINE EXPIRE IN 2006 AND MAY NOT BE RENEWED.

The Lac des Iles Mine consists of four mining leases issued by the Government of Ontario. The mining leases are dated August 16, 1985 and have a 21 year term, which is the term of all mining leases granted by the Government of Ontario. These leases expire on August 31, 2006 and are renewable for a further term of 21 years if the terms and conditions of the leases have been complied with. If the leases expire and are not renewed, the Corporation will not be able to continue its mining operations.

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THE CORPORATION'S CREDIT FACILITIES HAVE EVENTS OF DEFAULT, SOME OF WHICH ARE BEYOND THE CORPORATION'S CONTROL.

The Corporation has borrowed funds under its credit facilities to finance its operations. The credit facilities contain certain events of default, some of

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which are beyond the Corporation's control, the occurrence of which could require the Corporation to pay back immediately all amounts borrowed under the credit facilities.

THE CORPORATION'S PRINCIPAL SHAREHOLDER HAS THE ABILITY TO DIRECT THE CORPORATION'S AFFAIRS AND BUSINESS AND, BECAUSE IT OWNS APPROXIMATELY 50.4% OF THE COMMON SHARES, THIRD PARTIES MAY BE DETERRED FROM ACQUIRING THE CORPORATION.

To the best of the Corporation's knowledge, Kaiser-Francis, a privately-held oil and gas company based in Tulsa, Oklahoma, owns common shares, representing approximately 50.4% of the total number of common shares outstanding as of March 4, 2005. Kaiser-Francis therefore has the ability to direct the affairs and business of the Corporation. This concentration of ownership may have the effect of delaying or preventing a change in control of the Corporation, which may deprive the Corporation's shareholders of a control premium that might otherwise be realized in connection with an acquisition of the Corporation.

THE CORPORATION'S HEDGING ACTIVITIES OR ITS DECISION NOT TO HEDGE COULD EXPOSE IT TO LOSSES.

From time to time, the Corporation engages in hedging activities in connection with the metals it produces, such as forward sales contracts and commodity put and call option contracts, to partially offset the risk of declines in metal prices on its operating results. While these hedging activities may protect the Corporation against low metal prices, they may also limit the price it can receive on hedged products. As a result, the Corporation may be prevented from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract. In addition, the Corporation may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This AIF contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily made based on estimates and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. These estimates and assumptions are inherently subject to significant business, economic and competitive uncertainties, many of which, with respect to future events, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by the Corporation, or on its behalf.

In particular, the words "expect," "anticipate," "estimate," "may," "will," "should," "intend," "believe," "target," "budget," "plan," "projection", "strategy" and similar expressions are intended to identify forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this renewal annual information form should not be considered as a representation by the Corporation or any other person that its objectives or plans will be achieved. Numerous factors could cause the Corporation's actual results to differ materially from those in the forward-looking statements, including the following, which are discussed in greater detail under the "Risk Factors" section herein:

- o inability to meet production or operating cost goals;

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- o inaccurate resource and reserve estimates;
- o inherent risks associated with mining and processing operations;
- o failure to successfully develop the underground mining operations or to achieve projected production levels;
- o unexpected problems and delays in the construction of the underground mining operations;
- o inability to obtain additional funding for operations, if required;
- o failure of the exploration program to increase reserves;
- o interruption of operations at the Lac des Iles Mine;
- o termination or failure to renew smelting agreements;
- o volatility in metal prices;
- o changes in the United States/Canadian dollar exchange rate;
- o costs of complying with current and future environmental regulation;
- o costs of complying with other current and future governmental regulation;
- o competition from other suppliers of platinum group metals;
- o development of new technology leading to reduced demand for palladium;
- o loss of key personnel;
- o failure to renew mining leases;
- o defaults under credit facilities; and
- o hedging activities.

These factors should be considered carefully, and readers should not place undue reliance on the Corporation's forward-looking statements. The Corporation undertakes no obligation to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date of this renewal annual information form or to reflect the occurrence of unanticipated events, except as required by law.

### ADDITIONAL INFORMATION

#### AUDIT COMMITTEE INFORMATION

#### AUDIT COMMITTEE CHARTER

The Audit Committee charter is set out below.

#### COMPOSITION OF THE AUDIT COMMITTEE

The Committee is comprised of Gregory J. Van Staveren (Chairman), Steven R. Berlin and Michael P. Amsden. Messrs. Van Staveren and Amsden are independent as such term is defined in Multilateral Instrument 52-110 - Audit Committees. Mr. Berlin is an executive officer of the principal shareholder of the Corporation and is not considered independent by virtue of such relationship. Mr. Berlin is a certified public accountant and has considerable experience in finance and accounting. The Board of Directors determined that it was in the best interests of shareholders to appoint Mr. Berlin to the Audit Committee.

#### RELEVANT EDUCATION AND EXPERIENCE

Each of the members of the Committee is financially literate. Each of Mr. Van Staveren and Mr. Berlin satisfy the criteria required for the financial expert and Mr. Van Staveren is designated as the audit committee financial expert. Mr. Van Staveren is a chartered accountant and a certified public accountant.

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He was Chief Financial Officer of Martinrea International Inc. an automotive parts manufacturer from February 1998 to September 2001 and currently provides strategic financial services to companies. Prior to February 1998, Mr. Van Staveren was a partner with KPMG LLP.

Mr. Berlin is a certified public accountant and is a Vice President of Kaiser-Francis since September 1999 and Co-Chief Financial Officer of Kaiser-Francis from September 1999 to the end of December 2004. Mr. Berlin also served as Chief Financial Officer and Treasurer of PetroCorp Incorporated, an oil and gas company from November 1999 to January 2004.

Mr. Amsden has been a Director of the Corporation since April 1995. He has also extensive management experience throughout his career. Mr. Amsden retired from Falconbridge Ltd. in 1993. During his tenure at Falconbridge, which began in 1986, Mr. Amsden was Vice President and General Manager of the Kidd Creek Division until 1990 when he became Vice President Environmental Services, which included being President of Lakefield Research. In 1992 he became General Manager of Falconbridge, Chile S.A.

### AUDIT COMMITTEE PRE-APPROVAL POLICIES

All audit and non-audit services performed by the Corporation's external auditors are pre-approved by the Audit Committee.

### EXTERNAL AUDITOR SERVICE FEES

#### AUDIT FEES

The aggregate fees billed by Ernst & Young LLP ("E&Y"), the Corporation's external auditors for the fiscal year ended December 31, 2003 and 2004, for professional services rendered by E&Y for the audit of the Corporation's 2003 annual financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements for such years were Cdn\$195,000 and Cdn\$125,000, respectively. The Corporation's shareholders approved the appointment of KPMG LLP ("KPMG") as auditors of the Corporation in June 2004. The aggregate fees billed by KPMG, the Corporation's external auditors for the fiscal year ended December 31, 2004, for professional services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements for that year were Cdn\$210,000.

#### AUDIT-RELATED FEES

No fees were billed by E&Y or KPMG for the fiscal years ended December 31, 2003 and 2004 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Registrant's financial statements.

#### TAX FEES

The aggregate fees billed by E&Y for the fiscal years ended December 31, 2003 and 2004 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were Cdn\$26,426 and Cdn\$13,000, respectively. The aggregate fees billed by KPMG for the fiscal years ended December 31, 2003 and 2004 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were Cdn\$nil and Cdn\$79,000, respectively. Tax services provided included preparation of corporate tax returns and review of tax provisions.

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### ALL OTHER FEES

The aggregate fees billed by E&Y for the fiscal years ended December 31, 2003 and 2004 for products and services provided by E&Y, other than the services reported in the preceding three paragraphs, were Cdn\$nil and Cdn\$500, respectively. Other products and services provided included accounting support. The aggregate fees billed by KPMG for the fiscal years ended December 31, 2003 and 2004 for products and services provided by KPMG, other than the services reported in the preceding three paragraphs, were Cdn\$nil and Cdn\$nil, respectively.

### OTHER ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's Management Proxy Circular dated March 16, 2005. As well, additional financial information is provided in the Corporation's annual financials statements for the year ended December 31, 2004 and management's discussion and analysis of operations and financial results.

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### AUDIT COMMITTEE CHARTER

#### 1. COMPOSITION

- a) The Audit Committee shall consist of a minimum of three directors of the Corporation.

The Audit Committee shall be comprised entirely of independent directors, as such term is defined by applicable laws and related rules and regulations, and rules of relevant stock exchanges (collectively referred to as "Applicable Laws"). For clarity, US Applicable Laws means those applicable to foreign private issuers.

Notwithstanding the foregoing sentence, a member is exempt from the independence requirements if permitted by Applicable Laws. The appointment of the non-independent director shall be disclosed in the next proxy circular mailed to shareholders. If there is reliance on curing provisions, notice shall be given to the stock exchanges immediately upon learning of the circumstances that resulted in the non-compliance.

- b) A quorum for the transaction of business at all meetings of the Audit Committee shall be a majority of members.

#### 2. QUALIFICATIONS AND EXPERIENCE

At the time of appointment or within a reasonable period of time following appointment, each member of the Committee must be financially literate, having the ability to read and understand a set of financial statements that present the breadth and level of complexity or accounting issues that are generally comparable to the breadth and complexity of the issues that can be reasonably be expected to be raised by the Corporation's financial statements.

- a) At least one member (the "financial expert") of the Committee must have:

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- i. An understanding of financial statements and accounting principles used by the Corporation to prepare its financial statements;
  - ii. The ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
  - iii. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities;
  - iv. An understanding of internal controls and procedures for financial reporting; and
  - v. An understanding of audit committee functions.
- b) The financial expert must have acquired the foregoing attributes through one or more of the following:

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- i. Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- ii. Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- iii. Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- iv. Other relevant experience.

### 3. MANDATE AND RESPONSIBILITIES

The Audit Committee shall:

- a) Review and assess the adequacy of the Audit Committee Charter on an annual basis;
- b) Meet with the Corporation's external auditors as necessary and before the submission of the audited annual financial statements to the Board and communicate to external auditors that they are ultimately accountable to the Board and the Audit Committee as representatives of shareholders;
- c) Review the annual financial statements of the Corporation and "management's discussion and analysis" and recommend the financial statements for approval to the Board;
- d) Review and approve interim financial statements of the Corporation and "management's discussion and analysis" prior to filing with the securities regulatory authorities and delivery to shareholders;

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- e) Obtain explanations from management on all the significant variances between comparative reporting periods and, in respect the annual financial statements, question management and the external auditor regarding the significant financial reporting issues discussed during the fiscal period and the method of resolution;
  - f) Be responsible for:
    - i. Ensuring that a written statement is obtained from the external auditor describing all relationships between the external auditor and the Corporation;
    - ii. Discussing with the external auditor any disclosed relationships or services that may impact the objectivity and independence of the external auditor; and
    - iii. Determining that the external auditors have a process in place to address the rotation of the lead partner and other audit partners serving the account as required under Canadian independence standards and the SEC independence rules, as applicable to foreign private issuers;
  - g) Assess the performance of the external auditors and recommend to the Board annually or as they may otherwise determine a duly qualified external auditor to be nominated (for appointment or retention) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation;
  - h) Review the plan and scope of the audit to be conducted by the internal (if any) and external auditors of the Corporation;
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- i) Approve, or recommend to the Board for approval, the compensation of the external auditors;
  - j) Directly oversee the work of the external auditors, including reviewing the Corporation's critical accounting policies and practices, material alternative accounting treatments and material written communications between the external auditors and management, and the resolution of disagreements between management and the external auditor regarding financial reporting;
  - k) Pre-approve all audit and permitted non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors or the external auditors of the Corporation's subsidiary, in accordance with Applicable Laws;
  - l) Review all post-audit or management letters containing the recommendations of the external auditor and management's response or follow-up of any identified weakness;
  - m) Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with external auditors;
  - n) Review all annual and interim earnings press releases;
  - o) Determine that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from



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the Corporation's financial statements, other than disclosure in the Corporation's financial statements, management's discussion and analysis and earnings press releases, and periodically assess the adequacy of these procedures;

- p) Establish procedures for:
  - i. The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - ii. The confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- q) Enquire as to the adequacy of the Corporation's system of internal controls;
- r) Review and approve all related party transactions;
- s) Review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation;
- t) Have such other duties, powers and authorities, consistent with the provisions of the CANADA BUSINESS CORPORATIONS ACT, as the Board may, by resolution, delegate to the Audit Committee from time to time.

#### 4. AUTHORITY

The Audit Committee shall have the authority:

- a) For the purpose of performing their duties, of inspecting all of the books and records of the Corporation and its affiliates and of discussing such accounts and records and any matters relating to the financial position or condition of the Corporation with the officers and internal (if any) and external auditors of the Corporation and its affiliates;
- b) To engage independent counsel and other advisors as it determines necessary to carry out its duties;
- c) To set and pay the compensation for any advisors employed by the Audit Committee, including without limitation, compensation to any public accounting firm engaged for the purpose of preparing or issuing and audit report or performing other audit, review or attest services for the Corporation;
- d) To set and pay the ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties; and
- e) To communicate directly with the internal (if any) and external auditors.

#### 5. PROCEEDINGS

The following shall apply to the proceedings of the Audit Committee.

- a) The business of the Audit Committee shall be transacted either at meetings thereof or by conference telephone or other communications facilities that permit all persons participating in the meeting to hear each other, or by

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resolution in writing. All questions at a meeting shall be decided in accordance with the vote of a majority of those present and the Chairman of the meeting shall not have a second or casting vote.

- b) A resolution in writing signed by all members of the Audit Committee entitled to vote on that resolution at a meeting of the Audit Committee shall be as valid as if it had been passed at a duly called and constituted meeting. Such resolutions in writing may be in one or more counterparts, all of which, when taken together, shall be deemed to constitute one resolution.
- c) The Audit Committee Chairman shall periodically report to the Board of Directors on the activities of the Audit Committee.
- d) The external auditor of the Corporation shall, at the expense of the Corporation, be entitled to attend and be heard at or may be invited to any meeting of the Audit Committee.
- e) The external auditor and senior management shall have the opportunity or may be invited to meet separately with the Audit Committee.
- f) The minutes of the proceedings of the Audit Committee and any resolutions in writing shall be kept in a book provided for that purpose which shall always be open for inspection by any director of the Corporation.

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### GLOSSARY OF TERMS

The following is a glossary of certain terms used in this document.

"BALL MILL" means a rotary grinding mill which uses metal balls to reduce ore to a fine particle size.

"BRECCIA" means a textural description of a rock which is composed of angular rock fragments.

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

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

"CONCENTRATE" means a product containing the valuable metal and from which most of the waste material in the ore has been removed.

"CONCENTRATOR OR PROCESSING PLANT" means a plant or facility which processes ore brought from the mine and removes most of the valuable mineral or metal from the ore and discards most of the barren portion of the ore as tailings.

"CUT-OFF GRADE" is determined by the following formula parameters: estimates over the relevant period of mining costs, ore treatment costs, general and administrative costs, refining costs, royalty expenses, process and refining recovery rates and PGMs prices.

"DIAMOND DRILLING" means rotary drilling using diamond impregnated bits to produce a solid continuous core sample of the underlying rock.

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"FEASIBILITY STUDY" means a program to establish whether a mineral deposit can be successfully mined considering technical and economic parameters.

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

"GABBRO" means a dark, coarse-grained intrusive rock usually composed of angular rock fragments.

"GABBRONORITE" means a type of gabbro which contains the mafic minerals clinopyroxene (Ca-Mg rich silicate) and orthopyroxene (Mg-rich silicate).

"GRADE" means a particular quantity of ore or mineral relative to other constituents, in a specified quantity of rock.

"HEAD GRADE" means the quantity of valuable mineral or metal contained in each ton of ore delivered to the concentrator.

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

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"INFERRED MINERAL RESOURCE" means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. See "Note to U.S. Shareholders".

"INTRUSION/INTRUSIVE" means a mass of igneous rock that was injected and solidified within the earth's crust.

"IRIDIUM" means hard, brittle, silver-white platinum group metal used for pen tips, jewelery, resistance wiring, electronic contacts and electrodes.

"MAFIC ROCKS" means rocks composed of 40 to 90% mafic minerals. (PGM deposits are usually hosted in mafic and untramafic intrusive rocks).

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

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"MINERAL RESERVE" means the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. See "Note to U.S. Shareholders".

"MINERAL RESOURCE" means a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. See "Note to U.S. Shareholders".

"MINERALIZATION" means the concentration of metals and their chemical compounds within a body of rock.

"NET SMELTER RETURN ROYALTY" means a royalty based on the gross proceeds received from the sale of minerals less the cost of smelting, refining, freight and other related costs.

"OPEN PIT" means a mine worked at the surface.

"ORE" means a mixture of valuable and worthless minerals from which at least one of the minerals can be mined and processed at an economic profit.

"OSMIUM" means a rare, hard white metal.

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"OUNCE" or "OZ." is a unit of weight measure. In the precious metals industry a troy ounce is equal to one-twelfth part of a pound or 31.103 grams.

"OVERBURDEN" means unconsolidated material that overlies a mineral deposit and must be removed prior to mining.

"PALLADIUM" means a white, ductile, malleable precious metal that does not tarnish at normal temperatures. Wide applications range from electronics, dentistry, jewelry and automotive catalytic converters.

"PGMS" means "PLATINUM GROUP METALS". Platinum Group Metals include platinum, palladium, rhodium, ruthenium, osmium and iridium. All PGMs have catalytic qualities and resist corrosion and are chemically inert over a wide range of temperatures.

"PROBABLE MINERAL RESERVE" means the economically mineable part of an indicated, and in some circumstances a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. See "Note to U.S. Shareholders".

"PROFESSIONAL ASSOCIATION", for the purposes of the definition of a qualified person below, means a self-regulatory organization of engineers, geoscientists or both engineers and geoscientists that

- (a) has been given authority or recognition by statute;

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- (b) admits members primarily on the basis of their academic qualifications and experience;
- (c) requires compliance with the professional standards of competence and ethics established by the organization; and
- (d) has disciplinary powers, including the power to suspend or expel a member.

"PROVEN MINERAL RESERVE" means the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified. See "Note to U.S. Shareholders".

"PYROXENITE" means an ultramafic rock which predominantly contains the mafic mineral pyroxene (Mg-rich silicate).

"QUALIFIED PERSON" means an individual who

- (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these;
- (b) has experience relevant to the subject matter of the mineral project and the technical report; and
- (c) is a member in good standing of a professional association.

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"RHODIUM" means a silver-white metal of the platinum family resistant to tarnishing and used as an electrode posit, or alloyed with platinum to manufacture thermocouples.

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

"STRIP RATIO" means the ratio of units of waste material required to be removed to facilitate the mining of one unit of economic material.

"TAILINGS" means that portion of the ore which remains after the valuable minerals have been extracted.

"TAILINGS IMPOUNDMENT" means a containment area constructed to hold tailings.

"TON" means a short ton, equivalent to 2,000 pounds.

"TONNE" means a metric measure consisting of 2,204.6 pounds or 1,000 kilograms.

"ULTRAMAFIC" means rocks composed of greater than 90% mafic minerals. (PGM deposits are usually hosted in mafic and ultramafic intrusive rocks.)

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

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

Toronto, Canada  
February 21, 2005

/s/ ANDRE J. DOUCHANE

ANDRE J. DOUCHANE  
President and CEO

/s/ GEORGE D. FAUGHT

GEORGE D. FAUGHT  
Vice President Finance,

## AUDITORS' REPORT TO THE SHAREHOLDERS OF NORTH AMERICAN PALLADIUM

We have audited the consolidated financial statements of North American Palladium Ltd. and its subsidiaries for the year ended December 31, 2004 and the consolidated statements of cash flows for the year ended December 31, 2004. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit provides a high level of but not absolute assurance on a test basis, evidence obtained may be subject to limitations and disclosures in the financial statements. Our audit includes assessing the risk of significant misstatements and evaluating the overall financial position of the company.

In our opinion, the consolidated financial statements present fairly the financial position of the company and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

The consolidated financial statements for the year ended December 31, 2003 and for the two years ended December 31, 2002 were audited by another firm of auditors who expressed an opinion with respect to these financial statements in their auditors' report.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada,  
February 21, 2005

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and CFO

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Continued FOCUS on Operations, Growth and Financial Position

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North American Palladium Ltd.  
CONSOLIDATED BALANCE SHEETS  
(CANADIAN FUNDS IN THOUSANDS OF DOLLARS)

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ASSETS

CURRENT ASSETS

Current Assets

Cash and cash equivalents \$  
Restricted cash equivalents  
Concentrate awaiting settlement, net - NOTE 3  
Inventories - NOTE 4  
Crushed and broken ore stockpiles  
Accounts receivable and other assets  
Future tax asset - NOTE 16

Mining interests, net - NOTE 5  
Mine restoration deposit - NOTE 7  
Crushed and broken ore stockpiles  
Future tax asset - NOTE 16  
Deferred financing costs - NOTE 6

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LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued liabilities \$  
Taxes payable  
Future tax liability - NOTE 16  
Current portion of obligations under capital leases - NOTE 8  
Current portion of long-term debt - NOTE 9

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Mine restoration obligation  
Obligations under capital leases - NOTE 8  
Long-term debt - NOTE 9  
Kaiser-Francis credit facility - NOTE 10  
Future mining tax liability - NOTE 16

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SHAREHOLDERS' EQUITY

Capital stock - NOTE 12  
Contributed surplus  
Deficit

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Total shareholders' equity

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 Commitments - NOTE 13  
 Contingencies - NOTE 15  
 See accompanying notes to the consolidated financial statements.

On Behalf of the Board:

/s/ MICHAEL P. AMSDEN

/s/ GREG VAN STAVEREN

MICHAEL P. AMSDEN  
 Director

GREG VAN STAVEREN  
 Director

North American Palladium Ltd.

2004 Annual Report

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 North American Palladium Ltd.  
 CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND DEFICIT  
 (CANADIAN FUNDS IN THOUSANDS OF DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
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	2004	Yea
REVENUE FROM METAL SALES - NOTE 14	\$ 185,204	\$
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OPERATING EXPENSES		
Production costs, excluding amortization and asset retirement costs	102,936	
Smelter treatment, refining and freight costs	23,602	
Insurance recovery	(7,148)	
Amortization - NOTE 5(B)	36,710	
Administrative	5,557	
Exploration expense	2,479	
Loss on disposal of capital assets	277	
Asset retirement costs	905	
Write-down of mining interests - NOTE 5(C)	108,000	
-----		
Total operating expenses	273,318	
-----		
INCOME (LOSS) FROM MINING OPERATIONS	(88,114)	
-----		
Other income (expenses)		
Interest on long-term debt - NOTES 9 AND 10	(1,756)	
Write-off of deferred financing costs	(788)	
Foreign exchange gain (loss)	(340)	
Interest income	494	
Derivative income	213	
Interest expense	(29)	
-----		
Total other income (expenses)	(2,206)	
-----		
INCOME (LOSS) BEFORE INCOME TAXES	(90,320)	
Provision for income taxes - NOTE 16	1,790	
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NET INCOME (LOSS) FOR THE YEAR	(92,110)	
Deficit, beginning of year	(13,534)	
Deficit, end of year	\$ (105,644)	\$
Net income (loss) per share		
Basic	\$ (1.79)	\$
Diluted - NOTE 12(B)	\$ (1.79)	\$
Weighted-average number of shares outstanding - basic	51,379,542	
Weighted-average number of shares outstanding - diluted - NOTE 12(B)	51,379,542	

See accompanying notes to the consolidated financial statements.

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Continued FOCUS on Operations, Growth and Financial Position

North American Palladium Ltd.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(CANADIAN FUNDS IN THOUSANDS OF DOLLARS)

	2004	Ye
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Net income (loss) for the year	\$ (92,110)	
Operating items not involving cash		
Future income tax expense - NOTE 16	643	
Amortization	36,710	
Accrued interest on mine closure deposit	(40)	
Write-down of mining interests	108,000	
Unrealized foreign exchange gain	(3,687)	
Loss on disposal of capital assets	277	
Provision for asset retirement costs	905	
Write-off of deferred financing costs	788	
Stock-based compensation	573	
	52,059	
Changes in non-cash working capital - NOTE 17(A)	29,731	
	81,790	
FINANCING ACTIVITIES		
Repayment of long-term debt	(44,290)	
Increase in long-term debt	36,809	
Issuance of common shares	9,415	
Mine restoration deposit	(1,200)	

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Repayment of obligations under capital leases	(1,751)
Deferred financing costs	(504)
Increase in Kaiser-Francis credit facility	--
-----	
	(1,521)
-----	
INVESTING ACTIVITIES	
Additions to mining interests	(28,728)
Proceeds on disposal of mining interests	451
Restricted cash equivalents	1,813
-----	
	(26,464)
-----	
Increase in cash and cash equivalents	53,805
Cash and cash equivalents, beginning of year	11,950
-----	
Cash and cash equivalents, end of year	\$ 65,755
-----	

Supplementary information - NOTE 17(B) AND (C)

See accompanying notes to the consolidated financial statements.

North American Palladium Ltd.

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North American Palladium Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(CANADIAN FUNDS IN THOUSANDS OF DOLLARS)  
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### 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

The Company's financial position and operating results are directly affected by the market price of the PGMs in relation to the Company's production costs. The prices of PGMs (palladium, platinum) and by-product metals (gold, copper and nickel) fluctuate widely and are affected by numerous factors beyond the Company's control. The Company is under long-term contracts with two smelting firms for the sale of its concentrates. During 2000, the Company entered into a long-term palladium sales agreement with a major automotive manufacturer for the sale of all of its palladium production for deliveries of metal up to June 30, 2005 (NOTE 13(A)). Commencing with the first quarter of 2005, palladium production which will be available for delivery after June 30, 2005 will not be subject to the palladium sales agreement.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Lac des Iles Mines Ltd. ("LDI"). All intercompany balances and transactions have been eliminated.

### REVENUE AND CONCENTRATE AWAITING SETTLEMENT

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

Although the Company sold its metals during 2004 to a limited number of customers, the Company is not economically dependent upon them as there are other markets throughout the world for the Company's metals.

### DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into forward commodity sales contracts from time to time to hedge the effect of changes in the prices of metals it produces on the Company's revenues (NOTES 13(A), (C), (D) (E) AND (F)). Gains and losses on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales (NOTE 14) over the term of the hedging contract.

From time to time the Company enters into foreign exchange forward sales contracts to manage the effect of fluctuations in the value of committed US dollar denominated revenues. For those forward exchange contracts designated by the Company as hedges, the related revenue is recorded at the forward contract rate. Those foreign exchange forward sales contracts not designated by the Company as hedges are marked-to-market as at the balance sheet date and the resultant gains or losses are included in earnings for the period. The fair value of the Company's derivative financial instruments is determined based on forward prices supplied by knowledgeable, independent third parties.

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

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

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

## CONCENTRATE, CRUSHED AND BROKEN ORE STOCKPILES AND SUPPLIES INVENTORIES

Concentrate and crushed and broken ore stockpiles are valued at the lower of average production cost and net realizable value. Average production cost does not include an allocation of the amortization of production related assets. Crushed and broken ore stockpiles represent course ore that has been extracted from the mine and is available for further processing. Stockpile tonnages are verified by periodic surveys. The amount of stockpiled ore that is not expected to be processed within one year is shown as a long-term asset. Supplies inventory is valued at the lower of average direct acquisition cost and replacement cost.

## MINING INTERESTS

Plant and equipment are recorded at cost with amortization generally provided either on the unit-of-production method over the proven and probable reserves to which they relate or on a straight-line method over their estimated useful lives ranging from three to seven years. The Company capitalizes interest on major projects where direct indebtedness has occurred.

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

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

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

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

The Company assesses long-lived assets for recoverability whenever indicators of impairment exist. When the carrying value of a long-lived asset is less than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset is less than the carrying value. Future cash flows are estimated based on quantities of recoverable minerals, expected palladium and other commodity prices and expected foreign exchange rates (considering current, historical and expected future prices and

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foreign exchange rates and related factors), production levels and cash costs of production and capital and reclamation expenditures, all based on detailed life-of-mine plans and projections. The term "recoverable minerals" refers to the estimated amount of palladium and other commodities that will be obtained from proven and probable reserves after taking into account losses during mining, ore processing and concentrate treatment. Assumptions underlying future cash flow estimates are subject to risk and uncertainty. Any differences between significant assumptions and market conditions such as metal prices, exchange rates, recoverable metal, and/or the Company's operating performance could have a material effect on the Company's ability to recover the carrying amounts of its long-lived assets resulting in possible additional impairment changes (NOTE 5(C)).

### ASSET RETIREMENT OBLIGATIONS

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

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

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

### STOCK-BASED COMPENSATION PLAN

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

### TRANSLATION OF FOREIGN CURRENCY

Transactions recorded in United States dollars have been translated into

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Canadian dollars as follows:

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

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

### INCOME TAXES

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

### CASH AND CASH EQUIVALENTS/RESTRICTED CASH EQUIVALENTS

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of three months or less and are stated at cost.

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

### DEFERRED FINANCING COSTS

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

### FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### USE OF ESTIMATES

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

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### 3. CONCENTRATE AWAITING SETTLEMENT

Concentrate awaiting settlement is comprised of:

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

The gross value of concentrate awaiting settlement represents the value of all PGMs and base metals from production shipped to and received by the third-party smelters between June and December 2004, including 114,186 ounces of palladium (2003 - between June and December 2003, including 147,570 ounces of palladium).

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

### 4. INVENTORIES

Inventories consist of the following:

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

### 5. MINING INTERESTS

(A) Mining interests are comprised of the following:

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

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Mining interests, net \$ 136,009      \$ 247,116

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(B) Amortization expense is comprised of:

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

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

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

### 6. DEFERRED FINANCING COSTS

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

### 7. MINE RESTORATION PLAN

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

Commencing in February 2001, the Fund, controlled by the Ministry, started to accumulate through monthly deposits of \$100. At December 31, 2004, the Company had \$5,973 (2003 - \$4,733) on deposit with the Ministry including accrued interest of \$243. The funds on deposit bear interest at current short-term deposit rates and will be returned to the Company once the mine closure is completed.

### 8. LEASE OBLIGATIONS

The following is a schedule of future minimum lease payments under



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capital leases together with the present value of the net minimum lease payments:

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

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### 9. LONG-TERM DEBT

#### (A) PROJECT TERM LOAN

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

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

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

#### (B) SENIOR CREDIT FACILITY

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

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during the term of the facility.

### 10. KAISER-FRANCIS CREDIT FACILITY

At the time the Company entered into the new senior credit facility, certain terms under the US\$20,000 non-revolving credit facility with Kaiser-Francis Oil Company ("Kaiser-Francis") were amended. The final maturity date was extended to June 30, 2006 from May 31, 2005 and the interest rate was reset based upon the 30 day LIBOR rate plus 2.50%. Amounts not drawn under the loan are subject to a standby fee payable quarterly at 0.125% per annum. The Company paid on closing a commitment fee of 0.75% of the total commitment (US\$150). In connection with the loan, the Company has granted Kaiser-Francis a security interest in all of the assets of the Company and a pledge of the LDI shares. The security interests in all of the assets of the Company are subordinated to the security interests of the senior credit facility. As at December 31, 2004, the outstanding loan was US\$11,500 (2003 - US\$11,500).

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

### 11. RELATED PARTY TRANSACTIONS AND COMMITMENTS

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

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

(B) In 2004, a director of the Company received a fee of \$581 (2003 - \$400; 2002 - \$412) in connection with the negotiations related to the Palladium Sales Contract entered into by the Company in 2000 (NOTE 13(A)). The contract was made prior to such person becoming a director of the Company.

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### 12. CAPITAL STOCK

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

#### (a) COMMON SHARES:

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

	2004	
-----	-----	-----
	SHARES	AMOUNT
		Shares

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

### GROUP REGISTERED RETIREMENT SAVINGS PLAN

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

### PRIVATE PLACEMENT

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

### CORPORATE STOCK OPTION PLAN

The Company has adopted, and the shareholders have approved, the ongoing 1995 Corporate Stock Option Plan (the "Plan"), under which eligible directors, officers, employees and consultants of the Company are entitled to receive options to acquire common shares. The Plan is administered by the Compensation Committee, a subcommittee of the Board of Directors, which will determine the number of options to be issued, the exercise price (which may not be lower than the closing price of the Company's common shares on the Toronto Stock Exchange ("TSX") on the day prior to the date of grant) and expiration dates of each option, the extent to which each option is exercisable provided that the term of an option shall not exceed 10 years from the date of grant, as well as establishing a limited time period should the optionee cease to be an "Eligible Person" as set forth in the conditions of the Plan. Options granted since December 2001 vest as to 1/3 on each of the first three anniversary dates of the date of grant. Prior to December 2001, options granted under the Plan vested as to 1/3 on the date of grant and 1/3 on each of the first two anniversary dates.

The maximum number of common shares subject to option shall not exceed 2,700,000, being approximately 5.2% of the outstanding common shares or such greater number of common shares as may be determined by the Board of Directors, and approved if required, by the shareholders of the Company and by any relevant stock exchange or other regulatory authority. As at December 31, 2004, 318,094 options were available to be granted under the Plan.

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

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

The following table summarizes information about the Company's stock options outstanding at December 31, 2004 (SEE ALSO NOTE 15(A)):

EXERCISE PRICE	EXPIRY DATES	OPTIONS OUTSTANDING AT DEC. 31, 2004	OPTION EXERCISABLE AT DEC. 31, 2004
\$ 3.42	April 7, 2011	103,334	34,444
\$ 3.70	April 1, 2011	33,400	11,133
\$ 4.75	February 27, 2011	7,500	2,500
\$ 5.92	September 2, 2011	20,000	6,667
\$ 7.89	December 12, 2009	51,900	51,900
\$ 8.40	March 3, 2005	35,000	35,000
\$ 9.30	July 27, 2005	34,499	34,499
\$ 9.40	March 15, 2005	14,760	14,760
\$ 9.76	November 1, 2012	15,000	
\$ 10.01	June 6, 2010	73,667	49,111
\$ 11.90	June 23, 2012	287,300	
\$ 13.55	June 6, 2006	90,750	90,750
\$ 13.90	December 14, 2005	25,500	25,500
\$ 14.44	February 13, 2006	33,000	33,000
		825,610	389,265

Prior to January 1, 2003, the Company did not recognize compensation expense for stock options. Had compensation expense for options granted in 2002 under the Company's stock option plan been determined based on the fair value at the grant dates consistent with the fair value based method of accounting for stock-based compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

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	2004	2003	2002
Net income (loss) as reported	\$ (92,110)	\$ 38,378	\$ 15,088
Stock-based compensation	160	160	160
Pro forma net income (loss)	\$ (92,270)	\$ 38,218	\$ 14,928
Pro forma basic and diluted income (loss) per share	\$ (1.80)	\$ 0.75	\$ 0.30

The fair value of options granted in 2004 has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.7% (2003 - 4%; 2002 - 4%), expected dividend yield of nil (2003 - nil; 2002 - nil), expected volatility of 55% (2003 - 48%; 2002 - 60%), and expected option life of 4 years (2003 - 3 years; 2002 - 3 years). The estimated fair value of the options is expensed over the option's vesting period, which is 3 years. The weighted average fair market value of options granted in 2004 was \$5.43 (2003 - \$2.13; 2002 - \$4.33).

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

	2004	2003	2002
Net income (loss) available to common shareholders	\$ (92,110)	\$ 38,378	\$ 15,088
Weighted average number of shares outstanding	51,379,542	50,763,566	50,763,566
Effect of dilutive securities stock options	-	69,338	-
Weighted average diluted number of shares outstanding	51,379,542	50,832,904	50,763,566
Diluted net income (loss) per share	\$ (1.79)	\$ 0.75	\$ 0.30

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

13. COMMITMENTS

(A) PALLADIUM SALES CONTRACT

During 2000, the Company entered into a contract (the "Palladium Sales Contract") whereby the Company hedged the price of 100% of its palladium production. Under the Palladium Sales Contract the sales price is based on the monthly average spot price for palladium, as determined by the London Metal Exchange P.M. Fix, for the month prior to the month that the metal is received by the customer, but the price will be no less than US\$325 per ounce for 100% of the metal received and no more than US\$550 per ounce for 50% of the metal

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received. For the remaining 50% of the metal received, there is no maximum price. The Palladium Sales Contract's term commenced effective July 1, 2000 and expires on June 30, 2005.

(B) SHERIDAN PLATINUM GROUP OF COMPANIES ("SPG") COMMITMENT

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

(C) PLATINUM FORWARD CONTRACTS

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

(D) NICKEL SWAP CONTRACTS

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

(E) COPPER SWAP CONTRACTS

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

(F) GOLD FORWARD CONTRACTS

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

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14. REVENUE FROM METAL SALES

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

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(A) Palladium revenues include the effect of the Palladium Sales Contract (NOTE 13(A)).

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

### 15. CONTINGENCIES

(A) The Company is a defendant in an action by another mining company claiming damages in the amount of \$20,000, punitive and exemplary damages in the amount of \$5,000 and a declaration that the Company held the Compania Minerales de Copan, S.A. de C.V. ("Copan") property in trust for the plaintiff. No provision has been made in the accounts as at December 31, 2004 or 2003 for any possible loss from this action as management of the Company believes it has a valid defense and it has been indemnified by SPG regarding this action. In addition, certain stock options are claimed to be held by employees of Copan. These options have not been included in note 12(A) as the Company has been indemnified by SPG regarding such matters.

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

(C) From time to time, the Company is involved in other litigation, investigations, or proceedings related to claims arising out of its operations in the ordinary course of business. In the opinion of the Company's management, these claims and lawsuits in the aggregate, even if adversely settled, will not have a material effect on the consolidated financial statements.

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### 16. INCOME TAXES

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

	2004	2003	
Income tax provision using statutory income tax rates	\$ (35,406)	\$ 18,147	\$ 11,
Increase (decrease) in taxes resulting from:			
Write-down of mining interests not tax benefited	35,694	-	
Resource allowance	6,439	(3,342)	(5,
Non-taxable portion of capital gains	(2)	(2,908)	
Increase in valuation allowance on assets previously recognized	2,525	-	
Changes in income tax rates and laws	-	(3,546)	

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Benefit of income tax losses not previously recognized	(437)	(811)	
Federal large corporations taxes	465	837	
Ontario mining taxes	(7,979)	983	4,
Other	491	(1,206)	2,
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Income tax expense	\$ 1,790	\$ 8,154	\$ 13,
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The details of the Company's income tax expense are as follows:

	2004	2003	
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Current income tax expense:			
Income taxes	\$ 102	\$ (550)	\$
Mining taxes	580	475	
Federal large corporations tax	465	837	
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	\$ 1,147	\$ 762	\$
<hr style="border-top: 1px dashed black;"/>			
Future income tax expense:			
Income taxes	\$ 9,202	\$ 6,884	\$ 8,
Mining taxes	(8,559)	508	4,
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	\$ 643	\$ 7,392	\$ 13,
<hr style="border-top: 1px dashed black;"/>			
	\$ 1,790	\$ 8,154	\$ 13,
<hr style="border-top: 1px dashed black;"/>			

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

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

At December 31, 2004, the Company had net capital loss carry-forwards of approximately \$5,100 (2003 - \$3,700), which are available to reduce net capital gains of future years.

### 17. STATEMENT OF CASH FLOWS

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

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

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

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

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

### 18. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE U.S.

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

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

	2004	2003	2002
-----			
Statements of earnings (loss) and deficit:			
Net income (loss) under Canadian GAAP	\$ (92,110)	\$ 38,378	\$ 15,000
Amortization of capitalized interest (A)	(95)	(39)	(1)
Concentrates and crushed and broken ore stockpiles (B)	295	(1,702)	(4)
Derivative financial instruments (C)	2,041	(2,867)	
Reversal of asset retirement obligation under Canadian GAAP (E)	-	-	
Tax effect of differences	-	1,459	1
-----			
Net income (loss) and comprehensive income under U.S. GAAP before cumulative impact of change in accounting policy	\$ (89,869)	\$ 35,229	\$ 14,800
Cumulative impact of change in accounting policy for asset retirement obligations (E)	-	(375)	
-----			
Net income (loss) and comprehensive income under U.S. GAAP	\$ (89,869)	\$ 34,854	\$ 14,800
-----			
Basic and diluted income (loss) per share under U.S. GAAP before cumulative impact of change in accounting policy	\$ (1.75)	\$ 0.69	\$ 0.00
-----			
Basic and diluted income (loss) per share under U.S. GAAP	\$ (1.75)	\$ 0.69	\$ 0.00
-----			
Balance sheets:			
Current assets (B) and (C)	\$ 155,842	\$ 124,186	
Mining interests (A)	\$ 136,567	\$ 247,769	
Crushed and broken ore stockpiles - long-term (B)	\$ 1,568	\$ 6,889	
Future tax asset, long-term	\$ -	\$ 9,124	
Capital stock (D)	\$ 329,002	\$ 319,587	
Deficit	\$ (108,992)	\$ (19,333)	

(A) The Company capitalizes interest on major projects where direct indebtedness has occurred. Under U.S. GAAP, interest is capitalized as it arises from indebtedness incurred, directly or indirectly, to finance development and

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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.

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(D) Canadian GAAP allows for the reduction of the stated capital of outstanding common shares with a corresponding offset to deficit. This reclassification, which the Company made in 1991, is not permitted by U.S. GAAP and would result in an increase in both capital stock and deficit of \$6,098 at December 31, 2004 and 2003.

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

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

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

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

	2004		2003
Net income (loss) as reported under U.S. GAAP	\$ (89,869)	\$	34,854
		\$	\$

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Stock-based compensation	168	(1,000)	
-----			
Pro forma net income (loss) under U.S. GAAP	\$ (90,037)	\$ 35,854	\$
-----			
Pro forma basic and diluted income (loss) per share	\$ (1.75)	\$ 0.71	\$
-----			

### 19. COMPARATIVE FIGURES

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

#### ----- Forward-Looking Statements

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS - 2004

THE FOLLOWING IS MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL POSITION AND SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS THAT ARE INCLUDED ELSEWHERE IN THIS ANNUAL REPORT AND PREPARED AS OF FEBRUARY 21, 2005. IT IS INTENDED TO PROVIDE ADDITIONAL INFORMATION ON THE COMPANY'S PERFORMANCE, FINANCIAL POSITION AND OUTLOOK.

### OVERVIEW AND STRATEGIC ACTIVITIES

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

Based on a position commenced the development des Iles operations in the underground mine development Grade Zone below the ultimate the underground development direct and indirect costs equipment accounts for an costs and the Company is vendor lease program. By advanced 435 metres. The progressing towards full

In early 2004, the with a secondary crusher mill designed to increase processing costs in the m was successfully commissioned of \$10.2 million.

The Company hedges production under a contract manufacturer (the "Palladium price is based on the monthly palladium with a floor price production and a ceiling

"The mine is Canada's only primary producer of PGMs and contains one of the largest open pit bulk the world."

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

### PRODUCTION STATISTICS

-----  
PALLADIUM (OZ)  
Payable Palladium (OZ)  
Platinum (OZ)  
Gold (OZ)  
Copper (LBS)  
Nickel (LBS)  
-----

The Company assesses long-lived assets for

Ore Tonnes Milled

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

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

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

Ore Tonnes Mined  
Waste Tonnes Mined  
-----  
Waste to Ore Strip Ratio  
-----

### KEY FINANCIAL STATISTICS

-----  
REVENUE FROM METAL SALES  
Net income (loss)  
Basic net income (loss)  
per share (dollars)  
Operating cash flow  
Long-term debt, including  
current portion  
Shareholders' equity  
-----  
Common shares outstanding  
(AS AT DECEMBER 31)  
-----

### SUMMARY OF QUARTERLY RESULTS

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)	2003				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1ST QTR
Revenue from metal sales	45,120	44,631	42,585	59,805	53,156
Net income (loss)	8,390	10,361	3,535	16,092	6,121
Net income (loss) per share	0.17	0.20	0.07	0.32	0.11
Fully diluted net income (loss) per share	0.17	0.20	0.07	0.31	0.11

### RESULTS OF OPERATIONS

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

which was partially offset by a decrease in the price of palladium per ounce. Palladium forward revenue of \$20.4 million was realized from palladium forward contracts. The effect of palladium forward contracts was a difference between the fair value of the palladium forward contracts and the time of revenue recognition. The palladium per ounce range

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

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

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

in 2004 compared to 288,713 ounces in 2003, a 13% increase in revenue

The Company received an interim payment against a claim relating to losses incurred by the company due to the failure of the primary crusher. The recovery has been included in 2004. The Company is pursuing an insurance claim and will receive income if and when received.

The Company reviews its assets for impairment where circumstances indicate that the assets may not be recoverable. Impairment charges are based on the total estimated future net cash flows from the carrying amount of the assets, discounted to the present estimated based on quantities of expected palladium and other metals, foreign exchange rates (considering expected future prices and other related factors), production and future capital expenditures, all based on life-of-mine recoverable "recoverable minerals" reserves of palladium and other common metals. Proven and probable reserves are subject to losses during mining, ore processing and treatment.

During the fourth quarter, the Company performed an annual impairment review. A non-cash charge of \$108.0 million or \$2.01 per share was recorded on mining interests. An impairment charge was required as a result of costs that were affected by a continuing decline in the impairment charge will not be recoverable, nor will it affect cash flow or operations at the mine.

Assumptions underlying the impairment charges are subject to risk and uncertainty. Significant assumptions are commodity prices, exchange rates, and the Company's operating performance. The impairment charge on the Company's ability to recover its long-lived assets results from impairment charges.

During 2003, the Company recorded an impairment charge on interests of \$2.3 million related to the primary crusher, which was removed and replaced by a new unit.

Non-cash amortization charges for 2004 compared to \$28.6 million in 2003. The amortization amount is at

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

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

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

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

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

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

The results for 2004 were a net loss of \$7.1 million relating to the failure of the p... with the failure of the p... foreign exchange loss of... exchange gain of \$18.1 mi... the impairment charge, th... exchange, the adjusted ne... per share for the year en... adjusted net income of \$2... the year ended December 31, 2004.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations (excluding non-cash working capital) was \$59.8 million in 2004 compared to \$59.8 million in 2003. The increase in operating cash flow was realized from higher prices for palladium in 2004 compared to \$20.4 million from forward contracts. The cash flow benefited from increases in by-product metal prices. The net cash provided was \$29.7 million in 2004 compared to a consumption of \$29.7 million in 2003. The concentrate awaiting settlement declined to 147,000 ounces on December 31, 2004 compared to 147,000 ounces in 2003. The reduction in the physical concentrate awaiting settlement in US dollar which is used to value the concentrate resulted in a decrease in working capital changes, from \$81.8 million in 2004 compared to \$81.8 million in 2003.

Investing activities provided \$1.8 million in 2004, with short-term investments and additions to mining infrastructure. Two major projects were under construction: secondary crusher installation for \$10.2 million and the underground mine for \$6.9 million. The underground mine commenced in mid 2004 and required \$6.9 million excise tax on equipment purchased under the excise tax of \$8.3 million of net investment.

During the year, the Company's cash equivalents balance was further strengthened. The cash equivalents balance was reduced to \$50.2 million at December 31, 2004 compared to \$58.8 million at December 31, 2003. The cash equivalents balance was \$50.2 million for the prior year.



## CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2004

(IN THOUSANDS OF DOLLARS)	Total	PAYMENTS DUE BY PERIOD	
		Less Than 1 Year	1 -
Senior credit facility	31,666	6,815	
Kaiser-Francis credit facility	13,842	-	
Capital lease obligations	4,663	1,481	
Operating leases	1,818	882	
Other purchase obligations	4,222	4,222	
	56,211	13,400	

There are no payments due after five years.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

## 1. CHANGE IN ACCOUNTING POLICY

## HEDGING RELATIONSHIPS

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

## 2. CRITICAL ACCOUNTING ESTIMATES

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

## (A) IMPAIRMENT ASSESSMENTS OF LONG-LIVED ASSETS

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

Assumptions under are subject to risk and u significant assumptions a prices, exchange rates, r Company's operating perfor on the Company's ability its long-lived assets res impairment changes.

## (B) AMORTIZAT

The Company amort interests using the unit proven and probable reser 30, 2003 caused amortizat approximately 25%. Change calculated periodically a expense prospectively.

## (C) FORWARD M CONTRACTS

In the fourth qua Palladium updated its hed Company's exposure to mar platinum, gold, nickel an adoption of this policy a will enter into forward m establish fixed metal pri volatility.

North American Pa platinum and gold sales o and copper price swap con cash flows from changes i

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accounting estimates and makes adjustments accordingly.

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

contracts allow the Company production to credit-worth under the forward sales of copper, the Company receives for paying the floating price sales contracts to accept price swap contracts.

North American Palladium Ltd.

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### FIXED-PRICE FORWARD PLATINUM SALES CONTRACTS (THE "PLATINUM HEDGE POSITION") (AS OF DECEMBER 31, 2004)

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

### FIXED-PRICE FORWARD GOLD SALES CONTRACTS (THE "GOLD HEDGE POSITION") (AS OF DECEMBER 31, 2004)

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

- 1 Weighted-average estimated platinum price is based on the aggregate value of contracted volumes for each respective delivery month divided by the total volume of platinum sold forward.
- 2 The December 31, 2004 spot platinum price of US\$860 per ounce was used to determine the value of the platinum forward sales contracts.
- 3 Weighted-average estimated gold price is based on the aggregate value of contracted price for each respective delivery month divided by the total volume of gold sold forward.
- 4 The December 31, 2004 spot gold price of US\$438 per ounce was used to determine the unrealized gold forward sales contracts.

### FIXED-PRICE NICKEL SWAP CONTRACTS (THE "NICKEL HEDGE POSITION")

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(AS OF DECEMBER 31, 2004)

Nickel tonnes hedged	540 (or less than 50% of
<hr style="border-top: 1px dashed black;"/>	
Maturity date of nickel swap contracts	June 2005
<hr style="border-top: 1px dashed black;"/>	
Weighted-average estimated fixed nickel price up to maturity date	US\$14,500 per tonne (US\$6
<hr style="border-top: 1px dashed black;"/>	
Payment obligations	The Company will pay on a price (average monthly LM respective volume of nick fixed price from the coun maturity date
<hr style="border-top: 1px dashed black;"/>	
Unrealized mark-to-market loss at December 31, 2004	US\$102,000(6)

FIXED-PRICE COPPER SWAP CONTRACTS (THE "COPPER HEDGE POSITION")  
(AS OF DECEMBER 31, 2004)

Copper tonnes hedged	900 (or less than 50% of
<hr style="border-top: 1px dashed black;"/>	
Maturity date of copper swap contracts	December 2005
<hr style="border-top: 1px dashed black;"/>	
Weighted-average estimated fixed copper price up to maturity date	US\$2,755 per tonne (US\$1.
<hr style="border-top: 1px dashed black;"/>	
Payment obligations	The Company will pay on a price (average monthly LM respective volume of copp fixed price from the coun maturity date
<hr style="border-top: 1px dashed black;"/>	
Unrealized mark-to-market loss at December 31, 2004	US\$146,000(8)

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- 5 Weighted-average estimated nickel price is based on the aggregate value of contracted fix volumes for each respective delivery month divided by the total volume of nickel under th
- 6 The December 31, 2004 spot nickel price of US\$6.89 per lb. was used to determine the unre nickel swap contracts.
- 7 Weighted-average estimated copper price is based on the aggregate value of contracted fix volumes for each respective delivery month divided by the total volume of copper under th
- 8 The December 31, 2004 spot copper price of US\$1.43 per lb. was used to determine the unre copper swap contracts.

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

The possible deve synthetic material, which similar to platinum group decrease in demand for pa

Currency fluctuat production currently is s

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## RELATED PARTY TRANSACTIONS

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

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

## RISKS AND UNCERTAINTIES

The price of palladium is the most significant factor influencing the profitability of the Company. In 2004, sales of palladium accounted for approximately 61% of the Company's revenue. Many factors influence the price of palladium, including global supply and demand, speculative activities, international political and economic conditions and production levels and costs in other platinum group metal-producing countries, particularly Russia and South Africa. To offset the price risk, the Company entered into the Palladium Sales Contract and other hedge contracts to cover a portion of expected annual production.

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## RECONCILIATION OF CASH COST PER OUNCE TO FINANCIAL STATEMENTS

	Year Ended December 31	
(IN THOUSANDS OF DOLLARS EXCEPT PER OUNCE AMOUNTS)	2004	2003
-----		
PRODUCTION COSTS		
INCLUDING OVERHEAD	102,936	103,654
SMELTER TREATMENT,		
-----		

whereas the Company's administrative and exploration expenses are denominated in United States dollars can

The Company is dependent on its production. The business is subject to various risks and hazards, including industrial accidents, metal price fluctuations, unusual and unexpected failures, flooding and periodic inclement weather conditions. The Company maintains insurance in respect of its mechanical equipment and the availability of materials. The insurance could result in damage to properties or production. The death, environmental damage and losses and possible legal claims maintains insurance in respect of its is within ranges of coverage. In practice, such insurance does not cover risks associated with mining operations under its property damage insurance policies relating to which occurred in 2002. The recovery of this insurance proceeds and when the proceeds are

## NON-GAAP MEASURE

North American Palladium Ltd. document a non-GAAP performance measure. This non-GAAP measure is not a meaningful nor is it necessarily comparable to measures presented by other companies. Palladium believes that this information to evaluate the Company's performance is intended to provide additional information to be considered in isolation of performance prepared in

## RECONCILIATION BETWEEN FINANCIAL STATEMENTS ACCORDANCE WITH CANADIAN GAAP AND ADJUSTED NET INCOME

The adjusted net income has not been calculated in accordance with the accounting principles used in the financial statements are defined in such principles or loss. Accordingly, it is not comparable to results reported by them.

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REFINING AND FREIGHT COSTS	23,602	19,048
	126,538	122,702
LESS: BY-PRODUCT METAL REVENUE	(71,416)	(63,424)
	55,122	59,278
DIVIDED BY OUNCES OF PALLADIUM	270,448	248,173
CASH COST PER OUNCE (C\$)	204	239
C\$ EXCHANGE RATE	1.2795	1.3672
CASH COST PER OUNCE (US\$)	159	175

The following table compares our adjusted net income reported in accordance with IFRS for the year ended December 31, 2004 and 2003.

	NET INCOME YEAR ENDED DECEMBER 31	
(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)	2004	2003
Canadian GAAP net income (loss) as reported	(92,110)	38,378
Impairment charge net of tax	103,376	-
Foreign exchange (gain) loss net of tax	340	(15,055)
Insurance recovery net of tax	(4,352)	-
Adjusted net income	7,254	23,323

### OTHER INFORMATION

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

United States Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

### OUTSTANDING SHARES

As of February 21, 2005, there were 21,000,000 common shares of the Company outstanding pursuant to the 1995 Recapitalization Plan entitling the holders of the shares in the aggregate.

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### MANAGEMENT OUTLOOK

During 2004, North American Palladium established the solid foundation to complete the underground mine and transition through 2005 into 2006. The secondary crusher was successfully commissioned in December 2004, paving the way for increased mill throughput and further cost reductions.

Management believes that the fundamental drivers of palladium metal demand, which will continue to support the palladium price.

For 2005, management expects to continue its efforts on the Company's operations. The Company continues to search for

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The underground mine development commenced in May 2004 and in combination with the open pit, average palladium production beginning in 2006 is expected to be about 350,000 ounces per year. Production of by-product metals, which provided an increase of 13% in revenues for the Company in 2004 compared to 2003, will only slightly increase once full production from the underground commences.

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

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

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

resources at the mine site exploration projects. Eme in Canada and international further enhance North American expansion plan.

IMPENDING US GAAP

(I) In December Standards Board ("FASB") "Share-Based Payment" which for Stock-Based Compensation SFAS 123(R) requires compensation share-based payments to be statement and the cost value of the equity of liability SFAS 123(R) all share-based using option-pricing model the Company's year ending

(II) In December deals with the accounting assets. SFAS 153 is an amendment Opinion 29 requires that should be measured based exchanged. SFAS 153 amendment exception from using fair exchanges of similar products broader exception for exc do not have commercial su non-monetary asset exchange beginning after June 15, that the application of S financial statements.

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### Forward-Looking Statements

The Company's annual report 2004, consolidated balance sheets as at December 31, 2004 and earnings and deficit and cash flows for each of the years in the three year period ended December "Financial Statements") and management's discussion and analysis of operations and financial position Statements, contain certain that are forward-looking statements which are made pursuant to the "United States Private Securities Litigation Reform Act of 1995. They include estimates and statements future plans, objectives and goals, including words to the effect that the Company or management result to occur. When used herein, words such as "estimate", "expect", "believe", "intend", "budget", "will", "continue" and other similar expressions are intended to identify forward-looking statements relating to the impairment charge and the estimated future metal prices, cash flows, expenses, capital life, financing, construction and commissioning are forward-looking statements. Such forward-looking risks and uncertainties and are subject to factors, many of which are beyond our control, that may performance to differ materially from those currently anticipated in such statements. Important factors results to differ materially from those expressed or implied by such forward-looking statements include volatility, changes in the US/CDN dollar exchange rate, the salvage value of equipment, economic metal supply and demand, fluctuations in ore grade, ore tonnes milled, geological, technical, mineral recoverability of metals, future profitability and production, availability of financing on acceptance during the development, construction and start-up phases of the underground mine, exploration projects reserves and competition for acquisition of new properties. For a more comprehensive review of risk

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Company's MD&A and Annual Information Form under "Risk Factors" on file with the U.S. Securities and Exchange Commission and Canadian provincial securities regulatory authorities. The Company disclaims any obligation to update or revise its statements whether as a result of new information, events or otherwise. Readers are cautioned not to rely on these forward-looking statements.

North American Palladium Ltd.

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### A. DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are defined by the Securities and Exchange Commission as those controls and other procedures that are designed to ensure that information required to be disclosed by North American Palladium Ltd. (the "Registrant") in reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The Registrant's Chief Executive Officer and Chief Financial Officer have evaluated the Registrant's disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 40-F and have determined that such disclosure controls and procedures are effective.

### B. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Since the most recent evaluation of the Registrant's internal control over financial reporting, there has not been any significant change in the Registrant's internal control over financial reporting that has materially affected or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

### C. NOTICE OF PENSION FUND BLACKOUT PERIOD

The Registrant was not required by Rule 104 of Regulation BTR to send any notice to any of its directors or executive officers during the fiscal year ended December 31, 2004.

### D. AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors has determined that Mr. Gregory J. Van Staveren, an individual serving on the audit committee of the Registrant's board of directors, is an audit committee financial expert, as that term is defined in Item 401(h)(2) of Regulation S-K under the SECURITIES EXCHANGE ACT OF 1934, as amended. The Registrant's board of directors has also determined that Mr. Van Staveren is independent, as that term is defined under the rules and regulations of the American Stock Exchange.

### E. CODE OF ETHICS

The Registrant's board of directors has adopted a code of ethics that applies to all directors, officers and employees. The Registrant will provide a copy of the code of ethics without charge to any person that requests a copy by contacting the Corporate Secretary, at the address that appears on the cover of this Annual Report on Form 40-F.

### F. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### AUDIT FEES

The aggregate fees billed by Ernst & Young LLP ("E&Y"), the Registrant's external auditors for the fiscal year ended December 31, 2003 and 2004, for

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professional services rendered by E&Y for the audit of the Registrant's 2003 annual financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements for such years were Cdn\$195,000 and Cdn\$125,000, respectively. The Registrant's shareholders approved the appointment of KPMG LLP ("KPMG") as auditors of the Registrant in June 2004. The aggregate fees billed by KPMG, the Registrant's principal accountant for the fiscal year ended December 31, 2004, for professional services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements for such year were Cdn\$210,000.

### AUDIT-RELATED FEES

No fees were billed by E&Y or KPMG for the fiscal years ended December 31, 2003 and 2004 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Registrant's financial statements.

### TAX FEES

The aggregate fees billed by E&Y for the fiscal years ended December 31, 2003 and 2004 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were Cdn\$26,426 and Cdn\$13,000, respectively. The aggregate fees billed by KPMG for the fiscal years ended December 31, 2003 and 2004 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were Cdn\$nil and Cdn\$79,000, respectively. Tax services provided included preparation of corporate tax returns and review of tax provisions.

### ALL OTHER FEES

The aggregate fees billed by E&Y for the fiscal years ended December 31, 2003 and 2004 for products and services provided by E&Y, other than the services reported in the preceding three paragraphs, were Cdn\$nil and Cdn\$500, respectively. Other products and services provided included accounting support. The aggregate fees billed by KPMG for the fiscal years ended December 31, 2003 and 2004 for products and services provided by KPMG, other than the services reported in the preceding three paragraphs, were Cdn\$nil and Cdn\$nil, respectively.

### AUDIT COMMITTEE PRE-APPROVAL POLICIES

All audit and non-audit services performed by the Registrant's auditor are pre-approved by the audit committee of the Registrant.

### G. OFF-BALANCE SHEET ARRANGEMENTS

The Registrant is not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### H. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets out the Registrant's known contractual obligations for its long-term liabilities and lease commitments as of the fiscal year ended December 31, 2004



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(CANADIAN DOLLARS IN THOUSANDS)

	Payments due by period			
	Total	Less than 1 year	1 to 3 years	4 t ye
SENIOR CREDIT FACILITY	\$31,666	\$ 6,815	\$ 13,630	\$11,
KAISER-FRANCIS CREDIT FACILITY	13,842	-	13,842	
CAPITAL LEASE OBLIGATIONS	4,663	1,481	2,008	1,
OPERATING LEASES	1,818	882	910	
OTHER PURCHASE OBLIGATIONS	4,222	4,222	-	
TOTAL CONTRACTUAL OBLIGATIONS	\$56,211	\$13,400	\$ 30,390	\$12,

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. CONSENT TO SERVICE OF PROCESS

The Registrant has previously filed with the Commission a Form F-X in connection with its Common Shares, no par value.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

NORTH AMERICAN PALLADIUM LTD.

Dated: March 29, 2005

By: /s/ George D. Faught

-----  
By: George D. Faught  
Title: Vice President, Finance and  
Chief Financial Officer

EXHIBIT INDEX

NUMBER -----	DOCUMENT -----
1.	Consent of KPMG LLP
31.	Certification of CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.	Certification of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002