NORTH AMERICAN PALLADIUM LTD
Form 40-F
May 20, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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, 2003 Commission File Num

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

CANADA	1099	NOT APP
(PROVINCE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. IDENTIFIC

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)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHIC REGISTERED:
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) of the A

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 comm
of the close of the period covered by this annual report.

THE REGISTRANT HAD 50,895,338 COMMON SHARES
OUTSTANDING AS AT DECEMBER 31, 2003

Indicate by check mark whether the Registrant by filing the information contained in this Fo
thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securit
Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the
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
13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that t
Registrant was required to file such reports) and (2) has been subject to such filing requirement
past 90 days.

Yes X No ____

DOCUMENTS FILED UNDER COVER OF THIS FORM

Document No. 1: Renewal Annual Information Form for the year ended December 31, 2003, dated May 19, 2004.

Document No. 2: Audited Comparative Consolidated Financial Statements for the financial year ended December 31, 2003, 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 Financial Results for the year ended December 31, 2003.

Document No.1, the Renewal Annual Information Form for the year ended December 31, 2003, dated May 19, 2004, is incorporated by reference into the Registration statement on Form S-8 (333-13766), filed with the Securities and Exchange Commission in July 2001 and Registration Statement on Form F-10 of the Registrant, which was originally filed with the Securities and Exchange Commission on April 7, 2004 (File No. 333-114261).

DOCUMENT NO. 1

NORTH AMERICAN PALLADIUM LTD.

RENEWAL ANNUAL INFORMATION FORM

For the year ended December 31, 2003

Dated May 19, 2004

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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 meters
1 mile		1.609 kilometers
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 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.

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 kilometers 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.

In 1999, an extensive exploration program was completed on the Lac des Iles property. Based on the outcome of the exploration program, in March 2000, the Corporation commenced an expansion of the mining operations 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.

AGRA Simons Limited, an engineering, construction and technology company,

completed a detailed feasibility study, dated December 1999, together with an updated version dated May 2000 (collectively the "AGRA Simons Feasibility Study"), of the proposed expansion of the mining operation and concluded that the proposed expansion project was technically feasible and economically viable.

In January 2000, the Corporation began equipment procurement and detailed engineering and in March 2000 began site preparation. In the first quarter of 2001, the semi-autogenous grinding (SAG) mill and two ball mills arrived on site and were assembled and tested. By March 2001, the warehouse, the maintenance shop and the material handling facilities were operational. 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.

In 2002, certain modifications were made to the 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 damage and business interruption insurance and has submitted a claim to recover losses sustained by the crusher failure.

In 2003, total mine production amounted to 14.6 million tonnes or 39,895 tonnes per day, containing 4.4 million tonnes of ore grading 2.48 grams of palladium per tonne. Total mine production decreased from 46,793 tonnes per day in 2002 to 39,895 tonnes per day in 2003 as a result of continued crusher problems during the first six months and longer haulage distances attributable to increased pit depth and tailings dam construction.

Although mine production was lower in 2003, palladium production from the Lac des Iles mill reached a new record of 288,703 ounces in 2003 as a result of higher palladium feed grade and, particularly during the second half of the year, higher mill throughput and mill operating time. Ore processed in 2003 totalled 5,159,730 tonnes or 14,136 tonnes per calendar day at an average palladium head grade of 2.3 grams per tonne and an average palladium recovery of 75.5%. Other metal production in 2003 included 23,742 ounces of platinum, 23,536 ounces of gold, 7,142,674 pounds of copper and 4,070,785 pounds of nickel.

The improved mill performance resulted from the installation of the new primary crusher and a number of other factors, including: using a contract secondary crusher to provide fine ore to maximize mill throughput; a significant reduction in the number of unscheduled shutdowns during 2003 which allowed for more regular mill operations and increased metal recovery and operating time; and improved maintenance planning and scheduling which resulted in increased mill availability. In late December 2003, additional flotation cells from the old mill were overhauled and commissioned as part of the second cleaner circuit expansion. Optimization of these flotation cells continued in early 2004.

Several projects are planned for 2004 to further improve mill throughput and reduce operating costs. The Corporation intends to install a secondary crusher

at an estimated capital cost of approximately $10 million and eliminate contract crushing. Additional ore processing control systems will be installed in both the grinding and flotation circuits to permit better sampling of concentrate grade and quality, and concentrator reagents will be optimized.

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

PALLADIUM SALES CONTRACT

On February 4, 2000, the Corporation entered into 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 Palladium Sales Contract provides that the Automotive Manufacturer can accept or refuse delivery of the Corporation's production exceeding 35,000 ounces in any month. The delivery points for palladium under the Palladium Sales Contract are the European refineries of Falconbridge and Inco. See "Smelting and Refining Agreements".

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 (i) less than US$325 per ounce for all production delivered in each month under the Palladium Sales Contract, or (ii) higher than US$550 per ounce for half of the production delivered in each month. There is no upper price limit for the other half of the production under the Palladium Sales Contract.

The term of the Palladium Sales Contract ends on June 30, 2005. Either party may terminate the Palladium Sales Contract in the event of the insolvency, bankruptcy or appointment of a receiver for the other party or the breach by the other party of a material term of the Palladium Sales Contract if the breach is not cured within 10 business days of notice of the default by the other party. The Corporation will be entitled to terminate the Palladium Sales Contract if the Automotive Manufacturer:

(a) acquires or agrees to acquire from the Corporation or any other person, any of the Corporation's business, assets, or securities, directly or indirectly, or any option to acquire any of the foregoing;

(b) proposes to enter into, directly or indirectly, any business combination involving the Corporation or any subsidiary, or to purchase, directly or indirectly, a material portion of the Corporation's assets or the assets of any subsidiary;

(c) makes any proposal or request to the Corporation or any of its officers or directors relating to any action referred to in paragraph (a) or (b) above or to any modification or waiver of the Corporation's rights to terminate the contract;

(d) makes or participates in, directly or indirectly, any "solicitation" of "proxies" (as those terms are used in the proxy rules under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act")) to vote or seek to advise or influence any person with respect to the voting of any of the Corporation's voting securities;

(e) forms, joins or in any way participates in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any of the Corporation's voting securities;

(f) acts alone or with others to seek to control or influence the Corporation's management, board of directors or policies; or

(g) advises, assists or enters into discussions, negotiations, arrangements or understandings with any other person with respect to any of the matters listed above (unless required by law) or takes any other action which might reasonably be expected to result in any such public disclosure.

In addition, the Palladium Sales Contract contains "force majeure" provisions that allow for the suspension of the Palladium Sales Contract upon the occurrence of certain events, such as acts of nature, that are beyond the control of a contracting party and that limit the party's ability to perform its obligations under the contract. The definition of "force majeure" in the contract includes such things as:

- explosions, fires, floods or breakdowns or damage to the mine or related equipment;
- failure of plant or equipment to operate according to plans or specifications not caused by the Corporation's negligence;
- strikes, labour disputes or lockouts;
- unavoidable accidents;
- uncontrollable delays in transportation or non-availability of any adequate means of transportation;
- the effect of governmental regulations or requirements (expressly including inability to obtain or amend necessary governmental approvals, licenses or permits on reasonably acceptable terms);
- power shortages;
- court orders; and
- acts or failures to act of government agencies or regulatory bodies and inability to obtain timely refining despite commercially reasonable efforts of appropriate quantity of materials necessary to produce the required amounts of metal.

The Palladium Sales Contract provides that once the cause of any suspension has been removed, the parties are to resume normal performance within a reasonable period of time. Economic conditions such as market situations that result in prices lower or higher than those provided for in the Palladium Sales Contract are not considered events that entitle a party to suspend the contract. The Palladium Sales Contract also provides that the Automotive Manufacturer will not be excused by any "force majeure" event from making timely payment for metal delivered prior to notice being given of the suspending event. Neither party will be required against its will to adjust any labor dispute or to question the validity of or refrain from going to court to test the validity of any governmental order, regulation or statute or to refrain from pursuing its legal or equitable remedies against any third party.

METAL FORWARD CONTRACTS

The Corporation 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 March 31, 2004, the Corporation had forward sales contracts for 14,000 ounces of platinum at a weighted-average estimated price of US$763 per ounce, 810 tonnes of nickel at a weighted-average estimated price of US$12,500 per tonne (US$5.67 per pound) and 1,800 tonnes of copper at a weighted-average estimated price of US$2,548 per tonne (US$1.16 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 was obligated to pay to the Sheridan Group a royalty equal to (i) 3% of "net cash proceeds" received from concentrates and other products produced at the Lac des Iles Mine from May 1, 1994 through December 31, 2000, and (ii) 5% of "net cash proceeds" received from concentrates and other products produced at the Lac des Iles Mine commencing January 2001. 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.

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 13,876 hectares within a 52 kilometer radius of the Lac des Iles Mine.

LOCATION AND ACCESS

The Lac des Iles Mine and surrounding property are located approximately 85 kilometers northwest of the city of Thunder Bay, Ontario. Paved road access is provided by Ontario Provincial Highway 527, followed by 15 kilometers of an all weather gravel road, maintained by the Corporation. Approximately 82% of the employees reside in the Thunder Bay area.

The property, at an elevation of 490 meters above sea level, is within the Canadian Shield, characterized by low, undulating hills and numerous lakes. Daytime temperatures range from 10(degree)C to 25(degree)C in the summer and from minus 25(degree)C to minus 10(degree)C in the winter.

Thunder Bay, with a population of 117,500, is serviced by road, air, rail and ocean-going vessels. The city is located at the head of the St. Lawrence Seaway. All the services required by the mining operations are available in the city.

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.

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

MINE BLOCK INTRUSION GEOLOGY

The Roby zone is a breccia zone, currently measuring 950 meters long, 815 meters wide and 1,000 meters deep, and remains open to the west, southeast and at depth. Platinum group metal mineralization is associated with pyroxenite, gabbronorite 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 gabbronorite 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%-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 meters east of the east boundary of the Roby zone. Previously, minor amounts of historical surface sampling and diamond drilling in this area had indicated the potential for low-grade mineralization. In 1999, overburden was removed and sampling, mapping and drilling were carried out, with positive results. Subsequent diamond drilling has delineated a mineralized zone 150 meters wide, 200 meters long and 200 meters deep which is included in the reserve.

The Baker zone is located one kilometer east of the Roby zone. In 1999, four diamond drill holes totaling 1,075 meters tested the northeastern continuity of the zone, following up 16 holes drilled in the fall of 1998. Drilling at 50-meter spacing has delineated additional mineralization that will require closer spaced drilling for proper evaluation. The Creek zone, located less than two kilometers east of the Roby zone, is also an area of interest. In 2001, additional overburden was removed from the Baker and Creek zones in an effort to improve the definition of the surface dimensions and the geological controls related to mineralization.

MINING OPERATIONS

The Corporation mines ore and waste 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 2003, total production from the Lac des Iles open pit amounted to 14.6 million tonnes or 39,895 tonnes per day of ore and waste combined compared to 17.1 million tonnes or 46,793 tonnes per day in 2002. The decrease in mine production was a result of continued crusher problems during the first six months and longer haulage distances attributable to increased pit depth and tailings dam construction. Ore production for 2003 totaled 4.4 million tonnes grading 2.48 grams per tonne of palladium compared to 7.3 million tonnes grading 1.49 grams of palladium per tonne in 2002. At the end of 2003, the broken ore stockpile consisted of 2.1 million tonnes grading 1.57 grams per tonne palladium containing 107,000 ounces of palladium compared to 8.7 million tonnes grading 1.16 grams of palladium per tonne containing 323,000 ounces of palladium at the end of 2002.

The following table sets forth information concerning the production from the Lac des Iles Mine for each of the five years ended December 31, 2003:

Year	2003	2002	2001	2000
Ore Tonnes Mined	4,396,847	7,250,963	5,768,157	2,689,6
Waste Tonnes Mined	10,164,806	9,828,552	19,174,635	7,508,1

Total Tonnes Mined	14,561,653	17,079,515	24,942,792	10,197,7
Stripping Ratio	2.31:1	1.36:1	3.32:1	2.79
Average Daily Production	39,895	46,793	68,336	27,9

PROCESSING

The concentrator facility used at the expanded mine has a design capacity of 15,000 tonnes per day. In the third quarter of 2002, a structural failure occurred in the lower frame of the primary crusher, necessitating its shutdown and impacting mill throughput. Portable third party contract crushers were installed to minimize the loss of palladium production during the shutdown period. The primary crusher resumed operation in 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 damage and business interruption insurance and has submitted a claim to recover losses sustained by the crusher failure.

Ore is crushed in a gyratory crusher and conveyed to a coarse ore stockpile. A portion of the coarse ore is crushed in a cone crusher and the finer material blended with the coarse ore as it is fed to the SAG mill. 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 5,159,730 tonnes of ore or 14,136 tonnes per calendar day in 2003 at an average palladium head grade of 2.3 grams per tonne and an average palladium recovery of 75.5%. The concentrator throughput was 4,851,621 tonnes of ore in 2002 at an average palladium grade of 1.91 grams per tonne and an average palladium recovery of 73.8%. The Corporation produced 288,703 ounces and

219,325 ounces of palladium in 2003 and 2002, respectively. Although mine production was lower in 2003, palladium production reached a record high as a result of higher palladium feed grade and, particularly during the second half of the year, higher mill throughput and mill operating time.

The average grade of palladium milled was 2.3 g/t in 2003, 1.91 g/t in 2002 and 2.14 g/t in 2001. Production costs per tonne of ore milled were $20.09 in 2003, $20.74 in 2002 and $29.35 in 2001. Cash costs, which include direct and indirect operating costs, smelting, refining, transportation and sales costs, royalties, and property taxes, plus credits for by-products, were US$175 per ounce in 2003, US$264 per ounce in 2002 and US$340 per ounce in 2001. The improvement in the unit cash costs was achieved by a 32% increase in palladium production to 288,703 ounces in 2003 compared to 219,325 ounces in 2002 combined with higher revenue from by-product metals.

The improved mill performance resulted from the installation of the new primary

crusher and a number of other factors, including: using a contract secondary crusher to provide fine ore to maximize mill throughput; a significant reduction in the number of unscheduled shutdowns during 2003 which allowed for more regular mill operations and increased metal recovery and operating time; and improved maintenance planning and scheduling which resulted in increased mill availability. In late December 2003, additional flotation cells from the old mill were overhauled and commissioned as part of the second cleaner circuit expansion. Optimization of these flotation cells continued in early 2004.

Several projects are planned for 2004 to further improve mill throughput and reduce operating costs. The Corporation intends to install a secondary crusher at an estimated capital cost of approximately $10 million and eliminate contract crushing. Additional ore processing control systems will be installed in both the grinding and flotation circuits to permit better sampling of concentrate grade and quality, and concentrator reagents will be optimized.

The concentrator produces a palladium rich concentrate that is shipped off-site for final processing. See "Smelting and Refining Agreements".

Year	Milled (tonnes)	Concentrate (tonnes)	Palladium (troy ozs)	Platinum (troy ozs)	Gold (troy ozs)	Copper (lbs)
2003	5,159,730	36,869	288,703	23,742	23,536	7,142,67
2002	4,851,621	27,179	219,325	19,180	16,030	5,295,48
2001	2,662,240	21,697	123,281	10,073	9,603	3,123,76
2000	893,017	14,271	95,116	6,074	6,035	1,362,26
1999	894,168	10,286	64,441	4,744	4,888	1,377,46

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 to store the tailings produced over the

12 year mine life contemplated in the AGRA Simons Feasibility Study. 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 expanded operation provides for closure and reclamation of the facility.

2003 EXPLORATION

In 2003, diamond drilling at the Lac des Iles Mine (19 holes aggregating 6,011

metres) was carried out southeast of the Roby Zone pit in an effort to discover additional near-surface bulk mineable mineralization. In addition, several deep holes were drilled to the southwest side of the Roby pit. One hole intersected the possible southern extension of the Offset High Grade Zone, 180 metres south of previous drilling. Finally, one hole was drilled to test a magnetotelleurics anomaly to try and identify a massive sulphide body at depth. No significant sulphides were encountered at the target depth however, a previously unknown zone of palladium mineralization was encountered higher up in the hole.

CURRENT EXPLORATION

Exploration for 2004 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 and southwest extensions of the Roby zone. The Corporation will also continue grass roots exploration on recently acquired properties located within 100 kilometres of the mine.

OTHER PROPERTIES

In 2003, the Corporation continued to pursue new properties beyond the Lac des Iles Mine, with a focus on those with established base and precious metals resources.

The Corporation has 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.

Exploration at Roaring River is handicapped by extensive overburden cover, the few bedrock exposures that have been observed on the property were found to exhibit features similar to that seen within the Roby Zone. Prospecting discovered numerous large boulders containing elevated base metal and PGE values. The bedrock source of the boulders remains undiscovered but is believed to be proximal to the mineralized float.

The exploration program in 2003 consisted of geological mapping, soil sampling, and ground geophysical surveys. A diamond drill program, to test the postulated source area(s) for the mineralized boulders, is planned for the second quarter of 2004.

In December 2003, 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 7,000 hectares.

The Corporation's original option on the Haines property was based on the discovery of palladium mineralization contained in the matrix of a magmatic breccia similar to that found at the Lac des Iles Mine. Another similarity to the Lac des Iles Mine is the widespread occurrence of palladium associated with pegmatitic pyroxenite and gabbro. In addition, nickel and copper-bearing massive sulphide bodies were discovered on the property in the 1960s in a structure that also controls the location of the Shebandowan mine, to the immediate east. Mapping and sampling and overburden stripping by the Corporation during 2003 resulted in the discovery of similar mineralization as well as several unrelated

styles of gold mineralization. In 2004 the combined Shebandowan Lake properties will be subject to an airbourne geophysical survey and diamond drilling to test priority targets.

DRILLING AND ASSAYING

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 meters. The core is then logged and marked for sampling. 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 absorbtion finish and base metal values by atomic absorbtion. 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.

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. Chris Turek, P.Eng., former Mine Superintendent, Mr. Douglas Kim, P. Geo., Technical Services Manager, and Mr. Clay Craig, P. Eng., Chief Engineer prepared the reserve and resource estimates for the open pit mine. Mr. Turek is a former employee, and Messrs. Kim and Craig are employees of the Corporation and each is a qualified person under National Instrument 43-101.

Resources are inclusive of 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 67% of revenues in 2003. Geochemical and statistical correlations between the metals are sufficiently robust that grade control based on palladium only, corrected for by-products, is sufficient for making economic decisions.

The reserve estimates are diluted and based upon a cut off grade of 1.1 grams of palladium per tonne for the open-pit mine, assuming a long-term palladium metal price of US$325 per troy ounce.

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 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", "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, 2003:

RESERVES	TONNES (000)	PALLADIUM (G/T)	PLATINUM (G/T)	GOLD (G/T)	COPPER (%)	NICKEL (%)	PAL (00
Proven	25,812	1.72	0.19	0.14	0.06	0.08	1
Probable	10,391	2.14	0.23	0.16	0.07	0.08	
Total	36,203	1.84	0.20	0.15	0.06	0.08	2

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%.

See "Note to U.S. Shareholders".

RESOURCES

The following table sets forth the estimated open pit resources at the Lac des

Iles Mine as at December 31, 2003:

RESOURCES	TONNES (000)	PALLADIUM (G/T)	PLATINUM (G/T)	GOLD (G/T)	COPPER (%)	NICKEL (%)	PALL (000
Measured	33,839	1.73	0.20	0.14	0.06	0.08	1,
Indicated	16,103	1.97	0.22	0.15	0.07	0.08	1,
Total	49,942	1.81	0.20	0.14	0.06	0.08	2,
Inferred	110	1.49	0.17	0.11	0.06	0.07	

1. THE RESOURCES ARE INCLUSIVE OF RESERVES. The resources were estimated using a cut-off grade of 1.1 grams of palladium per tonne. The cutoff 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".

SMELTING AND REFINING AGREEMENTS

The Corporation's agreements with Falconbridge and Inco provide 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 agreement can be terminated by either party on 12 months' notice and suspended in the event of a force majeure.

ENVIRONMENTAL MATTERS

The expanded operations at the Lac des Iles Mine involved numerous amendments to 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.

In connection with the expanded operations, the Corporation amended the existing closure plan under the Ontario Mining Act, which includes an increase in the amount of financial assurance as required by the Ministry of Northern Development and 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 March 31, 2004, the Corporation had approximately $5 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 of the absence of federal approvals, an environmental assessment under the Canadian Environmental Assessment Act should not be necessary. However, in the event that 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.

Turbid water escaped from the South Starter dam of the TMF on four occasions in 2002. In each instance the Corporation notified the Ministry of the Environment and commenced remedial action immediately, including stopping the source of the leak, recovering turbid water to the extent possible and weekly monitoring of possible effects on the environment. The cause of the seepage was identified and remedied. The Ministry of the Environment reviewed the matter and no action was taken by the Ministry of the Environment.

On October 7, 2003, the Corporation commenced a controlled discharge from the TMF pursuant to the Corporation's certificate of approval issued by the Ministry of the Environment. Samples of the effluent were taken as required by applicable laws and regulations. In late November 2003, the Corporation received the results from the sample analysis which showed that the effluent failed one acute lethality test for Rainbow Trout and Daphnia Magna (water flea). The Corporation ceased discharging effluent immediately and notified the Ministry of the Environment. The Corporation has concluded that the failure of the effluent to pass the acute lethality test resulted not from the composition of the effluent, but from a reagent that was used in the clarification process. The reagent in question has been replaced with a new reagent that has successfully met all authorization limits set out in the applicable regulation and passed acute lethality testing.

PROPOSED UNDERGROUND LAC DES ILES MINE

On January 31, 2003, RPA was commissioned to prepare a pre-feasibility study (the "RPA Pre-Feasibility Study") for establishing an underground mine in the Roby High Grade Zone below the existing Roby open pit operation (the "Roby Pit"). The purpose of the Pre-Feasibility Study was to demonstrate the economic viability of a palladium underground mining operation below the existing open pit; provide a cost effective underground development plan and schedule; and provide operating and capital cost estimates to a feasibility study level for

both contractor and owner operated scenarios. The Pre-Feasibility Study was completed on July 31, 2003.

In October 2003, an independent contractor was retained to review the Pre-Feasibility Study and to prepare a request for proposal ("RFP") for a feasibility study for the underground mine (the "Project"). The RFP was issued on October 24, 2003 and the mandate was awarded to RPA in November 2003.

The feasibility study prepared by RPA is dated February 27, 2004 and titled "Feasibility Study for Underground Mining at the Lac des Iles Mine" (the "RPA Feasibility Study"). In completing the Feasibility Study, RPA used its own senior staff, together with Itasca Consulting Canada Inc. for

geomechanics assessment and McIntosh Engineering Ltd. for design and drafting services for electrical design.

All of the technical information (including financial information) contained in this AIF relating to the Project has been taken from the Feasibility Study. A technical report, prepared by Graham G. Clow, P. Eng and David W. Rennie, P. Eng of RPA, incorporating certain information from the 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 for the proposed underground mine at the Roby High Grade Zone.

RESOURCES AND RESERVES

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.

The following table sets forth the underground resources for the Roby Deposit as estimated by RPA in the RPA Feasibility Study:

RESOURCE CATEGORY	TONNES (000)	PALLADIUM (G/T)	PLATINUM (G/T)	GOLD (G/T)	C
Indicated	4,496	7.35	0.43	0.35	
Inferred	-	-	-	-	

1. The resource categories follow the definitions contained in National Instrument 43-101. The resources are inclusive of reserves.
2. Resources are calculated at a cutoff grade of 4.5 grams per tonne for palladium (5.0 grams per tonne palladium equivalent) and an average long-term palladium price of US$325 per ounce.
3. Resources are estimated to commence at an elevation of 209 metres above sea level, the ultimate pit bottom of the Roby Pit.

The sub-vertical deposit strikes in a northerly direction over a maximum length of 440 metres. It pinches out to the north and south, and is wider towards the

south. Thickness ranges from 2 metres to 34 metres and averages 11 metres. The highest grades are generally in the thicker mineralized areas to the south and above 30 metres below sea level. The zone is continuous along strike and dip and appears to be quite repetitive and predictable from level to level.

A nominal target of 2,000 tonnes of ore per day from underground was chosen by RPA as the most appropriate rate for both the size of the deposit and the allowable time for pre-production development. This target rate is referred to in the RPA Feasibility Study as the "Base Case". RPA identified several constraints in assessing access alternatives and coordinating the underground operations with the open pit. RPA concluded that ramp access from within the open pit would be the most economical alternative. RPA recommends 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.

In general, ground conditions are expected to be very good, based on observations in the open pit, from drill core, and from geomechanics testwork. This will favour large open spans, and reasonable mineral resource recoveries should be attainable without the need for backfill. The chosen mining method for the RPA Feasibility Study 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.

The RPA Feasibility Study states that, initially, mining will be concentrated in the southern half of the underground mine, where orebody thickness and grades are highest. Stopes will be mined retreating from the north and south extremities towards a 50 metre wide main rib pillar situated at the centroid of the mineral deposit. A single 15 metre wide side rib pillar will be left on the north side for added stability. Up to four stopes will be in operation at any one time.

Average stope dilution has been calculated by the RPA Feasibility Study at 15% by adding an amount of hangingwall and footwall to the resource tonnage. Drift dilution has been calculated as 35%, giving a total mining dilution of 16%. Mining limits will be assay cut offs, and dilution will carry mineral grades estimated at 1.10 grams of palladium per tonne. Design extraction is estimated by the RPA Feasibility Study to be 83% of the resources, with unrecovered ore tied up mostly in the crown pillar (20 metres) and the sill pillars.

The following table sets forth the underground reserves for the deposit as estimated by RPA in the RPA Feasibility Study:

RESERVES	TONNES (000)	PALLADIUM (G/T)	PLATINUM (G/T)	GOLD (G/T)	COPPER (%)
Probable					
Stopes	2,218	6.69	0.40	0.33	0.06
Drifts	225	5.72	0.35	0.27	0.05
Recoverable Pillars	1,098	6.67	0.41	0.36	0.07
Total Probable	3,542	6.62	0.40	0.34	0.07

1. The reserve categories follow the definitions contained in National Instrument 43-101.
2. Reserves were calculated at a cutoff grade of 4.5 grams per tonne for palladium (5.0 grams per tonne palladium equivalent) and an average long-term palladium price of US$325 per ounce.
3. Reserves were estimated to commence at an elevation of 209 metres above sea level, the ultimate pit bottom of the Roby Pit plan.
4. Dilution was estimated to average 16%.
5. Extraction was designed to be 83% of the resource.

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. For purposes of the RPA Feasibility Study, the Corporation advised RPA that the palladium recovery of underground ore was expected to be higher (+80%) than that being achieved on the open pit ore in the mill (75% to 80%).

Based on the RPA Feasibility Study, 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.

Permitting and approvals requirements are expected by RPA to be minimal, as the underground mine will be an extension of the much larger and higher impact open pit operations. The Corporation does not anticipate any environmental issues or aboriginal or local opposition to the development of the underground mine. Changes to services such as potable water and sewage systems will be suitably permitted.

CAPITAL COSTS

The following table sets forth the estimated capital costs of the Project (in constant 2004 dollars) as set forth in the RPA Feasibility Study.

	COST (CDN$000S)
Mine development	15,855
Buildings	4,582
Engineering, procurement and construction management	1,431
Indirect costs	1,380
Owner's costs	9,937
Contingency	2,755
Sub-total	35,940

Capitalized operating costs	947
Less pre-production development revenue	(6,530)
Total	$30,358

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.

Mine development includes all rockwork and support with productivities calculated from base data (for example, for each face, the number of holes required, powder factors assigned, manpower for operating each item of equipment and other costs). It also includes all stationary and electrical equipment. Major mobile equipment will be leased and phased in during pre-production as it is required. Equipment leases are currently scheduled to be expensed as an operating cost during production. Smaller equipment such as mine service vehicles and the shuttle bus will be purchased outright.

Indirect costs include items such as plant commissioning, first fills for consumables, freight and insurance.

Owner's costs cover all pre-production labour, including recruitment, equipment leases and diamond drilling.

Contingencies have been estimated at 10% for development, 10% for equipment, and 10% for services and owner's costs. Contingencies are not applied to indirect costs and to some small items of equipment. The average contingency for the Project is 8%.

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.

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

Sustaining capital is estimated at $5.3 million during the mine life, covering ventilation raise extension, major equipment rebuilds in 2008 and equipment lease residuals. Main ramp development after startup was included in operating costs.

OPERATING COSTS

The operating cost estimate for the underground mine covers a 4.7 year mine life from September 2005 to June 2010 and were estimated in detail from a zero base.

The average total unit cash operating cost over the mine life is estimated by RPA 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.

PROJECT RISK

According to the RPA Feasibility Study, this is a relatively low risk mine project. 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.

CASH FLOW ANALYSIS

A pre-tax cash flow projection was generated by RPA from the life of mine capital and operating cost data prepared from the parameters set forth in the Feasibility Study. The following table summarizes the key economic criteria used by RPA to prepare the cash flow projection:

REVENUE

- 2,000 tonnes per day mining from underground (720,000 tonnes per year), for a total daily mill throughput of 16,500 tonnes per day including open pit production
- metal price assumptions:

Palladium:	US$325 per ounce
Platinum:	US$700 per ounce
Gold:	US$375 per ounce
Copper:	US$0.90 per pound
Nickel:	US$5.50 per pound

- metallurgy as per the Corporation's 2004 budget and current operating experience
- palladium metal recovery 83%
- net smelter returns based on existing terms with Inco and Falconbridge
- revenue is recognized at the time of production
- exchange rate US$1: Cdn$1.33
- 5% net smelter return royalty payable to the Sheridan Group

COSTS

- pre-production period 16 months (commencing May 1, 2004)
- mine life of 4.7 years (commencing September 2005)
- production plan as set out in the RPA Feasibility Study
- mine life capital totals Cdn$36.7 million, net of pre-production revenue
- the average operating cost over the mine life is Cdn$39.79 per tonne milled

The economic analysis was carried out by RPA assuming operations are on a stand alone basis where underground production is considered incremental to the higher-output ongoing open pit operation. Some costs, such as indirect costs, currently are wholly absorbed by open pit mining. A more complete economic assessment of the impact of underground mining will require analysis of cash flow projections both for the total open pit and underground, and for the open pit alone.

According to the RPA Feasibility Study (and based on the economic criteria set

out above), for the underground mine on a stand-alone basis, the undiscounted pre-tax cash flow for the Base Case totals $92.0 million over the mine life, and simple payback occurs by the first quarter of 2007 (15 months).

The unit operating cost is estimated by RPA to be US$152 per ounce of palladium, net of by-product credits. The mine life capital unit cost is estimated to be US$48 per ounce, for a total cash cost of US$200 per ounce of palladium. Average annual palladium production from underground during operation is estimated to be 118,000 ounces per year.

The net present value for the base case pre-tax model was calculated by RPA using a 10% discount rate, based on constant 2004 dollars and a relatively short mine life (4.7 years). According to RPA, introducing inflation/deflation criteria to the model would make little difference to the figures.

Over recent years, Canadian mining companies have used discount rates between 12% and 15% for project evaluation of Canadian greenfield projects. Projects in other countries are likely to be discounted at higher rates, to reflect an added risk element. An incremental project to a Canadian-based existing profitable mining operation can be expected to carry a lower risk premium. As a result, RPA considered a 10% discount rate for the Project as appropriate for project evaluation purposes.

The following table sets forth the net present value based upon discount rates of 5%, 10% and 15%, and exchange rates and prices listed above under "Revenue":

	DISCOUNT RATE		
	5%	10%	15%
Net present value (Cdn$000)	$69,151	$52,195	$39,437
Internal rate of return (IRR)	58%		

On February 27, 2004 the United States dollar exchange rate was $0.75 per Cdn$1.00 and the closing metal prices on that day pertinent to the Project were as follows:

Palladium:	US$235 per ounce
Platinum:	US$895 per ounce
Gold:	US$394 per ounce
Copper:	US$1.35 per pound
Nickel:	US$6.69 per pound

Using these prices and exchange rate, the undiscounted pre-tax cash flow for the Base Case totals $41.3 million and the net present value at 10% is estimated by RPA to be $18.8 million. The unit operating cost is estimated to be US$129 per ounce of palladium, net of by-product credits. The mine life capital unit cost is estimated to be US$50 per ounce, for a total estimated cash cost of US$179 per ounce of palladium.

SENSITIVITY ANALYSIS

The following table sets forth RPA's analysis of the sensitivity of the Project to specified variables:

ITEM	UNIT	BASE CASE VALUE	VALUE AT NPV=O(1)
Palladium price	US$ per oz	US$325	US$216
Operating cost	Cdn$ per tonne	Cdn$39.79	Cdn$62.23
Capital cost	Cdn$000	Cdn$36,700	Cdn$93,900
Exchange rate	US$:Cdn$	US$0.75	US$0.99
Pd Head grade	g/t Pd	6.62	4.33
Extraction	Tonnes 000	3,542	18 months production

(1) For each value, all other Base Case values remain constant.

According to the RPA Feasibility Study, the Project is most sensitive to external economic criteria related to the palladium price (spot price and the Canadian/United States dollar exchange rate). Any further rise in the Canadian dollar will have a direct impact on Project viability since costs are almost entirely in Canadian dollars and revenues are in United States dollars. The major Project risk will arise if there is a combination of significant weakening of the U.S. dollar combined with a prolonged period of lower palladium spot prices. Based on the palladium price at the date of the RPA Feasibility Study, the Project is less robust, but still has a positive net present value. The RPA Feasibility Study sets out the following additional Project sensitivities:

- PALLADIUM HEAD GRADE. Head grade should not change significantly from the estimates used in the RPA Feasibility Study unless there is increased dilution, perhaps caused by unforeseen poor ground conditions. Geomechanics testwork and the experience of open pit ground conditions suggest that this is unlikely, especially during primary stope extraction. Should grades fall through increased dilution in the pillar recovery stage, there will be the option to leave broken ore in the drawpoints.

- EXTRACTION. The Base Case undiscounted payback period is 15 months from production start up. This is the point at which production could cease and the mine would be in a nominal breakeven situation in terms of Base Case assumptions.

- CAPITAL AND OPERATING COSTS. These costs have been calculated from a zero base using firm price quotations and known manpower and equipment productivities. Capital costs are estimated to an accuracy of +15%/-10%. The Project is not particularly sensitive to capital cost overruns. Rises in consumable costs (fuel and power) could increase unit operating costs. It is unlikely such cost rises would seriously endanger Project viability unless they were combined with adverse changes in other variables such as exchange rates and palladium price.

The Project has a rapid simple payback of 15 months, which, according to the RPA Feasibility Study, minimizes the chance for adverse changes in underlying fundamental variables to have a significant effect on overall Project viability.

CONCLUSIONS AND RECOMMENDATIONS

According to the RPA Feasibility Study, in RPA's opinion the Project is a relatively low risk operation from a technical viewpoint. The underground mine will lie down dip and directly beneath the open pit mine, which has been in operation since 1993. Metallurgical response is predictable and proper environmental controls are in place. Site infrastructure is well established, and permitting for an underground operation has been discussed with the relevant

ministries, with no difficulties being foreseen. Provision of services such as power, water and sewage are incremental to those existing for the open pit mine. In RPA's opinion, the key risks to the Project lie in two areas:

- A decline in the palladium price to approximately US$216 per ounce results in a breakeven discounted cash flow. The Project is somewhat sensitive to nickel and platinum prices as well. A decline in the nickel price to approximately US$4.00 per pound and platinum to approximately US$500 per ounce would result in a break even discounted cash flow at the palladium price of US$235 as of the date of the RPA Feasibility Study.

- Extraction of the ore without fill presents some risk, which geomechanical modelling shows should be manageable. In RPA's opinion, the investment in backfill is not warranted at present palladium prices.

The current schedule calls for work to commence in May 2004. RPA believes it is unlikely that an acceptable crew and equipment can be acquired by that time and, accordingly, RPA recommends that the Corporation retain a contractor to carry out the initial phase of portal development and decline development to the first ventilation raise bypass.

Based upon the price forecast used in the analysis, RPA has recommended that the Corporation proceed with the development of the underground mine.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following financial information is in Canadian funds in thousands of dollars except per share amounts.

	As at or for the year ended December 31	
	2003	2002
Total assets	393,692	415,923
Total long-term liabilities	40,561	86,889
Shareholders' equity	299,955	260,071
Revenue from metal sales	192,141	176,773
Net earnings	38,378	15,082
Net earnings per share		
- basic	0.76	0.30
- diluted	0.75	0.30
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 facilities with a Canadian chartered bank and with Kaiser-Francis Oil Company. Accordingly, it is not anticipated that the Corporation will pay any dividends on its common shares in 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to "Management's Discussion and Analysis of Financial Results" on pages 16 through 20 of the 2003 Annual Report to shareholders, which pages are incorporated herein by reference.

Selected consolidated financial information for the last eight quarters ended December 31, 2003 (in thousands of dollars except per share amounts) is set forth below:

	Dec 31 2003	Sept 30 2003	June 30 2003	Mar 31 2003	Dec 31 2002	Sept 30 2002
Revenue	59,805	42,585	44,631	45,120	43,904	46,547
Net income (loss)	16,092	3,535	10,361	8,390	(1,579)	2,894
Net income per share						
- basic	0.32	0.07	0.20	0.17	(0.03)	0.06
- diluted	0.31	0.07	0.20	0.17	(0.03)	0.06

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".

DIRECTORS AND OFFICERS

NAME AND POSITION(S) HELD WITH THE CORPORATION	PRINCIPAL OCCUPATION	DIREC
Michael P. Amsden, P.Eng.(2) (3)(4) Chairman Oakville, Ontario	Retired senior mining executive	April 1995
Steven R. Berlin, C.P.A.(1) (2)(6) Director Tulsa, Oklahoma	Vice President and Co-Chief Financial Officer, Kaiser-Francis Oil Company	February 2001
Andre J. Douchane(4) Director, President and Chief Executive Officer Toronto, Ontario	Officer of the Corporation	April 2003
Louis J. Fox, J.D.(3)(5)(6) Director Fort Lauderdale, Florida	Private Businessman; Consultant	June 2000
A.M. (Sandy) Laird, P.Eng.(3) (4)(5)	Retired senior mining executive	June 2000

Director Vancouver, British Columbia		

NAME AND POSITION(S) HELD WITH THE CORPORATION	PRINCIPAL OCCUPATION	DIREC
Richard H. Sutcliffe, Ph.D.(1)(2)(4) Director Ancaster, Ontario	President and Chief Executive Officer, Patricia Mining Corp. and URSA Major Minerals Incorporated, each a natural resource company	January 1999
Gregory J. Van Staveren, C.A., C.M.A., C.P.A.(1)(5)(6) Director Toronto, Ontario	Strategic Financial Consultant	February 2003
George D. Faught, C.A. Vice President Finance and Chief Financial Officer Toronto, Ontario	Officer of the Corporation	
Ray J. Mason, B.Sc. General Manager Thunder Bay, Ontario	Officer of the Corporation	
Bruce W. Mackie Vice President, Exploration and Corporate Development Oakville, Ontario	Officer of the Corporation	
Douglas H. Bache Treasurer Burlington, Ontario	Officer of the Corporation	
Michael C. Thompson, F.C.C.A. Manager Administration Thunder Bay, Ontario	Officer of the Corporation	
Mary D. Batoff, LL.B. Secretary and General Counsel Toronto, Ontario	Consultant	

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating Committee
(4) Member of the Technical Committee
(5) Member of the Corporate Governance Committee
(6) Member of the Hedging 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:

Mr. Berlin has been the Vice President and Co. Chief Financial Officer 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. Prior to September 1999, Mr. Berlin was on the faculty of the University of Tulsa.

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

Mr. Van Staveren, prior to September 2001, was Vice President Finance and Chief Financial Officer of Martinrea International, formerly Royal Laser Tech Corporation, a metal fabrication company.

Mr. Faught was the Chief Financial Officer of William Resources Inc., a natural resource company, prior to November 1999.

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 October 2002 he was Assistant Comptroller, Financial Planning and Analysis of Inco and prior to July 2001 he was Assistant Treasurer of Inco.

Mr. Thompson was a consultant prior to June 2000 and prior to January 2000 was general manager of Riverside Grain Products, a starch manufacturing company.

Ms. Batoff was the Corporate Secretary of William Resources Inc., a natural resource company, prior to July 1999.

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.

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 77,793, less than 1% of the common shares issued and outstanding.

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 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 of Ursa Major Minerals Incorporated ("Ursa Major") and Patricia Mining Corp. ("Patricia Mining"). Ursa Major has active base and precious metal exploration projects in Wyoming, U.S.A. and the Sudbury area of Ontario, Canada. 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 SouthernEra Resources Ltd. ("SouthernEra"), a company listed on the Toronto Stock Exchange and Messina Limited, a South African company listed on the Johannesburg Stock Exchange. SouthernEra owns a 70.4% interest in Messina Limited which, in turn, owns 100% of Messina Platinum Mines Limited, a platinum group metals producer in South Africa. SouthernEra's reported production is from the Messina mine in South Africa.

ADDITIONAL INFORMATION

SHARE CAPITAL

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 this company, 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.

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.

LEGAL PROCEEDINGS

The Corporation, along with J. Patrick Sheridan, Minerales 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, 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.

Claims of wrongful dismissal totaling $0.4 million have been made against the Corporation by former employees. Discoveries of the parties commenced in December 2003 and were adjourned; no dates have been set to continue discoveries. No provision has been made in the financial statements, as management believes that the Corporation has valid defenses to these claims.

Stock options in respect of an aggregate of 29,000 common shares may be held by employees of Minerales De Copan. The Corporation has been indemnified by the Sheridan Group for losses in connection with these options.

From time to time, the Corporation 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 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.

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.

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 and the RPA Feasibility Study. 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:

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

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

These risks could result in:

- damage to, or destruction of, the Corporation's properties or production facilities;
- personal injury or death;
- environmental damage;
- delays in mining;
- increased production costs;
- asset write downs;
- monetary losses; and
- 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 affecting the Corporation's ability to generate revenue and profits. These events may include, among others:

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

THE CORPORATION MAY EXPERIENCE HIGHER COSTS AND LOWER REVENUES THAN ESTIMATED IN THE RPA FEASIBILITY STUDY 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.

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.

The RPA Feasibility Study contains reserve estimates based on exploration to 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.

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, IF THIS CONTRACT IS SUSPENDED OR TERMINATED, THE CORPORATION MAY NOT BE ABLE TO FIND OTHER PURCHASERS FOR ITS PALLADIUM ON SIMILAR TERMS OR AT ALL.

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. As of May 2001, the Palladium Sales Contract was no longer subject to an automatic contractual right of renewal. The Palladium Sales Contract allows the Automotive Manufacturer to terminate the Palladium Sales Contract if the Corporation breaches a material term and it does not remedy the breach within ten business days of receiving notice of such breach. In addition, the contract contains "force majeure" provisions that allows the Automotive Manufacturer to suspend its obligations to purchase palladium upon the occurrence of certain events, such as acts of nature, that are beyond the control of the Automotive Manufacturer and that limit its ability to make such purchases. If the Palladium Sales Contract is suspended or terminated, the Corporation may not be able to

find other purchasers for its palladium on similar terms or at all, and the Corporation's business could suffer significantly.

IN CERTAIN CIRCUMSTANCES THE PALLADIUM SALES CONTRACT MAY LIMIT THE CORPORATION'S ABILITY TO GENERATE REVENUES.

Future revenues from production of palladium will be governed by the Palladium Sales Contract. The prices the Corporation receives under that contract are based on a specified discount from the average monthly London Metal Exchange prices, subject to a maximum price of US$550 per ounce for 50% of the production delivered each month. Therefore, if the price of palladium rises above US$550, with respect to half of the production the Corporation will not be able to charge a price that reflects market value. In such event, the Corporation's ability to generate revenues will be limited by the Palladium Sales Contract.

IF THE PALLADIUM SALES CONTRACT IS TERMINATED, THE CORPORATION WILL BE IN DEFAULT OF ITS CREDIT FACILITIES.

The Corporation will be in default of its credit facilities if the Palladium Sales Contract is terminated. The Corporation may not have sufficient cash reserves to make increased payments required under its credit facilities if it is in default and will be required to incur further debt or raise capital in the markets by issuing additional shares, which could cause a decline in the price of its common shares and may involve substantial dilution. Such additional funds may not be available on favourable terms or at all.

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 Inco can be terminated by either party on 12 months' notice. 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 either of the agreements 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 SUCCESS OF THE PROJECT.

The Corporation's primary source of revenue is the sale of palladium. In fiscal 2003, sales of palladium accounted for approximately 67% of the Corporation's revenues. Historically, changes in the market price of palladium have significantly impacted the Corporation's profitability and common share price. Notwithstanding the Palladium Sales Contract, market prices will continue to significantly impact profitability and may cause wide fluctuations in the market price for the Corporation's common shares. In addition, according to the RPA Feasibility Study the Project is most sensitive to external economic criteria related to the palladium price. At the current palladium price, the Project has a positive net present value. However, a major Project risk will arise if there

is a significant weakening of the U.S. dollar combined with a prolonged period of lower palladium prices. See "Proposed Underground Lac des Iles Mine". Many factors beyond the Corporation's control influence the market price of palladium. These factors include:

- global supply and demand;
- availability and costs of metal substitutes;
- speculative activities;
- international political and economic conditions; and
- 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. Political instability in Russia and its economic problems make Russian stockpiles difficult to predict and the risk of sales from stockpiles more significant.

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, and under the Palladium Sales Contract will continue to be 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, according to the RPA Feasibility Study the Project is sensitive to fluctuations in the exchange rate. A major Project 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 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 had 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 March 31, 2004, approximately $5.0 million was on deposit in the trust fund. Development of the underground mine pursuant to the RPA Feasibility Study 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 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 our efforts to obtain and renew permits are contingent upon many variables not within our 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 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.

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 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 death of George B. Kaiser, the principal shareholder of the Kaiser-Francis Oil Company and a lender under one of the Corporation's credit facilities, constitutes such an event of default. If the Corporation is required to pay back immediately all amounts borrowed under either or both of its credit facilities, it may be necessary to obtain additional financing which may not be available on terms acceptable to the Corporation, if at all.

THE CORPORATION'S PRINCIPAL SHAREHOLDER HAS THE ABILITY TO DIRECT THE CORPORATION'S AFFAIRS AND BUSINESS AND, BECAUSE IT OWNS APPROXIMATELY 51% OF THE COMMON SHARES, T