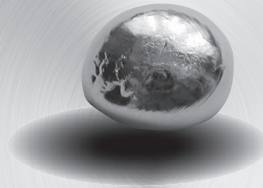




NORTH AMERICAN PALLADIUM LTD.

Pd



THIRD QUARTER REPORT

for the nine months ended September 30, 2007



Third Quarter 2007 Highlights

- Palladium production for the three months ended September 30, 2007 was 69,283 oz, an increase of 15.9% compared to the same period last year. Year-to-date palladium production of 214,739 oz has increased 30.9% compared to last year.
- Revenue before pricing adjustments for the third quarter of 2007 increased \$4.0 million compared to 2006, reflecting higher volumes and improved commodity pricing of \$8.1 million, partially offset by the lower exchange rate of \$4.1 million due to continued strengthening of the Canadian dollar. This revenue increase was, however, more than offset by a \$6.4 million negative foreign exchange pricing adjustment in the third quarter of 2007, arising from the mark-to-market of concentrate awaiting settlement. For the nine months ended September 30, 2007, revenue after adjustments increased to \$149.4 million from \$108.4 million reflecting higher volumes and commodity prices of \$69.8 million, partially offset by a negative foreign exchange variance of \$20.1 million (includes \$14.0 million mark-to-market pricing adjustment).
- Operating cash flow for the quarter (before changes in non-cash working capital)¹ improved by \$1.4 million to \$4.1 million compared to operating cash flow of \$2.7 million in 2006.
- The net loss for the third quarter of 2007 was \$14.0 million or \$0.25 per share compared to a net loss of \$11.2 million or \$0.21 per share in the same period last year. For the nine months ended September 30, 2007, the net loss was \$17.6 million or \$0.32 per share compared to a net loss of \$26.7 million or \$0.51 per share in the comparable period last year.
- Palladium sales in the quarter were recorded at US\$344 per oz compared to US\$313 per oz in the comparable quarter last year, while by-product metal prices, with the exception of nickel, also realized considerable gains. Palladium accounted for 41% of the quarter's total revenues while nickel and platinum continued to be important sources of revenue, at 19% and 18% of the quarter's total revenue respectively.
- Cash cost per ounce of palladium produced,¹ net of by-product metal revenues and royalties, was US\$224 for the third quarter 2007 compared to US\$239 in the same period last year, primarily due to the impact of the strengthening Canadian dollar on both costs and by-product revenue realized.
- Spot palladium prices during the quarter averaged US\$349 per oz compared to US\$324 per oz in the comparable quarter of 2006. The Company's performance is highly correlated to prevailing palladium and by-product metal prices as it continues to sell all its metal production into the spot markets.
- The Company's debt position at September 30, 2007 was \$52.6 million and reflects a reduction of \$12.9 million (20%) and \$22.3 million (30%) compared to June 30, 2007 and December 31, 2006 respectively.

¹ Non-GAAP measure. Reference should be made to footnote 1 at the end of this MD&A



Management's Discussion and Analysis

The following is management's discussion and analysis ("MD&A") of the financial condition and results of operations to enable a reader to assess material changes in financial condition and results of operations for the three month and nine month period ended September 30, 2007, compared to those of the respective period in the prior year. This MD&A has been prepared as of November 5th, 2007 and is intended to supplement and complement the unaudited consolidated financial statements and notes thereto for the nine months ended September 30, 2007 (collectively, the "Financial Statements"). You are encouraged to review the Financial Statements in conjunction with your review of this MD&A. This MD&A should also be read in conjunction with the annual audited consolidated Financial Statements for the three years ended December 31, 2006, the related annual MD&A included in the 2006 annual report, and the most recent Form 40-F/Annual Information Form on file with the US Securities and Exchange Commission and Canadian provincial securities regulatory authorities. All amounts are in Canadian dollars unless otherwise noted.

KEY RESULTS

Operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006*
Palladium (oz)	69,283	59,756	214,739	164,097
Payable Palladium (oz)**	64,086	54,759	197,177	149,714
Platinum (oz)	5,946	5,612	18,713	15,796
Gold (oz)	5,125	4,313	14,756	12,128
Nickel (lbs)	734,144	621,287	2,262,625	1,856,600
Copper (lbs)	1,411,770	1,261,765	4,092,367	3,734,137
Ore Tonnes Milled	1,308,007	1,164,029	3,840,614	3,391,282
Ore Tonnes Mined – Underground	170,532	201,363	566,611	498,660
Ore Tonnes Mined – Open Pit	1,099,309	1,018,386	3,380,073	3,002,383
Waste Tonnes Mined – Open Pit	1,765,103	2,015,546	5,519,165	6,957,911
Waste Strip Ratio – Open Pit	1.61:1	1.98:1	1.63:1	2.32:1

* Metal production and tonnes milled includes pre-production activities from the underground mine that was not recorded as revenue but rather offset against the underground mine's capital development costs. Metal production from the underground pre-production included 9,004 oz of palladium and other associated by-product metals.

**Net of smelter losses



Financial Results

(thousands of dollars except per share amounts)

	2005		2006			2007		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue from metal sales – before pricing adjustments	\$ 19,591	\$24,356	\$ 36,698	\$ 38,704	\$46,061	\$ 60,304	\$ 53,451	\$ 42,674
Pricing adjustments:								
– Commodities	5,814	6,952	566	2,927	1,230	9,141	(2,421)	237
– Foreign exchange	204	184	(1,745)	(200)	3,467	(1,006)	(6,535)	(6,419)
Revenue from metal sales	25,609	31,492	35,519	41,431	50,758	68,439	44,495	36,492
Cash flow from operations, prior to changes in non-cash working capital ¹ *	(7,055)	(260)	(965)	2,715	8,422	23,037	12,865	4,068
Exploration expense	3,701	2,024	2,659	2,576	4,572	3,228	798	2,933
Net income (loss)	(11,037)	(4,141)	(11,325)	(11,247)	(7,396)	5,507	(9,066)	(14,033)
Basic net income (loss) per share	(0.21)	(0.08)	(0.22)	(0.21)	(0.14)	0.10	(0.17)	(0.25)
Fully diluted net income (loss) per share	(0.21)	(0.08)	(0.22)	(0.21)	(0.14)	0.10	(0.17)	(0.25)

* Includes exploration expense. Certain prior period amounts have been reclassified to conform to a classification adopted in the current period.

¹ Non-GAAP measure. Reference should be made to footnote 1 at the end of this MD&A.



RESULTS OF OPERATIONS

The Company earned revenue of \$36.5 million for the three months ended September 30, 2007 compared to revenue of \$41.4 million for the corresponding period in 2006. The loss from mining operations for the three months ended September 30, 2007 was \$14.9 million, an increase of \$8.8 million compared to the same period last year. For the nine months ended September 30, 2007 the Company earned revenue of \$149.4 million compared to revenue of \$108.4 million for the corresponding period in 2006. The loss from mining operations for the nine months ended September 30, 2007 was \$11.2 million, an improvement of \$7.4 million compared to the same period last year.

Sales of metals in concentrate are recognized in revenue when concentrate is delivered to a third party smelter for treatment. However, final pricing is not determined until the refined metal is sold which can be up to six months later. Accordingly, revenue in a quarter is based on current US dollar denominated commodity prices and foreign exchange rates for sales occurring in the quarter and ongoing pricing adjustments from prior sales that are still subject to final pricing. These final pricing adjustments result in additional revenues in a rising commodity price environment and reductions to revenue in a declining price environment. Similarly, a weakening in the Canadian dollar relative to the US dollar will result in additional revenues and a strengthening in the Canadian dollar will result in reduced revenues. Effective April 1, 2007, the amount of the final pricing adjustments recognized on any commodity price changes will also be reduced by any price participation deductions as provided for in the Company's smelting and refining agreement. The Canadian dollar strengthened against the U.S. dollar to \$1.00 at September 30, 2007 compared to \$0.90 at September 30, 2006 and \$0.94 at June 30, 2007.

Revenue before pricing adjustments for the third quarter of 2007 increased \$4.0 million compared to the third quarter of 2006, reflecting higher volumes and improved pricing of \$8.1 million, offset by the lower exchange rates of \$4.1 million. Negative pricing adjustments from the mark-to-market of concentrate awaiting settlement in the third quarter of 2007 reduced revenue in the quarter by \$6.2 million (\$6.4 million negative foreign exchange adjustment offset partially by a \$0.2 million favourable commodity price adjustment). This compares to positive pricing adjustments from the mark-to-market of concentrate awaiting settlement in the third quarter of 2006 of \$2.7 million (\$2.9 million positive price adjustment and \$0.2 million negative foreign exchange adjustment).

For the nine months ended September 30, 2007, revenue before pricing adjustments of \$156.4 million increased \$56.7 million from the comparable period of 2006, reflecting higher volumes and improved pricing of \$62.8 million, partially offset by unfavourable foreign exchange rates of \$6.1 million. Negative pricing adjustments from settlements and the mark-to-market of concentrate awaiting settlement for the nine months ended September 30, 2007 reduced revenue by \$7.0 million (\$14.0 million negative foreign exchange adjustment, partially offset by a \$7.0 million favourable commodity price adjustment). This compares with positive adjustments in the same period last year of \$8.7 million (\$10.4 million positive commodity price adjustment partially offset by a \$1.8 million negative foreign exchange adjustment). For the nine months ended September 30, 2007, revenue after adjustments was \$149.4 million, an increase of 38%, compared to revenue of \$108.4 million the same period last year.

For the three months ended September 30, 2007, palladium sales were recorded at US\$344 per ounce, up 10% compared to US\$313 in the same period last year, but down from US\$365 when compared to the the previous quarter. Revenue in the third quarter of 2007 from the sale of palladium before pricing adjustments increased to \$21.3 million from \$19.3 million, but after pricing adjustments from the mark-to-market of concentrate awaiting settlement was lower at \$15.0 million (41% of total revenue) compared to \$19.7 million (48% of total revenue) in 2006. For the nine months ended September 30, 2007, palladium sales before pricing adjustments increased 49% to \$73.1 million and after pricing adjustments increased by 32% to \$68.0 million, as compared to \$51.5 million in 2006.

Revenue from by-product metal sales after pricing adjustments in the three months ended September 30, 2007 decreased by 1% to \$21.5 million compared to \$21.7 million in the same period last



year. Prices recorded for by-product metals in the third quarter of 2007 were: platinum US\$1,377 per oz. (2006 – US\$1,137), nickel US\$14.08 per lb (2006 – US\$13.06), gold US\$742 per oz. (2006 – US\$598) and copper US\$3.66 per lb (2006 – US\$3.44). By-product metal prices recorded during the third quarter of 2007 compared to the second quarter of 2007 were mixed, with improvements seen in platinum (8%), copper (7%) and gold (13%) and a reduction in nickel (13%). For the nine months ended September 30, 2007, total by-product revenues after pricing adjustments increased by 43% to \$81.4 million, as compared to \$57.0 million in 2006. In particular, nickel sales for the first nine months of 2007 increased 76% to \$35.7 million compared to \$20.2 million in the corresponding period of 2006.

During the three months ended September 30, 2007, 170,532 tonnes of ore were extracted from the Lac des Iles underground mine, with an average palladium grade of 5.77 grams per tonne, compared to 201,363 tonnes with an average palladium grade of 5.98 grams per tonne during the same period last year. For the nine months ended September 30, 2007, underground production was 566,611 tonnes at an average palladium grade of 5.72 grams per tonne. Comparisons against the first nine months of 2006 are not meaningful as the underground mine only achieved commercial production in the second quarter of 2006. In the Lac des Iles open pit operation for the nine months ended September 30, 2007, 1,099,309 tonnes of ore were extracted with an average palladium grade of 1.75 grams per tonne compared to 1,018,386 tonnes at an average palladium grade of 1.64 grams per tonne in the same period last year. Over this period, the open pit strip ratio substantially improved to 1.61, compared to 1.98 in the same period for 2006. For the nine months ended September 30, 2007 the strip ratio improved to 1.63 compared to 2.32 in the comparable period for 2006.

Operating results for the three and nine months ended September 30, 2007 saw palladium production increases over the corresponding periods last year of 16% and 31% respectively. During the three months ended September 30, 2007, the mill processed 1,308,007 tonnes of ore at an average of 14,217 tonnes per day, producing 69,283 ounces of palladium. Over the same period in 2006, the mill processed 1,164,029 tonnes of ore at an average of 12,652 tonnes per day, producing 59,756 ounces of palladium. The average palladium head grade was 2.24 grams per tonne in the third quarter of 2007, compared to 2.20 grams per tonne in the corresponding period of 2006. For the nine months ended September 30, 2007, mill production was 3,840,614 tonnes, producing 214,739 ounces of palladium with an average palladium head grade of 2.33 grams per tonne, compared to 3,391,282 tonnes, producing 164,097 ounces of palladium at an average palladium head grade of 2.07 grams per tonne during the same period last year. In the third quarter of 2007, palladium recoveries were 73.8% as compared to 72.7% in third quarter of 2006, while mill availability in the period improved to 93% compared to 87%. The year to date improvement in production was achieved despite a number of power outages in May and June caused by lightning strikes, which resulted in unscheduled downtime to the primary crusher and the #1 ball mill. The mill's increased results reflect continued improvement to the throughput and availability due to the Company identifying and systematically resolving issues. As reported in the fourth quarter of 2006, a team of dedicated employees at the Lac des Iles site has made improvements to the flotation circuit, implemented proactive preventative maintenance programs, made changes to the mill flow sheet and the reagent mix, and improved the quality of recycled water.

Total production costs for the three months ended September 30, 2007 of \$28.8 million reflected a small decrease from the \$30.3 million in same period of 2006. For the nine months ended September 30, total production costs increased from \$82.9 million in 2006 to \$94.5 million in 2007, mainly due to the inclusion of the underground mine production costs for the three months ended March 31, 2007 of \$8.1 million, which for the corresponding period in 2006 were capitalized as pre-production costs. Unit cash costs¹ to produce palladium production costs (including overhead and smelter treatment, refining and freight costs), net of by-product metal revenues and royalties, increased to \$224 (US\$225) per ounce in the third quarter of 2007 compared to \$239 (US\$215) per ounce in the corresponding period of 2006. The increase in unit cash costs was primarily due to the impact of the strengthening Canadian dollar on both costs and

¹ Non-GAAP measure. Reference should be made to footnote 1 at the end of this MD&A.



by-product revenue realized. In addition, there is continued upward pressure on the cost of materials, particularly steel, tires (due to the current world supply constraints), power and diesel fuel.

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future undiscounted cash flows are less than the carrying amount of the asset. The Company's management believes an impairment charge and a corresponding reduction in the carrying value of its mining interests is not required. Assumptions underlying future cash flow estimates are subject to risk and uncertainty. Any differences between significant assumptions and market conditions such as metal prices, exchange rates, recoverable metal, and/or the Company's operating performance could have a material effect on the Company's ability to recover the carrying amounts of its long-lived assets resulting in possible impairment charges.

Non-cash amortization increased to \$12.2 million in the third quarter of 2007 compared to \$9.0 million in the corresponding period of 2006. The higher amortization is attributable to the 16% increase in palladium production, as well as the adjustment in the mine plan that was effective from the fourth quarter of 2006, and that resulted in an increase in the unit of production amortization rate. For the nine months, amortization increased to \$36.0 million compared to \$20.1 million in 2006 reflecting the 31% increase in palladium production, the aforementioned adjustment in rates, as well as the inclusion of the first quarter 2007 amortization of the underground mine development costs, which commenced commercial production in April 2006.

Exploration expense was \$2.9 million in the third quarter of 2007 compared to \$2.6 million in the corresponding period last year and \$7.0 million for the first nine months of 2007, compared to \$7.3 million during the same period last year. Included in the 2007 year to date expense is \$3.0 million spent on the Arctic Platinum Project ("APP") as the Company continues its activities in Finland. Costs associated with the APP project are being charged to exploration expense as incurred until it is determined whether the project can be economically developed, at which time the costs will be capitalized. In addition, the Company continued its exploration of the Offset High Grade Zone ("OHGZ") at the Lac des Iles mine. Diamond drilling commenced in the second quarter of 2007 and the goal of this program is to provide detailed information as to the metals distribution for the upper portion of the OHGZ.

Work continues on the Shebandowan nickel-copper-PGM project and drill results from its Phase II drill campaign were announced in a press release on May 1, 2007. A Technical Report prepared in compliance with the requirements of National Instrument 43-101 disclosing the results of the mineral resource estimate was filed on October 26, 2007.

For the three months ended September 30, 2007, there was a \$14.9 million loss from mining operations compared to a \$6.1 million loss in the corresponding period of 2006. The increased loss from mining operations of \$8.8 million, is due to lower revenue of \$4.9 million (full details of which are set out above) and a \$3.9 million increase in operating expenses (mainly amortization \$3.2 million), when compared to 2006. For the nine months ended September 30, 2007, there was a \$11.2 million loss from mining operations compared to a \$18.6 million loss in the corresponding period of 2006. The decreased loss from mining operations of \$7.4 million, is due to increased revenues of \$41.0 million (full details of which are set out above) partially offset by a \$33.6 million increase in operating expenses (due to increased production costs of \$11.6 million as a result of the underground mine commencing commercial production in the second quarter of 2006, amortization of \$15.9 million and smelter treatment, refining and freight costs of \$5.6 million all reflecting the higher volume in 2007).

Other income and expense, which includes interest income and expense, accretion expense on the convertible notes and foreign exchange gains and losses, was an expense of \$1.2 million in third quarter of 2007 compared to an expense of \$5.3 million in the corresponding period of 2006. The decrease in 2007 is mainly due to a \$3.2 million foreign exchange gain which relates primarily to the translation of the



Company's US dollar denominated convertible notes and credit facilities. For the nine months ended September 30, 2007, other income and expense was an expense of \$7.3 million, compared to an expense of \$9.4 million in the same period for 2006. The year to date expense decrease of \$2.1 million is due primarily to an increased foreign exchange gain of \$7.6 million on the Company's US dollar denominated debt offset partially by higher accretion expenses of \$4.5 million which reflects accretion expenses relating to convertible notes payable in the first quarter of 2007 of \$4.3 million (2006 – \$nil). For the third quarter of 2007, the Company incurred interest expense on long-term debt of \$0.9 million compared to \$1.5 million in the same period last year. The reduced interest expense in the current quarter is attributable to the reduction in long term debt and the favourable foreign exchange impact since most of the long term debt is US dollar denominated. For the nine months ended September 30, 2007, interest expense was \$3.6 million, consistent with the same period in 2006. For the nine months ended September 30, 2007, interest expense on the convertible notes payable of \$2.0 million has been settled by the issuance of common shares 232,775 common shares (Twelve months ended December 31, 2006 \$2.0 million – 242,158 common shares issued), pursuant to the convertible note holders' directions. Interest income in the third quarter of 2007 was \$0.1 million and \$0.3 million for the nine months compared to \$0.1 million and \$0.6 million for the comparable periods in 2006.

For the three months ended September 30, 2007, there was a tax recovery of \$2.0 million (2006 recovery of \$0.1 million) from reversal of prior period provisions due to operating losses and the recovery of taxes related to flow-through shares renounced. For the nine months ended September 30, 2007 there is a tax recovery of \$0.9 million (2006 – \$1.4 million). For the three months ended September 30, 2007, the Company reported a net loss of \$14.0 million or \$0.25 per share compared to net loss of \$11.2 million or \$0.21 per share for the three months ended September 30, 2006. For the nine months ended September 30, 2007 the net loss was \$17.6 million or \$0.32 per share compared to a net loss of \$26.7 million or \$0.51 per share in the same period last year.

Compared to the second quarter of 2007, revenue declined by \$8.0 million. The decrease arose despite higher production volumes (69,283 oz of palladium in Q3 2007 vs. 66,651 oz palladium in Q2 2007) and metal prices (with the exception of palladium which decreased from US\$365 to US\$ 344 in the quarter), which were more than offset by the negative foreign exchange from the strengthening Canadian dollar and the negative mark-to-market adjustments on settlements and on concentrate awaiting settlement of \$6.2 million (\$0.2 million positive price adjustment and a negative foreign exchange adjustment of \$6.4 million).

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations¹ (prior to changes in non-cash working capital) was \$4.1 million in the three months ended September 30, 2007, compared to cash provided by operations of \$2.7 million in 2006. The \$1.4 million improvement was mainly attributable to the impact of an unrealized foreign exchange loss (\$3.7 million) and increased non cash amortization expense (\$3.1 million) offset partially by the increased net loss (\$2.8 million). For the nine months ended September 30, 2007, cash provided by operations¹ was \$40.0 million an improvement of \$38.5 million from the prior year when cash provided by operations¹ was \$1.5 million. This improvement reflects a lower net loss (\$9.1 million) and higher non-cash add backs including amortization (\$15.9 million), unrealized foreign exchange loss (\$7.6 million) and accretion expense relating to the convertible notes payable (\$4.5 million). Changes in non-cash working capital generated \$5.4 million of cash for the three months ended September 30, 2007, as compared to cash consumed of \$3.4 million for the corresponding period of 2006. For the nine months ended September 30, 2007, non-cash working capital required \$25.0 million compared to \$29.7 million in 2006.

Palladium awaiting settlement decreased to 125,226 ounces at September 30, 2007 compared to 129,496 ounces at December 31, 2006. The decrease in the physical quantities of metal in the concentrate awaiting settlement, combined with the higher prices used to value the concentrate awaiting settlement,

¹ Non-GAAP measure. Reference should be made to footnote 1 at the end of this MD&A.



offset by the strengthening Canadian dollar resulted in a \$1.0 million (1%) increase in the value of concentrate awaiting settlement as at September 30, 2007, compared to December 31, 2006. After allowing for non-cash working capital changes, cash provided by operations was \$9.4 million in the three months ended September 30, 2007 compared to cash usage of \$0.6 million in the three months ended September 30, 2006 and for the nine months ended September 30, 2007, cash provided by operations was \$15.0 million, compared to cash usage of \$28.2 million in 2006.

As at September 30, 2007 the Company had a liability of \$4.0 million (US\$4.0 million) from Auramet Trading, LLC, ("Auramet") under the palladium and platinum advance purchase facility.

On February 27, 2007, the Company completed a private placement of 550,000 flow-through common shares at \$11.00 per share for gross proceeds of \$6.0 million. These proceeds will be used to expedite work on the Shebandowan Project.

Investing activities required \$2.9 million of cash in the third quarter of 2007, the majority of which was attributable to the ongoing lateral development for the underground mine and the 2007 expansion of the tailings management facilities. This compares with \$4.1 million of net investing activities in the same period last year, which was mainly related to the underground mine development. For the nine months ended September 30, 2007, investing activities required \$11.5 million compared to \$15.2 million in the comparable period last year.

The Company's debt position reduced to \$52.6 million at September 30, 2007 compared to \$74.9 million at December 31, 2006. As at September 30, 2007, three principal payments related to Tranche I of the convertible notes totaling US\$11.7 million and the first principal payment related to Tranche II of the convertible notes totaling US\$1.5 million had been made. These payments were settled in a non-cash transaction by the issuance of 1,642,596 common shares. The reduction in debt also includes scheduled long term debt repayments (\$6.2 million), scheduled capital lease repayments (\$2.3 million) and the repayment of the Kaiser-Francis Oil Company ("Kaiser-Francis") credit facility (\$5.8 million) from the first advance under the Auramet palladium and platinum advance purchase agreement. In addition, the strengthening of the Canadian dollar resulted in an unrealized foreign exchange translation gain on US dollar denominated debt at September 30, 2007 of \$8.1 million.

On October 12, 2006 the Company closed a transaction with Kaiser-Francis for a US\$5.0 million short term working capital loan maturing December 31, 2006. The interest rate under the loan was the 30-day LIBOR plus 2.5% per annum. The Company paid a commitment fee of US\$37 and amounts not drawn under the loan were subject to a standby fee of 0.125% per annum. In connection with the loan, the Company granted to Kaiser-Francis a first priority security interest on the inventory and receivables of the Company. On December 13, 2006 the maturity date was extended to March 31, 2007, with no other change in terms. The Company paid a commitment fee of US\$25 for the extension. In accordance with the terms of the Auramet palladium and platinum advance purchase agreement, the first advance received from Auramet on March 7, 2007 was used to repay this loan to Kaiser-Francis.

As at September 30, 2007, the Company had cash on hand of approximately \$4.2 million (December 31, 2006 – \$3.2 million) and working capital of \$59.1 million (December 31, 2006 – \$50.8 million).

The Company recognized its need for additional working capital to fund its expected operations over the next twelve months as the inventory of concentrate awaiting settlement continues to increase and as the lateral development of the underground mine continues. To meet this need, on January 19, 2007 the Company entered into a platinum and palladium advance purchase facility with Auramet Trading, LLC by which the Company may, at its election, receive advance payments not exceeding an aggregate maximum amount of US\$25.0 million. The Company is required to pay monthly a commitment fee of 0.5% per annum, on the unused portion of the Auramet facility. As at September 30, 2007, the Company had outstanding advances from Auramet of \$4.0 million (US \$4.0 million). Metals in settlement of this advance were delivered in October and as at September 30, 2007 the Company had an obligation to



deliver 10,000 ounces of palladium and 1,000 ounces of platinum in satisfaction of these outstanding advances. The Company is continuing to review various other financing options.

CONTRACTUAL OBLIGATIONS

As at September 30, 2007 (thousands of dollars)	Total	Payments Due by Period		
		1 Year	1-3 Years	4-5 Years
Senior credit facility	\$ 11,410	\$ 5,950	\$ 5,460	\$ -
Capital lease obligations	3,946	1,689	2,257	-
Convertible notes payable	33,293	27,997	5,296	-
Interest obligations	1,820	1,266	554	-
Operating leases	3,312	1,317	1,876	119
Other purchase obligations	3,409	3,409	-	-
	\$ 57,190	\$ 41,628	\$ 15,443	\$ 119

There are no payments due after five years.

RELATED PARTY TRANSACTIONS

In December 2001, Kaiser-Francis provided a US\$20.0 million non-revolving credit facility to finance the Company's working capital requirements. In the second quarter of 2004, the Kaiser-Francis credit facility was extended to June 30, 2006. Interest was based on the 30-day LIBOR plus 2.50% and the standby fee was 0.125% per annum. This facility was repaid on June 23, 2006 pursuant to the terms of the Series II convertible note issued on that date. The amount paid to Kaiser-Francis for interest and standby fee on this facility in 2006 was \$0.6 million.

On October 12, 2006 the Company closed a transaction with Kaiser-Francis for a US\$5.0 million short term working capital loan maturing December 31, 2006. On December 13, 2006, the maturity date was extended to March 31, 2007. Interest on this new facility was based on the 30-day LIBOR plus 2.5% and the standby fee was 0.125% per annum. This facility was repaid on March 7, 2007. As of October 19, 2007, Kaiser-Francis held approximately 48% of the outstanding common shares of the Company.

REVIEW OF OPERATIONS AND PROJECTS

Lac des Iles – Operations and Exploration Activity

The Company commenced the development of an underground mine at its Lac des Iles operation in the second quarter of 2004. Commercial production from the underground operations commenced on April 1, 2006 and, from this date, production from the underground operations has been reflected in the operating results of the Company. The development and mining of the underground is proceeding according to plan. As with all new underground operations, the mine has encountered some localized changes in ground conditions, water inflows, etc. However, these have been identified and mitigated so as not to affect safety and current production levels.

The Company continues its exploration of the Offset High Grade Zone ("OHGZ"), located approximately 250 metres to the west of the current underground mine at Lac des Iles. Drilling from the exploration drift commenced in the second quarter of 2007. The OHGZ remains open along strike and at depth. On February 23, 2007 an updated mineral resource estimate was completed by Scott Wilson Roscoe Postle Associates Inc. (see press release dated April 2, 2007) comprising the OHGZ and the Roby Footwall Zone. This estimate suggests an indicated mineral resource of 3.24 million tonnes grading 5.45 grams per tonne palladium and an inferred resource of 12.80 million tonnes grading 5.25 grams per tonne palladium calculated at a cut-off grade of 3.6 grams of palladium equivalent per tonne. Early in the third quarter of 2007, the Company engaged two consulting firms to conduct a Preliminary Economic Assessment (Scoping Study) of three potential exploitation/operating scenarios for the OHGZ. The Company expects to receive the Preliminary Economic Assessment by the first quarter of 2008. On October 3, 2007 the Company announced initial drilling results for the OHGZ that support the mineral resource estimate prepared by Scott Wilson Roscoe Postle Associates Inc.



In the Lac des Iles open pit, management is currently considering the viability of a Phase V pushback of the pit, with a view to extending its mine life. Pursuit of this option would likely require sustained favourable economic conditions during the pushback. The expanded open pit could provide supplemental mill feed for a possible OHGZ underground mine and allow the mine to operate at current production levels for additional years beyond the current planned mine life.

Other Exploration Activity

In addition to the operations and exploration activities around the Lac des Iles mine site, the Company continues to pursue new PGM and nickel-copper opportunities. The Company is party to an option and joint venture agreement with Inco Limited (now CVRD Inco) entitling it to earn a 50% interest in the Haines-Conacher property and the past producing Shebandowan mine (the "Shebandowan Property"). The Shebandowan Property is a nickel-copper-PGM property located approximately 100 km southwest of the Lac des Iles mine. Successive diamond drilling programs in 2005 and 2006 were carried out on three relatively shallow mineralized zones known as the West, Road and "D" zones (the "Shebandowan West Project"). On October 25, 2007, the Company issued a press release announcing the filing of a Technical Report in compliance with National Instrument 43-101. The mineral resource estimate found measured and indicated resources for the Shebandowan West Project total approximately 2.58 million tonnes grading 0.91% nickel and 0.62% copper. Management is confident that it will satisfy the conditions of the earn-in before the end of 2007. The Company is currently assessing the capital expenditure requirements to refurbish its old mill at Lac des Iles to process ore from Shebandowan. The old mill could add up to 2,400 tonnes per day to the milling capacity at the Lac des Iles site.

The Company is also actively satisfying the conditions of its 60% earn-in right at the Arctic Platinum Project ("APP") in Finland (subject to a back-in right in favour of Gold Fields which, if exercised, would decrease the Company's interest to 50%). In order to earn the 60% interest and become the project operator, the Company must incur US\$12.5 million in approved expenditures, complete a feasibility study, make a production decision, and issue Gold Fields approximately 9.2 million common shares (for a 60% interest) on or before August 31, 2008. As at September 30, 2007, the Company has incurred \$9.8 million (US\$9.8 million) in expenditures on the APP and these costs have been charged as exploration expenses.

Diamond drills were mobilized into the Narkaus area in 2006 to commence exploration and infill drilling on the Siika-Kama, Kuohunki and Nutturalampi targets. Forty-nine holes totaling 8,716 metres were completed and the results from this program were released on October 30, 2006 and on June 1, 2007. Revised resource models have been completed for two of the deposits that comprise the Suhanko project, which was the subject of a previous feasibility study carried out by Gold Fields in 2005. A program of in-fill drilling was completed at the Ahmavaara deposit in 2007 and Phase I and Phase II results were released July 12, 2007 and September 24, 2007 respectively. On October 22, 2007, the Company announced the final drill results at the Ahmavaara deposit and that bulk sampling was underway and nearing completion at both Suhanko property deposits, Ahmavaara and Konttijarvi. The results of the 2007 in-fill drilling programs will be incorporated into an updated mineral resource estimate. On October 31, 2007 the Company released the results of a mineral resource estimate and re-scoping study for the APP.

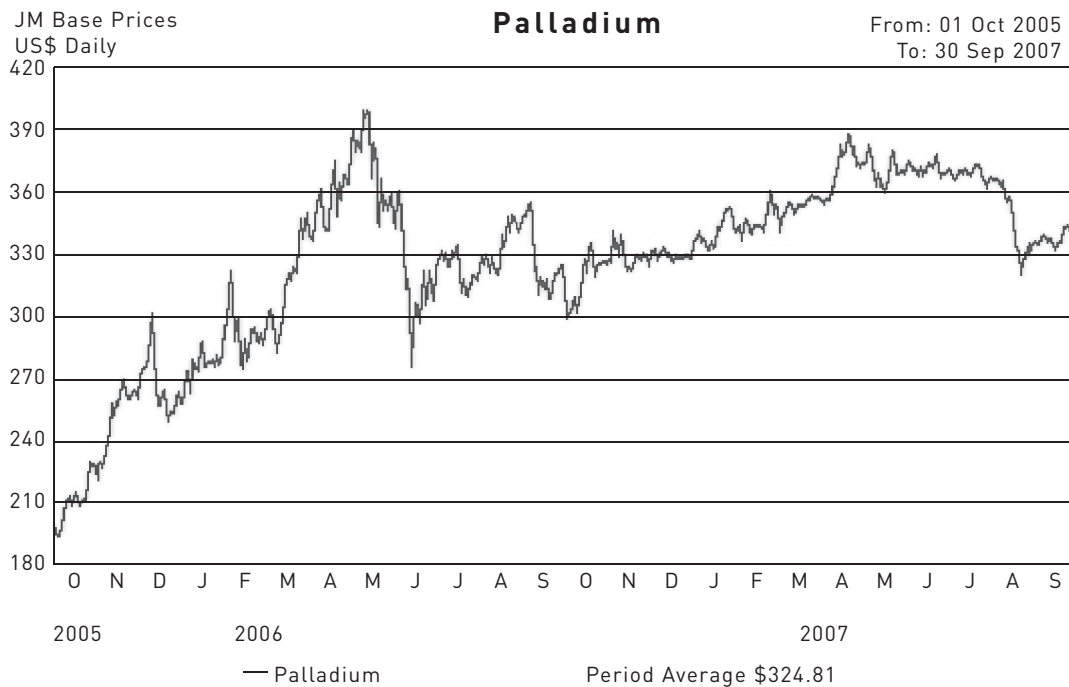
On October 11, 2007, the Company announced that it had acquired a 100% interest in what it believes is the prospective portion of the Shawmere Anorthosite Complex, located 110 kilometers southwest of Timmins, Ontario. The Company intends to conduct a grassroots exploration program in the spring of 2008 to assess the area's potential for PGM-nickel-copper mineralization similar to that found at its Lac des Iles mine.

Metals Marketing

Currently, the Company is delivering and selling all of its palladium production into the spot market with one or more commodity dealers and manufacturers. For the three months ended September 30, 2007,



the Company realized a weighted average cash price of US\$347 per ounce on its physical deliveries of palladium into the spot market. The Company expects that palladium prices will continue to be at or near current levels for the balance of 2007. The average spot price was US\$349 per ounce for the third quarter of 2007 (reaching a high of US\$371), compared to an average price of US\$324 per ounce for same period last year. The palladium price has displayed consistent strength over recent quarters, as indicated in the chart below from Johnson Matthey.



Source: Johnson Matthey

For the three months ended September 30, 2007, the Company recorded by-products metals revenue of \$21.5 million representing 59% of revenue in the quarter. Of the by-product metals revenue, nickel was \$7.0 million (19%) and platinum was \$6.7 million (18%) of revenue for the three months ended September 30, 2007.

During 2007 and throughout 2006, the Company sold metal into the spot market. The Company does not currently have any commodity or foreign exchange hedging arrangements.

MANAGEMENT'S OUTLOOK

There is no apparent pattern of variability or seasonality affecting the Company's operations. The principal drivers of the Company's performance are its monthly production of PGM and by-product metals from its Lac des Iles mine and the corresponding world spot prices of such metals.

Production for the third quarter of 2007 was 69,283 ounces of palladium with an average palladium head grade of 2.24 grams per tonne, and represents a 16% increase over the previous year's third quarter production of 59,756 ounces, with a head grade of 2.20 grams per tonne. This continues the trend of improved volumes and head grade year over year reflecting the impact of the underground mine which has been in commercial production since the second quarter of last year. During the third quarter, the underground mine averaged 1,854 tonnes per day at an average head grade of 5.77 grams per tonne.

Mill availability for the quarter averaged approximately 93% compared to 87% in the same period last year. The Company has revised its year end production target slightly (2%) downward to approximately 285,000 ounces. The underground ore grade was less than anticipated in the third quarter, due to



increased hangingwall dilution from a production stope that parallels a known fault. This stope was the main source of underground ore for the quarter. This stope is now mined out and is being backfilled with waste. The Company, at this time, is not anticipating any future occurrences similar to the one stated.

The Company's intensive core exploration program will continue in 2008, with an important component being the continuation of activities on the APP in Finland. In addition, the Company continues to focus on the further definition of the OHGZ at Lac des Iles and projects such as the Shebandowan West Project. A key strategy moving forward will be to continue the pursuit of opportunities to acquire good quality PGM-Ni-Cu projects.

The Company believes that the surplus pressures of the early 2000's have abated and that there is evidence to support the view that the palladium market is moving towards more of a demand-driven pricing environment. This is being evidenced by increasing global catalytic demand, fueled by growing low tolerance emission legislation, and technological advances which could exploit pricing differentials between palladium and platinum.

Critical Accounting Policies and Estimates

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

(a) Impairment assessments of long-lived assets

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

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

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

(b) Amortization of mining interests

The Company amortizes a large portion of its mining interests using the unit of production method based on proven and probable reserves.

(c) Revenue Recognition

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



(d) Mine Restoration Obligation

Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement obligation is capitalized as part of mining interests and amortized over the estimated life of the mine. The estimated asset retirement obligation may change materially based on future changes in operations, costs of reclamation and closure activities, and regulatory requirements.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

(a) Financial Instruments – Recognition and Measurement

In December 2006, the CICA released new Handbook sections 3862, “Financial Instruments – Disclosures”, and 3863, “Financial Instruments – Presentation”, effective for fiscal years beginning on or after October 1, 2007. Section 3862, describes the required disclosures related to the significance of financial instruments on the Company’s financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This section complements handbook sections 3855, “Financial Instruments – Recognition and Measurements”; 3863, “Financial Instruments – Presentation; and 3865, “Hedges”. Section 3863, establishes standards for presentation of financial instruments and non financial derivatives. This section complements handbook section 3861, “Financial Instruments – Disclosure and Presentation”. The Company has not yet determined the effect these new standards will have on its financial position and results of operations.

(b) Capital Disclosures

In December 2006, the CICA released new Handbook section 1535, “Capital Disclosures”, which establishes standards for disclosing information about a Company’s capital and how it is managed, to enable users of financial statements to evaluate the Company’s objectives, policies and procedures for managing capital. This section will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company has not yet determined the effect these new standards will have on its financial position and results of operations.

OUTSTANDING SHARE DATA

As of November 5th, 2007, there were 56,377,791 common shares of the Company outstanding and options outstanding pursuant to the 1995 Corporate Stock Option Plan entitling holders thereof to acquire 356,433 common shares of the Company at an average strike price of \$9.89.

RISKS AND UNCERTAINTIES

The price of palladium is the most significant factor influencing the profitability of the Company. In the nine months ended September 30, 2007, sales of palladium accounted for approximately 46% (September 30, 2006 – approximately 47%) of the Company’s revenue. Many factors influence the price of palladium, including global supply and demand, speculative activities, international political and economic conditions and production levels and costs in other PGM producing countries, particularly Russia and South Africa. The possible development of a substitute alloy or synthetic material, which has catalytic characteristics similar to platinum group metals, may result in a future decrease in demand for palladium and platinum.

Currency fluctuations will affect financial results since the prices of the Company’s products are denominated in United States dollars, whereas the Company’s administration, operating and exploration expenses are incurred mainly in Canadian dollars. As a result, any strengthening of the Canadian dollar relative to the United States dollar has a negative impact on the Company’s revenue and profitability.

The Company is dependent on one mine for its metal production. The business of mining is generally subject to risks and hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual and unexpected rock formations, pit slope failures, flooding and periodic interruptions due to inclement weather conditions or other acts of nature, mechanical



equipment and facility performance problems and the availability of materials and equipment. These risks could result in damage to, or destruction of, the Company's properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Although the Company maintains insurance in respect of the mining operations that is within ranges of coverage consistent with industry practice, such insurance may not provide coverage of all the risks associated with mining. Currently the Company sells all of its concentrate to one smelting firm under a contract that was renegotiated during the second quarter of 2007 for a three year term that expires on March 31, 2010. This agreement may be extended on an annual basis for an additional two years by mutual agreement of both parties if such agreement is reached no later than six months prior to the anniversary date of March 31, 2010.

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for the information disclosed in this management's discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. For the interim period ended September 30, 2007, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

The effectiveness of these controls is evaluated annually through regular internal reviews. Our external auditors have not conducted a review or audit of the controls or the documentation relating to this initiative.

INTERNAL CONTROL OVER FINANCIAL REPORTING

For the interim period ended September 30, 2007, the Chief Executive Officer and Chief Financial Officer certify that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

For the Company the examination of these controls is the first major impact of Sarbanes Oxley regulations as they become adopted in Canada. Historically, we have been confident in our ability to report accurate financial information on a timely basis and we were comfortable that the control environment that existed to enable this reporting was sufficient and appropriate. The real impact of this requirement then is not to change our controls or the control environment but to require us to document the various forms that these controls take and provide a basis for measuring the effectiveness of these controls annually through regular reviews. Our external auditors have not conducted a review or audit of the controls or the documentation relating to this initiative.

OTHER INFORMATION

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

¹Non-GAAP Measures

This management's discussion and analysis refers to cash cost per ounce and operating cash flow which are not recognized measures under Canadian GAAP. Such non-GAAP financial measures do not have any standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Management uses these measures internally. The use of these measures enables management to better assess performance trends. Management understands



that a number of investors and others who follow the Company's performance assess performance in this way. Management believes that these measures better reflect the Company's performance for the current period and are a better indication of its expected performance in future periods. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. The following tables reconcile these non-GAAP measures to the most directly comparable Canadian GAAP measure:

(a) Reconciliation of Cash Cost per Ounce to Financial Statements

(thousands of dollars except per ounce amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Production costs including overhead	\$ 28,845	\$ 30,305	\$ 94,535	\$ 82,905
Smelter treatment, refining and freight costs	5,510	3,999	16,505	10,950
	34,355	34,304	111,040	93,855
Less by-product metal revenue	21,454	21,687	81,425	56,984
	12,901	12,617	29,615	36,871
Divided by ounces of palladium	57,686	52,701	189,085	133,735
Cash cost per ounce (C\$)	224	239	157	276
C\$ exchange rate	0.996	1.115	1.070	1.132
Cash cost per ounce (US\$)	225	215	146	243

(b) Reconciliation of Cash Flow from Operations, Prior to Changes in Non-Cash Working Capital (Operating Cash Flow) to Financial Statements*

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Operating Cash Flow	\$ 4,068	\$ 2,716	\$ 39,970	\$ 1,491
Changes in Non-cash Working Capital	5,375	(3,364)	(25,015)	(29,706)
Cash Provided by Operating Activities	\$ 9,443	\$ (648)	\$ 14,955	\$ (28,215)

* Certain prior period amounts have been reclassified to conform to the classification adopted in the current period.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included in this MD&A, including any information as to our future financial or operating performance and other statements that express management's expectations or estimates of future performance, constitute 'forward-looking statements' within the meaning of the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities laws. The words 'expect', 'believe', 'will', 'intend', 'estimate' and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. These statements are based on certain factors and assumptions, including but not limited to, the assumption that market fundamentals will result in increased palladium demand and prices and sustained by-product metal demand and prices; the integrated operation of the Company's underground mine and the open pit mine remain viable operationally and economically; financing is available on reasonable terms; expectations for blended mill feed head grade and mill performance will proceed as expected; new mine plan scenarios will be viable operationally and economically; and plans for mill production, sustainable recoveries from the Lac des Iles mine, exploration at Lac des Iles and elsewhere will all proceed as expected.

The Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of North American Palladium to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements and that the forward-looking statements are not guarantees of future performance. These risks, uncertainties and other factors include, but are not limited to: metal price volatility; economic and political events affecting metal supply and demand; changes in the regulatory environment; fluctuations in ore grade or ore tonnes milled; geological, technical, mining or processing problems; future production; changes in the life-of-mine plan or the ultimate pit design; availability and increasing costs associated with mining inputs and labour; the speculative nature of exploration and development, including the risks of diminishing quantities or grades of mineral reserves; adverse



changes in our credit rating; and the risks involved in the exploration, development and mining business. These factors are discussed in greater detail in the Company's most recent Form 40-F/Annual Information Form on file with the U.S. Securities and Exchange Commission and Canadian provincial securities regulatory authorities. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise. Readers are cautioned not to put undue reliance on these forward-looking statements.



Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	September 30	December 31
	2007	2006
	(unaudited)	
ASSETS		
Current Assets		
Cash	\$ 4,154	\$ 3,153
Concentrate awaiting settlement, net – Note 3	83,076	82,050
Taxes recoverable	–	145
Inventories	17,124	14,164
Current portion of crushed and broken ore stockpiles	7,603	7,134
Other assets	2,578	2,602
	114,535	109,248
Mining interests, net	121,366	146,617
Mine restoration deposit	8,151	8,041
Crushed and broken ore stockpiles	380	289
Deferred financing costs – Note 10	–	962
	\$ 244,432	\$ 265,157
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 15,616	\$ 21,526
Advance purchase facility – Note 9 (a)	3,990	–
Taxes payable	11	–
Future mining tax liability	190	149
Current portion of obligations under capital leases	1,689	2,104
Current portion of convertible notes payable – Note 4	27,997	22,148
Current portion of long-term debt – Note 5	5,950	6,662
Kaiser Francis credit facility	–	5,827
	55,443	58,416
Mine restoration obligation	8,792	8,211
Obligations under capital leases	2,257	4,111
Convertible notes payable – Note 4	5,296	23,062
Long-term debt – Note 5	5,460	10,992
Future mining tax liability	559	381
	77,807	105,173
Shareholders' Equity		
Common share capital and common share purchase warrants – Note 6	363,640	339,743
Equity component of convertible notes payable, net of issue costs – Note 4	8,779	12,336
Contributed surplus – Note 6 (e)	5,162	1,269
Deficit	(210,956)	(193,364)
Total shareholders' equity	166,625	159,984
	\$ 244,432	\$ 265,157

Commitments – Notes 1 and 9.



Consolidated Statements of Operations and Deficit

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Revenue from metal sales – before pricing adjustments	\$ 42,674	\$ 38,704	\$ 156,429	\$ 99,758
Pricing adjustments – commodities	237	2,927	6,957	10,445
Pricing adjustments – foreign exchange	(6,419)	(200)	(13,960)	(1,761)
Revenue from metal sales – Note 8	36,492	41,431	149,426	108,442
Operating expenses				
Production costs, excluding amortization and asset retirement costs	28,845	30,305	94,535	82,905
Smelter treatment, refining and freight costs	5,510	3,999	16,505	10,950
Amortization	12,201	9,004	36,032	20,139
Administrative	1,695	1,462	5,712	5,225
Exploration expense	2,933	2,576	6,959	7,259
Loss on disposal of equipment	–	–	–	194
Asset retirement costs	173	134	850	389
Total operating expenses	51,357	47,480	160,593	127,061
Loss from mining operations	(14,865)	(6,049)	(11,167)	(18,619)
Other expenses (income)				
Interest on long-term debt, capital leases and convertible notes payable	944	1,503	3,648	3,621
Foreign exchange loss (gain)	(3,170)	74	(8,151)	(600)
Accretion expense relating to convertible notes payable – Note 4	3,144	3,692	10,656	6,152
Interest expense	127	–	883	–
Interest income	(62)	(146)	(332)	(609)
Deferred financing costs	175	223	616	882
Total other expenses	1,158	5,346	7,320	9,446
Loss before taxes	(16,023)	(11,395)	(18,487)	(28,065)
Recovery for income and resource taxes	(1,990)	(148)	(895)	(1,352)
Loss for the period	(14,033)	(11,247)	(17,592)	(26,713)
Deficit, beginning of period	(196,923)	(174,721)	(193,364)	(159,255)
Deficit, end of period	\$ (210,956)	\$ (185,968)	\$ (210,956)	\$ (185,968)
Loss per share				
Basic	\$ (0.25)	\$ (0.21)	\$ (0.32)	\$ (0.51)
Diluted	\$ (0.25)	\$ (0.21)	\$ (0.32)	\$ (0.51)
Weighted average number of shares outstanding				
Basic	55,226,870	52,754,112	54,289,652	52,448,659
Diluted	55,226,870	52,754,112	54,289,652	52,448,659



Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Cash provided by (used in)				
Operations				
Loss for the period	\$ (14,033)	\$ (11,247)	\$ (17,592)	\$ (26,713)
Operating items not involving cash				
Accretion expense relating to convertible notes payable	3,144	3,692	10,656	6,152
Amortization	12,201	9,004	36,032	20,139
Amortization of deferred financing costs	175	223	616	378
Interest settled in shares on convertible notes	427	547	2,008	942
Accrued interest on mine restoration deposit	-	-	(110)	(84)
Unrealized foreign exchange (gain) loss	3,679	(33)	7,088	(559)
Asset retirement costs	173	134	850	389
Future income tax recovery	(1,990)	(139)	(895)	(1,269)
Write-off of deferred financing costs	-	-	-	504
Stock based compensation and employee benefits	292	535	1,317	1,418
Loss on disposal of equipment	-	-	-	194
	4,068	2,716	39,970	1,491
Changes in non-cash working capital – Note 7	5,375	(3,364)	(25,015)	(29,706)
	9,443	(648)	14,955	(28,215)
Financing Activities				
Advances (settlements) under purchase facility	(4,878)	-	3,990	-
Issuance of common shares	-	33	5,703	3,953
Repayment of long-term debt	(1,496)	(1,611)	(10,538)	(4,906)
Repayment of obligations under capital leases	(480)	(555)	(1,562)	(1,730)
Mine restoration deposit	-	-	-	(600)
Issuance of convertible notes	-	-	-	41,037
Increase in long term debt and credit facility	-	-	-	2,311
Deferred financing costs	-	-	-	(2,364)
	(6,854)	(2,133)	(2,407)	37,701
Investing Activities				
Additions to mining interests	(2,940)	(4,072)	(11,547)	(15,156)
Increase (decrease) in cash and cash equivalents				
	(351)	(6,853)	1,001	(5,670)
Cash and cash equivalents, beginning of period	4,505	16,214	3,153	15,031
Cash and cash equivalents, end of period	\$ 4,154	\$ 9,361	\$ 4,154	\$ 9,361



Notes to the Consolidated Financial Statements

for the nine months ended September 30, 2007

(expressed in thousands of Canadian dollars except share, per share, and per ounce amounts and metal prices)
(unaudited)

1. NATURE OF OPERATIONS

North American Palladium Ltd. ("NAP" or "the Company") is a Canadian company in the business of exploring and mining Platinum Group Metals ("PGMs") and certain base and precious metals. Its operating mine is the Lac des Iles mine located in the Thunder Bay District in Ontario, Canada. The Company also has base metal exploration projects located in Canada and an advanced PGM exploration project located in Finland in which it is earning an interest under an agreement signed on March 24, 2006 to form a joint venture. The Company operates in one operating segment, mining.

The Company's financial position and operating results are directly affected by the market price of the PGMs in relation to the Company's production costs. The prices of PGMs (palladium, platinum) and by-product metals (nickel, gold and copper) fluctuate widely and are affected by numerous factors beyond the Company's control.

Arctic Platinum Project

On March 24, 2006, the Company signed a framework agreement with subsidiaries of Gold Fields Limited to earn a 60% interest in certain mineral interests in Finland known as the Arctic Platinum Project ("APP"). The agreement is subject to a back-in right in favour of Gold Fields which, if exercised, would decrease the Company's interest to 50% less one share. The APP includes several advanced-stage platinum group metal (PGM) projects. In order to earn the 60% interest and become the project operator, the Company must incur US\$12,500 in approved expenditures, complete a feasibility study, make a production decision, and pay Gold Fields up to US\$45,000 (for a 60% interest) through the issuance of the Company's common shares (approximately 9.2 million shares) on or before August 31, 2008. As at September 30, 2007, the Company has incurred \$9,821 (US\$9,782) in expenditures on the APP and these costs have been charged to exploration expense.

Shebandowan Project

On December 3, 2003, the Company entered into an option and joint venture agreement with Inco Limited on the Haines-Conacher property which surrounds the past producing Shebandowan mine. The agreement was subsequently amended March 31, 2006 to include the mine. The nickel-copper-PGM Shebandowan Project is located approximately 100 km southwest of the Lac des Iles mine. Successive diamond drilling programs in 2005 and 2006 were carried out on three relatively shallow mineralized zones known as the West, Road and "D" zones. A Technical Report in compliance with National Instrument 43-101 disclosing the results of a mineral resource estimate by an independent Qualified Person was filed on October 26, 2007.

2. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared using disclosure standards appropriate for interim financial statements and do not contain all the explanatory notes, descriptions of accounting policies or other disclosures required by Canadian generally accepted accounting principles for annual financial statements. Such notes, descriptions of accounting policies and other disclosures are included in the Company's audited annual consolidated financial statements included in the Company's annual report to shareholders for the year ended December 31, 2006. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for 2006.

3. CONCENTRATE AWAITING SETTLEMENT

The value of concentrate awaiting settlement represents the value of platinum group metals and base metals from production shipped to and received by a third-party smelter between January 2007 and September 2007, which are in-process at the balance sheet date, net of refining and smelter treatment charges. At September 30, 2007, concentrate awaiting settlement included 125,226 ounces of palladium



(December 31, 2006 – 129,496 ounces). Concentrate awaiting settlement is revalued and adjusted at each reporting period to reflect changes in metal prices and foreign exchange rates. All of the concentrate awaiting settlement is being processed by one domestic customer at September 30, 2007.

4. CONVERTIBLE NOTES PAYABLE

	September 30, 2007	December 31, 2006
Series I convertible notes (principal amount US\$23.3 million, maturing August 1, 2008)	\$ 22,077	\$ 32,048
Series II convertible note (principal amount US\$12.0 million, maturing December 1, 2008)	11,500	13,162
	33,577	45,210
Less: transaction costs	(284)	–
	33,293	45,210
Less: current portion	(27,997)	(22,148)
	\$ 5,296	\$ 23,062

The Series I Notes are convertible into 2,873,563 common shares of the Company at any time by the holder at US\$12.18 per share. Warrants exercisable to purchase 1,436,782 common shares were issued with the Series I Notes, each warrant being exercisable to purchase one common share at an initial exercise price of US\$13.48 until March 29, 2010.

The Series II Note is convertible into 1,108,374 common shares of the Company at any time by the holder at US\$12.18 per share. Warrants exercisable to purchase 554,187 common shares were issued with the Series II Note, with each warrant being exercisable to purchase one common share at an initial exercise price of US\$13.48 until June 23, 2010.

The Series I and II Notes bear interest at a rate of 6.5% per annum payable bi-monthly. Series I and II Notes are repayable in nine equal installments commencing April 1, 2007 and August 1, 2007, respectively. The interest payments and/or repayment amounts may be paid to each Purchaser, at the Purchaser's option, in any combination of cash and/or common shares. If common shares are issued for interest payments or in repayment of the convertible notes they will be issued at a 10% discount from the weighted average trading price of the common shares on the AMEX for the five consecutive trading days immediately prior to applicable payment date. The Company has the right to defer any principal repayment in cash until a later principal repayment date. There is no limit on the length of the deferral, other than it cannot be deferred later than the final maturity date. The Company must give five (5) business days prior notice of its intention to defer principal repayments.

Commencing June 29, 2007 for Series I and September 23, 2007 for Series II, if the weighted average trading price of the common shares for each of any 25 consecutive trading days is 150% or more of the initial conversion price (as adjusted for any stock dividend or split, or similar transaction), the Company will have the right to force the Purchasers to convert all or any of the outstanding principal amount of the convertible notes at the conversion price.

5. LONG-TERM DEBT AND CREDIT FACILITY

The Company's long-term debt is comprised of a senior credit facility with an equipment finance company. The interest rate under the loan facility is LIBOR plus 250 basis points, or 7.63% at September 30, 2007. As at September 30, 2007, the outstanding long-term debt, including current and long-term portions (net of transaction costs) was \$11,410 (December 31, 2006 – \$17,654). The senior credit facility is repayable in equal quarterly installments over a five-year period with a final maturity of November 24, 2009.



6. COMMON SHARE CAPITAL AND COMMON SHARE PURCHASE WARRANTS

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

(a) The following summary sets out the activity in common shares and common share purchase warrants for the nine months ended September 30, 2007:

	September 30, 2007	
	Shares	Amount
Common shares issued, beginning of period	52,947,689	\$ 331,705
Common shares issued:		
Pursuant to stock options exercised	5,000	17
Fair value of stock options exercised	-	10
To group registered retirement savings plan participants	103,415	940
For interest payments on convertible notes payable	232,775	2,008
For principal payments on convertible notes payable	1,642,596	16,350
Private placement – flow through shares (net)	550,000	5,686
Tax effect of flow-through shares	-	(1,114)
Common shares issued, September 30, 2007	55,481,475	\$ 355,602
Common share purchase warrants, issued pursuant to terms of Series I and II convertible notes, net of issue costs – Note 6 (b)	1,990,969	8,038
Balance, September 30, 2007		\$ 363,640

The Company finances a portion of its exploration activities through the issue of flow through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. At the time the Company renounces the tax attributes of the expenditures to the subscribers, share capital is reduced and future tax liabilities are increased by the estimated income tax benefits renounced.

In February 2007, the Company completed a private placement of 550,000 flow-through shares for gross proceeds of \$6,050 which must be spent on qualifying expenditures prior to December 31, 2008. As of September 30, 2007, the Company has spent \$nil on qualifying expenditures.

On June 23, 2006, the Company completed a private placement of 270,000 flow-through common shares. The gross proceeds of \$3,375 must be spent on Canadian exploration expenses prior to December 31, 2007. As at September 30, 2007, the Company has spent \$1,879 on Canadian exploration expenses as defined in Section 66 of the Income Tax Act (Canada).

(b) Common Share Purchase Warrants

Pursuant to the terms of the securities purchase agreements governing the issue of the Series I and Series II convertible notes payable, warrants to purchase 1,990,969 common shares were issued and are outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
Series I – 1,436,782	US\$13.48	March 29, 2010
Series II – 554,187	US\$13.48	June 23, 2010

(c) Restricted Share Unit Plan

Effective December 14, 2005, the Company adopted a Restricted Share Unit Plan under which eligible directors, officers and key employees of the Company are entitled to receive awards of restricted



share units. Each restricted share unit means a unit equivalent in value to the fair market value of a common share of the Company on the date of the award. During the nine months ended September 30, 2007, 18,332 restricted share units vested and were settled for a cash value of \$180. As at September 30, 2007, 10,001 restricted share units are outstanding. The fair value of the restricted share units as at September 30, 2007 is \$7.56 per unit and \$103 has been charged to compensation expense for the nine months ended September 30, 2007.

(d) Corporate Stock Option Plan

The following summary sets out the activity in outstanding common share stock options for the nine months ended September 30, 2007:

	September 30, 2007	
	Shares	Weighted-Average Exercise Price
Outstanding, beginning of period	360,133	\$ 10.24
Granted	117,500	9.16
Exercised	(5,000)	3.42
Cancelled	(111,200)	10.48
Outstanding, end of period	361,433	\$ 9.91
Options exercisable, end of period	177,800	\$ 10.91

The Company recognized a stock based compensation expense of \$361 for the nine months ended September 30, 2007 (September 30, 2006 – \$457).

(e) Contributed Surplus

The following summary sets out the changes in contributed surplus for the nine months ended September 30, 2007:

	2007	2006
Opening balance	\$ 1,269	\$ 874
Stock compensation	335	274
Equity component of convertible notes repaid	3,558	-
Balance at end of period	\$ 5,162	\$ 1,148

7. STATEMENT OF CASH FLOWS

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

	Three Months ended		Nine Months ended	
	September 30		September 30	
	2007	2006	2007	2006
Cash provided by (used in):				
Concentrate awaiting settlement	\$ 9,036	\$ (4,866)	\$ (16,228)	\$ (29,825)
Inventories and stockpiles	(1,214)	569	(3,024)	368
Other assets	(1,142)	(746)	24	93
Accounts payable and accrued liabilities	(1,568)	1,493	(5,943)	(271)
Taxes payable	263	186	156	(71)
	\$ 5,375	\$ (3,364)	\$ (25,015)	\$ (29,706)



8. REVENUE FROM METAL SALES

	Total	Palladium	Nickel	Platinum	Gold	Copper	Other Metals
2007							
Three Months ended							
September 30							
Revenue from metal sales – before pricing adjustments	42,674	21,323	7,236	6,605	3,080	4,087	343
Pricing adjustments:							
Commodities	237	(3,696)	1,320	1,199	934	404	76
Foreign exchange	(6,419)	(2,589)	(1,519)	(1,131)	(629)	(491)	(60)
	\$ 36,492	\$ 15,038	\$ 7,037	\$ 6,673	\$ 3,385	\$ 4,000	\$ 359
2006							
Three Months ended							
September 30							
Revenue from metal sales – before pricing adjustments	38,704	19,292	6,460	6,689	2,392	3,782	89
Pricing adjustments:							
Commodities	2,927	379	2,739	(930)	70	491	178
Foreign exchange	(200)	73	(124)	4	(60)	(87)	(6)
	\$ 41,431	\$ 19,744	\$ 9,075	\$ 5,763	\$ 2,402	\$ 4,186	\$ 261
2007							
Nine Months ended							
September 30							
Revenue from metal sales – before pricing adjustments	156,429	73,117	38,465	22,277	8,970	11,933	1,667
Pricing adjustments:							
Commodities	6,957	1,494	(78)	3,194	1,050	1,074	223
Foreign exchange	(13,960)	(6,610)	(2,705)	(2,625)	(1,158)	(768)	(94)
	\$ 149,426	\$ 68,001	\$ 35,682	\$ 22,846	\$ 8,862	\$ 12,239	\$ 1,796
2006							
Nine Months ended							
September 30							
Revenue from metal sales – before pricing adjustments	99,758	49,081	16,420	17,105	6,288	10,301	563
Pricing adjustments:							
Commodities	10,445	3,246	3,975	1,153	519	1,337	215
Foreign exchange	(1,761)	(869)	(151)	(464)	(164)	(106)	(7)
	\$ 108,442	\$ 51,458	\$ 20,244	\$ 17,794	\$ 6,643	\$ 11,532	\$ 771

9. COMMITMENTS

(a) Palladium and Platinum Advance Purchase Facility

On January 19, 2007 the Company entered into a palladium and platinum advance purchase facility with Auramet Trading, LLC (“Auramet”), a precious metals merchant, providing for the sale of an average of 10,000 ounces of palladium and 500 ounces of platinum per month. The Company may not



request Auramet to purchase metals after June 15, 2008 and all sales and payment prior to that date are required to be settled by December 31, 2008. Under the terms of the agreement the Company may receive advance payments not exceeding, at any time, an aggregate maximum of US\$25,000. The Company pays a commitment fee of 0.5% per annum, payable monthly, on the unused portion of the facility.

The purchase price may be fixed or provisional. For fixed pricing the Company may price at either: (i) Auramet's current market bid price at the time of the transaction, or (ii) market limit orders, as defined under the terms of the agreement. In the case of provisional pricing, it is determined based on the afternoon fixing of the London Bullion Marketing Association immediately preceding the purchase. In each case such pricing will reflect the forward value corresponding to the scheduled delivery date. Advance payments to the Company may not exceed specified values of fixed and provisionally priced platinum and palladium. Provisional prices must be fixed prior to the scheduled delivery date for such precious metals. Each advance payment will be subject to a discount equal to LIBOR plus 1.9% per annum for the period between the date the advance payment is made and the scheduled delivery date. Upon the delivery of the precious metals to Auramet, Auramet will pay to the Company the difference between the advance payment and the purchase price.

To secure the obligations of the Company under the Agreement, the Company has granted to Auramet a security interest in, among other things, the concentrates (including the precious and base metals contained therein) mined at the Lac des Iles mine, together with the proceeds arising from the sale of the concentrate, and, by way of security, an assignment of its smelting and refining agreement.

The balance outstanding under the advance purchase facility at September 30, 2007 is \$3,990 (US\$4,006).

(b) Forward Contracts

The Company enters into forward contracts from time to time to hedge the effects of changes in the prices of metals it produces and foreign exchange on the Company's revenues. Gains and losses realized on derivative financial instruments used to mitigate metal price risk are recognized in revenue from metal sales when the hedge transaction occurs. Currently, the Company does not have any forward contracts in place.

10. ACCOUNTING CHANGES

In July 2006, the Accounting Standards Board issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes ("Section 1506"). The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. Section 1506 also requires disclosures of information relevant to assessing the possible impact of the application of a new GAAP standard on the Company's financial statements in the period of initial adoption. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 has had no impact on these unaudited interim consolidated financial statements.

Financial Instruments

As required by The Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Company adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3861, Financial Instruments – Disclosure and Presentation. The adoption of these new standards resulted in changes in the presentation for financial instruments as described below. As required by the implementation of these new standards, the prior period consolidated financial statements have not been restated. The



principal changes in the accounting for financial instruments arising from the adoption of these accounting standards are described below.

(a) Section 1530, Comprehensive Income

Section 1530 requires a statement of comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI is a new requirement to temporarily present certain gains and losses from changes in fair value outside of net income. There has been no impact of this pronouncement for the period ended September 30, 2007, accordingly the Company's net income and comprehensive income are equal.

(b) Section 3251, Equity

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from OCI. Accumulated changes in OCI are included in the accumulated other comprehensive income ("AOCI") and are presented in the consolidated statements of shareholders equity and comprehensive income as a separate component of shareholders' equity. The Company has no AOCI as a result of the adoption of this new accounting pronouncement, accordingly there is no impact on the financial statements as a result of the adoption of this standard.

(c) Section 3855, Financial Instruments – Recognition and Measurement

Section 3861, Financial Instruments – Disclosure and Presentation

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available for sale, held-to-maturity, or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity and available-for-sale financial assets that do not have quoted market prices in the active market. Settlement date accounting continues to be used for all financial assets, except changes in fair value between the trade date and settlement date are reflected in the consolidated statements of earnings for held-for-trading financial assets, while changes in fair value between trade date and settlement date are reflected in OCI for available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets that are initially recognized at fair value and thereafter are accounted for at cost or amortized cost.

Other liabilities

Other liabilities are initially recorded at fair value and thereafter are recorded at cost or amortized cost using the effective interest method and include all liabilities, other than derivatives or liabilities to which the fair value designation has been applied.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risk are not closely related to those of the host contract; the terms of the embedded derivatives are the same as those of the free-standing derivatives; and the combined instrument or contract is not measured at fair value, with changes in fair value recognized in income. These embedded derivatives are measured at fair value with changes therein recognized in the statement of earnings. As at September 30, 2007 and December 31, 2006, the Company has separated the early repayment call and put options on the Company's convertible notes payable. The fair value of the early repayment and put option was determined to be nominal and therefore there was no impact on the financial statements as a result of the bifurcation of these embedded derivatives.



Classification of financial instruments

The following is a summary of the accounting classification the Company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

- (i) Concentrate awaiting settlement, net and other assets are classified as loans and receivables.
- (ii) All financial liabilities as other financial liabilities.

Deferred Financing Costs

Effective January 1, 2007, the Company records all transaction costs for financial assets and financial liabilities as a reduction of the related asset or liability. The effective interest rate method is now used to amortize these costs to operations. Previously the Company recorded such costs as deferred financing costs and amortized the related costs on a straight line basis over the term of the related asset or liability. As at January 1, 2007, the Company adjusted the carrying value of the related long-term debt and the convertible notes payable using the effective interest method. The impact was a decrease in the carrying value of the convertible notes payable of \$855 and a decrease in the long-term debt of \$107 and a decrease in deferred financing costs of \$962.

11. COMPARATIVE PERIOD FIGURES

Certain prior period amounts have been reclassified to conform to the classification adopted in the current period.



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