



# **PALADIN ENERGY LTD**

ACN 061 681 098

**ANNUAL**

**REPORT**

**2012**

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The annual report covers the Group consisting of Paladin Energy Ltd (referred throughout as the Company or Paladin) and its controlled entities.

Paladin Energy Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Paladin Energy Ltd  
 Level 4  
 502 Hay Street  
 SUBIACO WA 6008

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial statements and other information are available on our website [www.paladinenergy.com.au](http://www.paladinenergy.com.au).

# CORPORATE VALUES AND KEY ACHIEVEMENTS

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## CORPORATE VALUES

- Create shareholder wealth by developing the considerable opportunities Paladin has and continues to generate.
- Become a major player in the global uranium supply market.
- Operate at global best practice with particular emphasis on safety and the environment.
- Reward employee performance and provide a fulfilling work environment.
- Contribute to the growth and prosperity of the countries in which Paladin operates by conducting operations in an efficient and effective manner and by seeking out opportunities for expansion.
- Respond to the attitudes and expectations of the communities in which it operates as part of its corporate social responsibility obligations.
- Act with integrity, honesty and cultural sensitivity in all of its dealings.

## PALADIN TODAY

### Operations

- Strong production growth delivered, all underpinned by early life cycle mines.
- Development and building of producing assets has been successfully completed.
- Project ramp-ups completed and operating at nameplate capacity.

### Innovation & Project Pipeline

- Proven track record in mining and processing innovation.
- Established in-house technical strength.
- Consolidating a unique, geographically diversified asset base.

### Positioning Going Forward

- Only non-aligned pure play uranium producer.
- Long-term business strategy and vision will provide added strength through establishment of key partnerships.
- Paladin is now recognised as a partner of choice.
- Focus shifting from development to optimisation of producing mines. Progress underway through technical innovation and cost optimisation.
- Project pipeline to continue driving organic growth as planned.

## CORPORATE VALUES AND KEY ACHIEVEMENTS

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### KEY ACHIEVEMENTS FOR THE YEAR












August 2011	Execution of US\$141M project finance facility for Langer Heinrich Mine Stage 3 expansion.
August 2011	Group wide cost rationalisation programme commenced.
September 2011	Successful raising of A\$68.2M through institutional placement of shares.
December 2011	Moratorium on uranium development and production lifted in Labrador, Canada - allowing progress on Aurora uranium assets.
December 2011	Completion of Langer Heinrich Mine Stage 3 expansion.
April 2012	Successful raising of US\$274M through the issue of senior, unsecured convertible bonds due 2017.
May 2012	Repurchase of US\$191M convertible bonds due 2013.
June 2012	Kayelekera Mine achieves nameplate and record monthly production of 265,563lb U <sub>3</sub> O <sub>8</sub> .
June 2012	Quarterly record production at both Langer Heinrich and Kayelekera mines of 2.049Mlb combined – an increase of 15.3% above the March quarter.




### KEY ANNUAL DATA

<p>Lost Time Injury Frequency Rate decreased from 1.1 to 0.9 from FY2011 to FY2012</p> <p>6.70Mlb U<sub>3</sub>O<sub>8</sub> sold up from 4.81Mlb, a 39% increase</p> <p>Sales revenue up 37% from US\$266.8M to US\$365.8M</p> <p>Production up 21% from 5.7Mlb to 6.9Mlb U<sub>3</sub>O<sub>8</sub></p>
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## CORPORATE VALUES AND KEY ACHIEVEMENTS

### WHAT WE SET OUT TO DO IN 2012

- Complete Stage 3 expansion at Langer Heinrich Mine with commissioning September quarter 2011. 
- Ramp up production to design levels at Kayelekera Mine. 
- Deliver Stage 4 Langer Heinrich Mine feasibility study by end of CY2011. (deliberately delayed to implicate positive performance from Stage 3 works) 
- 2012 production guidance in the range of 7.4 to 7.9Mlb U<sub>3</sub>O<sub>8</sub>. (8% downgrade caused by delay in Stage 3 construction and KM ramp up) 
- Resource update for Kayelekera Mine (delayed due to geochemical verification taking longer than anticipated) 
- Continue to advance NOSA health and safety system rating for Langer Heinrich and Kayelekera Mines. 
- Commence sustainability reporting. 
- Ongoing commitment to global exploration. 
- Expand production through organic growth. 
- Seek value increase in existing pipeline projects through joint venture and M&A. 
- Optimise production and costs at Langer Heinrich and Kayelekera Mines. (nameplate achieved in latter half of year, cost optimisation ongoing) 

CODE	
	Not achieved
	Ongoing
	Achieved

### WHAT WE PLAN TO DO IN 2013

- Achieve steady state production at design levels for both Langer Heinrich and Kayelekera Mines.
- Optimise production costs at Langer Heinrich and Kayelekera mines.
- Complete Stage 4 Langer Heinrich Mine feasibility study.

## CORPORATE VALUES AND KEY ACHIEVEMENTS

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- 2013 production guidance in the range of 8.0 to 8.5Mlb U<sub>3</sub>O<sub>8</sub>.
- Resource update for Kayelekera Mine.
- Continue to improve NOSA health and safety system rating for Langer Heinrich and Kayelekera mines.
- Consolidate sustainability reporting.
- Drive organic growth through project pipeline.
- Initiate resource upgrade programmes at Michelin and Manyingee Projects.
- Increase value in future term supply contracts.
- Continue to seek value increase in existing pipeline projects through joint venture and M&A.

## CHAIRMAN'S LETTER

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Dear Fellow Shareholders

Against the backdrop of a continuing flat uranium price and extreme volatility of world capital markets, Paladin has focussed on improving production levels, efficiency and cost control. In all respects, this focus has achieved impressive results.

At both Langer Heinrich and Kayelekera, production levels are near or over nameplate. During a year when substantial plant expansion (Stage 3 at Langer Heinrich) and a major upgrade (at Kayelekera) were completed, the production and technical services teams are to be congratulated for systematically eliminating bottlenecks, improving recovery efficiencies and applying innovative solutions to achieve the near or on target production levels. Shareholders are reminded that both Paladin uranium plants are the first new facilities of this nature for some 20 years and each apply unique solutions to achieve modern best practice production outcomes.

In a challenging uranium spot and term price environment, the Paladin uranium marketing team has worked to ensure that, once an appropriate working inventory level was achieved, all uranium production was sold via a combination of spot sales and delivery into variously structured term contracts with customers in the US and Asia. As a result, the average sales price over the financial year was a commendable US\$55/lb U<sub>3</sub>O<sub>8</sub> (spot price ranged from US\$51/lb to US\$53/lb).

To address balance sheet concerns, particularly around the US\$325M convertible bonds maturing March 2013, the Company undertook a timely raising in April 2012 of US\$274M with convertible bonds of which US\$191M was applied to buy back March 2013 bonds (leaving a balance of US\$134M). As announced on 15 August 2012 the Company entered into an historic long-term off-take contract for the period 2019 to 2024 featuring a US\$200M prepayment. These two initiatives have therefore ensured that repayment of the March 2013 convertible bonds is completely covered and provided additional working capital.

As discussed elsewhere in this Annual Report, contrary to un-informed predictions from anti-nuclear voices, there are today more new nuclear reactors planned and proposed than pre-Fukushima. The nuclear industry will continue to grow and make a significant contribution to the world's clean energy requirements. It is the view of Paladin's Board and management, based on careful analysis of the uranium supply industry, that future supply growth will struggle to meet demand in the mid to later part of this decade. The specific nature of the long-term off-take contract mentioned above, leveraging off forward production, is in itself a strong indication of the uranium industry's future supply challenges. In this context, Paladin's suite of two operating mines, significant project pipeline, expertise and improved balance sheet, means it is uniquely placed to benefit from this resultant supply/demand scenario.

Reflecting the importance the Board and management place on safety, the environment and sustainability, this Annual Report details our improving practices in these areas. To be soon released through Paladin's website is a considerable amount of sustainability information under the Global Reporting Initiative, including carbon emissions. I appreciate the effort that all staff have made to enable this important reporting regime to be adopted.

On behalf of my Board and fellow shareholders, I extend my thanks to John Borshoff and all Paladin staff for continuing to focus on the business of the Company and steer it through an extremely difficult period.

Yours faithfully



**RICK CRABB**  
Chairman

## NUCLEAR POWER – GROWTH REASSURED

Last year's Annual Report dealt extensively with the Fukushima nuclear incident in Japan and the global impact on nuclear power programmes which resulted from government-mandated reviews of design, site selection, and safety of operating and planned nuclear power stations.

With the marked exception of Japan itself, and Germany which announced the immediate closure of eight of its 17 operating nuclear power plants, the world's nuclear power programmes are now operating normally and the foreshadowed growth in nuclear power is reassured.

This comparison of the *World Nuclear Association's* table of nuclear power reactors classified by status ("operable", "under construction", "planned", and "proposed") demonstrates the resilience of the nuclear industry.

Status at 30/6/11			Status at 30/6/12		
Operable*:	440	376,442 MWe	Operable*:	433	371,745 MWe
Under Construction:	61	63,334 MWe	Under Construction:	63	62,174 MWe
Planned:	154	171,445 MWe	Planned:	160	177,915 MWe
Proposed:	343	391,355 MWe	Proposed:	329	369,915 MWe
* includes 17 reactors in Germany and 51 reactors in Japan.			* includes 50 reactors in Japan although all off-line at June 30 2012.		

Source: World Nuclear Association

In the year since the Fukushima incident, the number of reactors "under construction" has increased by two, and the number in the "planned" category has increased by six. The reduction in the "proposed" category is due to long-term plan adjustments in Ukraine (-9), USA (-9), Vietnam (-6) and Russia (-6), offset by the announcement of an aggressive new nuclear programme by Saudi Arabia (+16).

In Japan, all nuclear power plants were progressively taken offline as they became due for periodic maintenance and inspection and, at the time of writing, only two plants owned by Kansai Electric Power Company, Ohi reactors numbers 3 and 4, have been brought back into service. The Japanese Government has announced plans to overhaul the national nuclear regulatory system with the formation of a new, independent Nuclear Regulatory Authority (NRA) as part of a process to re-establish trust and integrity in the safety of the country's reactors in anticipation of further re-starts, which are essential to overcome the significant electricity shortages experienced during the summer. The formation of the NRA will be a vital component in the review of Japan's longer term dependence on nuclear power, which historically has supplied over 30% of the nation's electricity.

In Europe the *European Nuclear Safety Regulators Group* has completed its extensive peer review and stress tests for all nuclear power plants in the EU with a generally favourable outcome.

Apart from the policy decision taken by Germany to accelerate its phase-out of nuclear power by closing eight reactors immediately, no reactors in Europe have been shut down. Belgium and Switzerland have adopted qualified nuclear phase-out policies which are unlikely to have any near term effect on their nuclear programmes.

### New Builds

The impetus for significantly increased world nuclear generating capacity arises from aggressive plans in Asia (excluding Japan) and the Middle East.

China currently has 15 operating reactors which contribute less than 2% of the country's electricity production, and another 26 reactors under construction. China's national energy policy calls for nuclear power production to double by 2020 to between 60-70 GWe and then triple to at least 200 GWe by 2030. Some adjustment in the near term plan is expected after post-Fukushima design reviews, but rapid growth is assured as China strives for a cleaner energy sector.



## NUCLEAR POWER – GROWTH REASSURED (continued)

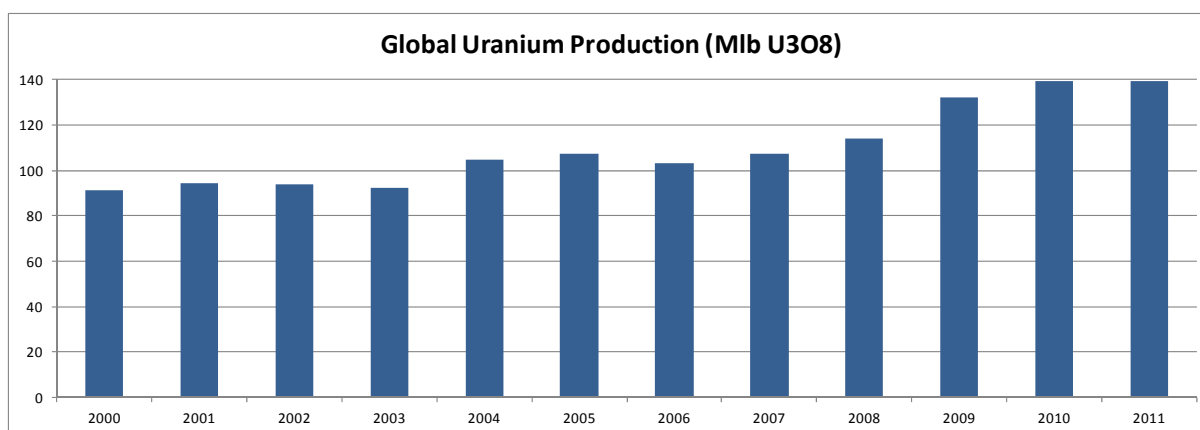
In the Middle East, the United Arab Emirates has begun construction on four nuclear power plants for commissioning from 2017 and has announced plans for up to another 10 plants once the first group is completed. Saudi Arabia is proceeding with an evaluation of their plan to build at least 16 nuclear plants to replace its inefficient use of oil for domestic power generation.

Elsewhere, reactor new builds are continuing in Russia (33 in operation and 10 under construction), South Korea (23 in operation and three under construction), and India (20 in operation and seven under construction). If these trends continue then, by 2030, more than half of world nuclear electricity production will be outside Western Europe and North America, which currently account for 63% of world capacity.

In November 2011 the *International Energy Agency (IEA)* released its latest “World Energy Outlook – 2011” which was its first opportunity to revise its nuclear power forecasts since the Fukushima incident. The IEA lowered slightly its forecast of nuclear production to 70% growth by 2035, driven by China, India, and Korea. The striking statistic is that according to the IEA, 90% of world projected energy demand growth arises from non-OECD economies, of which China alone will account for more than 30%. This has significant implications for all energy sources and it is difficult to envisage an energy future which does not involve a substantial increase in nuclear generated electricity once climate change policies become internationally entrenched.

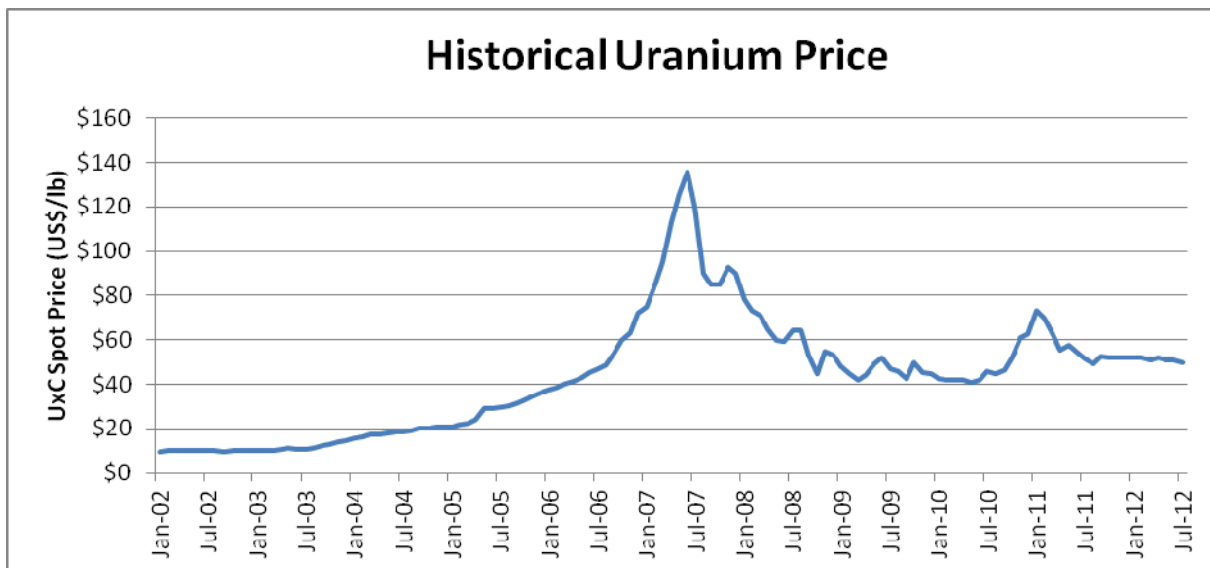
### Uranium Production and the Market

The Company has consistently drawn attention to the state of the uranium supply industry, pointing out that global uranium production is below annual reactor requirements and that the supply deficit, which is temporarily filled by the consumption of inventories and the Russian Highly Enriched Uranium agreement (HEU) which terminates in 2013 will have to be closed by commissioning new uranium production at an increasing rate over the next eight years. As outlined above, the Fukushima incident has not significantly reduced current or future reactor requirements. However, investor reaction to Fukushima has potentially frustrated the financing of some new uranium production which will further exacerbate future supply constraints.



Source: World Nuclear Association

## NUCLEAR POWER – GROWTH REASSURED (continued)



Source: Ux Consulting

Uranium production increased from 93.7Mlb  $U_3O_8$  in 2002 to 142.0Mlb  $U_3O_8$  in 2011. On the basis that world reactor requirements in 2011 were approximately 164Mlb  $U_3O_8$ , and by the Company's estimates will rise to over 260Mlb  $U_3O_8$  by 2020, it is apparent there is still a uranium supply shortfall. As noted in the *2010 Annual Report*, much of the recent growth in uranium production is attributable to a single country, Kazakhstan, where production rose from less than 7.8Mlb  $U_3O_8$  in 2002 to 50.6Mlb  $U_3O_8$  in 2011, a 545% increment. The traditional major uranium producers, Canada and Australia, struggled to maintain historical production levels, as did Namibia, despite the Company's significant new production at Langer Heinrich.

The attenuated price weakness in the uranium market since the Fukushima incident is at risk of sending a false signal to the nuclear power industry about the perceived abundance of new uranium production. Mining costs are increasing worldwide, as are construction capital costs. Some governments are looking to additionally tax the extractive industries by levying extra royalties or imposing profit or resource rent taxes without recognising that those incremental costs may well discourage new investment as well as impair some existing operations. Internal work undertaken by the Company with the assistance of external analysts indicates that the next level of sustainable uranium production will not be achieved until prices rise by at least 70% from current low levels. Even with that inevitable price inducement, new production will experience delays and cost pressures which will threaten a "higher for longer" market outlook instead of the more orderly price and production run-up which some participants wishfully predict.

## MANAGEMENT DISCUSSION AND ANALYSIS

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The following Management Discussion and Analysis (MD&A) for Paladin Energy Ltd (Paladin or the Company) should be read in conjunction with the Directors' Report and the audited Financial Report for the year ended 30 June 2012. The effective date of this report is 30 August 2012.

The Financial Report has been prepared in accordance with Australian Accounting Standards, International Financial Reporting Standards (IFRS), other authoritative pronouncements of the Australian Accounting Standards and the Corporations Act 2001.

In addition to these Australian requirements further information has been included in the Consolidated Financial Statements for the year ended 30 June 2012 in order to comply with applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

Additional information relating to the Company, including public announcements, is available at [www.paladinenergy.com.au](http://www.paladinenergy.com.au).

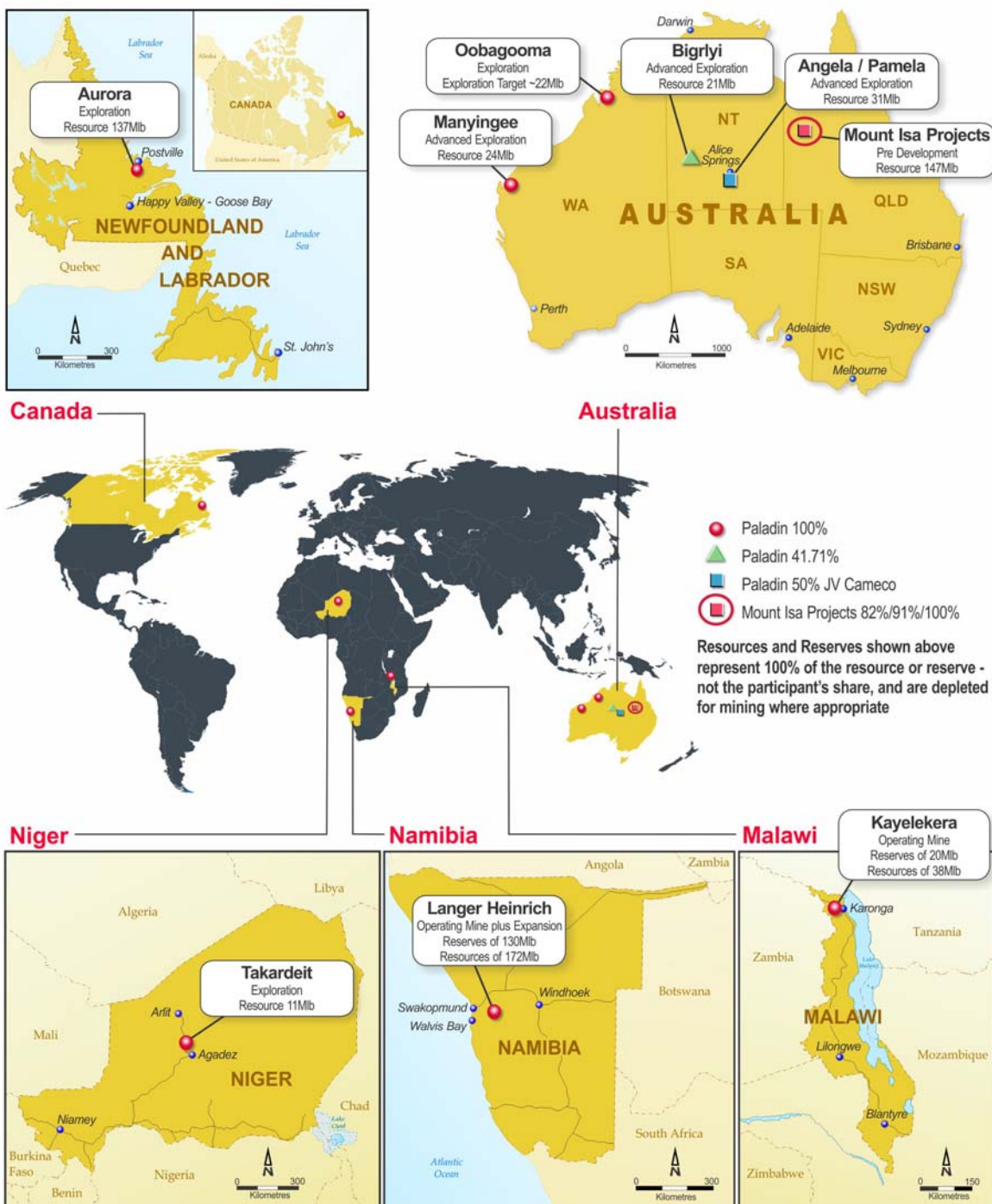
### FORWARD LOOKING STATEMENTS

*Some of the statements contained in this MD&A, including those relating to strategies and other statements, are predictive in nature, and depend upon or refer to future events or conditions, or include words such as "expects", "intends", "plans", "anticipates", "believes", "estimates" or similar expressions that are forward looking statements. Forward looking statements include, without limitation, the information concerning possible or assumed further results of operations as set forth herein. These statements are not historical facts but instead represent only expectations, estimates and projections regarding future events and are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally.*

*The forward looking statements contained in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results of the Company may differ materially from those expressed in the forward looking statements contained in this MD&A due to, among other factors, the risks and uncertainties inherent in the business of the Company. The Company does not undertake any obligation to update or release any revisions to these forward looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events.*

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS



In addition to the resources illustrated above, the Company has a 23.43% interest in Deep Yellow Ltd (ASX: "DYL") which has projects located near Langer Heinrich in Namibia and Mount Isa in Australia.

Paladin's total Mineral Resource inventory includes 181,514t U<sub>3</sub>O<sub>8</sub> (400.2Mlb of U<sub>3</sub>O<sub>8</sub>) at 0.07% U<sub>3</sub>O<sub>8</sub> in the Indicated and Measured categories (including ROM stockpiles), an 11% increase from that reported in the previous year. Paladin also holds 81,744t of U<sub>3</sub>O<sub>8</sub> (180.2Mlb of U<sub>3</sub>O<sub>8</sub>) at 0.06% U<sub>3</sub>O<sub>8</sub> in the Inferred Resource category, an 8% increase from that reported for the previous year. A summary of the status of each of the advanced projects is detailed in the following table. This table does not include Mineral Resources from Bikini, Andersons, Mirrioola and Watta derived from Paladin's 82.08% ownership of Summit Resources Limited, or the Duke Batman and Honey Pot deposits.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS

<u>Project</u>	<u>Overview</u>	<u>Mining Method/ Deposit Type</u>	<u>Outlook</u>	<u>Resources</u>
<b><u>Uranium Production</u></b>				
* Langer Heinrich Mine - 100% (Namibia, Southern Africa)	The Company's cornerstone asset commenced production in 2007. The Stage 3 expansion is complete with production at 5.2Mlb per annum (pa). Studies are underway for a further expansion to 10Mlb pa.	Conventional open pit; calcrete	Project life in excess of 20 years	M&I (inc stockpiles): 127.3Mt @ 0.053% (147.8Mlb U <sub>3</sub> O <sub>8</sub> )  Inferred: 18.5Mt @ 0.06% (24.1Mlb U <sub>3</sub> O <sub>8</sub> )
*Kayelekera Mine – 100% <sup>(a)</sup> (Malawi, Southern Africa)	Paladin's second operational uranium mine announced commercial production in July 2010. Producing near 3.3Mlb pa nameplate.	Conventional open pit; sandstone	Exploration to identify additional resources for mine life extension	M&I (inc stockpiles): 17.5Mt @ 0.08% (30.4Mlb U <sub>3</sub> O <sub>8</sub> )  Inferred: 5.4Mt @ 0.06% (7.5Mlb U <sub>3</sub> O <sub>8</sub> )
<b><u>Uranium Development</u></b>				
*Aurora Project – 100% (Labrador, Canada)	Paladin's first entry into Canada. Resource definition and additional exploration will commence in the second half of calendar year (CY) 2012.	Open pit - underground; metasomatic	Resource definition and extension drilling to commence	M&I: 40.2Mt @ 0.09% (83.8Mlb U <sub>3</sub> O <sub>8</sub> )  Inferred: 29.1Mt @ 0.08% (53.0Mlb U <sub>3</sub> O <sub>8</sub> )
**Manyingee Project – 100% (Western Pilbara, Western Australia)	Resource definition and extension drilling has been planned and expected to commence in the September 2012 quarter.	In-situ leach; sandstone	3 year staged feasibility study required	M&I: 7.9Mt @ 0.102% (17.8Mlb U <sub>3</sub> O <sub>8</sub> )  Inferred: 5.5Mt @ 0.05% (6.2Mlb U <sub>3</sub> O <sub>8</sub> )
Oobagooma Project – 100% (West Kimberley, Western Australia)	A key pipeline asset for Paladin.	In-situ leach; sandstone	3 year reserve/resource drilling required	Exploration target: 8.0Mt @ 0.12%-0.14% U <sub>3</sub> O <sub>8</sub>
*Valhalla Skál & Odin Deposits – 91.04% <sup>(b)</sup> (Queensland, Australia)	Paladin's primary Australian asset. A large effort is being made to expand the current resource, continue environmental studies and move towards a Feasibility Study.	Open pit - underground; metasomatic	Development dependent on Queensland Government U Policy changes and market conditions	M&I: 57.2Mt @ 0.07% (93.7Mlb U <sub>3</sub> O <sub>8</sub> )  Inferred: 16.3Mt @ 0.06% (22.0Mlb U <sub>3</sub> O <sub>8</sub> )
*Bigryli Deposit – 41.71% (Northern Territory, Australia)	Drill planning in progress to expand resources within the JV tenements. Co-operative arrangement to assess nearby regional targets.	Open pit - underground; sandstone	Mining and engineering studies underway. Additional drilling to expand resources planned	M&I: 4.7Mt @ 0.14% (14.1Mlb U <sub>3</sub> O <sub>8</sub> )  Inferred: 2.8Mt @ 0.11% (7.1Mlb U <sub>3</sub> O <sub>8</sub> )
*Angela Deposit – 50% (Northern Territory, Australia)	Planning is underway for resource extension and development drilling.	Open pit - underground; sandstone	Future direction of project to be determined by the JV partners	Inferred: 10.7Mt @ 0.13% (30.8Mlb U <sub>3</sub> O <sub>8</sub> )

*Mineral Resources are quoted inclusive of any Ore Reserves that may be applicable.*

*Mineral Resources detailed above in all cases represent 100% of the resource – not the participant's share.*

*\*Conforms to JORC(2004) guidelines & is NI 43-101 Compliant.*

*\*\*Conforms to JORC(1999) guidelines.*

*(a) For Kayelekera, the Government of Malawi holds a 15% equity interest in the subsidiary, Paladin (Africa) Limited, the holder of the Kayelekera Mining Licence.*

*(b) For Valhalla, Skál & Odin, Paladin's interest is based on 50% deriving from the Isa Uranium Joint Venture and 41.04% via Paladin's 82.08% ownership of Summit Resources Ltd.*

*Langer Heinrich and Kayelekera Mineral Resources have been depleted for mining to the end of June 2012.*

*M&I = Measured and Indicated.*

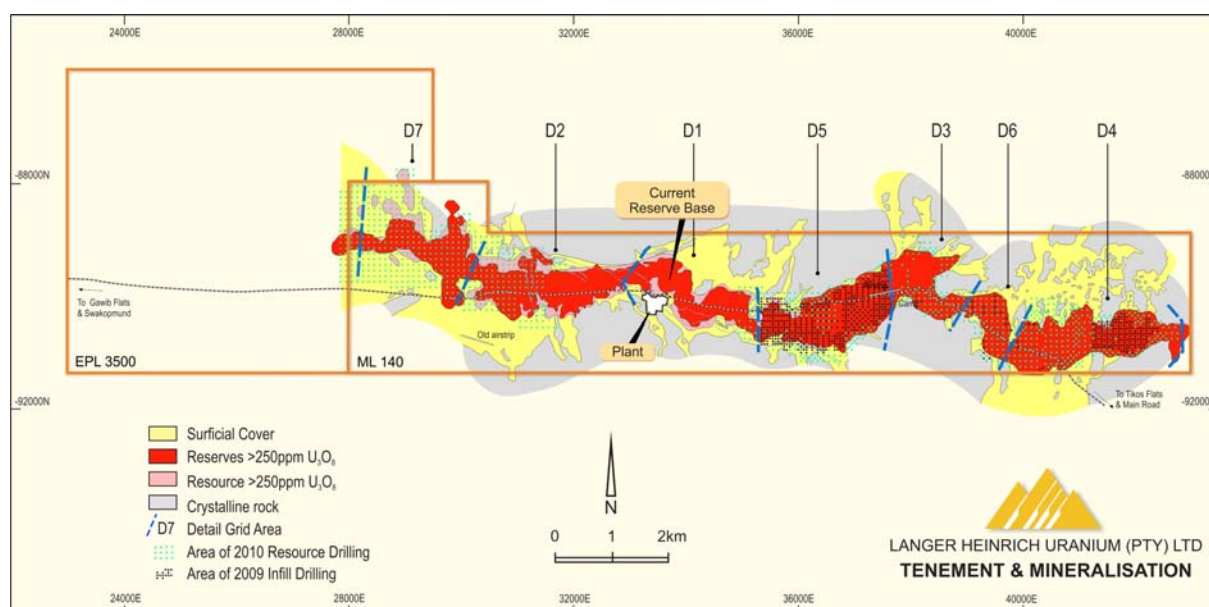
## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

### NAMIBIA

#### LANGER HEINRICH MINE (LHM)

LHM in Namibia is owned 100% by Paladin through its wholly owned Namibian subsidiary, Langer Heinrich Uranium (Pty) Ltd (LHUPL). Paladin purchased the Langer Heinrich project in August 2002 and, following development and construction, commenced producing from the open pit mine with annual production of 2.7Mlb of  $U_3O_8$  achieved in 2008/2009. Soon afterwards, the Stage 2 expansion increased production to 3.7Mlb pa  $U_3O_8$  in the 2010 financial year. Construction and commissioning of the Stage 3 expansion was completed in the 2011/2012 financial year with the project achieving nameplate of 5.2Mlb pa  $U_3O_8$  in the final quarter.

Langer Heinrich is a surficial, calcrete type uranium deposit containing a Mineral Resource of 77,980t  $U_3O_8$  at a grade of 0.054%  $U_3O_8$  (250ppm  $U_3O_8$  cut-off grade) in seven mineralised zones designated Detail 1 to 7, within the 15km length of a contiguous paleodrainage system. The deposit is located in the Namib Desert, 80km from the major seaport of Walvis Bay. The Detail 1 to 7 figure below shows the location of the uranium mineralisation along the length of the Langer Heinrich valley.



#### Operations

During the 2011/2012 financial year production totalled 4.417Mlb (2,004t)  $U_3O_8$ , up 25% from the previous year's result of 3.525Mlb (1,599t)  $U_3O_8$ . This significant increase in production over the previous period reflected the progressive availability of various Stage 3 equipment and the increases in efficiency as this equipment was commissioned. The project was consistently producing at Stage 3 production rates with production in the last quarter reaching 102% of the Stage 3 design rate of 5.2 Mlb  $U_3O_8$  pa. This solid conclusion to the financial year places the operation in a very strong position going forward. FY2013 will be the first year for the project where there has not been any major construction and/or expansions underway and that design feed rates have already been established in advance.

The mine ramped-up to meet Stage 3 ore feed requirements with the mining of 6,577,560 tonnes of ore at an average grade of 681ppm  $U_3O_8$ . This resulted in total mined tonnages (ore and waste) of 30,007,211 tonnes with an annualised stripping ratio of 3.56:1.

Ore feed into the plant for the year totalled 2,649,139 tonnes at an average grade of 909ppm  $U_3O_8$  at an average recovery of 83.2%. Production from the plant during the course of the year resulted in progressively increased tonnage feed rates, reducing grades and increasing recoveries as the various components of Stage 3 equipment came on line and were commissioned.

## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

The Stage 4 expansion study was also advanced, assessing the feasibility of increasing production up to 10Mlb U<sub>3</sub>O<sub>8</sub> pa. At the end of the financial year, the Environmental Impact Assessment (EIA) approvals for the Stage 4 expansion were received from the Namibian Government and the project could be advanced without any significant remaining regulatory approvals. For the interim, however, LHUPL will hold off the final completion of the Feasibility Study until all aspects of the Stage 3 equipment have been fully optimised and understood and above design performance can be incorporated into the Stage 4 expansion study. This is expected by the end of CY2012.

### Mineral Resource estimate (depleted for mining at end of June 2012) for Details 1 to 7:-

250ppm Cut-off	Mt	Grade % U <sub>3</sub> O <sub>8</sub>	t U <sub>3</sub> O <sub>8</sub>	Mlb U <sub>3</sub> O <sub>8</sub>
Measured Resources	29.5	0.054	15,893	35.04
Indicated Resources	72.8	0.055	40,320	88.90
<b>Measured + Indicated</b>	<b>102.3</b>	<b>0.055</b>	<b>56,213</b>	<b>123.93</b>
Stockpiles	25.1	0.043	10,842	23.90
<b>Inferred Resources</b>	<b>18.5</b>	<b>0.06</b>	<b>10,926</b>	<b>24.1</b>

*(Figures may not add due to rounding and are quoted inclusive of any Ore Reserves, and have been depleted for mining to the end of June 2012)*

### Ore Reserve

Economic analysis on this resource has indicated a break-even cut-off grade of 250ppm.

### Ore Reserve Estimate (250ppm U<sub>3</sub>O<sub>8</sub> cut-off)

250ppm Cut-off	Mt	Grade % U <sub>3</sub> O <sub>8</sub>	t U <sub>3</sub> O <sub>8</sub>	Mlb U <sub>3</sub> O <sub>8</sub>
Proved Ore Reserve	24.2	0.054	13,135	29.0
Probable Ore Reserve	62.1	0.057	35,207	77.6
Stockpiles	25.1	0.043	10,842	23.9
<b>Total Ore Reserve</b>	<b>111.3</b>	<b>0.053</b>	<b>59,184</b>	<b>130.5</b>

*Ore Reserve has been depleted for mining to the end of June 2012*

The Ore Reserve base is unchanged from that reported previously and has only been depleted for mining to 30 June 2012. The underlying Mineral Resource estimate is based on Multi Indicator Kriging and incorporates a specific adjustment based on parameters derived from mining activities. As a result, additional dilution and mining recovery are not included in the Ore Reserve estimation.

The cost, processing, mining and pricing parameters used in the 2010 Ore Reserve estimation are essentially unchanged and, as such, their inclusion can reasonably be justified. The revenue rate used in the Ore Reserve estimate was US\$60/lb and is still regarded as appropriate when compared to the current blend of UxC spot price and existing term contracts.

These reserves form the basis of the life of mine planning for the project. The updated mine model defines a project life of in excess of 20 years based on a processing throughput of 3.45Mt/pa.

### Exploration (EPL3500)

Exploration Licence (EPL) 3500 abuts the Langer Heinrich Mining Lease to the west and includes the alluvial covered western extension of the mineralised Langer Heinrich palaeochannel.

Following on from previous drilling, areas close to the mining lease which remained open were the subject of a drilling programme completed in August 2011. This data will be incorporated into a review of the Mineral Resource model expected to be completed late in the second half of 2012. At this stage, only limited additional drilling is expected to be carried out on the western portion of the exploration lease.



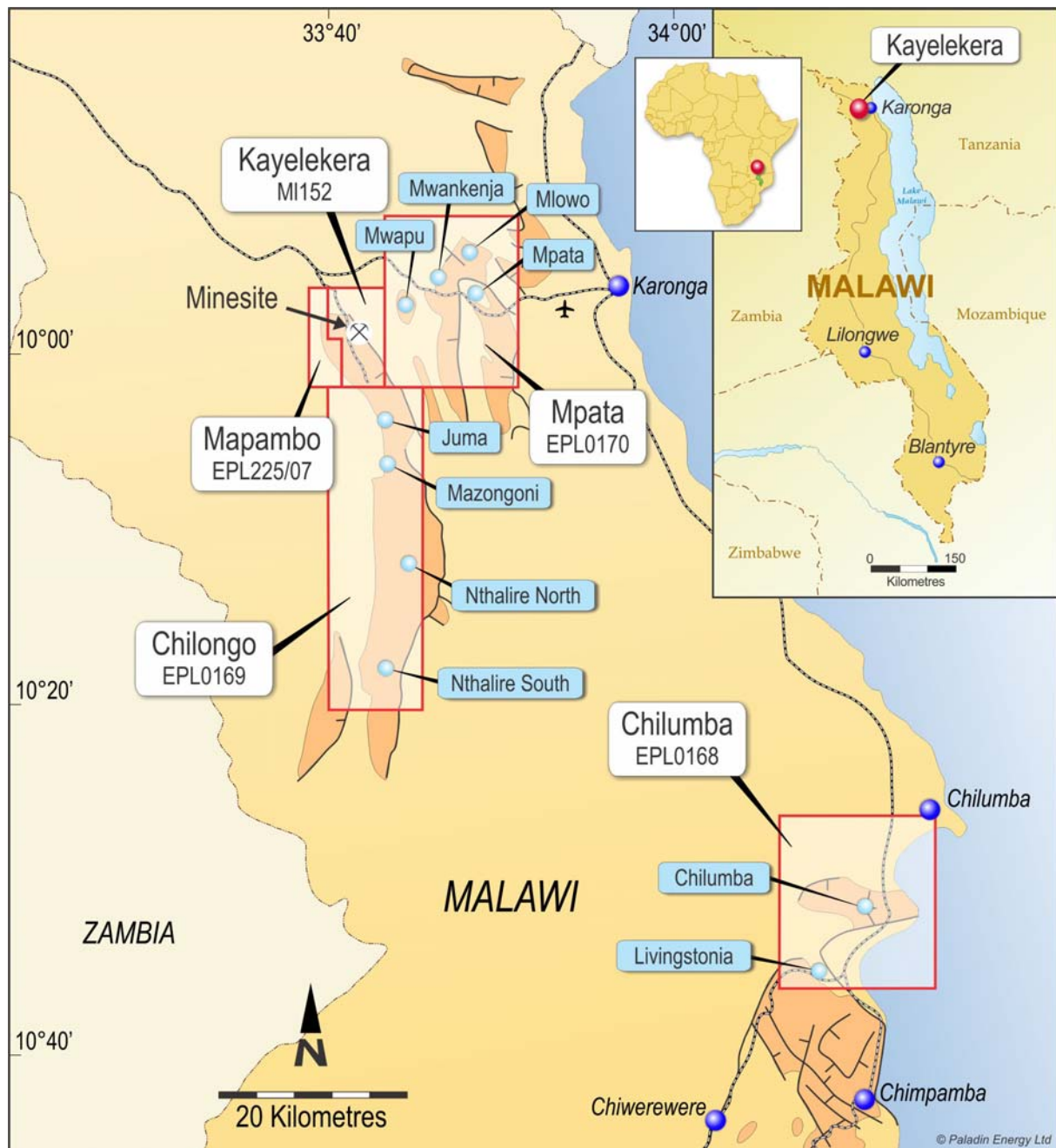
## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

### MALAWI

#### KAYELEKERA MINE (KM)

Kayelekera is located in northern Malawi, 52km west (by road) of the provincial town of Karonga and 12km south of the main road that connects Karonga with the township of Chitipa to the west.

Kayelekera is a sandstone hosted uranium deposit associated with the Permian Karoo sediments and is hosted by the Kayelekera member of the North Rukuru sediments of the Karoo. The mineralisation is associated with seven variably oxidised, coarse grained arkoses, separated by shales and chocolate coloured mudstones. Uranium mineralisation occurs as lenses within primarily the arkose units and to a lesser extent in the mudstone units. The lowest level of known mineralisation currently is at a depth of approximately 160m below surface.





## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

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Kayelekera is owned 100% by Paladin (Africa) Limited (PAL), a subsidiary of Paladin. In July 2009, Paladin issued 15% of equity in PAL to the Government of Malawi under the terms of the Development Agreement signed between PAL and the Government in February 2007.

The Mining Licence, ML 152, covering 5,520 hectares was granted in April 2007 for a period of 15 years, following the completion of a Development Agreement with the Government of Malawi. A Bankable Feasibility Study and EIA followed and construction started in June 2007 with completion in early 2009. After a number of early project commissioning challenges, targeted upgrades and modifications the operations made a step change improvement in obtaining near nameplate production rates in the last 6 months of FY2012.

#### Operations

The KM project produced 2.478Mlb (1,124t)  $U_3O_8$  in FY2012, an increase of 14% from 2.169Mlb (984t)  $U_3O_8$  the previous year. While the project did not reach nameplate production for the year, the project was operating consistently at 90% of nameplate for the last 8 months of the year with indications that further increases in production are imminent.

A number of technical challenges and bottlenecks to production were addressed and solved during the year with a planned shutdown to address known areas in August 2011. The main improvement from this work was the replacement of the leach launders and addressing various constraints in the front-end of the plant. The upgrades made during August were successful and resulted in significant increases in throughputs and improved operability for future operation.

The largest impediment to production was the extended unplanned shut down that occurred following the planned upgrades in September 2011, to make substantial repairs to the acid plant and required the complete relocation of the packaging and drying facility which were both damaged by localised land movement. During this period, an interim measure was put in place to ship a yellow cake paste to LHM in Namibia for final drying and packaging. The relocation and operational re-start of the packaging and drying plant was completed in November 2011. The issue of land movement has since been managed by remedial measures which have proved successful. Unfortunately, the combination of both of these planned and unplanned events resulted in almost two months of down time for the plant which resulted in a 400,000 – 500,000lbs  $U_3O_8$  shortfall in production for the year.

The open cut mine produced 1,993,651t of ore at an average grade of 1,103 ppm  $U_3O_8$  with total tonnes of ore and waste totalling 4,548,207t. This resulted in an annualised stripping ratio of 1.28:1 and Run of Mine (ROM) stockpiles of approximately six months ahead of the processing plant.

Feed into the plant for the year totalled 1,201,533t at an average grade of 1,183 ppm  $U_3O_8$  at an average recovery of 82.1%, which reflects increased tonnes, reduced grades and increasing recoveries from the previous financial year. In addition, the plant is consistently processing in the order of 20% mudstone ores without any difficulties.

Cost optimisation remained a major focus with the continued targeted savings on acid, electric power, reagents, diesel and transport being the main opportunities. A combination of new technologies and ore blend management are seen as the major management tools for reducing costs in the near term.

In May 2012, there was an industrial action initiated by the National employees, which lasted seven days and resulted in reduced production of approximately 35,000lb  $U_3O_8$ . The company is well advanced with developing an Industrial Relations strategy and programme as a means of preventing a re-occurrence and strengthening company relations in a number of areas with its workforce.

## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

### Mineral Resources and Ore Reserves Estimation

An updated Joint Ore Reserves Committee (JORC) and Canadian National Instrument 43-101 (NI 43-101) Mineral Resources and Ore Reserves are in the process of being estimated for the Kayelekera ore body. The estimates will include all data from the 2010 and 2011 drilling programmes that targeted westward extensions of the mineralisation at depth. The Company has recently received the delayed final validation assays which will be used to confirm the downhole radiometric logging results.

Details for the current Mineral Resource are as follows:

#### Mineral Resource at 300ppm U<sub>3</sub>O<sub>8</sub> Cut-off

	Mt	Grade ppm U <sub>3</sub> O <sub>8</sub>	t U <sub>3</sub> O <sub>8</sub>	Mlb U <sub>3</sub> O <sub>8</sub>
Measured Resources	1.02	1,200	1,226	2.7
Indicated Resources	14.63	749	10,962	24.2
<b>Total Measured &amp; Indicated</b>	<b>15.65</b>	<b>779</b>	<b>12,188</b>	<b>26.9</b>
Stockpiles	1.82	877	1,598	3.5
<b>Inferred Resources</b>	<b>5.4</b>	<b>624</b>	<b>3,390</b>	<b>7.5</b>

*(Figures may not add due to rounding and are quoted inclusive of any Ore Reserves and are depleted for mining to end of June 2012)*

The Mineral Resource is unchanged from that previously reported except for depletion due to mining activities to 30 June 2012. The Mineral Resource estimate is based on Multi Indicator Kriging techniques with a specific adjustment based on parameters derived from the mining process.

### Ore Reserves

Economic analysis on this Resource has indicated a break-even cut-off grade of 400ppm U<sub>3</sub>O<sub>8</sub>.

#### Ore Reserve at 400ppm U<sub>3</sub>O<sub>8</sub> Cut-off

	Mt	Grade ppm U <sub>3</sub> O <sub>8</sub>	t U <sub>3</sub> O <sub>8</sub>	Mlb U <sub>3</sub> O <sub>8</sub>
Proved Reserve	0.62	1,388	859	1.9
Probable Reserve	7.08	935	6,614	14.6
Stockpiles	1.82	877	1,598	3.5
<b>Total Ore Reserve</b>	<b>9.52</b>	<b>953</b>	<b>9,071</b>	<b>20.0</b>

*(Figures may not add due to rounding and are depleted for mining to end of June 2012)*

The underlying Ore Reserve is unchanged from the one announced in 2008 and has only been depleted for mining until 30 June 2012. The updated Mineral Resource estimate, which is based on all drilling to date, is expected to result in the estimation of additional Measured and Indicated category material.

The cost, processing, mining and pricing parameters used in the Ore Reserve estimation are now well understood and as such their use in any updated Ore Reserve estimation can be reasonably justified. The revenue rate used in the current Ore Reserve estimate was US\$60/lb and is regarded as appropriate when compared to the present blend of UxC spot price and existing term contracts.

The 2010 drilling showed that the mineralisation was not fully delineated, particularly at depth with additional mineralisation identified below the current mine units. The 2011 drilling programme was completed at the end of September 2011 and further defined this mineralisation. Initial validation assays were received late in CY2012 and will be used to confirm the existing downhole radiometric values used as input into the mineral resource model.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

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#### Exploration

Work concentrated at the mine site targeting deep mineralisation to the west of the previous resource area and involved 9,554m of drilling in 62 holes.

Regional exploration drilling completed 37 holes totalling 6,656m. Drilling was terminated early due to the onset of the rainy season. Regional exploration work continues to expand along the North Rukuru Basin, south of the mine site into the Mazongoni and Nthalire areas. Although only sub-economic uranium mineralisation was identified at Mazongoni, geological mapping and ground radiometrics located prospective targets for follow-up drilling in 2012 in the Nthalire area.

Scout drilling at Mwankenja, Mlowo and Mpata, all approximately 15km east of the mine site, identified uranium mineralisation in two arkose units of up to 10m at 600ppm  $eU_3O_8$  (MP0317). This will be the early focus of drilling expected to start in August 2012.

#### NIGER (West Africa)

##### PROJECT AGADEZ

Project Agadez is located in northern Niger, north-west Africa, 30km west and north-west of the township of Agadez. It includes three exploration concessions, Tagait 4 (TAG4), Toulouk 1 (TOU1) and Terzemazour 1 (TER1), totalling 1,480km<sup>2</sup>.

Paladin completed the takeover of NGM Resources Ltd (NGM), the owner of the local company Indo Energy Ltd which holds the concessions, in December 2010 and owns 100% of the project.

The tenements are located in the Tim Mersoï Basin and are prospective for sandstone type uranium mineralisation in Carboniferous, Permian and Jurassic sediments. To the north, the basin has historically produced in excess of 280Mlb  $U_3O_8$  from two mines (Somair and Cominak) held by Areva.

The Project contains a low grade Inferred Mineral Resource of 11Mlb  $U_3O_8$  at 210ppm  $U_3O_8$  at a cut-off grade of 120ppm  $U_3O_8$ , defined by the previous owners, in shallow sediments. Paladin, however, is targeting higher grade uranium mineralisation in the lower stratigraphies of the area. In early 2011, Paladin carried out a drilling programme which further defined targets for follow-up in the prospective strata. A 15,000m follow-up drilling programme was planned to start in November 2011. This, however, has been delayed until late 2012, pending evaluation of the security situation in the Agadez area.

The Company's local personnel, having received training in Malawi, have been carrying out geological and geophysical ground surveys to prepare for a possible drilling campaign to start late in CY2012 or early CY2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

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#### CANADA

##### MICHELIN PROJECT

The Michelin Project is located 140km north-east of Goose Bay, Labrador, Canada, and 40km south-west of the community of Postville. This project is held 100% through the Aurora Energy Ltd group, wholly owned by Paladin.

Paladin completed the acquisition of the uranium assets of Aurora Energy Resources Inc. (Aurora) from Fronteer Gold Inc. (TSX-FRG, AMEX-FRG) in February 2011. Paladin now holds title to significant uranium assets within the highly prospective Central Mineral Belt (CMB) of Eastern Canada.

The CMB contains 83.9Mlb U<sub>3</sub>O<sub>8</sub> Measured and Indicated Mineral Resources as well as an additional 86.6Mlb U<sub>3</sub>O<sub>8</sub> Inferred Mineral Resource in 12 deposits owned by various parties. The largest of these deposits is Michelin, the star of Aurora's CMB project and one of the world's top five albitite-hosted resources. Seven of the deposits, with 83.9Mlb U<sub>3</sub>O<sub>8</sub> Measured and Indicated Mineral resources and 66.7Mlb U<sub>3</sub>O<sub>8</sub> of Inferred Mineral resource, are within 50km of the potential Michelin mill site. With the exception of one, Aurora owns all of these deposits. The table below summarises Aurora's uranium resources in Labrador.

Michelin contains the bulk of the Mineral Resource and studies indicate that up to one third could be mined by open pit methods. Michelin is hosted within an E-W trending, 50° south dipping, mylonite in felsic metamorphic rocks. The ore is confined to two 45° west plunging shoots and has been drilled to 600m depth. The mineralisation contains minimal carbonate which is expected to result in a low acid consumption. Metallurgical testing indicates consistent recoveries in excess of 90%. There is good potential along strike of the Michelin deposit to appreciably increase the resource base from the current 103Mlb U<sub>3</sub>O<sub>8</sub>. Jacques Lake is a smaller mineralised zone and contained within a breccia system. The geometry of the deposit makes a large portion of it conducive to open cut mining. More detailed evaluation will be required to identify any potential for a Mineral resource increase.

At this stage the Nash/Kitts type deposits are considered possible future development targets but are not currently included in the development plans for the albitite deposits. Geological investigations indicate that other types of uranium mineralisation may well be found within the substantially underexplored CMB.

The CMB offers excellent potential for additional discoveries. Substantial resource increases can be expected in the mid to long-term and within the tenement package with the uranium moratorium lifted fieldwork and camp establishment have commenced.

Drilling is expected to start in the September 2012 quarter. Detailed field work within the larger CMB area is expected to start next northern spring.

Exploration will aim initially at increasing the resources within the Michelin "mineralised trend", located inside a 5 to 10km radius of the Michelin site to expand the known resources sufficiently to develop a significant mining operation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

U<sub>3</sub>O<sub>8</sub> Mineral Resources, conforming to the JORC guidelines, reported by Aurora for the Michelin Project are as follows:

Deposit	Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources		
	Mt	Grade %	t U <sub>3</sub> O <sub>8</sub>	Mt	Grade %	t U <sub>3</sub> O <sub>8</sub>	Mt	Grade %	t U <sub>3</sub> O <sub>8</sub>
<b>Cut-off 0.05% &amp; 0.02% U<sub>3</sub>O<sub>8</sub></b>									
<b>Michelin</b>	7.1	0.08	5,926	23.0	0.11	24,522	16.0	0.10	16,370
<b>Jacques Lake</b>	0.9	0.09	747	6.0	0.07	4,327	8.1	0.05	4,103
<b>Rainbow</b>	0.2	0.09	193	0.8	0.09	655	0.9	0.08	739
<b>Inda</b>				1.2	0.07	826	3.3	0.07	2,171
<b>Nash</b>				0.7	0.08	564	0.5	0.07	367
<b>Gear</b>				0.4	0.08	270	0.3	0.09	279
<b>Total</b>	<b>8.1</b>	<b>0.08</b>	<b>6,866 (15.1Mlb)</b>	<b>32.0</b>	<b>0.10</b>	<b>31,164 (68.7Mlb)</b>	<b>29.1</b>	<b>0.08</b>	<b>24,029 (53.0Mlb)</b>

The resources are reported at cut-off grades that contemplated underground (0.05% U<sub>3</sub>O<sub>8</sub> cut-off) and open pit (0.02% U<sub>3</sub>O<sub>8</sub> cut-off) mining, based on preliminary economic assumptions. Following the decision by the Nunatsiavut Government to define a process for lifting the moratorium on uranium processing, Paladin considers the mineral resources associated with the Michelin project to be current mineral resources as defined in NI 43-101. A technical report titled 'Michelin Uranium Project, Labrador, Canada, NI 43-101 Technical Report on Preliminary Assessment' with an effective date of 1 August 2009 was previously filed by Fronteer Development Group Inc (the previous owner of Aurora) on Sedar. The technical report has been reviewed by David Princep, Principal Geologist – Resources with Paladin. To the best of Paladin's knowledge there is no new information that would make this disclosure of the mineral resources inaccurate or misleading.

In December 2011, the Nunatsiavut Government voted to lift the three year moratorium of the mining development and production of uranium on Labrador Inuit land. In March 2012, the Government enacted an amendment to the Labrador Inuit Lands Act, finally lifting that moratorium. The Nunatsiavut Government is a regional, aboriginal government formed in 2005. Five of Paladin's six deposits fall within the Labrador Inuit Lands, the area administered by the Nunatsiavut Government.

## QUEENSLAND

Summit Resources (Aust) Pty Ltd (SRA), a wholly owned subsidiary of Summit Resources Limited (Summit), operates the Isa Uranium Joint Venture (IUJV) as well as the Mount Isa North Uranium Project. Paladin has an 82.08% majority shareholding in Summit. These areas cover approximately 1,356km<sup>2</sup> and host a number of uranium deposits and resources including the Valhalla and Skal deposits.

In January 2009, Paladin completed the takeover of Fusion Resources Ltd (Fusion). This added Fusion's Valhalla North Project uranium resources, including Honey Pot and Duke Batman, on 361km<sup>2</sup> of prospective ground to the suite of Queensland uranium properties.

### ISA URANIUM JOINT VENTURE

**Summit Resources (Aust) Pty Ltd 50% and Manager**  
**Mount Isa Uranium Pty Ltd 50%**

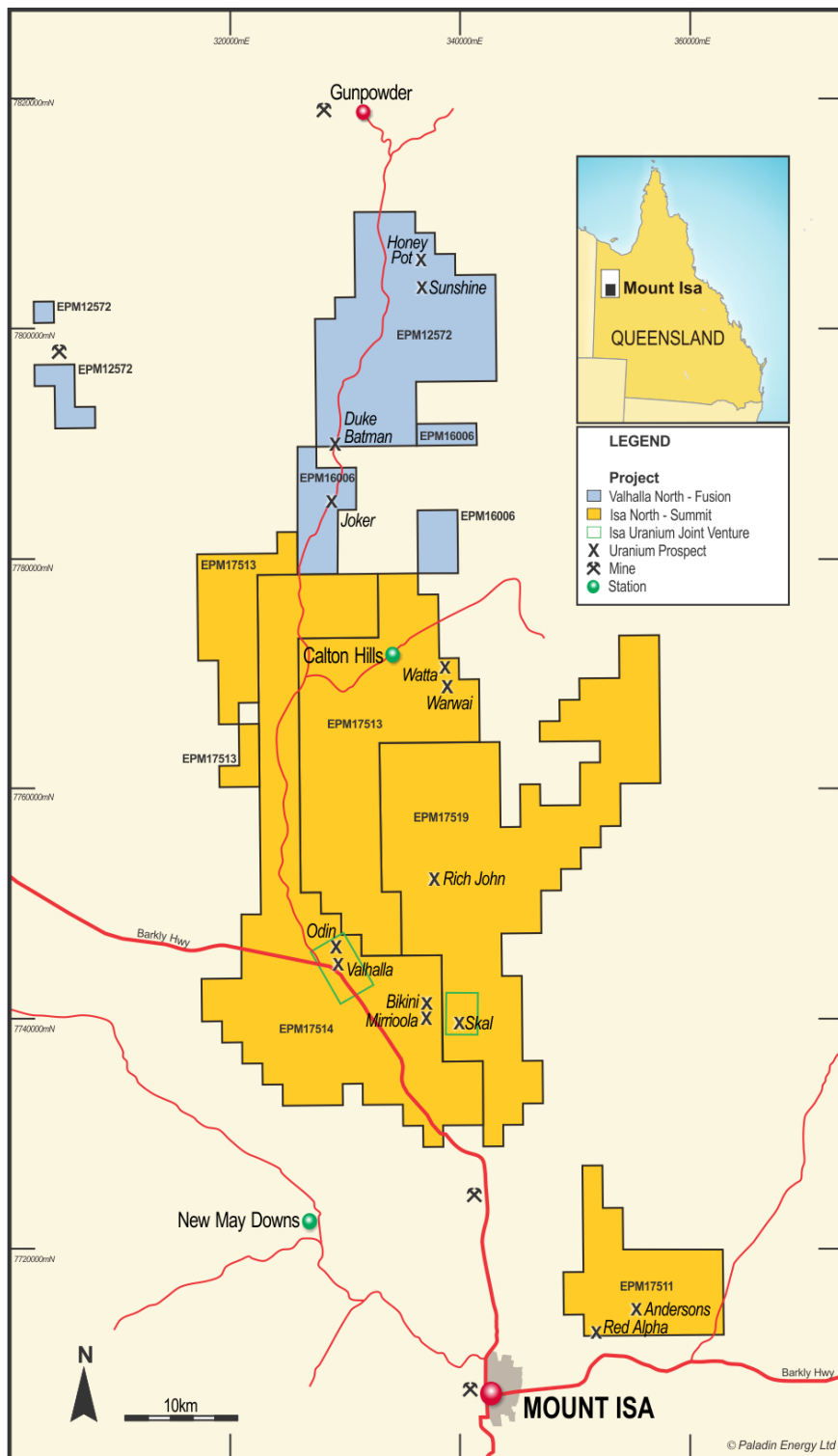
The IUJV covers ground containing the Valhalla, Odin and Skal uranium deposits 40km north of Mount Isa in Queensland. Participants in the Joint Venture are SRA and Mount Isa Uranium Pty Ltd (MIU), each holding a 50% interest with SRA as manager.

MIU is a wholly owned subsidiary of Valhalla Uranium Pty Ltd (VUL), a formerly listed public company and now a wholly owned subsidiary of Paladin. Following Paladin's successful takeover of VUL in 2006 and Paladin's acquisition of 82.08% of the issued capital in Summit, Paladin's effective participating interest in the IUJV is now 91.04%.

Ground subject to the IUJV covers 17km<sup>2</sup> at Valhalla and 10km<sup>2</sup> at Skal. These two areas lie within a much larger holding of contiguous tenements of 1,717km<sup>2</sup> held 100% and managed by SRA and Paladin.

## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

Work on the Joint Venture in 2011/12 concentrated on drilling and upgrading the resources at Odin and Skal, while work on Valhalla included mineralogical and metallurgical testing.



Isa North and Valhalla North Project Areas

### Valhalla Uranium Deposit

The Valhalla uranium deposit is located 40km north-west of Mount Isa on Exploration Permit for Minerals (EPM) 17514. The deposit is located in albite-carbonate-hematite breccias and mylonites as well as altered mafic rocks. Strike length of the deposit is 1,100m and the true width can reach 90m with an average of about 50m.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF OPERATIONS (continued)**

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A Mineral Resource estimate in 2010, conforming to both the JORC (2004) guidelines and the requirements of NI 43-101, at a 230ppm cut-off indicated a combined Measured and Indicated Mineral Resource of 63.4Mlb U<sub>3</sub>O<sub>8</sub> at 830ppm and an Inferred Mineral Resource of 12.8Mlb U<sub>3</sub>O<sub>8</sub> at 640ppm (see table at the end of this section for more detail).

#### **Odin Uranium Deposit**

The Odin uranium deposit is located 1km north of Valhalla at EPL 17514. At Odin, resource delineation drilling was completed for 2011 with an additional 28 reverse circulation (RC) holes. Mineralisation plunging 20-30° to the south was drilled over widths of 20-30m with grades in the range of 300-6,000ppm eU<sub>3</sub>O<sub>8</sub> about 400m north of Valhalla. This mineralisation was highlighted by hole VR0432 (340m-371m/31m @ 1,006ppm eU<sub>3</sub>O<sub>8</sub>). High-grade intervals occur within brecciated and albitised sandstones near contacts with basalt. Down-dip drilling to the east identified thick (40-70m) mineralised zones that flatten from -70°E to -40°E; grades in this area range from 200-700ppm eU<sub>3</sub>O<sub>8</sub>. A mineral resource update has now been completed and is stated in the table below. The Mineral Resource update represents a 70.3% increase on the previous Mineral Resource and for the first time Indicated Mineral Resources have now been defined.

#### **Skal Uranium Deposit**

The Skal uranium deposit is located 30km north of Mount Isa. Skal resource drilling was completed in September 2011, totalling 57 holes and 9,592m. The objective was to complete 40m x 40m resource drill outs at Skal South, East, North and Far North and to test new targets at Skal Southwest and Grendel.

The Skal deposit contains a number of ore lenses which are concentrated in four zones within an area of approximately 2km<sup>2</sup>. The mineralised lenses that comprise Skal vary in strike from 035° to 045° and dip steeply from -85°E to -75°W. Individual lenses can be up to 50m thick and have a combined strike length of over 1,300m. High grade intervals are associated with quartz veins within brecciated and albitised siltstones and basalts. The deposit area is structurally complex, and orebodies are truncated and offset by faults.

In March 2012, a Mineral Resource update was completed and is stated in the table below. The Mineral Resource update represents a 50% increase on the previous Mineral Resource. The Mineral Resource estimate was undertaken using Kriging methodologies with search radii dependant on variography results and drill hole spacing. Approximately 72% of the dataset was derived from downhole radiometrically logged equivalent U<sub>3</sub>O<sub>8</sub> grades. The remainder was from geochemical assays. Downhole logging was carried out using Company owned and calibrated equipment, with derived grades being validated against assays in a number of drill holes. All recent holes were downhole surveyed for deviation and collars were located using DGPS equipment.

#### **MOUNT ISA NORTH URANIUM PROJECT**

##### **Summit Resources (Aust) Pty Ltd 100% and Operator**

The project is located 10km to 70km north and east of Mount Isa and contains numerous uranium anomalies, most of which still have to be investigated thoroughly. Exploration continues on Summit's 100% owned Mount Isa North Project where Summit holds 1,356km<sup>2</sup> of granted tenements that are prospective for uranium, copper and base metals. The tenements are centred on the city of Mount Isa. The project includes the Bikini, Watta, Mirrioola and Andersons uranium deposits in addition to numerous other uranium prospects.

Work during the year concentrated on Andersons and Mirrioola and their resource status is shown in the table below. Regional exploration identified numerous targets for future follow-up drilling.

#### **VALHALLA NORTH PROJECT**

The Valhalla North Project is located on two tenements currently totalling 361km<sup>2</sup>, situated 40 to 75km north of the Valhalla deposit. The geological setting is similar to the Summit/Paladin projects to the south where albitised basalts with interbedded metasediments are mineralised along east-west and north-south structures in Eastern Creek Volcanics.

## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

Ground work and drilling of the Duke Batman prospect in 2010 did not extend the mineralisation; however, it did confirm and refine the geological model. Mineral Resources are listed in the table at the end of this section.

### RESOURCE AND DEVELOPMENT STATUS MOUNT ISA REGION - ALL PROJECTS

Recent metallurgical testwork indicates that the ore is amenable to high temperature and pressure alkaline leach. Previous mineralogical and metallurgical work showed the ore to be of a very fine grained and sometimes refractory nature, containing increased gangue carbonate minerals. This explains a high acid consumption by such leach tests resulting in marginal economics at current uranium prices. Alkaline leaching the ore, however, showed acceptable recoveries of 80 to 90% at high temperature and pressure at normal chemical consumption. Radiometric sorting of the ore showed further encouraging results. Testwork in 2012/13 will aim at confirming an economic flowsheet based on alkaline leach and radiometric sorting.

Total Resources under Paladin's and Summit's management in the Mount Isa region increased by 14% over the 2011/12 year. Total Measured and Indicated Mineral Resources now include 106.2Mlb at 743ppm U<sub>3</sub>O<sub>8</sub> and Inferred Resources of 40.7Mlb at 574ppm U<sub>3</sub>O<sub>8</sub>. Details are as follows:-

Deposit	Cut-off ppm U <sub>3</sub> O <sub>8</sub>	Measured Resources			Indicated Resources			Inferred Resources			Paladin Attribution
		Mt	Grade ppm	t U <sub>3</sub> O <sub>8</sub>	Mt	Grade ppm	t U <sub>3</sub> O <sub>8</sub>	Mt	Grade ppm	t U <sub>3</sub> O <sub>8</sub>	
Valhalla*	230	16.0	819	13,116	18.6	840	15,662	9.1	643	5,824	91.0%
Skal*	250				14.3	640	9,177	1.4	519	708	91.0%
Odin*	250				8.2	555	4,534	5.8	590	3,430	91.0%
Bikini*	250				5.8	497	2,868	6.7	493	3,324	82.0%
Andersons*	250				1.4	1,449	2,079	0.1	1,639	204	82.0%
Watta	230							4.2	410	1,720	82.0%
Mirrioola*	250							2.0	555	1,132	82.0%
Duke Batman*	250				0.5	1,370	728	0.3	1,100	325	100%
Honey Pot	250							2.6	700	1,799	100%
<b>Total</b>		<b>16.0</b>	<b>819</b>	<b>13,116</b>	<b>48.8</b>	<b>718</b>	<b>35,048</b>	<b>32.2</b>	<b>574</b>	<b>18,466</b>	
<b>Total Resource Attributable to Paladin</b>		<b>14.6</b>	<b>819</b>	<b>11,940 (26.3Mlb)</b>	<b>43.9</b>	<b>719</b>	<b>31,530 (69.5Mlb)</b>	<b>28.4</b>	<b>579</b>	<b>16,430 (36.2Mlb)</b>	

(Figures may not add due to rounding)

\* Deposits estimated using Multiple Indicator Kriging within a wireframe envelope. All other resources are estimated using Ordinary Kriging with an appropriate top cut. Data for all deposits is a combination of geochemical assay and downhole radiometric logging.

## NORTHERN TERRITORY

### BIGRLYI JOINT VENTURE

Energy Metals Limited 53.29% and Manager

Northern Territory Uranium Pty Ltd 41.71%

Southern Cross Exploration NL 5%

The Bigrlyi Joint Venture (BJV) covers ten granted Exploration Retention Licences located approximately 320km north-west of Alice Springs in the Northern Territory. Participants in the Joint Venture are Energy Metals Limited (53.29% and Manager), Northern Territory Uranium Pty Ltd (a wholly owned subsidiary of Paladin) (41.71%) and Southern Cross Exploration NL (5%).

Energy Metals Limited, as the Manager of the BJV, announced in June 2011 the completion of a Pre-Feasibility Study (PFS) for the Bigrlyi Project. The PFS showed that the project is technically feasible, however, the key finding was that a substantial increase in the resource base is required to improve the project economics.

In late June 2011, Energy Metals Ltd released an updated Mineral Resource estimate based on all drilling to date. The revised geological model and estimation parameters based on the close spaced



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

drilling completed previously has resulted in a slightly reduced total Mineral Resource than previously announced. The breakdown of Mineral Resource category is detailed below and is reported at a 500ppm U<sub>3</sub>O<sub>8</sub> cut-off grade.

Mineral Resource Classification	Tonnes Mt	Grade ppm U <sub>3</sub> O <sub>8</sub>	Metal t U <sub>3</sub> O <sub>8</sub>	Metal Mib U <sub>3</sub> O <sub>8</sub>
Indicated	4.7	1,366	6,400	14.0
Inferred	2.8	1,144	3,200	7.1

All data will be collated to develop an updated geological model and update the resource estimate.

#### ANGELA JOINT VENTURE

**Paladin Energy Minerals NL 50% and Manager  
Cameco Australia Pty Ltd 50%**

The Angela-Pamela deposits contain sandstone hosted uranium mineralisation formed at geochemical (redox) boundaries by deposition of uranium from groundwater. It is located approximately 25km south of the central business district of Alice Springs, and straddles the Old South Road and the Central Australian Railway.

Uranerz Australia Ltd (Uranerz) defined a resource on the Angela-Pamela deposit after working extensively on the property between 1972 and 1983. Uranerz closed its Australian operations in 1991.

In November 2006, Cameco Australia Pty Ltd (Cameco) and Paladin Energy Minerals NL (PEM) on invitation of the Northern Territory Government submitted an Exploration Licence application for 12 blocks covering the Angela and Pamela uranium prospects south of Alice Springs for a total of 37.67km<sup>2</sup>.

In 2 October 2008, Exploration Licence 25758 was granted to the Cameco (50%) and PEM (50%) Joint Venture for a period of six years. The project was managed by Cameco during the 2009 and 2010 drilling programmes. Management of the project was handed over to PEM in September 2011.

Following extensive compilation and validation of historic data and drilling programmes in 2009 and 2010 PEM has undertaken an initial estimate of U<sub>3</sub>O<sub>8</sub> mineral resource at Angela-Pamela, Australia. This estimate is in compliance with the NI43-101 and the JORC guidelines.

The Mineral Resource estimate is based on 794 holes totalling 180,468m and covers the Angela (1 to 5) and Pamela deposits. The mineralisation plunges shallowly, approximately 9°, to the west and the larger of the deposits, Angela 1, has been defined up to 4.3km to the west at depths up to 600m and remains open. The mineralisation is contained within nine individual stratigraphic sequences with mineralised thicknesses of up to 10.4m.

The cut-off for the Mineral Resource is a combination of grade greater than or equal to 300ppm U<sub>3</sub>O<sub>8</sub> and thickness greater than 0.5m. In addition, areas of low grade probability were removed from the model.

Mineral Resource Classification	Tonnes Mt	Grade ppm U <sub>3</sub> O <sub>8</sub>	Metal t U <sub>3</sub> O <sub>8</sub>	Metal Mib U <sub>3</sub> O <sub>8</sub>
Inferred	10.7	1,310	13,980	30.8

*(Figures in the table above may not add due to rounding)*

The Mineral Resource estimation was completed using a two dimensional conditional simulation with the dataset being derived predominantly from recent and historic downhole radiometric logging. The radiometric grades have been extensively validated against laboratory assays.

This updated Mineral Resource estimate improves on the historic resources previously announced providing a 10% increase in both grade and tonnage U<sub>3</sub>O<sub>8</sub>.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

As part of the licence conditions, baseline groundwater and dust monitoring were completed prior to the commencement of drilling activities. This programme is ongoing as part of a series of environmental studies, including water, fauna and flora, dust, radiation, meteorology and soils.

## WESTERN AUSTRALIA

### MANYINGEE URANIUM PROJECT

Manyingee (held 100%) is located in the north-west of Western Australia, 1,060km north of Perth and 85km inland from the coastal township of Onslow. The property is comprised of three mining leases covering 1,307 hectares. Paladin also holds one granted EPL 08/1496 totalling 89km<sup>2</sup> at Spinifex Well, 25km north-east of Manyingee. Paladin purchased Manyingee in 1998 from Afmeco Mining and Exploration Pty Ltd (AFMEX), a subsidiary company of Cogema of France.

Manyingee is an in-situ recovery amenable sandstone-type uranium deposit occurring in a palaeochannel of Cretaceous age in the West Pilbara region of Western Australia. The Inferred and Indicated Mineral Resource at Manyingee totals 10,890 tonnes (24Mlb) of U<sub>3</sub>O<sub>8</sub> at 0.09% and Paladin's geological analysis has identified an exploration target of at least another 5,030 tonnes (11Mlb) of U<sub>3</sub>O<sub>8</sub> at 0.1%.

The mineralisation was first identified in 1974 and was followed by resource drilling to 1984 and a field leach trial in 1985 carried out by AFMEX. Although the field leach trial, at that time, did not prove economically successful, it did prove that the mineralisation is amenable to solution mining.

Paladin acquired the project in June 1998. The evaluation showed that new experience since the previous operator's work could substantially improve on the existing results, making the project economically viable.

Late 2011 Paladin's Programme of Works was approved by the Western Australian Department of Mines and Energy. After completing archaeological clearance of the proposed work areas, Paladin commenced drilling in August 2012.

Paladin proposes to develop the project over a 4-5 year period starting with drilling, metallurgical testwork and engineering studies leading to a Field Leach Trial and subsequent BFS. The proposed timeline includes sufficient time to obtain regulatory approvals for mining. The current development model for the project is to produce approximately 900 tonnes (2Mlb) of U<sub>3</sub>O<sub>8</sub> per year with a mine life in excess of 10 years.

Manyingee contains JORC (1999) Code compliant Mineral Resources as shown below at a cut-off grade of 300ppm U<sub>3</sub>O<sub>8</sub>:

Mineral Resource Classification	Tonnes Mt	Grade ppm U <sub>3</sub> O <sub>8</sub>	Metal t U <sub>3</sub> O <sub>8</sub>	Metal Mlb U <sub>3</sub> O <sub>8</sub>
Indicated	7.9	1,000	8,080	17.8
Inferred	5.5	500	2,810	6.2

*(Figures may not add due to rounding)*

*Note: for NI 43-101 requirements, previous tonnages, grades, assays and other technical data relating to the Manyingee deposit are taken from historical records prior to the implementation of the current NI 43-101. While the data are believed to have been acquired, processed and disclosed by persons believed to be technically competent, they were estimated prior to the implementation of NI 43-101 and are therefore regarded as historic resources. A Qualified Person as defined in NI 43-101 has not done sufficient work to classify the historical estimate as current Mineral Resources. Paladin is not treating the historical estimates as current Mineral Resources as defined in NI 43-101 and for this reason the historical estimates should not be relied upon. The mineral resource classifications used in this estimate would be equivalent in nature to those defined in NI 43-101 as there has been no substantive change in the JORC Code definition of Indicated or Inferred Mineral Resources subsequent to the JORC (1999) Code. The historical information is presented on the basis that it may be of interest to investors.*

## MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

### OOBAGOOMA URANIUM PROJECT

Oobagooma is located in the West Kimberley region of Western Australia, 1,900km north-north-east of Perth and 75km north-east of the regional centre of Derby. The project comprises two long-standing applications for exploration licences covering 452km<sup>2</sup>.

In 1998, Paladin acquired a call option in relation to the purchase of Oobagooma and, in turn, granted a put option to the original holder of the project. Exercise of both options is subject to the exploration licences being granted by the State. The exploration licences are situated on freehold land owned by the Commonwealth Government and used by the military for training purposes. Consent of the Commonwealth Government and the Department of Defence will be required before the exploration access can be granted. Negotiations with the relevant government bodies were initiated in the first half of 2010. Government and defence representatives have indicated their support for the Oobagooma Project and an access agreement has been proposed to permit Paladin's exploration activities on the military training area.

The Oobagooma project area was explored by AFMEX in the period from 1983 to 1986 during which time extensive zones of uranium mineralisation were discovered. Exploration for sandstone hosted uranium targets focused on the Lower Carboniferous Yampi Sandstone. The uranium mineralisation is largely controlled by a package of reduced sediments located centrally in the Yampi Sandstone at 45 to 80m depth to the north and 80 to 120m in the south of the prospect area. Following detailed examination of the work done by AFMEX, the Company has formulated an exploration target for the prospect of approximately 8Mt at a grade of between 0.12% and 0.14% U<sub>3</sub>O<sub>8</sub>.

*Previous tonnages, grades, assays and other technical data for Oobagooma are taken from historical records prior to the implementation of JORC or NI 43-101. While the data are believed to have been acquired, processed and disclosed by persons believed to be technically competent, it is unverifiable at present. A Competent Person as defined under the JORC Code or Qualified Person as defined under NI 43-101 has not done sufficient work to classify the historical estimate as current Mineral Resources. Paladin is not treating any historical estimates as current Mineral Resources as defined in either the JORC Code or NI 43-101 and the historical estimates should not be relied upon.*

*The information above relating to exploration, mineral resources and ore reserves is, except where stated, based on information compiled by Eduard Becker B.Sc, David Princep B.Sc and Andrew Hutson B.E, all of whom are members of the AusIMM. Messrs Becker, Princep and Hutson each have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", and Messrs Princep and Hutson as a Qualified Person as defined in NI 43-101. Messrs Becker, Princep and Hutson are full-time employees of Paladin Energy Ltd and consent to the inclusion of this information in the form and context in which it appears.*

### AUSTRALIA'S URANIUM POLITICS

At the national level of Australian politics, both the Federal Labor Party and the Federal Coalition parties support development of the uranium industry, however, the granting of licences to mine uranium is a decision made within the residual jurisdiction of each state government.

The state based Labor Government of South Australia supports existing mines and is receptive to new uranium projects.

The state based Labor Government of the Northern Territory also supports existing mines and is receptive to new uranium projects, although this is qualified by the Government's announcement on 28 September 2010 that it would not support mining of the Angela and Pamela deposits south of Alice Springs. The opposition Country Liberal Party supports uranium mining.

The Liberal-National Party Coalition Government of the State of Western Australia supports uranium mining in Western Australia and several uranium mining projects have progressed to environmental assessment since that Government was elected in late 2008. At its State Conference in June 2011, the opposition Labor Party reaffirmed its stance against uranium mining. The next Western Australian state election must be held no later than April 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

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A state election held in Queensland on 24 March 2012 resulted in a change of government from Labor to a Liberal-National Party (“LNP”). The previous state Labor Government in Queensland would not grant a licence to mine uranium. Prior to the election, and in the context of the LNP’s desire for uranium mining not to be an election issue, the incoming Liberal-National Premier, Campbell Newman, had said that his government had “no plans or desire to approve uranium mines in Queensland at this time”. Subsequent to the election, the LNP has maintained that position. To progress the currently defined uranium mineral resources in the Mount Isa region to mineral reserve status will require a state government policy change in Queensland. Through membership of industry bodies, such as the Australian Uranium Association and the Queensland Resources Council, Paladin is involved in debate and research to facilitate a change in government policy.

#### URANIUM DATABASE

Paladin owns a substantial uranium database, compiled over 30 years of investigations by the international uranium mining house Uranerzbergbau of Germany, incorporating all aspects of the uranium mining and exploration industry worldwide and including detailed exploration data for Africa and Australia.

Uniquely among Australian companies, the primary focus of Paladin’s activities for the past years has been uranium. In that time the Company has maintained and expanded its library of databases consisting of extensive collections of technical, geological, metallurgical, geophysical and geochemical resources, which include resource evaluations, drill hole data, downhole logging data, airborne radiometric surveys results, open-file data, and photographic archives.

The library also holds a large collection of topical industry reference material and country specific information such as mining laws or investment conditions comprising an estimated 60,000 individual monographs and conference papers, project evaluation and exploration reports, documents, reprints, maps and technical journals kept in hardcopy, microfiche and a rapidly increasing number of resources in electronic format, including networked or internet databases and full-text resources. The library is managed through online information management and retrieval systems enabling the sharing of knowledge throughout the Company and allowing for rapid research of uranium prospects, deposits and mineralisation on a country by country basis.

The geology resource database is managed in an integrated relational database system readily available for processing of exploration and mining data. The data continues to be utilised by the Company as an asset for project generation to evaluate opportunities and generate new uranium prospects and projects for acquisition and exploration.

#### INVESTMENTS

##### DEEP YELLOW LTD (DYL)

**Paladin 23.43%**

DYL is an ASX-listed, advanced stage uranium exploration company with a portfolio of exploration projects in the southern African nation of Namibia and in Australia. It also has a listing on the Namibian Stock Exchange (NSX).

DYL’s focus is in Namibia where its operations are conducted by its wholly owned subsidiary Reptile Uranium Namibia (Pty) Ltd (RUN). RUN holds 100% of four EPLs covering 2,872km<sup>2</sup> and three joint venture EPLs covering 1,323km<sup>2</sup> (in which it has earned 65% from Nova Energy (Namibia) (Pty) Ltd). All seven tenements are situated in the Namib Naukluft Desert Park inland from Walvis Bay and south and west of Paladin’s LHM. Its flagship is the Omahola Project currently under PFS with concurrent resource drill-outs on the high grade Ongolo – MS7 Alaskite trend. It is also evaluating a stand-alone project for its low grade Tubas Sand uranium deposit utilising physical beneficiation techniques it successfully tested in 2011.

In Australia the company owns the Napperby Uranium Project and numerous exploration tenements in the Northern Territory and the Mount Isa District in Queensland.

## MANAGEMENT DISCUSSION AND ANALYSIS HEALTH & SAFETY

### HEALTH AND SAFETY

Paladin is committed to achieving the highest performance in Occupational Health and Safety and Radiation to create and maintain a safe and healthy workplace. Our approach to health and safety management is guided by our policy which states that the safety, health and well being of employees, contractors and the community reflect the core value to Paladin's operations in line with Paladin's aim for zero injuries in the work place. Paladin is fully committed to achieving minimum radiation exposure to its workers, members of the public and the surrounding natural environment. The Company is also committed to minimising the potential long-term environmental impact of radiation by the safe management of radioactive waste rock material at its sites (exploration, construction, mining and processing). These objectives will ensure that:

- radiation doses to workers and the general public are less than internationally accepted limits and are as low as reasonably achievable; and
- there are no adverse effects on the regional communities or their environment.

During the year, Paladin undertook two external National Occupational Safety Association (NOSA) grading audits of its operations – LHM and KM – and is pleased to report the following health and safety external audit results:

- LHM: the site achieved a 5 Star NOSA Platinum rating; and
- KM: the site achieved an improved 4 Star NOSA Platinum rating.

In addition, the Company's Lost Time Injury Frequency Rate (LTIFR) was reduced to 0.9 from 1.1 the previous year. This compares favourably with West Australian metalliferous surface mining LTIFR of 3.0.

Operational Area	Langer Heinrich Mine			Kayelekera Mine			Perth	Exploration		Group	
	Employees	Mine Contractors	Contractors incl construction	Employees	Mine Contractors	Contractors incl construction	Corporate Office	Employees	Contractors	Paladin Employees	All Contractors
Hours Worked	705,000	956,155	2,191,238	2,580,806	666,795	82,036	135,826	199,130	26,026	4,287,557	3,922,250
Lost Time Injuries	5	0	0	2	0	0	0	0	0	7	0
Fatalities	0	0	0	0	0	0	0	0	0	0	0
LTIFR	7.1	0	0	0.8	0	0	0	0	0	1.6	0
	Langer Heinrich Mine Total LTIFR = 1.3 Duration rate = 26.2			Kayelekera Mine Total LTIFR = 0.6 Duration rate = 47.0			Perth and Exploration LTIFR = 0 Duration rate: 0			Paladin Group + All Contractors LTIFR = 0.9	

**Lost Time Injury (LTI):** Work injury that results in an absence from work for at least one full day or shift, any time after the day or shift on which the injury occurred.

**Frequency Rate (FR):** Number of lost time injuries per million hours worked.

**Duration Rate:** Average number of workdays lost per injury.

### Langer Heinrich Mine

LHM continues to focus on safety, health, environmental and radiation (SHER) management. The third NOSA grading audit was conducted in November, 2011 and the operation improved its NOSA rating from a '4' to a '5' Star Platinum (health, safety and environment) grade.

During the year, LHM reported five LTIs with four of the five occurring in the final four months of the year. The site annual LTIFR increased from 0.8 to 1.3. No LTIs were reported for the mining contractor Karibib Mining and Construction Company (KMCC), which also maintained its NOSA 5 Star rating. The mining contractor is in the process of obtaining the international OHSAS 18001 certification which will further assist in occupational health and safety performance while accommodating diverse geographical, cultural and social conditions. The Stage 3 contractors finished the expansion project surpassing 500 days 'Lost Time Incident Free'.

## MANAGEMENT DISCUSSION AND ANALYSIS

### HEALTH & SAFETY (continued)

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A Safety Action Plan is being implemented to address an upward LTI trend evident in the latter part of FY12. Key components of the plan include increased and formalised workplace inspections and work observations by supervisors, hazard identification for all site activities. This includes the implementation of a behaviour-based safety approach that investigates the current culture and the need to change behaviours. During the year, a finger swipe time card and access control system and a remote access control point to ensure effective security measures for the increased mining and processing activities were introduced.

In terms of occupational monitoring, the radiation programme continues to focus on the monitoring of dust, gamma, radon progeny and radon to ensure that all potential pathways are considered when calculating the total effective dose and also to ensure the principles of ALARA (As Low As Reasonably Achievable) are being maintained. The results obtained continue to be very consistent and all employees' personal exposures are well below the allowable regulatory limit of 20 mSv pa.

Langer Heinrich continues to be actively involved with the Chamber of Mines Uranium Institute in Namibia, a leading source of advocacy, training and research on uranium related issues, which continues to have positive influence on the uranium sector, specifically in SHER. It is a reliable source of knowledge and support for a never-ending campaign to improve health, environment and radiation safety.

#### **Kayelekera Mine**

Like LHM, KM put a concentrated effort into its SHER management during the year via the continued implementation of the NOSA safety system. The second NOSA grading audit was conducted in June 2012 and the operation maintained its 4 Star Platinum (health, safety and environment) rating with an improved preliminary score of 89%. An improvement over the next year to a score of greater than 90% and maintaining the current LTIFR would see the rating increased to 5 star.

During the year, continued implementation of the site safety system involved the introduction of job observations, further training and development of local employees and extensive work on completing all necessary OH&S documentation. One key focus area throughout the year was vehicle/road transport and included a gradient reduction of the mine access roads, increased signage, active speed enforcement, truck escorts and pre-site entry driver awareness.

The site reported two LTIs for the year – both to Kayelekera employees. No LTIs were reported for the mining contractor Mota-Engil. The site annual LTIFR remained unchanged at 0.6.

During the year, the radiation focus was the implementation of the newly revised Radiation Management Plan with the continued training of local employees on new radiation equipment and establishing an extensive database of radiation monitoring data. A template for analysing and reporting radiation monitoring data has been developed. This analysis indicates that all employees' personal exposures are well below the allowable regulatory limit of 20 mSv pa.

#### **Exploration**

Paladin's exploration continued to be diverse during the year with programmes undertaken across Queensland, Western Australia, Malawi and Niger. All exploration programmes involved drilling activities and work being undertaken in remote locations. Exploration reported no LTIs for the year and this vastly improved result came from an increased safety awareness and training effort.

An Exploration OH&S Management System was developed to provide consistency across all Paladin exploration sites. This system was reduced to ten elements for simplicity and is being implemented in Malawi on a staged approach. This Malawian implementation programme involves significant training in all basic aspects of health and safety from an exploration perspective. In 2012/13, the Paladin Exploration OH&S Management System will be implemented for the Manyingee (Western Australia) and Aurora (Canada) projects.

## MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW

### SUMMARISED INCOME STATEMENT

	YEAR ENDED 30 JUNE	
	2012 US\$M	2011 US\$M
<b>Revenue</b>	<b>367.4</b>	<b>268.9</b>
<b>Gross profit</b>	<b>26.7</b>	<b>20.3</b>
Exploration and evaluation expenses	(2.5)	(3.0)
Administration, marketing and site non-production costs	(49.8)	(54.0)
Other expenses and income	(197.2)	(6.9)
Loss before interest and tax	(222.8)	(43.6)
Finance costs	(56.7)	(61.5)
Income tax benefit	78.7	16.6
Loss after tax	(200.8)	(88.5)
<b>Loss after tax attributable to:</b>		
Non-controlling interests	(28.0)	(6.2)
Members of the parent	(172.8)	(82.3)
	<b>(200.8)</b>	<b>(88.5)</b>
Loss per share – basic and diluted (US cents)	(21.1)	(11.1)

#### Operational overview

LHM commenced production in 2007 with a capacity of 2.7Mlb pa. After operating at this level for a sustained period of time, construction of the Stage 2 expansion to 3.7Mlb pa commenced in CY2008. LHM reached the Stage 2 design capacity in December 2009. The plant has consistently operated at the 3.7Mlb pa rate from the beginning of CY2010. Construction of the Stage 3 expansion to 5.2Mlb commenced at the beginning of CY2010 and was completed at 31 March 2012. Commercial production was declared from 1 April 2012. The plant has achieved Stage 3 design performance and further optimisation work is ongoing.

Construction of KM, with a 3.3Mlb design capacity, commenced in 2007 and after a two-year construction phase the mine entered its production ramp-up phase in CY2009. KM continued to ramp-up its production volumes through to July 2010. Commercial production was declared from 1 July 2010. KM made its first delivery of uranium to customers in December 2009. The operation made substantial positive steps toward the design of 3.3Mlb pa through a programme of plant upgrades to address bottlenecks. The plant achieved record production during the June 2012 quarter, despite being impacted by an unplanned shutdown of approximately 2 months, due to land movement in September 2011 (impact 400,000 – 500,000lbs) and by industrial action in May 2012 which lasted 7 days and resulted in reduced production of approximately 35,000 to 45,000lb.

(References below to 2012 and 2011 refer to the equivalent twelve months ended 30 June 2012 and 2011 respectively.)

Cash cost of sales (C1 cost) = cost of sales excluding product distribution costs, sales royalties and depreciation and amortisation before adjustment for impairment. C1 cost is a widely used 'industry standard' term. C1 cost information has been extracted from the audited financial statements. For an analysis of total cost of sales refer to Note 5(b) to the financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

#### Analysis of Income Statement

#### ANALYSIS OF REVENUE AND GROSS PROFIT

			YEAR ENDED 30 JUNE	
			2012 US\$M	2011 US\$M
Revenue from sales of uranium oxide	Up	37%	365.8	266.8
Gross profit	Up	32%	<b>26.7</b>	<b>20.3</b>
			Mlb U <sub>3</sub> O <sub>8</sub>	Mlb U <sub>3</sub> O <sub>8</sub>
Total sales volume	Up	39%	6.698	4.812
Total production	Up	21%	<b>6.895</b>	<b>5.694</b>

*Revenue* increased from US\$268.9M to US\$367.4M in 2012 as a result of increased sales of uranium from US\$365.8M (2011: US\$266.8M). Total sales volume for the year was 6.698Mlb U<sub>3</sub>O<sub>8</sub> (2011: 4.812Mlb U<sub>3</sub>O<sub>8</sub>). LHM sold 4.518Mlb U<sub>3</sub>O<sub>8</sub> (2011: 3.222Mlb U<sub>3</sub>O<sub>8</sub>), including 0.650Mlb U<sub>3</sub>O<sub>8</sub> of LHM material sold through Paladin Energy Ltd and KM sold 2.180Mlb U<sub>3</sub>O<sub>8</sub> (2011: 1.590Mlb U<sub>3</sub>O<sub>8</sub>). Total production for the year was 6.895Mlb U<sub>3</sub>O<sub>8</sub> (2011: 5.694Mlb U<sub>3</sub>O<sub>8</sub>). LHM produced 4.417Mlb U<sub>3</sub>O<sub>8</sub> (2011: 3.525Mlb U<sub>3</sub>O<sub>8</sub>) and KM produced 2.478Mlb U<sub>3</sub>O<sub>8</sub> (2011: 2.169Mlb U<sub>3</sub>O<sub>8</sub>). The average realised uranium sales price in 2012 was US\$55/lb U<sub>3</sub>O<sub>8</sub> (2011: US\$55/lb U<sub>3</sub>O<sub>8</sub>) compared to the average UxC spot price for the year of US\$52/lb U<sub>3</sub>O<sub>8</sub>.

*Gross Profit* in 2012 of US\$26.7M is higher than in 2011 (US\$20.3M) due to higher sales volumes. The average C1 cost of sales increased to US\$39/lb (2011: US\$35/lb). The C1 cost of sales for LHM in 2012 increased to US\$31/lb U<sub>3</sub>O<sub>8</sub> (2011: US\$28/lb U<sub>3</sub>O<sub>8</sub>) due to production disruptions associated with Stage 3 tie-ins. The C1 cost of sales for KM in 2012 (excluding impact of impairment) increased to US\$54/lb U<sub>3</sub>O<sub>8</sub> (2011: US\$50/lb U<sub>3</sub>O<sub>8</sub>) due to disruption problems with the plant shutdown, unscheduled remediation work and the industrial dispute. The benefits of increased production levels and cost benefits from the cost optimisation programme will be realised in the 2013 financial year. Cost optimisation continues to be a key focus, with specific target areas including acid, reagents, diesel, transport and providing increased opportunities for local workers. Major benefits from these costs reductions are expected over the next 18 months.

*Exploration and Evaluation Expenditure* of US\$2.5M in 2012 relates to early stage work and project generation activities in Australia and Malawi and remains relatively unchanged from 2011 (US\$3.0M).

*Administration, Marketing Expenses and Site Non-production Costs* have decreased from US\$54.0M to US\$49.8M.

#### ANALYSIS OF ADMINISTRATION, MARKETING EXPENSES & SITE NON-PRODUCTION COSTS

			YEAR ENDED 30 JUNE	
			2012 US\$M	2011 US\$M
Corporate & marketing	Down	21%	(21.0)	(26.5)
Mines sites (LHM & KM)	Up	17%	(10.9)	(9.3)
Canadian operations	Up	92%	(2.5)	(1.3)
Non-cash – share-based payments	Down	41%	(6.9)	(11.6)
Non-cash – depreciation	Up	110%	(2.1)	(1.0)
Royalties	Up	27%	(2.8)	(2.2)
LHM Stage 4 expansion project	Up	71%	(3.6)	(2.1)
Total			<b>(49.8)</b>	<b>(54.0)</b>

Corporate and marketing cost savings of US\$5.5M were achieved through the cost rationalisation programme that was announced to the market in the latter half of 2011. Tighter control has led to a reduction in corporate overheads including travel costs and outsourced work. Labour costs have



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

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reduced as the high capital investment phase has largely been completed. Additionally there has been a decrease of US\$4.7M in non-cash share-based payments expense as there was a reduction in number of share rights granted compared to 2011. These savings have been partially offset by an increase in expenditure of US\$1.6M relating to non production costs at LHM and KM, US\$0.6M relating to the KM royalties, due to the increase in sales, US\$1.2M relating to the addition of the Canadian operations as activity increases due to the lifting of the moratorium on mining, development and production of uranium and US\$1.5M relating to the LHM Stage 4 expansion evaluation project.

*Other Expenses and Income* have increased from US\$33.3M to US\$197.2M due predominantly to an impairment charge of the KM assets, announced in September 2011 quarterly Financial Report, of US\$178.0M, the write off of the fixed costs of KM during the plant shutdown of US\$9.7M in September 2011 and an impairment of available-for-sale financial assets of US\$8.0M. The continued deterioration of the uranium price post-Fukushima resulted in a reduction of the recoverable value of the KM assets, resulting in an impairment charge of US\$132.1M (US\$178.0M before tax reduced by a tax benefit of US\$45.9M) (2011: US\$Nil) in the September 2011 quarter. The KM plant shutdown expenses are a result of the planned plant upgrade shutdown in August and the unscheduled shutdown of the drying and packaging plant and the acid plant caused by localised ground movement. The plant upgrade and remedial work has been completed and the KM plant recommenced production on 14 October 2011. Following remedial measures localised ground movement has abated with conditions continuing to be stable. The impairment of available-for-sale financial assets expense of US\$8.0M is predominantly due to the recognition of an impairment of the investment in DYL. Under the accounting standards, the Company was required to write down the carrying value of its investment in the listed company DYL to its market price of US\$0.047 per share at 30 June 2012. This does not in any way reflect the Board's confidence in DYL's potential and outlook.

*Finance Costs* have decreased from US\$61.5M by US\$4.8M to US\$56.7M due to a portion of the LHM Stage 3 project finance loan being capitalised as part of the Stage 3 construction costs and in 2011 finance costs included the US\$4.6M loss on the US\$250M convertible bond buyback. Finance costs relate primarily to interest payable and accretion on the US\$325M convertible bonds issued 11 March 2008, the US\$300M convertible bonds issued 5 November 2010, the US\$274M convertible bonds issued 30 April 2012, the US\$98.0M project finance loan for KM and the US\$118.5M project finance loan for LHM Stage 3. On 29 May 2012, pursuant to its tender offer the Company repurchased and cancelled US\$191M of the US\$325M convertible bonds issued 11 March 2008, leaving a balance of US\$134M.

*Income Tax Benefit* of US\$78.7M for the year to 30 June 2012 is as expected, based on the loss before tax, once factoring the adjustment for differing tax rates in foreign jurisdictions. Included in the income tax benefit however are additional amounts arising on previously unrecognised losses of Summit being recognised to partially offset the deferred tax liabilities arising from the fair value adjustment of Summit exploration and a larger tax benefit in Namibia arising due to the foreign exchange movements. These are effectively offset by the tax losses for the Australian tax group not being recognised (as the non-producing assets are not yet sufficiently advanced to provide certainty, at this point in time, of recovery against future income) and a net tax expense arising on movements in the convertible bond. Malawi similarly had a significant foreign exchange movement, however the unrealised losses recognised on the US\$ loans were offset by the foreign exchange impact on carried forward losses, with a small net tax expense arising.

*Non-controlling Interest* in net losses of US\$28.0M is attributable to the 18.0% interest in Summit held by third parties and the 15% interest in PAL held by the Government of Malawi.

The *Loss after Tax attributable to the members of the parent* for 2012 of US\$172.8M was higher than the loss after tax for 2011 of US\$82.3M predominantly as a result of the recognition of the KM impairment expenses discussed earlier.

The *Loss per Share* noted on the Income Statement reflects the underlying result for the specific reported periods and the additional shares issued in 2012 compared to 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

#### Summary of Quarterly Financial Results

	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>Jun Qtr</b>	<b>Mar Qtr</b>	<b>Dec Qtr</b>	<b>Sep Qtr</b>
	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
Total revenues	126.2	67.8	70.4	103.0
(Loss)/profit after tax attributable to members of the parent	(35.2)	(17.5)	3.2	(123.3)
Basic and diluted (loss)/profit per share (US cents)	(4.2)	(2.0)	0.4	(15.3)
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Jun Qtr</b>	<b>Mar Qtr</b>	<b>Dec Qtr</b>	<b>Sep Qtr</b>
	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
Total revenues	60.2	92.9	66.7	49.1
Loss after tax attributable to members of the parent	(47.7)	(13.5)	(17.6)	(3.5)
Basic and diluted loss per share (US cents)	(6.3)	(1.8)	(2.5)	(0.5)

Total revenues for the quarters ended June 2012, December 2011, September 2011 have increased when compared to the equivalent comparative quarter as a result of higher sales volumes of uranium.

Total revenues for the quarter ended March 2012 is lower than the comparative quarter due to lower sales of uranium as inventory was held in order to deliver into sales contracts in excess of 2Mlb for the June 2012 quarter. Uranium sales tend to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant delivery scheduling by utility customers.

Loss after tax for the quarter ended June 2012 of US\$35.2M is lower than the comparative quarter loss of US\$47.7M predominantly as a result of higher revenues due to higher sales volumes of uranium.

Loss after tax for the quarter ended March 2012 of US\$17.5M is higher than the comparative quarter loss of US\$13.5M predominantly as a result of a US\$11.9M impairment of KM finished goods inventory discussed earlier.

Profit after tax for the quarter ended December 2011 of US\$3.2M is a turnaround from the loss of US\$17.6M in the comparative quarter predominantly as a result of higher sales volumes and prices, a higher proportion of LHM sales which has a lower cost of production than KM, lower finance costs in 2011 as the 2010 finance costs included the US\$4.6M loss on the US\$250M convertible bond buy back, other income in 2011 of US\$2.1M relating to a foreign exchange gain (2010: US\$2.3M foreign exchange loss) and the recognition of an income tax benefit of US\$10.8M (2010: US\$6.4M) predominantly due to previously unrecognised losses of Summit being recognised to partially offset the deferred tax liability arising on the fair value adjustment of Summit exploration.

Loss after tax for the quarter ended September 2011 of US\$123.3M is higher than the loss after tax for 2010 of US\$3.5M predominantly as a result of the recognition of the KM impairment expense of \$132.1M.

#### **Segment Disclosure (refer to Note 4 in the Financial Statements)**

The profit before tax and finance costs of US\$60.4M in the Namibian segment of the Company increased by US\$15.5M (2011: US\$44.9M) due to higher sales volumes. In the Malawian segment the Company reflected a loss before tax and finance costs of US\$242.6M compared to a loss of US\$37.4M in 2011 due to the recognition of the KM impairment expense, announced in September 2011 quarterly Financial Report, detailed earlier and the impairment of inventory. Exploration activities have remained relatively consistent from 2011 to 2012. In the Unallocated portion, the Company reflected the remaining Income Statement activities which for 2012 comprise mainly marketing, corporate, finance and administration costs. This area has reduced from a net loss before finance costs of US\$49.7M to a net loss of US\$39.5M, which includes the impairment of available for sale financial assets expense of US\$8.0M.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

#### SEGMENT GROSS PROFIT

	YEAR ENDED 30 JUNE 2012			YEAR ENDED 30 JUNE 2011		
	LHM	KM	TOTAL	LHM	KM	TOTAL
Volume Sold (lb)	4,518,345 <sup>(1)</sup>	2,180,000	6,698,345	3,222,135 <sup>(2)</sup>	1,590,000	4,812,135
Average Sales Prices/lb			US\$55/lb			US\$55/lb
Revenue			US\$365.8M			US\$266.8M
Cost of Sales (C1)	US\$139.0M	US\$117.7M	US\$256.7M	US\$91.1M	US\$79.8M	US\$170.9M
Cost of Sales/lb (C1)	US\$31/lb	US\$54/lb	US\$39/lb	US\$28/lb	US\$50/lb	US\$35/lb
Profit after C1 costs			US\$109.1M			US\$95.9M
Impairment of inventory			US\$39.0M			US\$26.4M
Other revenue and costs, mainly depreciation			US\$43.4M			US\$49.2M
<b>GROSS PROFIT</b>			<b>US\$26.7M</b>			<b>US\$20.3M</b>

(1) Includes 650,000lb of LHM produced U<sub>3</sub>O<sub>8</sub> sold by Paladin Energy Ltd as part of marketing arrangements.

(2) Includes 200,000lb of LHM produced U<sub>3</sub>O<sub>8</sub> sold by Paladin Nuclear Ltd, Paladin Energy Ltd's marketing company.

Sales of 6,698,345lb U<sub>3</sub>O<sub>8</sub> at an average of US\$55/lb U<sub>3</sub>O<sub>8</sub> generated revenue of US\$365.8M in the year ended 30 June 2012. By comparison sales in the year ended 30 June 2011 were 4,812,135lb U<sub>3</sub>O<sub>8</sub> at an average of US\$55/lb U<sub>3</sub>O<sub>8</sub> generating revenue of US\$266.8M. Average C1 cost of sales increased to US\$39/lb U<sub>3</sub>O<sub>8</sub> (30 June 2011: US\$35/lb U<sub>3</sub>O<sub>8</sub>).

C1 cost of sales for LHM in the year ended 30 June 2012 increased to US\$31/lb U<sub>3</sub>O<sub>8</sub> (30 June 2011: US\$28/lb U<sub>3</sub>O<sub>8</sub>) due to production disruptions associated with Stage 3 tie-ins.

C1 cost of sales for KM (excluding the impact of impairment) increased to US\$54/lb U<sub>3</sub>O<sub>8</sub> in the year ended 30 June 2012 (30 June 2011: US\$50/lb U<sub>3</sub>O<sub>8</sub>) due to disruption problems with the plant shutdown, unscheduled remediation work and the industrial dispute. The benefits of increased production levels and cost benefits from the cost optimisation programme will be realised in the 2013 financial year. Cost optimisation continues to be a key focus, with specific target areas including acid, reagents, diesel, transport and providing increased opportunities for local workers. Major benefits from these costs reductions are expected over the next 18 months. Specific targeted costs saving areas include acid, reagents, diesel, transport and providing increased opportunities for local workers.

The increase in other revenue and costs reflects the higher depreciation expense, included in cost of sales, due to the larger volume of sales in 2012 compared to 2011.

#### SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	YEAR ENDED 30 JUNE	
	2012 US\$M	2011 US\$M
Net loss after tax	(200.8)	(88.5)
Net (loss)/gain on available-for-sale financial assets	(25.8)	10.8
Transfer of available-for-sale reserve on acquisition	-	(3.2)
Transfer of impairment loss to income statement	8.0	-
Foreign currency translation	(44.0)	141.1
Income tax on items of other comprehensive income	3.3	(3.7)
Total comprehensive (loss)/income for the year	<b>(259.3)</b>	<b>56.5</b>

Net Loss after Tax is discussed under the Summarised Income Statement section and is an increase from the loss in the comparative year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

*Net Loss on Available-for-Sale Financial Assets* in 2012 of US\$25.8M primarily relates to the fair value decrement in DYL attributable to the decrease in the DYL share price.

*Transfer of impairment loss* to income statement US\$8.0M relates to the recognition of an impairment of the investment in DYL described earlier.

*Foreign Currency Translation* relates to the foreign currency translation reserve movement as a result of the translation of subsidiaries with Australian and Canadian dollar functional currencies into the Company presentation currency of US dollars on an ongoing basis and for the comparative year.

*Income Tax on Items of Other Comprehensive Income* in 2012 relates to tax on movements in available-for-sale financial assets.

#### SUMMARISED STATEMENT OF FINANCIAL POSITION

	AS AT 30 JUNE	
	2012 US\$M	2011 US\$M
Total current assets	391.6	329.4
Total non current assets	1,956.1	2,074.3
Total assets	2,347.7	2,403.7
Total current liabilities	253.9	118.9
Total non current liabilities	899.0	929.6
Total liabilities	1,152.9	1,048.5
Net Assets	<b>1,194.8</b>	<b>1,355.2</b>

*Current Assets* have increased to US\$391.6M at 30 June 2012 due to an increase in trade and other receivables and inventories which has been partially offset by a decrease in cash and prepayments.

Cash and cash equivalents have decreased slightly to US\$112.1M at 30 June 2012 as a result of the repayment of the LHM Stage 1 project finance facility, expenditure on the Stage 3 expansion at LHM, principal repayments for the KM project finance facility and LHM Stage 3 project finance facility, exploration and evaluation project expenditure as well as finance costs, corporate costs and an increase in trade and other receivables and inventories for the year ended 30 June 2012. This has been partially offset by the net drawdown of US\$139.0M under the LHM Stage 3 project finance facility, the US\$62.6M net proceeds from the capital raising and net funds raised of US\$77.1M from the issue of the US\$274M convertible bond net of the repayment of the US\$191M convertible bonds.

Trade and other receivables have increased from US\$20.5M to US\$82.8M at 30 June 2012 as a result of the timing of US\$52.0M of sales in June 2012 and an increase in the VAT receivable in Namibia due to the higher Stage 3 production. The debt was received in July 2012.

Inventories have increased from US\$177.7M to US\$186.5M at 30 June 2012 due to sales volumes for the year of 6.698Mlb U<sub>3</sub>O<sub>8</sub>, being lower than production volumes of 6.895Mlb U<sub>3</sub>O<sub>8</sub>. Additionally a higher proportion of finished goods are being held at KM, which has a higher cost than LHM finished goods.

*Non Current Assets* have decreased to US\$1,956.1M at 30 June 2012 primarily as a result of property, plant and equipment, mine development and intangible assets decreasing due to the KM impairment expense, announced in September 2011 quarterly Financial Report and through amortisation. This has been partially offset by capital expenditure on the Stage 3 expansion at LHM. The US\$34.7M decrease in the exploration assets is due to the foreign exchange movement on the Australian and Canadian dollar denominated exploration assets because of the increase in value of the US dollar against both currencies. There was a decrease in the fair value of other financial assets primarily attributable to the decrease in the DYL share price and the foreign exchange movement due to the

## MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW (continued)

appreciation of the US dollar against the Australian currency. ROM stockpiles increased as planned ahead of the Stage 3 production expansion in order to meet the future mine plan ore-blend requirements. An increase in deferred tax assets from US\$19.7M to US\$81.2M mainly relates to the tax effect of the impairment of the KM assets.

*Current Liabilities* have increased from US\$118.9M to US\$253.9M at 30 June 2012 primarily as a result of an increase in the current portion of interest bearing loans and borrowings of US\$139.5M. This is due to the US\$134M convertible bonds maturing on 11 March 2013 now being disclosed as current and US\$22.1M drawn down under the LHM Stage 3 project finance facility which has partially been offset by the repayment of the current portion of US\$15.7M of the LHM Stage 1 project finance facility.

*Non Current Liabilities* have decreased from US\$929.6M to US\$899.0M at 30 June 2012 primarily due to the decrease in the non current portion of interest bearing loans and borrowings of US\$20.7M. This is predominantly as a result of the US\$134M convertible bonds maturing on 11 March 2013 now being disclosed as current, the repayment of the non current portion of US\$8.6M of the LHM Stage 1 project finance facility, a US\$29.9M repayment of the KM project finance facility and a US\$22.5M repayment of the LHM Stage 3 project finance facility. This has been partially offset by the drawdown under the LHM Stage 3 project finance facility of US\$118.5M. The deferred tax liabilities have largely decreased due to the foreign exchange movement on the US dollar loans in Namibia. As detailed earlier, there were also significant foreign exchange movements in Malawi on the US dollar loans however these were effectively offset by the foreign exchange impact on the carried forward tax losses.

### Segment Disclosure (refer to Note 4 in the Financial Statements)

In the Statement of Financial Position as at 30 June 2012, the Company reflected an increase in assets for the Namibian segment in the year predominantly due to the Stage 3 expansion. For the Malawian segment, a decrease in assets occurred in the year predominantly as a result of impairment of assets at KM, announced in September 2011 quarterly Financial Report and the impairment of inventory. The Exploration segment has decreased due to the strengthening of the US dollar against the Australian dollar which has resulted in a decrease in the US dollar value of exploration assets within Australian and Canadian dollar functional currency subsidiaries which has been partially offset by capitalised exploration expenditure.

### SUMMARISED STATEMENT OF CHANGES IN EQUITY

	YEAR ENDED 30 JUNE	
	2012 US\$M	2011 US\$M
Total equity at the beginning of the financial year	1,355.2	970.9
Total comprehensive (loss)/income for the year	(259.3)	56.5
Recognised value of unlisted employee options and performance share rights	7.4	14.6
Movement in other reserves	25.1	21.5
Contributions of equity, net of transaction costs	66.4	291.7
Total equity at the end of the financial year	<u>1,194.8</u>	<u>1,355.2</u>

*Total Comprehensive Loss for the Year Ended 30 June 2012* is discussed under the Statement of Comprehensive Income section.

*Recognised Value of Unlisted Employee Options and Performance Rights* in 2012 totals US\$7.4M (2011: US\$14.6M). During the year 4,014,462 employee options expired or were forfeited (2011: 4,536,004) with an exercise price ranging from A\$4.50 to A\$5.37 per share (2011: A\$2.07 to A\$8.77). During the year 1,980,400 performance share rights were granted with vesting dates ranging from 1 September 2012 to 1 September 2014 (2011: 4,292,117), 1,113,275 performance share rights vested (2011: 1,300,580) and 928,580 performance share rights were cancelled (2011: 1,058,700).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

*Movement in Other Reserves* in 2012 of US\$25.1M relates to the creation of the non-distributable reserve of US\$27.9M from the issue of \$274M of convertible bonds on 30 April 2012 and a US\$2.8M charge to the convertible bond reserve as a result of the US\$191M convertible bond buyback. In 2011 the movement of US\$21.5M relates to the creation of the non-distributable reserve of US\$28.1M from the issue of \$300M of convertible bonds on 5 November 2010 and a US\$6.6M charge to the convertible bond reserve as a result of the US\$250M convertible bond buyback.

*Contributions of Equity* in 2012 of US\$66.4M relates to the share placement of 56,866,232 shares at A\$1.20 each. Contributions of Equity in 2011 of US\$291.7M relates to the issue of 7,155,938 shares to acquire NGM, the non-controlling interest's participation in Summit's renounceable rights issue and the issue of 52,097,937 shares to acquire the uranium assets of Fronteer Gold Ltd. The number of fully paid ordinary shares on issue at 30 June 2012 is 835,645,290, an increase of 57,947,073 during the year. Share options of 4,217,329 and performance rights of 6,885,882 remain outstanding at 30 June 2012 to the employees and consultants directly engaged in corporate, mine construction, operations, exploration and evaluation work.

#### SUMMARISED STATEMENT OF CASH FLOWS

	YEAR ENDED 30 JUNE	
	2012 US\$M	2011 US\$M
Net cash outflow from operating activities	(125.8)	(102.0)
Net cash outflow from investing activities	(82.2)	(132.5)
Net cash inflow from financing activities	201.5	1.3
Net decrease in cash and cash equivalents	(6.5)	(233.2)
Cash and cash equivalents at the beginning of financial year	117.4	347.9
Effects of exchange rate changes on cash and cash equivalents	1.2	2.7
Cash and cash equivalents at the end of the financial year	<b>112.1</b>	<b>117.4</b>

*Net Cash Outflow from Operating Activities* was US\$125.8M in 2012 primarily due to the investment in working capital associated with the increase in production levels at LHM and KM and the timing of sales. The LHM and KM operations generated US\$113.3M in cash in 2012 before investment in working capital required to support higher production levels and payments for administration, marketing and site non-production costs of US\$50.2M, exploration of US\$2.5M and net interest paid of US\$36.6M

*Net Cash Outflow from Investing Activities* was US\$82.2M in 2012 and US\$132.5M in 2011 is due primarily to the Stage 3 expansion at LHM and capitalised exploration expenditure.

*Net Cash Inflow from Financing Activities* of US\$201.5M in 2012 is attributable to the US\$139.0M net drawdown proceeds of project financing for LHM and net proceeds of US\$62.6M from the share placement, net funds raised of US\$77.1M from the issue of the US\$274M convertible bond net of the repayment of the US\$191M convertible bonds, partially offset by US\$77.2M repayment of project financing for both LHM and KM. The net cash inflow of US\$1.3M in 2011 was attributable to the US\$300M convertible bond receipt partially offset by the full repayment of the \$250M convertible bond and repayment of the project financing for LHM and KM.

*Net Decrease in Cash and Cash Equivalents* in 2012 was US\$6.5M, as compared to the net decrease in cash over the previous corresponding period in 2011 of US\$233.2M. The change is predominantly the result of the higher level of fundraising in 2012 through the US\$139M net proceeds from the drawdown of LHM Stage 3 project finance facilities, the US\$62.6M net proceeds received from the share placement and net funds raised of US\$77.1M from the issue of the US\$274M convertible bond net of the repayment of the US\$191M convertible bonds compared with the net cash inflow of US\$1.3M in 2011 arising from the funds raised from the issue of the US\$300M convertible bond net of the repayment of the US\$250M convertible bond and repayment of project financing for both LHM and

## MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW (continued)

KM. The completion of the high capital investment phase resulted in capital expenditure reducing significantly.

*Effect of Exchange Rate Changes* on cash balances is a gain of US\$1.2M for 2012.

### LIQUIDITY AND CAPITAL RESOURCES

The Group's principal source of liquidity as at 30 June 2012 is cash of US\$112.1M (30 June 2011: US\$117.4M). Any cash available to invest is held with Australian banks with a minimum AA- Standard & Poor's credit rating over a range of maturities. Of this US\$94.5M is held in US dollars.

The Group's principal sources of cash for the year ended 30 June 2012 were uranium sales receipts, net proceeds of US\$62.6M from the share placement, net proceeds from the drawdown of US\$139M under the LHM Stage 3 Project Finance Facility and net proceeds from the issue of US\$274M Convertible Bonds following the repurchase and cancellation of US\$191M of the 11 March 2013 bonds.

The remaining amount outstanding at 30 June 2012 on the LHM project finance facilities was US\$118.5M and for the KM project finance facility, US\$98M.

The Group's consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

During the year ended 30 June 2012, the Group incurred net losses after tax of US\$172.8M (2011: US\$82.3M) and had net cash outflow of US\$6.5M (2011: US\$233.2M). At balance date the Group had a net working capital surplus of US\$137.7M (2011: US\$210.5M) including cash on hand of US\$112.1M (2011: US\$117.4M). Included within this cash on hand is US\$26.2M (2011: US\$19.5M) which is restricted for use in respect of the LHM and KM project finance facilities.

Repayment obligations, during the next 12 months, in respect of interest bearing loans and borrowings are summarised as follows:

- Secured bank loans principal repayments of US\$53.1M for LHM and KM project financing;
- Interest payments of US\$40.5M for LHM and KM project financing and Convertible Bonds; and
- The final US\$134.0M payment on the US\$325.0M Convertible Bond which matures on 11 March 2013.

As set out in note 27, the Group announced on 15 August 2012 that it had entered into a six year sales off-take agreement with a leading international utility to sell a total of 13.73Mlb U<sub>3</sub>O<sub>8</sub> in the period from 2019 to 2024. Pursuant to this agreement, prepayment of US\$200M will be made to Paladin in respect of part of the future U<sub>3</sub>O<sub>8</sub> product deliveries.

In addition, in arriving at its position in relation to going concern, the Directors have given consideration to the following:

- Paladin has been in discussions with a select group of nuclear industry parties on strategic initiatives; and
- Paladin has a history of refinancing some of its debt.

Accordingly, the Directors believe that the Group will obtain sufficient funding to enable the Group to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

## MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW (continued)

The following is a summary of the Group's outstanding commitments as at 30 June 2012:

	Total	Less than 1 yr	1 to 5yrs	5yrs+ or unknown
<b>Payments due by period</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
Tenements	36.8	5.4	4.8	26.6
Mine construction	1.5	1.5	-	-
Operating leases	5.2	1.4	3.8	-
Other	35.5	33.0	2.5	-
Manyingee acquisition costs	0.8	-	-	0.8
<b>Total commitments</b>	<b>79.8</b>	<b>41.3</b>	<b>11.1</b>	<b>27.4</b>

In relation to the Manyingee Uranium Project, the acquisition terms provide for a payment of A\$0.75M (US\$0.8M) by the Company to the vendors when all project development approvals are obtained.

In addition to the outstanding commitments above, the Company acquired a call option on 19 June 1998 in relation to the purchase of the Oobagooma Uranium Project and, in turn, granted a put option to the original holder of the project. Both the call and put options have an exercise price of A\$0.75M (US\$0.8M) and are subject to the Western Australian Department of Minerals & Energy granting tenements comprising two exploration licence applications. The A\$0.75M (US\$0.8M) is payable by the Company within 10 business days of the later of the grant of the tenements or the exercise of either the call or put option. The options will expire three months after the date the tenements are granted.

The Company has no other material off balance sheet arrangements.

### OUTSTANDING SHARE INFORMATION

As at 30 August 2012 Paladin had 835,645,290 fully paid ordinary shares issued. The following table sets out the fully paid ordinary outstanding shares and those issuable under the Company Executive Share Option Plan, the Company Employee Performance Share Rights Plan and in relation to the Convertible Bonds:

<b>As at 30 August 2012</b>	<b>Number</b>
Outstanding shares	835,645,290
Issuable under Executive Share Option Plan	4,217,329
Issuable under Employee Performance Share Rights Plan	6,853,882
Issuable in relation to the US\$134 million Convertible Bonds	20,542,695
Issuable in relation to the US\$300 million Convertible Bonds	53,495,007
Issuable in relation to the US\$274 million Convertible Bonds	125,114,155
<b>Total</b>	<b>1,045,868,358</b>

### CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Report requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the following: carrying value or impairment of inventories, financial investments, property, plant and equipment, intangibles, mineral properties and deferred tax assets; carrying value of rehabilitation, mine closure, sales contracts provisions and deferred tax liabilities; and the calculation of share-based payments.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

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#### FINANCIAL INSTRUMENTS

At 30 June 2012 the Group has exposure to interest rate risk, which is the risk that the Group's financial position will be adversely affected by movements in interest rates that will increase the cost of floating rate project finance debt or opportunity losses that may arise on fixed rate convertible bonds in a falling interest rate environment. Interest rate risk on cash and short-term deposits is not considered to be a material risk due to the historically low US dollar interest rates of these financial instruments.

The Group has no significant monetary foreign currency assets and liabilities apart from Namibian dollar cash, receivables, payables, deferred tax liabilities and provisions and Australian dollar cash, payables and deferred tax liabilities and Canadian payables.

The Group currently does not engage in any hedging or derivative transactions to manage uranium price movements, interest rate or foreign currency risks.

The Group's credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument that will result in a financial loss to the Group. The carrying amount of financial assets represents the maximum credit exposure. The Group trades only with recognised, credit worthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not material.

The Group's treasury function is responsible for the Group's capital management, including management of the long-term debt and cash as part of the capital structure. This involves the use of corporate forecasting models which enable analysis of the Group's financial position including cash flow forecasts to determine the future capital management requirements. To ensure sufficient funding for operational expenditure and growth activities, a range of assumptions are modelled so as to provide the flexibility in determining the Group's optimal future capital structure.

#### OTHER RISKS AND UNCERTAINTIES

##### Risk Factors

The Group is subject to other risks that are outlined in the Annual Information Form 51-102F2 which is available on SEDAR at [sedar.com](http://sedar.com)

#### TRANSACTIONS WITH RELATED PARTIES

During the year ended 30 June 2012 no payments were made to Director related entities. Directors of the Company receive compensation based on their personal contracts.

#### DISCLOSURE CONTROLS

The Company has applied its Disclosure Control Policy to the preparation of the Consolidated Financial Report for the year ended 30 June 2012, associated Management Discussion and Analysis and Report to Shareholders. An evaluation of the Company's disclosure controls and procedures used has been undertaken and concluded that the disclosure controls and procedures were effective.

#### INTERNAL CONTROLS

The Company has designed appropriate Internal Controls Over Financial Reporting (ICFR) and ensured that these were in place for the year ended 30 June 2012. An evaluation of the design of ICFR has concluded that it is adequate to prevent a material misstatement of the Company's Consolidated Financial Report as at 30 June 2012.

During the year the Company continued to have an internal audit function externally contracted to Deloitte Touche Tohmatsu. Internal audit reports and follow-up reviews were completed during the year and the Company continues to address their recommendations. The resultant changes to the internal controls over financial reporting have improved and will continue to improve the Company's framework of internal control in relation to financial reporting.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

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#### SUBSEQUENT EVENTS

##### **Deep Yellow Ltd Entitlement Issue**

On 30 July 2012 DYL announced the results of its entitlement issue. Paladin purchased 72,263,821 ordinary shares at a cost of A\$3M. Following this issue the Group has an investment in DYL of 297,198,282 fully paid ordinary shares. The holding of these ordinary shares represents a 23.43% interest (30 June 2012: 19.9%) of the ordinary shares in DYL.

##### **Long-term Off-take Contract with a US\$200M Prepayment**

On 15 August 2012, the Company announced that it had entered into a six year off-take agreement with a major utility to deliver a total of 13.73Mlb U<sub>3</sub>O<sub>8</sub> in the period from 2019 to 2024. A prepayment of US\$200M will be made to the Company in respect of part of the future U<sub>3</sub>O<sub>8</sub> product deliveries. Delivery of the future U<sub>3</sub>O<sub>8</sub> product will be at the Company's option either from its current African mining operations or from a project yet to be developed from the Company's significant existing project pipeline or from a combination of both. Uranium delivered under the long-term off-take contract will be sold at the market prices prevailing at the time of delivery bounded by escalating floor and ceiling prices.

To secure the Company's obligation to deliver product representing the prepayment amount, the utility will hold security over 60.1% of the Company's Michelin project in Canada. The percentage of Michelin secured will be reduced as the value of that project is enhanced by the Company's ongoing work. The Michelin security can also be replaced by other appropriate security if required.

Subject to formalities to be put in place between the Company and the utility, expected to occur in September 2012, such as required registration of the security documentation (which documentation is in agreed form) the US\$200M prepayment will be made in tranches to be completed by no later than 31 January 2013.

The US\$200M prepayment will be applied to repayment of the balance of the March 2013 convertible notes with the remainder retained for balance sheet strength as working capital.

##### **Mid-term Sales Contracts Secured**

On 24 August 2012, the Company announced it has secured two mid-term off-take agreements for U<sub>3</sub>O<sub>8</sub> production originating from its mining operations at Langer Heinrich in Namibia and Kayelekera in Malawi.

These agreements are for the purchase of a total of 6.3Mlb U<sub>3</sub>O<sub>8</sub> to be delivered from late 2012 to end 2015 at approximately 2Mlb pa. Pricing will be determined predominately by the market price at the time of delivery (without floor or ceiling limitations) while a minority portion of the delivery prices will be in accordance with a series of specified fixed prices which exceed current spot uranium prices.

## SUSTAINABLE DEVELOPMENT

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Paladin is committed to the goal of sustainable development, commonly defined as “to meet the needs of the present without compromising the ability of future generations to meet their own needs.” Paladin applies and adheres to the established and recognised principles of sustainable development for all of its activities across the world.

The commitment to sustainable development is also reflected in Paladin’s corporate values. Paladin aims to achieve a balance between the economic, environmental and social needs in all phases of its projects and considers its employees, community and all other stakeholders for this achievement. These components are intertwined in Paladin’s sustainable development programme.

### Corporate Sustainability Reporting

Paladin is in the process of collecting data from LHM and KM for input into Corporate Sustainability Reporting. The basis for the data collected is on meeting the reporting guidelines of the Global Reporting Initiative (GRI) Framework. The GRI Sustainability Reporting Guidelines provide principles and guidance on defining report content. The four principles applied are:

- **Materiality**
- **Stakeholder Inclusiveness**
- **Sustainability Context**
- **Completeness**

The Materiality principle is defined as topics and indicators that reflect the organisations potential significant economic, environmental and social impacts or that would substantively influence the assessments and decisions of stakeholders. During the reporting period Paladin conducted an internal materiality test on the GRI aspects and indicators to determine the topics of most significance to the Company. The materiality test process involved workshops with technical personnel and management, the Company Secretary, Chairman and a Board Director to provide a broad Company perspective of significance of the various indicators. The GRI categories comprise the broad groups of Economic, Environment and Social with the Social sub-categories of Human Rights, Labour Practices and Product Responsibility. Each of these categories and sub-categories have aspects and performance indicators on which to report. Paladin’s initial focus will be on those that are considered material to the Company.

The information and data collected from the two mining operations will be assessed and then used in Paladin’s Sustainability Report. It is intended that the Report will be web based and be placed on the Paladin website for public access. To allow sufficient time for data collection, assessment and reporting for the financial year period the report is expected to be available on the website towards the end of the CY2012.

## ENVIRONMENT

### Our Commitment

Paladin is committed to ensure that effective environmental management is planned and undertaken for all aspects of its operations. The approach to environmental management is guided by Paladin’s Environmental Policy that promotes a standard of excellence for environmental performance across its operations. The key points of the Policy include:

- compliance with applicable environmental legislation;
- developing standards, systems and plans to identify, assess and manage environmental risk;
- implementing and assigning accountabilities for the standards, guidelines and procedures;
- striving to achieve continuous improvement in environmental performance;
- communicating environmental responsibility to employees and contractors;
- effective consultation with stakeholders;
- inspections and audits of environmental performance; and,
- reporting on environmental performance.

## **SUSTAINABLE DEVELOPMENT (continued)**

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In addition to Paladin's Environmental Policy, LHM and KM each have Environmental Policies applied at the sites which include consideration of the above points as a minimum.

Paladin has established Corporate Sustainable Development Standards for all of its operational subsidiaries. Operational compliance with Paladin's Standards forms part of the Corporate Environmental Audit Programme.

### **Environmental Management System**

Within the Paladin Environmental Management System (EMS) Standard each operating site is required to develop and implement an EMS that is consistent with the requirements of ISO14001:2004. LHM has EMS certification initially obtained in 2009 and was recertified in 2012. KM is continuing in the development of an EMS for its operations.

Operational Environmental Management Plans (EMP) for both LHM and KM have been submitted to and reviewed by the Namibian and Malawian Governments, respectively, other stakeholders and international financial lending institutions as part of the project financing agreement conditions. The Operational EMPs are regularly updated and revised as part of the sites' continual improvement process. EMPs for both operations were reviewed and updated during the reporting period and submitted to the respective Governments.

### **Environmental Impact Assessment**

The Environmental Impact Assessment for the LHM Stage 4 Expansion and the conversion of EPL3500 to a ML was submitted to the Namibian Government and other stakeholders for review in early 2012 with approval obtained in July 2012.

### **Environment Regulatory Reporting**

Both LHM and KM prepare various environmental reports for the Namibian and Malawi Governments, respectively. The frequency of regulatory reporting for LHM is bi-annual for general environmental reports and annual for aspects such as water. Regulatory environmental reporting at KM is conducted on a quarterly and annual basis. The regulatory reports include raw monitoring data reports, specific aspect reviews, general environmental reports summarising the environmental activities undertaken on the site, analyses of the monitoring data collected and assessment of trends for the reporting period.

### **Inspection and Audit Programme**

The Paladin Environmental Audit Standard requires sites to establish and implement environmental inspection and audit programmes to ensure that the environmental performance of the operations is reviewed, audited and reported to the Board. Internal and external environmental audits are undertaken to ensure that there is not only compliance with regulatory and Paladin requirements but also with the World Bank Equator Principles and other industry standards, in particular those specified for the uranium industry. Inspections and audits were undertaken for both the LHM and KM operations during the reporting period with the findings documented and actions developed to rectify and manage the issues identified.

### **Energy**

Energy requirements at Paladin's operations are principally in the form of fuel or electricity generation. Electricity at LHM is purchased from the Namibian grid which can be supplemented, if necessary, with power generated from the on-site power plant. Power for operations at KM is generated by a diesel-fuelled power station. Fuel usage at both sites for vehicles comprises diesel and minor amounts of petrol. Emulsion is used at both sites as the explosive for blasting. The volume of the fuels used during the reporting period is being collated and will be reported in the Sustainability Report.

## **SUSTAINABLE DEVELOPMENT (continued)**

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### **Water**

Paladin applies a Standard for Water Use and Water Quality at its operations to ensure that there is efficient, safe and sustainable use of water and that water resources and ecosystems around its sites are protected. Paladin's operations have water management strategies, detailed flow diagrams, working water balances, and have implemented water management measures to ensure that water management objectives are achieved.

The reuse and recycling of water is maximised as much as possible at Paladin's operations. Data on water supply and use for the reporting period are being collected from the operations, which will then be applied to estimate volume of water used to produce the uranium product. Both LHM and KM are managed as non-discharge sites under normal operating conditions.

A comprehensive surface and groundwater monitoring programme is implemented at each site. Water level measurements, water abstraction and samples are routinely recorded and/or collected according to a monitoring schedule designed to meet regulatory requirements. Data is regularly assessed and compared to baseline and upstream sampling points to determine any impacts of operations on local water resources and to ensure licenced limits/guidelines are not exceeded. All water monitoring data are collated in an Annual Water Report that consolidates and summarises the key water aspects across all Paladin's exploration projects and operations.

### **Land Use and Biodiversity**

Land use and understanding land values is an important component of sustainable development. Prior to construction activities, studies are conducted to determine land use and land values of the area proposed for disturbance. Relevant baseline studies are conducted to determine the biodiversity, ecological, social and cultural heritage values of the area. Land clearing approval processes are in place at all Paladin sites with the aim of minimising the area of disturbance, and ensuring areas are surveyed to assess impacts prior to clearing.

Paladin's objective is to conserve biodiversity by obtaining knowledge of the ecosystems within the regions in which it operates and to ensure that impacts on biodiversity are minimised and managed. Extensive biodiversity studies have been conducted in the area of LHM, which is located in the Namib Naukluft National Park, to establish biodiversity composition, structure and processes. Baseline biological studies were conducted in the area of KM, which prior to mining was extensively modified by agricultural and burning practices to allow subsistence farming. Aquatic invertebrate monitoring is undertaken to assess the health of the rivers, located in the area of KM.

### **Rehabilitation**

The objective of rehabilitation is to return disturbed land to a stable, self-sustaining landform that is compatible with the surrounding environment and has similar land use and ecological values as existed prior to the commencement of operations. Progressive rehabilitation of disturbed areas is undertaken at all of Paladin's exploration sites and mining operations, where practicable. Rehabilitation Plans are developed and implemented at the sites to ensure disturbed areas are rehabilitated appropriately and in a timely manner.

### **Air Emissions**

Paladin has an Air Quality Standard in place with the intent to ensure that air pollutant emissions generated by any of Paladin's activities are identified, impacts assessed and management measures established and implemented. The common air pollutants generated by Paladin activities which have the potential to impact on human health and/or the environment include; particulate matter, sulphur oxides (SO<sub>x</sub>); carbon oxides (CO and CO<sub>2</sub>); and nitrogen oxides (NO<sub>x</sub>).

Dust generation during exploration activities and at the mine sites is suppressed to enable a safe working environment and to minimise impacts on the environment and surrounding communities. This together with the progressive rehabilitation of disturbed areas minimises dust generation and the associated impacts. Dust level monitoring and dust collection is undertaken at both the LHM and KM

## SUSTAINABLE DEVELOPMENT (continued)

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sites. The dust levels and sample analyses results for the reporting period are collated in Environmental Reports and submitted to their respective Governments.

SOx emissions are generated at the operations by the burning of fuel for heating and power generation, and also from the on-site production of sulphuric acid at KM. The SOx emissions from the acid plant stack are monitored as are the environmental ground level concentrations. Monitoring data are analysed and the results reported in the Environmental Reports submitted to the Government.

The principal direct greenhouse gas emissions from Paladin's operations are those from fuel burning for power generation, boilers, burners, emulsions for explosives and automotive exhausts. The key indirect greenhouse gas emission relate to the energy purchased from the Namibian electricity grid to power the LHM operations. Greenhouse gas emission data are being collected from the operating sites to be calculated as Carbon Dioxide (CO<sub>2</sub>) equivalent emissions. Paladin's current Australian activities are confined to exploration and the Corporate Perth office. Initial estimations of diesel consumption and purchased electricity in Australia indicate that Paladin does not meet threshold levels to require registration and reporting in Australia under the *National Greenhouse Emissions Reporting Act (NGER) 2007*.

### **Waste Rock**

Large quantities of waste rock must be removed to allow access to the ore at both LHM and KM, which is placed into dumps. Waste rock dump location, design and placement is important to the Company in terms of environmental considerations and cost. The main objectives for the final landform of the dumps is to be stable, blend in with the surrounding landscape and be capable of supporting a self sustaining ecosystem.

Studies have been conducted at both mine sites to determine the best locations for the waste rock dumps taking haulage costs and environmental aspects into consideration. The design of the dumps and the placement of waste rock also consider other factors such as the physical and geochemical properties of the material placed in the dumps.

### **Tailings**

Tailings management continues to be a high priority at Paladin's operational sites. Paladin applies measures to ensure that its tailings storage facilities (TSF) are appropriately designed, operated and managed according to acceptable standards. Specialist TSF engineers have designed the TSFs at both LHM and KM and defined the operational practice and management to ensure that the tailings are managed in an acceptable manner, and any potential environmental impacts from the tailings and TSF are minimised. Internationally recognised independent uranium tailings experts conduct peer reviews of the design, construction and operations of the TSF's and continue to provide an ongoing external review role.

### **Non-Mineral Waste**

Non-mineral waste includes typical general wastes, sewage and some that may be considered hazardous. The LHM and KM operations both have waste management programmes and procedures with the aim at applying the principles of reduce, reuse and recycle wherever possible. At LHM domestic solid wastes are separated into recyclable and non recyclable. Recyclable domestic waste is delivered to recycling depots and the non recyclables taken to the municipal landfill sites. Facilities for the recycling of waste materials in Malawi are very limited as are suitable off site waste disposal locations. The majority of the waste materials generated at KM require on-site disposal so the wastes are classified and separated into their types and directed to appropriate on site waste disposal sites. Sewerage treatment plants are installed at both mine sites to treat sewage which is then directed to process water pond at LHM and the tailings storage facility at KM. Waste oils are collected by licensed contractors in both Namibia and Malawi and taken off site for recycling or disposal.

### **Environmental Incidents**

A standardised Paladin Incident Reporting Procedure was implemented across the sites for the 2011-2012 reporting period to ensure there is consistency across the business in terms of incident

## SUSTAINABLE DEVELOPMENT (continued)

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classification and reporting. There were no significant environmental incidents reported during the reporting period. Statistics and information on incidents occurring during the reporting period are being collected from the sites and will be included in the Sustainability Report.

### Closure

Mine closure planning is a key component of Paladin's commitment to Sustainable Development. A Closure Standard is in place for all of Paladin's developing and operational sites. The intent of the Standard is to ensure that Paladin's sites are left in a safe and stable manner and that environmental and social impacts are minimised so that tenements can be relinquished without future liability to the Company, government or the community. LHM has a Draft Mine Closure Plan in place which is in the process of being reviewed and updated to reflect current and future mine plans. The closure planning process at KM progressed during the reporting period with the preparation of a Draft Mine Closure Plan.

### CORPORATE SOCIAL RESPONSIBILITY

Paladin exists to create value for its shareholders. In pursuit of this goal, the Company recognises that measurement of corporate success encompasses economic, environmental and social values. Paladin stakeholders expect their Company to be a good corporate citizen with fair and beneficial business practices; operating to the highest ethical standards; contributing to the growth and prosperity of host countries and responding positively to community needs. Paladin's approach to Corporate Social Responsibility (CSR) – as with its commitment to sustainability – involves:

- Top-level support of the Board of Directors and Managing Director/CEO
- Adherence to principles enunciated in Corporate Policy and Procedures
- Programmes aligned with host country Millennium Development Goals
- Personnel dedicated to achieving CSR objectives
- Compliance with recognised international codes of conduct
- Acknowledgement of voluntary standards
- Reporting in accordance with the Global Reporting Initiative.

Paladin seeks to achieve these objectives by example, both through its own actions and by its active participation in industry and community-based organisations that foster and promote these values and aspirations. Below is a summary of the organisations in which the Company participates.

Paladin played an instrumental role in establishing the Australia-Africa Mining Industry Group (AAMIG) – an industry body that promotes best practice in CSR among Australian mining companies active in Africa. Paladin supports AAMIG in promoting best practice in CSR in Africa and is seeking to ensure compliance in its own endeavours.

Paladin has committed to the principles contained in *Enduring Value – the Australian Minerals Industry Framework for Sustainable Development*. This commitment is aligned to the 10 Sustainable Development Principles of the International Council on Mining and Metals.

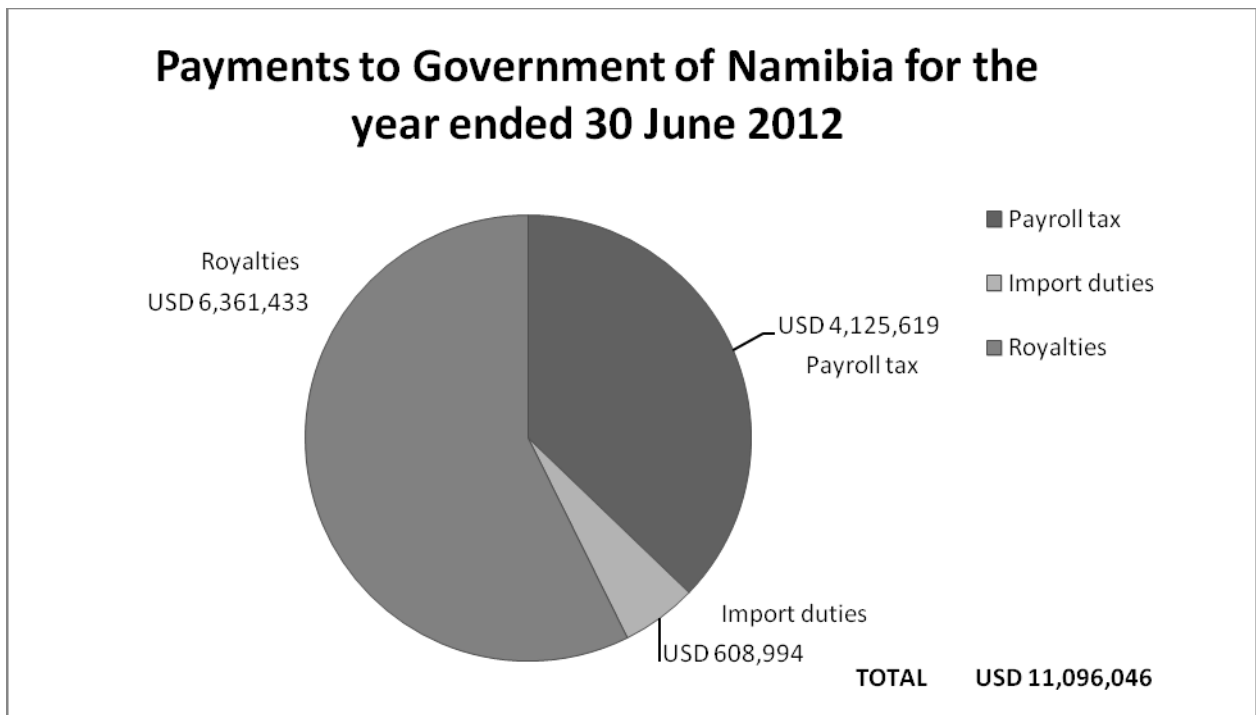
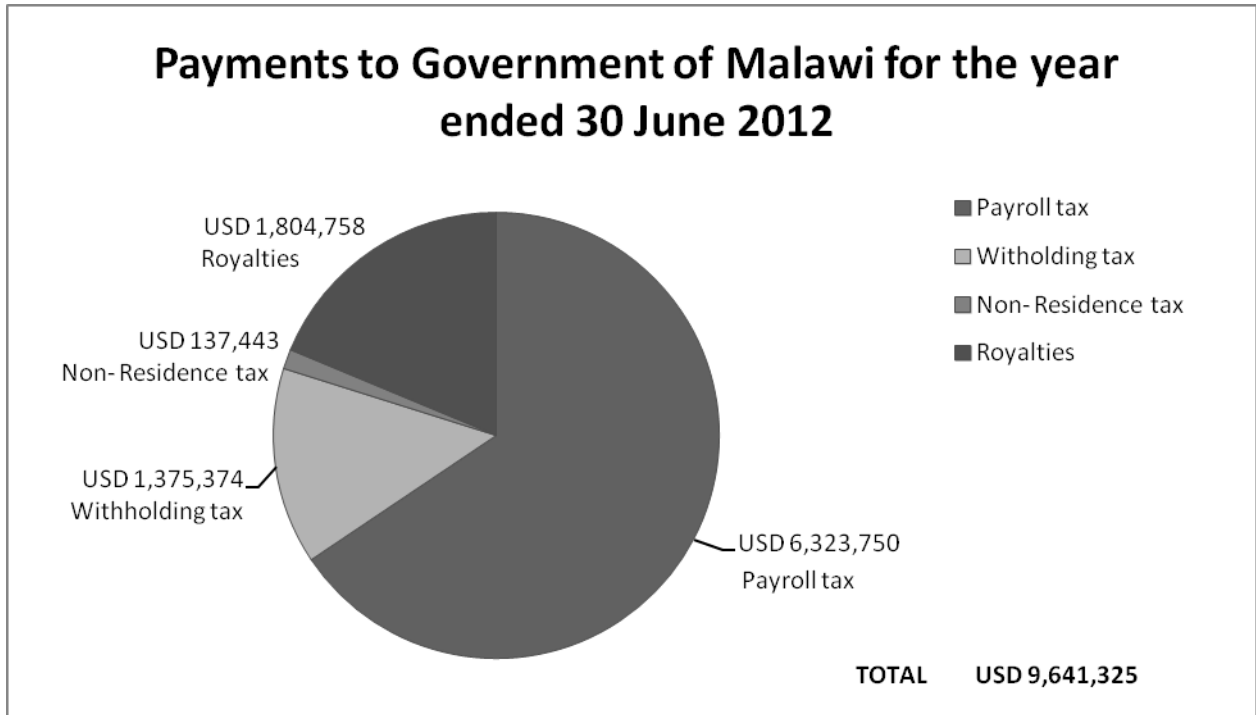
Paladin has registered as an EITI Supporting Company and upholds the Voluntary Principles on Security and Human Rights. The Company already complies with the Equator Principles and has strengthened its internal compliance regime in relation to anti-bribery and corruption issues.

Paladin CSR programmes are developed, managed and assessed in compliance with a Corporate Community Relations Policy. Business unit Social Sustainability Management Plans (SSMP) provide a strategy to manage social and cultural aspects, impacts and risks associated with the mining and processing operations and provide a mechanism to ensure compliance with regulatory legislation,

## SUSTAINABLE DEVELOPMENT (continued)

corporate policies, standards, guidelines and procedures. Compliance is subject to regular internal and external audit.

Paladin contributes significantly to those economies in its countries of operation through a variety of government taxes. These are detailed below for both Malawi and Namibia, where the Group's mines are located.



### Human Rights

Paladin is committed to respect for human rights and fundamental freedoms. The Company's overall approach to human rights issues is reflected in its Human Rights Policy which can be found on the



## SUSTAINABLE DEVELOPMENT (continued)

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Paladin website. On the 2012 Human Rights Risk Atlas – Namibia and Malawi are rated as medium risk countries; Niger is rated a high risk country, while Australia and Canada are rated low risk countries.

The aim of the Human Rights Policy is to provide the overarching framework for the business in respecting human rights. The Board reviews this regularly to ensure that it is current and that the requirements of the Policy reflect Paladin's commitment to human rights principles.

### Industry Participation

As a leading participant in the global uranium sector, Paladin plays an active and responsible role in public policy development, both corporately in Australia and through Group subsidiary companies in their respective constituencies.

The Company is a participating member of the Australian Uranium Association (AUA) and, as such, is committed to abide by and implement the terms of the AUA Industry Code of Practice. Along with the Code, the Group observes the AUA's Charter and Principles of Uranium Stewardship, which provide a guide to doing business ethically, responsibly and safely. Together, the Code, Charter and Stewardship Principles make up a vital standards framework for the uranium industry.

The Company is also a member of the Minerals Council of Australia (MCA) which represents Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. As a member, Paladin supports the Enduring Value principles as a framework for sustainable development.

Senior management across the Group are actively involved in a number of industry and policy making organisations at both board and committee level. These include the AUA, MCA, Uranium Council of Australia, Advisory Group for IAEA, AAMIG and the Chamber of Mines and Energy of Namibia. In addition, Mr Greg Walker, General Manager - International Affairs, who is resident in Malawi, was appointed as Australia's Honorary Consulate to Malawi. Mr Walker will provide consular assistance to the growing Australian community in Malawi, as well as assisting the Australian Embassy in Harare to promote Australia's political and commercial interests in Malawi. Paladin's Lilongwe office serves as Australia's Honorary Consulate in Malawi.

LHM was a founding member of the Swakopmund-based Uranium Institute in 2010. The Institute provides support and advice for industry members, operates a Uranium Information Centre and engages with the public and scientific community through hosting training and information events, meetings and workshops. More than 3100 visitors – an average of 200 per month - have called at the Uranium Information Centre during the past 18 months.

The Company supports the Uranium Institute financially, through the participation and commitment of LHM senior personnel and by providing internal auditing services to the Institute. LHM is an active member of the Institute's Health, Environment and Radiation Safety and Security Committee, which addresses industry-related environmental health and radiation issues. LHM leads the Institute's Water Committee and actively supports its radiation training programme by providing lecturers, instrumentation and on-site training. In 2011-12, Langer Heinrich also donated a commuter bus used to transport the members of the public to and from the Uranium Institute.

Paladin also undertook the following activities during the year:

- Participation in the Nunatsiavut Government review of the moratorium on uranium exploration and development on Labrador Inuit lands in Canada, resulting in the lifting of the moratorium in March 2012. This has allowed for a resumption of exploration on Aurora Energy's Michelin Project after a three and a half year delay.
- Sponsorship of and participation in the Niger Investment Forum held in London, United Kingdom, in June 2012 during a state visit to the UK by Nigerien President Mahamadou Issoufou and senior ministers of the Government of Niger.

## SUSTAINABLE DEVELOPMENT (continued)

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- Participation in the National Dialogue on Malawi's Economy summit called by President, Mrs Joyce Banda, in June 2012.

### Stakeholder Interaction

Regular meetings are conducted with the stakeholder groups in countries where Paladin has interests. These interactions include regular and/or informal meetings with:

- Community groups
- Environmental groups
- Host nation government ministers and senior civil servants
- Indigenous groups
- Civil Society Organisations and
- Employees

### International Initiatives

#### Malaria Treatment for Children

Paladin has provided funding support to Eastland Medical Systems Limited for Eastland's development of ArTiMist™, an under the tongue spray for the treatment of severe and complicated malaria in children. After completion of a successful clinical trial involving 30 children that confirmed the effectiveness of the malaria treatment in young children, Eastland has moved on to a 150-patient multi centre superiority study in Africa. At the end of July 2012 85% of the patients had been enrolled and the trial was on track to be completed in the September quarter of 2012.

#### Malawi

Paladin continues to fulfil its social development undertakings under the terms of the Kayelekera Mine Development Agreement. The Company has developed a SSMP to ensure that social and cultural environmental aspects and impacts associated with the operation of KM are identified and appropriately managed. Paladin's social development initiatives in Malawi are based on the principles set forth in the SSMP.

The Australian Government handbook on *Social Responsibility in the Mining and Metals Sector in Developing Countries* draws on examples of Australian leading practice in Corporate Social Responsibility in Africa. Paladin's Social Management Plan for KM was selected as a case study in the handbook.

Projects undertaken during the year included:

#### Local Business Development Programme

A programme to promote local involvement, economic growth and capacity building in communities is in progress. Opportunities are being explored for skills transfer and technical advice from Kayelekera's experienced workforce to local businesses. KM has introduced a work experience programme for young Malawian undergraduates with the first participant, a Karonga-based accountancy student, spending three weeks gaining hands-on-experience with KM's Commercial and Administration Department in June.

Paladin is also supporting the UK-based MicroLoan Foundation by funding an expansion of the foundation's activities in the Karonga region to provide micro-loans to 23 groups totalling around 300 local rural women for small scale co-operative business ventures in the Karonga region which will boost farming family incomes by encouraging expansion of small business initiatives.

#### Community Liaison

Paladin engages formally with the Government of Malawi and with local communities via committees established for that purpose. These committees include the:

## SUSTAINABLE DEVELOPMENT (continued)

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- Government Liaison Committee (GLC) – this is the peak forum for formal interaction between PAL and the Government of Malawi;
- Karonga District Assembly, through quarterly District Executive Committee (DEC) stakeholder’s meetings; and
- Kayelekera Village Elders – regular meetings are held with the Kayelekera Village Traditional Authority (village headman) and village elders to discuss social issues.

### **Garnet Halliday Karonga Water Supply Project**

Paladin continues to provide technical support and assistance to the Northern Region Water Board (NRWB) in the maintenance of the Garnet Halliday Karonga Water Supply Plant in Karonga. This project was constructed by Paladin in 2010 for a cost of approximately US\$10M as part of its undertaking under the Development Agreement. The NRWB has experienced some difficulties with the plant’s water intake system due to the severe conditions on Lake Malawi. In order to secure a long-term solution, PAL appointed a South African marine engineer, to review the intake system and recommend modifications. Upgrade work is proposed for 2013. The Company has also assisted the NRWB to overcome a lack of critical spares caused by Malawi’s foreign exchange shortage by sourcing and supplying spare parts.

### **Karonga Airport Improvements**

Paladin funded a 400m extension of the runway at Karonga Airport, in conjunction with the Malawi Department of Civil Aviation (DCA). This has enabled the Company’s aircraft to operate safely into Karonga, but has also upgraded facilities for third party users by enabling larger aircraft to use Karonga Airport. Together with Paladin’s fuel supplier, Puma Energy (Malawi) Ltd, the Company is donating two reconditioned fire engines, sourced from the United Kingdom, to DCA for use at Karonga Airport. This will substantially upgrade fire fighting capabilities – both at Karonga Airport and in the district, as the airport fire tender also serves community needs. Paladin has also carried out minor repairs and refurbishment to the airport passenger terminal.

### **Community Health Care**

Following completion of the Karonga Water Supply Project, Karonga District Hospital (KDH) was identified as the local public service institution most in need of support under Paladin’s Infrastructure Development Programme. The 187-bed hospital services a regional population of 250,775 and is the main referral hospital in the District. Renovations carried out during the reporting period included replacement of ceilings, windows, screens and plumbing fixtures.

Responding to a long standing request of the Karonga Town Planning Department and local public, Paladin upgraded a guardians’ compound adjacent to KDH. It is normal practice in Malawi for rural patients’ families to camp near a hospital to provide food and support for their relatives. At KDH, an average of 100 patients’ guardians at any time camp in a designated area outside the hospital walls, with minimal support services. Paladin constructed a large, sheltered cooking area, toilets and bathing stalls. A dilapidated four-room guardian accommodation unit was repaired and painted.

In April *Lab Without Walls* founder, Prof. Tim Inglis handed over a complete field microscope set to Paladin Energy staff for use in Malawi. This was the latest addition to the community health services provided by Paladin and will be used to confirm malaria, tuberculosis and other infectious diseases.

*Lab Without Walls* is a not-for-profit organisation that develops clinical laboratory methods for remote and rural health services in resource-limited settings.

This partnership between Paladin and *Lab Without Walls*, supported by PathWest and the School for Pathology and Laboratory Medicine of the University of Western Australia continues with *Lab Without Walls* providing capability-building assistance with microscope training and reagent supply.

## **SUSTAINABLE DEVELOPMENT (continued)**

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### **Educational Support**

In addition to supporting a number of employees in their external studies, Paladin also continues to support education for children in Kayelekera and nearby villages through paying for nine teachers, supply of materials and teaching initiatives. In September, a teacher's house was completed in Viraule village and in October two new classrooms were completed at Ipiana village on the M26 highway. Repairs were carried out on the Kayelekera Primary School and window screens were replaced with strong metal lattice. Paladin also sponsors nine volunteer educators who supplement regular teaching staff at schools in villages near KM.

### **Employee Charitable Foundation, supported by Paladin**

*Friends and Employees of Paladin for African Children (FEPAC)* is a charitable foundation established in 2008 by Paladin employees to fund smaller social projects in Malawi that are outside the scope of the Company's CSR programmes. Paladin supports the involvement of its employees in FEPAC and donates 25c for every A\$1 raised and also provides administrative support. To date, FEPAC has raised \$633,000 through employee donations, an annual golf day and quiz night. The charity supports six projects that assist orphaned children with educational needs and vocational training courses, such as brick laying, carpentry and tailoring. Sixty teenagers have completed these courses and have been provided with tools to enable them to earn money to support their younger siblings.

During the year, FEPAC financed construction of a girls' dormitory, a kitchen/dining building and a teacher's house at the School for Deaf Children in Karonga.

An inaugural Charity Golf Day was also held in Namibia, organised by local employees, raising N\$60,000. This amount was matched by LHUPL with the funds divided between two local children's charities.

### **HIV/AIDS Awareness and Health Campaigns**

Paladin HIV/AIDS Awareness programmes continued in local communities. Four new booklets written by Paladin Social Development Officer Robyn Nottingham have been translated into three local languages and distributed to KM employees and the community. A total of 22 booklets have been published, covering social topics including HIV/AIDS prevention; malaria and chest infection management, dealing with alcohol abuse; care of the new born; prevention of diarrhoea; combating deforestation; theft and corruption and wise use of wages. These booklets have proven hugely popular due to the highly relevant subject matter and the novelty of having reading material available in local languages. In the past 12 months, Paladin has distributed more than 70,000 copies to employees, students and local communities.

Paladin continues to use drama – a traditional art and teaching form – to promote social messaging through its sponsorship of the Nyange Nyange Drama Group, which regularly perform HIV dramas and in the community. During the past year, the Company sponsored Nyange Nyange to perform for 59 primary schools in the Karonga District, reaching 43,300 students.

The Company's social development team has established co-operative relationships with locally-active NGOs with expertise in HIV/AIDS community engagement.

In the interests of improving access to medical facilities in Kayelekera Village, Paladin and the Department of Health entered into discussions to expand upon the Paladin-supported weekly outpatient clinic in the village. The outcome was a commitment from the Department to establish a sub-clinic in Kayelekera to provide access to the full range of government programmes. Paladin will facilitate establishing the clinic and provide housing for two clinic staff in the village. Land has been allocated for this purpose.

### **Namibia**

LHUPL continued to play an active and leading role in the positive interface between the mining industry and community in Namibia, through its support for the Chamber of Mines and Energy of

## **SUSTAINABLE DEVELOPMENT (continued)**

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Namibia and the Chamber's Uranium Institute and through Langer Heinrich's own social development programme.

### **Social Development Programme**

LHUPL's social development programme complies with Paladin's Corporate Community Relations Policy; is cognisant of the Namibia's Millennium Development Goals and was determined in consultation with community stakeholder groups. Langer Heinrich's programme focuses on the key areas of education, youth development and community needs. These initiatives respond primarily to Namibia's most chronic problem, endemic unemployment, which is exacerbated by poor education results and substandard skill levels.

Key undertakings during the year included:

### **Mondesa Youth Opportunities**

LHUPL continued as principal sponsor of the Mondesa Youth Opportunities (MYO) organisation which provides educational assistance to promising but underprivileged students drawn from five disadvantaged schools located near Swakopmund. MYO's objective is to encourage completion of secondary education as a precursor to further academic or vocational study by improving student skills in English, mathematics and computer studies. MYO currently has 120 pupils enrolled in its classes and computers donated by Langer Heinrich are used in MYO's library resource centre.

### **National Mathematics Congress**

Support continued for Namibia's National Mathematics Congress, which has become a major in-service training conference in Namibia and was again the principal sponsor of the seventh congress attended by some 290 mathematics educators from throughout Namibia. Attendees included primary and secondary teachers, officials from the National Institute of Educational Development and representatives of the Ministry of Education. International teaching experts conducted workshops during the three-day Congress. The objective of the Congress is to improve the standard of mathematics education at primary and secondary levels across Namibia. Participation in the Congress is highly prized and has become the highlight in the professional life of Namibian mathematics teachers.

### **Coastal Region Mathematics Support Programme**

Another initiative LHUPL supports is designed to improve mathematics performance of grade 10–12 pupils at local schools in the Namibian Coastal Region. This scheme was established in 2011 and of 47 learners who regularly attended the programme, 27 received awards for their performance in Coastal Mathematics Competitions. The programme will be continued and expanded in 2012-13.

### **School Support Project**

LHUPL continued its local School Support Project providing text books for grade 12 pupils in various schools in the Coastal Region. The project is in collaboration with the Ministry of Education in order to ensure that the correct needs are identified in support of the Government's Vision 2030.

### **Namibian Institute for Mining and Technology**

LHUPL is a key supporter of the Namibian Institute of Mining Technology (NMIT), one of the largest vocational training centres in Namibia, offering courses related to mining, manufacturing and engineering. Since 2007, more than 200 students have undertaken their practical training at LHM. In response to the poor quality transportation available to students, LHUPL donated a 65-seat bus and a 14-seat minibus to NIMT to transport students to and from the college.

### **Namib-Naukluft National Park Development**

LHUPL funds two environmental projects in Namib-Naukluft National Park (NNNP) carried out by the Namib Ecological Restoration and Monitoring Unit (NERMU) of the Gobabeb Research and Training

## **SUSTAINABLE DEVELOPMENT (continued)**

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Centre. In the past year, NERMU has measured zebra movements over large distances in the NNNP utilising satellite imagery. The “learning” modelling procedure currently underway will produce a habitat suitability map. In the next phase, the preliminary results will be refined based on movement data collected with radio collars. The results will allow a high-confidence assessment of risks to the zebra species and identify options to mitigate real and potential impacts on the park’s zebra population.

The second NERMU project, comprising two related experiments, was a study of water absorption and retention by desert soils, to develop an understanding of the capacity of the desert ecology to support local plant life and a study of the organic properties (fertility) of different stockpiled soils. Understanding factors influencing water infiltration into desert soils is essential for successful post-mining rehabilitation. Results of both experiments will be published in scientific literature.

In collaboration with the Namibian tourism industry, LHUPL is examining ideas for the development and enhancement of a specific tourist attraction in the NNNP in the vicinity of LHM. This initiative is aimed at demonstrating that mining and tourism industries can co-exist and cooperate to produce positive outcomes for both parties.

### **HIV/AIDS Programme**

LHUPL has a group of externally trained HIV/AIDS Peer Educators among its employees. In recent years, very successful HIV/AIDS campaigns have been run among LHM employees and contractors. LHM’s Peer Educators also embarked on an education programme to address other health issues including education on alcohol and drug abuse and good hygiene.

### **Other Community Initiatives**

Langer Heinrich has increased its support for two feeding programmes for underprivileged children in Walvis Bay and Swakopmund in addition to supporting various small scale community projects during the year, reaffirming its commitment to the local community.

### **Australian Initiatives**

In 2011, Paladin made a five-year financial commitment to the Hammond-Nisbet Geoscience Fund administered by the University of Western Australia (UWA). The fund supports the creation of an endowed professorship within UWA’s Centre for Exploration Targeting (CET). This research-intensive position will focus on mentoring new generations of geoscientists in interpretation of fieldwork and structural geophysics and in applying this understanding to mineral systems and exploration targeting.

Paladin also continued its involvement with the ASX Thomson Reuters Charity Foundation. Along with other companies listed on the S&P ASX 200 Index, Paladin contributed to the creation of a share portfolio which was auctioned off at a major charity fundraiser organised by the Foundation. Proceeds from the fundraiser go to a set of pre-determined charities, the main focus being medical research for children.

Support of the Group’s activities in Mount Isa, Queensland included sponsorship of local school and sporting activities and support of the local indigenous Injilinj Youth Centre (part of the Kalkadoon community) with monetary and equipment donations.

### **Canada**

Aurora Energy continued its commitment to community-focused events on the north coast of Labrador and in the Upper Lake Melville area including support of local sporting events and participation in the 18th Annual Labrador Inuit Youth Symposium held in Postville.

Aurora also supported community initiatives which distributed Christmas hampers to needy families in Coastal Labrador.

## SUSTAINABLE DEVELOPMENT (continued)

### OUR PEOPLE

The Company continues to focus on utilising the depth of the Group's human capital in order to achieve efficiencies and global transfer of skills and experience. This strategy includes facilitating transfers or short-term assignments of employees across the Group between Namibia, Malawi, Canada and Australia. This approach has enriched the experience and development of employees and facilitated cross-pollination of ideas and efficiencies.

With the movement of staff from site to site, a key focus is building on the consistency and efficiency of global human resources' processes. In addition, the strengthening of retention programmes is a priority ensuring that with the global boom and talent shortage, Paladin continues to retain its people.

During the year employee relations and communication has been a key focus area. Langer Heinrich implemented the INVOCOM (Employee Involvement through Communication for Commitment and Innovation) methodology which is a delivery vehicle for improved business performance through organisation, operational and service excellence. This ensures that employees are involved through effective communication and information sharing. This resulted in a huge improvement in communication while complementing the established open door and positive working atmosphere. This initiative is now being rolled out at Kayelekera with an initial 3 day workshop held encompassing employees from all divisions and levels. The response was extremely positive with further workshops and training to be held to encompass all site based personnel.

Recruitment processes are carried out in a fair and consistent manner to ensure everyone is given a fair chance without any discrimination on any basis. The Company's strategy continued to focus on the recruitment and retention of competent staff. Voluntary turnover for the Group is detailed in the following table. The average annual rate for large companies was 12.2% as reported in the Australian Institute of Management National Salary Survey 2012. The Australian based voluntary turnover sits at 14.7% (combined head office and exploration) which reflects the challenges faced in respect to the competition being experienced in the recruitment and retention of high quality mining professionals. Exit interviews are undertaken to further understand the causes of voluntary turnover with those who leave typically doing so to pursue new challenges and advance their careers.

In line with the promotion policy and procedure, internal employees are given an equitable chance at promotion and this has seen a number of employees being promoted during the year.

The Company continues to pay competitive remuneration to all its employees, ensuring it is competitive in its market place by conducting annual salary surveys using reputable survey companies and using the survey results to benchmark within the mining industry.

In line with its Diversity Policy, Paladin is conscious of the importance of equitable gender balance in its workforce, with the percentage of females shown in the table below:

Location		Total	Female %	Local Nationals %	Turnover %
Australia	- Corporate, administration, financial & technical services	46	50%	n/a	18.3%
	- Exploration	31	29%	n/a	8.0%
Namibia	- LHM	329	19%		7.5%
Malawi	- KM	741	9%	84%	7.9%
	- Exploration	18	5%	100%	5.0%
Canada	- Exploration	13	38%	23%	-
Niger	- Exploration	3	33%	100%	-
<b>Total</b>		<b>1181</b>			

## SUSTAINABLE DEVELOPMENT (continued)

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### **Australia (Head Office & Mount Isa)**

This year, Australian based employees total 77 with females representing 41.6%. The Australian voluntary turnover rate was 14.7%, a slight increase from last year's rate of 13%. This reflects the ongoing pressure on staff retention strategies as the booming global mining economy presents many opportunities for our staff, some of which cannot be controlled.

Industry training is encouraged and a number of employees receive educational assistance in the furtherance of their career objectives. Standardisation of relevant policies and processes across the Group has been a focus for the year together with ongoing development of diversity in the work place. Further information on diversity can be found in the Corporate Governance Statement.

### **Exploration**

Paladin's exploration group has grown significantly over the past few years from two to three full time geologists in 2005, supported by external contractors and consultants, to a team of 23 geologists, three geophysicists and three full time database administrators located on three continents and six project sites. Paladin has exploration teams located at both mine sites in Africa who's focus is near mine resource extension and regional resource development as well as regional exploration teams in Niger, Mount Isa and Canada. An exploration team is also based in the Perth office and is currently focussed on the Manyingee and Spinifex Well projects in Western Australia as well as supporting the Company's projects in the Northern Territory.

Paladin has an enviable track record in retaining geoscience professionals with the vast majority of staff having a minimum of three years with the Company with a number employed directly after graduation from universities around the world. During the year the Company undertook a development programme for exploration geologists by seconding a number of them to either Africa or Canada to gain experience in different geological terrains and settings as well as mine site development. In order to retain and mentor the exploration group, the Company undertakes regular workshops, both regionally and globally, to update geoscience staff in the latest techniques and processes. At these events geologists are encouraged to present their own work to promote a wider understanding of local and regional geological issues affecting their projects. The Company also uses these workshops to transfer learnings from expert professionals in various geoscience disciplines and to enable Company geologists to share their experiences with their colleagues. During the year a number of Company geoscientists gave presentations at various national and international conferences and technical meetings.

### **Malawi (Kayelekera Mine)**

Employee numbers totalled 759 at year end, an overall reduction of seven over the previous year, with female employees comprising 9% of the total workforce. Contractor numbers reduced to 31, down from 54 in the previous year, following a rigorous review of the use of this type of employment on the mine.

Expatriate staff comprised 118 of the total employees, however during the June quarter this figure was reduced by 13% through natural attrition with further reductions expected during the next year as the localisation plan is implemented.

Turnover amongst expatriate staff amounted to 13.5%, a significant decrease from 25% reported last year.

Training and development initiatives targeted at Malawian Nationals continued. Kayelekera is a complex mining operation which requires skills not historically used in the country and therefore in short supply. PAL is therefore implementing a systematic plan to develop and build the skills of its Malawi workforce. The aim is to develop a high-performance workforce capable of ensuring, the sustainable and safe operation of the mine whilst maximising opportunities for all.

In pursuit of this, KM subscribes to the following philosophies:

- Succession Planning



## SUSTAINABLE DEVELOPMENT (continued)

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- Transferring of Skills
- Training and Development
- Mentoring and Coaching
- Performance Management
- Localisation Planning

The goal is to:

- Provide Malawi employees with development opportunities and challenges.
- Identify Malawi talent, within the company as well as externally, and implement realistic time bound Personal Development Plans.
- Implement rigorous succession planning to create a pool of able candidates with the required competencies that ensure continued high levels of performance.
- Review and sign off organisational charts which reflect succession plans.
- Set, monitor and audit succession planning targets.
- Measure managers on progress made against their respective targets.
- Encourage and foster a culture of learning, mentorship, coaching and high level performance.
- Develop competency based modular training schemes, incorporating continuous development for plant operators and artisans.
- Ensure that all contractors support the localisation strategy.

The majority of expatriate roles will be localised when Malawi candidates have been certified to the correct level of competence and are able to assume the responsibility and authority of the role.

Additional recruitment strategies to attract and retain experienced Malawians have also been put in place. In the processing department a competency based modular training scheme is being used and in the engineering department, the responsibility and authority of the job is aligned to the South African International Artisan Standard. Certification to perform at the correct level will result from artisan training and development, identified following completion of a skills assessment aligned with Paladin's requirements.

PAL has a training framework that recognises and addresses its business goals. They are as follows:

- On the job training – provided by coaches and mentors
- In-house training – provided by skilled experts
- External training – provided by external vendors
- External studies – provided by educational institutions

The following initiatives are in place:

- 28 Employees with Personal Development Plans.
- 13 Employees with funded external studies in the following departments:
  - human resources (3)
  - commercial & administration (7)
  - environment (2)
  - mining (1)
- 45 local employees who have been identified through the succession plan methodology to take on more senior roles.

PAL subscribes to the philosophy of developing employees with further education and will pay for tertiary training and studies in accordance with appropriate guidelines. Promotion of employees into positions of greater responsibility and authority is the outcome of training and development and is a natural, ongoing process.

Labor relations on the mine continued to develop and mature along positive lines with monthly meetings between staff representatives and management, the sharing of information and discussion on matters of common interest.

## SUSTAINABLE DEVELOPMENT (continued)

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This relationship suffered an unfortunate setback in May when employees embarked on strike action to press for their demands that salaries be increased to offset the effects of the substantial devaluation of the local currency following changes in government policy in this regard.

Discussions on this and other employee concerns have since been resumed through the established channels and plans are underway for a Performance Improvement Process - aimed at a Prosperity Partnership – commencing early in the new financial year with a view to creating a shared vision for the future success of the mine.

### **Namibia (Langer Heinrich Mine)**

The number of permanent employees has increased by 9% from 303 to 329 since the last reporting period mainly attributable to the manning for the Stage 3. LHUPL remains focused on its endeavour to recruit more females therefore ensuring a gender balanced workforce whenever possible. Female employees currently represents 19% of the total permanent employees, an increase from 17% the previous year. The permanent workforce is largely represented by Namibians with only 3% being non-Namibian.

Filling of some positions remains a challenge due to skills shortage experienced in Namibia. The average voluntary turnover rate is currently 8% with 24 permanent employees leaving the company during the year, mainly as a result of resignations. The company endeavours to retain its employees by ensuring that continuous training and development are taking place, employees are paid at the 75<sup>th</sup> percentile and a harmonious relationship is maintained. Whenever possible, vacancies arising in management levels are filled with persons from designated groups in support of the LHUPL Affirmative Action Policy.

Capacity development remains a focal point and a number of employees undertook training, both internal and external, during the year. Five employees from the Specialised and Middle Management level, all previously disadvantaged, successfully completed their Management Development Programmes through the University of Stellenbosch.

The fulltime bursary scheme introduced for Namibians has seen six students benefiting: a geologist who graduated through this programme was offered employment and is currently being developed internally, while another is expected to complete studies and commence employment in January 2013. The two mining engineer bursary students are also expected to graduate by end of 2012 and commence employment in 2013. The company has committed to extend invitations for further bursaries for 2013, and in light of the shortage still being experienced in this particular field, concentrating on mining engineers.

In collaboration with NIMT, approximately 60 students were trained at the mine as part of their curriculum. This programme resulted in a number of employees being recruited after completion of their studies, while others are absorbed by other mining and engineering companies assisting in curbing the skills scarcity problem currently being experienced in Namibia.

The relationship which currently exists between NIMT, the company and the Ministry of Education has proved to be beneficial to all stakeholders over the years and will continued to be maintained to ensure that students are accommodated for practical “hands on” training.

LHUPL recently initiated the process operator qualification framework in consultation with the Namibian Chamber of Mines. This initiative forms part of the Namibian Qualifications Framework and is therefore internationally recognised. Through this programme/initiative, process operator training will be standardised throughout the Namibian mining industry. This standardised training will facilitate and shorten the recruitment process while general employee competency levels, safety awareness and personal development will be enhanced.

LHUPL is committed to, and fully supports the policy of equal opportunity employment and non-discrimination and therefore embarked on an Affirmative Action Programme. This commitment has been incorporated into a positive, practical and results oriented Affirmative Action Plan. To this end, the following are being performed:

## **SUSTAINABLE DEVELOPMENT (continued)**

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- Implementation of positive measures to enhance employment opportunities for persons in designated groups in support of advancement opportunities for individuals or groups of individuals of any of the designated groups.
- Implementation of procedures to communicate to and consult with all stakeholders, as well as strategies to ensure the implementation of the policy.
- Ensuring the administration of personnel actions (i.e. compensation, benefits, layoffs and recruitment) in a fair and non-discriminatory manner.

Employee wellness remains an important aspect with the health and well-being of all employees important to corporate success. The position of Occupational Health Administrator was created during the year providing a dedicated resource to, amongst other duties, initiate and drive wellness programmes.

The HIV/AIDS Peer Educators Team's activities improved over the past year. A total of 18 Peer Educators underwent HIV training and they will continue with HIV/AIDS education and counselling throughout the organisation to ensure that awareness is elevated.

In collaboration with the Society for Family Health and the Ministry of Health and Social Services a two week voluntary HIV testing campaign involving all employees and contractors was undertaken. Approximately 530, more than 60% of employees and contractors, were tested during this time.

# CORPORATE GOVERNANCE STATEMENT

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## CORPORATE GOVERNANCE FRAMEWORK

The Board of Directors of Paladin Energy Ltd is responsible for the corporate governance of the Group.

Paladin has adopted systems of control and accountability as the basis for the administration of corporate governance.

This Corporate Governance Statement outlines the key principles and practices of the Company which, taken as a whole, is the system of governance.

Shareholders are reminded that Paladin operates with a dual listing in Australia on the ASX and in Canada on the Toronto Stock Exchange (TSX). In formulating the governance framework, the regulatory requirements in both Australia and Canada have been taken into account.

The Company has complied with each of the Eight Corporate Governance Principles and the corresponding Recommendations as published by the ASX Corporate Governance Council. Further the Company also complies with the Ontario Securities Commission's corporate governance requirements as set out in National Instrument 58-101.

The Company reviews and amends its corporate governance policies as appropriate to reflect the growth of the Company, current legislation and good practice. The Company's website ([www.paladinenergy.com.au](http://www.paladinenergy.com.au)) includes copies or summaries of key corporate governance policy documents.

## RELATIONSHIP WITH SHAREHOLDERS

The Company places a high priority on communications with, and accountability to shareholders. The Board recognises that shareholders, as the ultimate owners of the Company, are entitled to receive timely and relevant high quality information about their investment. Similarly, prospective investors should be able to make an informed decision when considering the purchase of shares in Paladin.

To safeguard the effective dissemination of information, a Continuous Disclosure Communications Policy is in place. This reinforces the Company's commitment to its continuous disclosure obligations imposed by law.

Information will be communicated to shareholders by:

- ensuring that published financial and other statutory reports are prepared in accordance with applicable laws and industry best practice;
- ensuring the disclosure of full and timely information about the Company's activities in accordance with the general and continuous disclosure principles in the ASX Listing Rules, the Corporations Act in Australia and all relevant legislation in Canada;
- providing detailed reports from the Chairman, the Managing Director/CEO and other senior executives at the Annual General Meeting (AGM);
- placing all material information released to the market (including notices of meeting and explanatory materials) on the Company's website as soon as practical following release;
- placing the Company's market announcements and financial data for the preceding seven years on its website;
- providing the Annual Report in a "user friendly" electronic format on its website; and
- providing quarterly conference calls incorporating Q&A together with investor updates.

In addition, the website includes a facility to allow interested parties to subscribe to receive, electronically, public releases and other relevant material concerning the Company.

Shareholders are encouraged to attend AGM's and ask questions of Directors, senior management and the Company's external auditors, who are required to be in attendance. In the event that

## **CORPORATE GOVERNANCE STATEMENT** **(continued)**

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shareholders are unable to attend meetings, they are encouraged to lodge proxies signifying their approval or otherwise of the business to be considered. Shareholders are able to directly lodge their votes online via the Company's website and the Computershare voting platform.

### **BOARD OF DIRECTORS**

#### **Role of the Board**

The Board guides and monitors the business of Paladin on behalf of shareholders, by whom they are elected and to whom they are accountable. The Board is responsible for setting corporate direction, defining policies and monitoring the business of the Company, to ensure it is conducted appropriately and in the best interests of shareholders.

The role of the Board is to oversee and guide the management of the Company with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders including employees, customers, suppliers and the wider community.

The Board operates under a Charter and has a written Code of Conduct (Code) which establishes guidelines for its conduct. The purpose of the Code is to ensure that Directors act honestly, responsibly, legally and ethically and in the best interests of the Company.

The Board is responsible for setting the strategic direction and establishing goals for management and the monitoring of the achievements against these goals. The Board evaluates the performance of senior executives and is also responsible for CEO succession planning.

#### **Composition of the Board**

The Board comprises five Non-executive Directors, including the Chairman and one Executive Director, being the Managing Director/CEO. The names of the Directors, both in office at the date of this report and those who held the position during the past year, are set out in the Directors' Report. This information includes their status as Non-executive, executive or independent, their qualifications and experience and length of service.

The structure of the Board has evolved over time to reflect the changing needs of the Company to ensure an appropriate mix of skills and experience are available to oversee the growth of Paladin to its full potential.

Skill sets represented at Board level include managerial, technical, financial, corporate, legal and commercial. Particularly, members have a broad range of experience and expertise in the uranium business.

#### **Director Independence**

Directors are expected to bring independent views and judgement to the Board's deliberations. All of the Non-executive Directors, including the Chairman, are considered by the Board to be independent. In considering whether a Director is independent, the Board has regard to the independence criteria set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations and the Corporate Governance Guidelines developed by the Ontario Securities Commission pursuant to National Policy 58-201 and other facts, information and circumstances that the Board considers relevant.

The Board assesses the independence of new Directors prior to appointment and reviews the independence of all Directors as appropriate.

#### **Meetings of the Board**

The Board meets formally face to face at least four times a year (each over a three day period). Video conferencing facilities have been installed to provide greater ease of communications between face to face meetings and meetings are held at a six week intervals between face to face meetings, via this means. Additional ad-hoc meetings are held as required. Members of senior management attend and make presentations to the Board covering all aspects of the Company's operations. This provides an

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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excellent opportunity for dialogue and networking, with management from all operations present. Non-executive Directors meet together without the Managing Director/CEO and management being present, prior to each of the four principal Board meetings.

The entire Board is required (as stated in their Letters of Appointment) to attend the AGM of the Company and all attended the 2011 AGM.

The Board holds an annual strategic planning session with management at which the Company's strategic plans for each operating activity and the Group as a whole are presented. This is held as part of the budget review process. The Managing Director/CEO encourages full access to executive managers by the Board to ensure transparency at a senior management level. Non-executive Directors are encouraged to visit the Company's operations annually and these visits provide the Non-executive Directors with unlimited access to all site personnel.

### **Retirement and Re-election**

The Constitution of the Company requires one third of the Directors, other than the Managing Director, to retire from office at each AGM. Directors who have been appointed by the Board are required to retire from office at the next AGM and are not taken into account in determining the number of Directors to retire by rotation at that AGM. Directors cannot hold office for a period in excess of three years or later than the third AGM following their appointment without submitting themselves for re-election. Retiring Directors are eligible for re-election by shareholders. Donald Shumka and Peter Donkin will seek re-election at the 2012 AGM, following their retirement by rotation.

The Board does not believe that any Director has served on the Board for a period which could, or be perceived to, materially interfere with his ability to act in the best interests of the Company.

In reaching this conclusion, the Board has noted that each of R Crabb (the Chairman) and J Borshoff (the Managing Director/CEO) will have each served on the Board for 18 years. Notwithstanding their period of service, the Board concluded that both Directors retain independence of character and judgement and continue to make outstanding contributions at Board level. Both bring their unique skills to the Board and participate in robust constructive debate. The Board considers that Mr Borshoff's uranium experience and knowledge of the nuclear industry and Mr Crabb's international resource law experience remains valuable at Board level. The Board further agrees that time in office should only be considered from 2004, as the period prior to 2004 the Company was a junior explorer. It is also noted that the Company did not enter the ASX/S&P 200 until June 2005.

### **Nomination and Appointment of New Directors**

If it is necessary to appoint a new Director to fill a vacancy on the Board or to complement the existing Board, a wide and diverse potential base of possible candidates is considered and external consultants are engaged to assist in the selection process, if required. The Board assesses the qualifications of the proposed new Director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a Director, that Director must retire at the next AGM and will be eligible for re-election by shareholders at that AGM.

New Directors appointed to the Board are invited to participate in an induction programme which includes provision of comprehensive written material regarding the Company such as:

- information on the financial, strategic and operational position of the Company;
- a comprehensive letter of appointment which sets out the Company's expectations on acceptance of the position;
- a written statement which sets out the duties, rights and responsibilities they undertake on becoming a Director together with material detailing the operations, policies and practices of the Company; and

## **CORPORATE GOVERNANCE STATEMENT** **(continued)**

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- access to previous Board papers together with recent Annual Reports and interim financial statements.

Furthermore, new Directors are invited to attend briefing sessions with the Managing Director/CEO and key members of the senior management team where they may ask questions and direct any queries they may have to the Chairman and/or the Managing Director/CEO or obtain any other briefings they feel necessary from the Chairman and/or the Managing Director/CEO. They are encouraged to attend site visits in liaison with the Managing Director/CEO, at appropriate times. Directors agree to participate in continuous improvement programmes from time to time, as considered appropriate.

### **Evaluation of Board Performance**

Improvement in Board processes and effectiveness is a continuing objective and the primary purpose of Board evaluation is to identify ways to improve performance. The Chairman is responsible for conducting an annual review of the Board performance.

An evaluation of the performance of the Board has been carried out. This process involved completion of individual questionnaires focused on process, structure, effectiveness and contributions and addresses the performance of each Director individually. Responses to the questionnaire were collated and discussed by the Board in an open forum and recommendations for improvement considered.

### **Knowledge, Skills and Experience**

To assist Directors to maintain an appropriate level of knowledge, skill and experience in the operations of the Company, Directors have the opportunity to undertake site visits to familiarise themselves with the Company's operations.

Directors are also provided with papers, presentations and briefings on the Company's operations and on matters which may affect the Company. These are provided in addition to Board papers and are designed to assist the Directors to gain relevant and timely information to assist in their decision making process. The Company has implemented a secure electronic information repository to facilitate access to past and present Board documentation and other relevant reference material. Directors are encouraged to undertake continuing education relevant to the discharge of their obligations as Directors of the Company. Subject to prior approval by the Company Secretary, the reasonable cost of such education is met by the Company.

### **Position Descriptions**

The Board has developed and adopted written position descriptions for the Non-executive Chairman of the Board, the Chairman of each Board Committee, the Managing Director/CEO and the Company Secretary.

These delineate the role and responsibility of each position and provide clarity on the expectations for those individuals occupying these key positions within the Company.

### **Conflicts of Interest**

The Code of Conduct for Directors, a copy of which is available on the Company's website, sets out the procedure to be followed if there is, or may be, a conflict between the personal or other interests of a Director and the business of the Company. A Director with an actual or potential conflict of interest in relation to a matter before the Board does not receive the Board papers relating to that matter and when the matter comes before the Board for discussion, the Director withdraws from the meeting for the period the matter is considered and takes no part in the discussions or decision-making process.

Minutes reporting on matters in which a Director is considered to have a conflict of interest are not provided to that Director, however, the Director is given notice of the nature of the matter for discussions and, as much as practicable, of the general nature of the discussion or decision reached.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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### **Remuneration**

Details of the remuneration policies and practices of the Company and the remuneration paid to the Directors (Executive and Non-executive) and senior executives are set out in the Remuneration Report included in the Directors' Report. Shareholders will be invited to consider and to approve the Remuneration Report at the AGM in November 2012.

In relation to the Non-executive Directors, there are no termination or retirement benefits other than those contained in statutory superannuation plans.

### **Independent Advice**

The Board and its Committees may seek advice from independent experts whenever it is considered appropriate. With the consent of the Chairman, individual Directors may seek independent professional advice, at the expense of the Company, on any matter connected with the discharge of their responsibilities. No Director availed himself of this right during the course of the year.

### **BOARD COMMITTEES**

The Board has established Audit, Nomination, Remuneration, and Sustainability Committees which assist in the discharge of the Board's responsibilities. In addition to a review by the Board, each committee reviews its performance and Charter on an annual basis.

Board approved charters set out the terms of reference and rules governing these Committees.

### **Audit Committee**

The Audit Committee assists the Board in discharging its responsibilities to ensure that the Company complies with appropriate and effective accounting, auditing, internal control and compliance and reporting practices in accordance with the Audit Committee Charter. The Audit Committee Charter is reviewed annually by the Board and no changes were made to the charter during the financial year.

The role of the Audit Committee is to:

- monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgments;
- review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services; and
- perform such other functions as assigned by law, the Company's constitution, or the Board.

The Audit Committee comprises three members, all of whom are independent Non-executive Directors. The current members of the Audit Committee are:

- Donald Shumka – Committee Chairman  
Non-executive, Independent Director
- Sean Llewelyn  
Non-executive, Independent Director
- Peter Donkin  
Non-executive, Independent Director



## **CORPORATE GOVERNANCE STATEMENT** **(continued)**

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The Audit Committee meets at least once a quarter and at any other time requested by a Board member, Company Secretary or external auditor. The external auditors attend each quarterly meeting and on other occasions where circumstances warrant. At the discretion of the Chairman, having regard to the nature of the agenda, relevant members of management may be invited to attend meetings.

The number of meetings of the Audit Committee during the reporting period and the names on the attendance record is set out in the Directors' Report. The Audit Committee carries out periodic self evaluation of its effectiveness and performance.

The Chairman of the Board includes an evaluation of the Audit Committee's effectiveness and performance within his overall Board evaluation.

The external auditors are Ernst & Young who were appointed as the Company's auditors in June 2005. In November 2008, the audit partner was changed as part of the partner rotation process.

The external auditors meet with the Audit Committee without management present at each meeting.

### **Nomination Committee**

The responsibilities of the Nomination Committee include:

- reviewing the size and composition of the Board and making recommendations to the Board on any appropriate changes;
- developing and planning for identifying, assessing and enhancing Director competencies;
- making recommendations on the appointment and removal of Directors;
- evaluating Board performance so that individual and collective performance is regularly and fairly assessed; and
- providing new Directors with an induction into the Company and provide all Directors with access to ongoing education relevant to their position.

Sean Llewelyn chairs the Nomination Committee. The Board considers that given the importance of Board composition, it is appropriate that all members of the Board are members of the Nomination Committee.

The number of meetings of the Nomination Committee during the reporting period and the names on the attendance record is set out in the Directors' Report.

The Chairman of the Board includes an evaluation of the Nomination Committee's effectiveness and performance within his overall Board evaluation.

### **Remuneration Committee**

The role of the Committee, in accordance with the Remuneration Committee Charter, is to assist the Board with respect to remuneration by reviewing and making appropriate recommendations on:

- remuneration packages of executive Directors, Non-executive Directors and senior executives; and
- employee incentive and equity based plans including the appropriateness of performance hurdles and total payments proposed.

The ASX Listing Rules and the Constitution require that the maximum aggregate amount of remuneration to be allocated among the Non-executive Directors be approved by the shareholders in a general meeting. In proposing the maximum amount for consideration by shareholders, and in determining the allocation, the Remuneration Committee will take into account the time demands

## **CORPORATE GOVERNANCE STATEMENT** **(continued)**

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made on Directors given the increasing complexity of the Paladin Group and such factors as fees paid to Non-executive Directors in comparable Australian companies.

The remuneration paid to Directors and senior executives is shown in the Directors' Report.

The Remuneration Committee comprises three members, all of whom are independent Directors. Sean Llewelyn is the Chairman of the Remuneration Committee.

The current members of the Remuneration Committee are:

- Sean Llewelyn – Committee Chairman  
Non-executive, Independent Director
- Rick Crabb  
Non-executive, Independent Director, Board Chairman
- Donald Shumka  
Non-executive, Independent Director

The number of meetings of the Remuneration Committee during the reporting period and the names on the attendance record is set out in the Directors' Report.

The Chairman of the Board includes an evaluation of the Remuneration Committee's effectiveness and performance within his overall Board evaluation.

### **Sustainability Committee**

The role of the Sustainability Committee is to provide the Board with an overview of Paladin's performance in the areas of health, safety, environment, social responsibility and sustainability and to provide the Board with advice and recommendations where relevant significant incidents occur.

The responsibilities of the Committee are to:

- periodically review Paladin's policies and guidelines in the area of radiation, health, safety, environment, social responsibility and sustainability to ensure they continue to reflect the latest international standards;
- monitor Paladin's performance and the effectiveness of the implementation of the relevant guidelines and policies;
- receive and consider reports on significant accidents, environmental incidents, community concerns and breaches of Policy or system failure;
- receive and consider any major relevant internal or consultant reports;
- receive and consider relevant internal audit reports;
- review relevant external audit reports and consider their independence and effectiveness;
- obtain assurances that Paladin's operations are in compliance with all relevant legislation;
- refer matters of concern to the Board as appropriate; and
- exercise such other powers and perform such other duties and responsibilities as are incidental to the purposes, duties and responsibilities of the Committee pursuant to the Charter and as may be delegated by the Board to the Committee from time to time.

The Sustainability Committee comprises three members, the majority of whom are independent Non-executive Directors.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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The current members of the Sustainability Committee are:-

- Philip Baily – Committee Chairman  
Non-executive, Independent Director
  
- Rick Crabb  
Non-executive, Independent Director, Board Chairman
  
- John Borshoff  
Managing Director/CEO

The Sustainability Committee meets at least twice a year, with further meetings as required. At the discretion of the Chairperson, having regard to the nature of the agenda, relevant members of management and external consultants may be invited to attend meetings.

The number of meetings of the Sustainability Committee during the reporting period and the names on the attendance record is set out in the Directors' Report.

The Chairman of the Board includes an evaluation of the Sustainability Committee's effectiveness and performance within his overall Board evaluation.

### **FINANCIAL REPORTING**

#### **CEO and CFO Certification**

In accordance with the Corporations Act 2001, ASX Corporate Governance Principle 4 (Safeguard Integrity in Financial Reporting) and Canadian Securities Law, relevant declarations, statements and certifications have been provided by the Managing Director/CEO and the Chief Financial Officer in relation to the Company's 30 June 2012 Annual Report, including financial statements.

### **DISCLOSURE CONTROLS**

Paladin is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal and timely access to material information concerning the Company.

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the ASX's and Toronto Stock Exchange's securities market and has adopted a Continuous Disclosure and Communications Policy with underlying procedures covering public announcements, the prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, and media communications. This Policy reflects the commitment of the Directors and management to promoting consistent disclosure practices aimed at accurate, timely and broadly disseminated disclosure of material information to the market. The Company has formed a Disclosure Control Committee which has responsibility for overseeing and co-ordinating disclosure of all public information. Members of this Committee are the Managing Director/CEO, Company Secretary and Chief Financial Officer.

### **RISK MANAGEMENT**

The Company has established policies on risk oversight and management and has a risk management and internal control system to manage the Company's material business risks. The Company has developed its risk management policy in line with the implementation of the risk management system and a risk management framework.

The Company's Risk Management Policy is to identify, assess, evaluate, monitor and mitigate risks which are considered unacceptable to the Company. Operational business controls have been identified and are in place to ensure unwanted threats to the business are managed. Paladin has also developed the business environment for managers and senior personnel to assess risks and make sound business decisions. Whilst all personnel have a responsibility to identify and report to management risks which may materially affect the Company, the Managing Director/CEO has the

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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overall responsibility for the management of risk in the Company. The Managing Director/CEO is assisted by the heads of operational business units who “champion” risks within the business unit. Paladin has adopted the Australian and New Zealand Standard ISO 31000:2009 - “Risk Management” in managing the risk management process.

The risk management system is designed and implemented by the Managing Director/CEO, with assistance from senior executives, and is subject to the review of the Board of Directors. A report is provided annually to the Board of Directors detailing the management process in relation to the Group’s material business risks.

The Company maintains a Risk Register, which sets out all of the enterprise risks that have been identified and includes an assessment of the risk (risks analysed and evaluated), and treatment plans to mitigate risks. The risk register has been compiled and is subject to regular review by the Managing Director/CEO and senior management to ensure adequate risk control measures have been identified. An operational risk assessment system is in place at the Langer Heinrich and Kayelekera operations, which is continuously reviewed and updated.

Paladin is committed to continual improvement of the risk management process and procedures to ensure the highest return to shareholders and stakeholders.

The Company has developed a Crisis and Emergency Management System with individual site plans for LHM and KM. The Company also conducts scenario-based exercises to practise crisis and emergency response.

### **ENVIRONMENT**

The Company promotes a standard of excellence for environmental performance across its operations. The Company seeks to prevent, minimise, mitigate and remediate any adverse impacts of its operations on the environment and strives to achieve continuous improvement in environmental performance. The Company has an Environmental Policy that endorses compliance with all applicable environmental legislation as a minimum, development and implementation of Environmental Standards and all components of an Environmental Management System, the assessment and management of environmental risks, ensuring that its employees and contractors are aware of their environmental responsibilities, effective stakeholder consultation in relation to the Company’s operations and proposed projects, and undertaking regular audits and reviews and reporting on environmental performance.

### **HEALTH AND SAFETY**

The safety, health and wellbeing of employees, contractors and the community are of core value to Paladin’s operations. A healthy workforce contributes to business success and the Company’s aim is for zero injuries. The Company encourages safe behaviour by employees and contractors, establishes a mindset that injuries are preventable, provides safety education and training, and conducts safety risk assessments. The safety and health performance of Paladin is measured through internal and external internationally recognised auditing and reporting processes.

During the year external health and safety audits were carried out at LHM and KM.

### **SECURITIES OWNERSHIP AND DEALINGS**

The Company has a Policy for Trading in Company Securities which is binding on all Directors and employees. The Policy was updated in August 2010. This was due to the Company’s largely expanded workforce and, rather than specific approvals to trade required from all employees, the amended policy restricts this requirement to a group of Restricted Employees. This group consists of all Directors and officers and other key personnel as nominated by the Chairman and Company Secretary and is reviewed on a regular basis to take into account changes in personnel. Prescribed ‘blackout’ periods are included, during which all Directors, officers and Restricted Employees will be prohibited from dealing in the Company’s securities. This is in addition to the overriding prohibition against dealing in the Company’s securities when a person is in possession of inside information. In addition, all Directors, officers and Restricted Employees are required to complete an application form

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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to gain the written acknowledgement of either the Chairman, Managing Director/CEO or the Company Secretary before they deal in the Company's securities.

The Company's Policy also prohibits hedging of options granted under share options plans. This relates to both vested and unvested options. Prohibited hedging practices include put/call arrangements over "in money" options to hedge against a future drop in share price. The Board considers such hedging to be against the spirit of a share option plan and inconsistent with shareholder objectives.

The Company uses an online compliance training module to assist in monitoring understanding of this Policy. Training is completed on a bi-annual basis with new employees completing the training and assessment as part of the induction process.

### **CODES OF CONDUCT**

The Board has approved a Code of Conduct for Directors (incorporating underlying Guidelines for the Interpretation of Principles) together with a Code of Business Conduct and Ethics, which applies to all Directors, officers and employees including those employed by subsidiaries, in all countries where Paladin does business. A copy of the Code is available on the Company's website.

These Codes demonstrate and codify Paladin's commitment to appropriate and ethical corporate practices. Compliance with the Codes will also assist the Company to effectively manage its operating risks and meet its legal and compliance obligations, as well as enhancing Paladin's corporate reputation.

The principles outlined in this document are intended to:

- establish a minimum global standard of conduct by which all Paladin employees are expected to abide;
- protect the business interests of Paladin, its employees and customers;
- maintain Paladin's reputation for integrity; and
- facilitate compliance by Paladin employees with applicable legal and regulatory obligations.

The Code of Business Conduct and Ethics addresses honesty and integrity, following the law, conflicts of interest, confidentiality, protection of Company assets, dealing with public officials, responsibility for international operations, employment practices, record keeping and community relations.

The Board has appointed the Company Secretary as the Company's compliance officer in the case of employees, and the Chairman of the Audit Committee in the case of Directors and officers, as the person responsible for receiving reports of breaches of the Code and this is the mechanism by which compliance with the Code is monitored.

### **HUMAN RIGHTS POLICY**

Paladin is committed to respect for human rights and fundamental freedoms. The aim of the Human Rights Policy is to provide the overarching framework for the business in respecting human rights.

Paladin commits to uphold the human rights' principles outlined in the International Bill of Rights, which includes the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights. Additionally, Paladin respects the International Labor Organisation's Core Conventions.

Human rights are fundamental principles of personal dignity and universal equality. Respect for human rights fosters social progress, better standards of life and larger freedom for individuals.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

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### **WHISTLEBLOWER POLICY**

The Board has also approved a Whistleblower Policy which documents commitment to maintaining an open working environment in which employees and contractors are able to report instances of unethical, unlawful or undesirable conduct without fear of intimidation or reprisal.

The purpose of the Whistleblower Policy is to:

- help detect and address unacceptable conduct;
- help provide employees and contractors with a supportive working environment in which they feel able to raise issues of legitimate concern to them and to the Company; and
- help protect people who report unacceptable conduct in good faith.

To assist in the understanding of this Policy by the local Malawian workforce due to language and cultural differences, a storybook has been written and translated into the local language dealing with the issues of fraud and corruption and whistleblowing. This has been distributed to all local employees. In addition, the local acting troupe has been employed in presenting small plays to the workforce on these subjects. Both mediums have been extremely well received and effective in presenting the message.

### **PRIVACY POLICY**

The Company has a firm commitment to protecting the privacy of any personal information that it collects and holds and recognises its obligations under the existing privacy legislation. It has adopted a Privacy Policy which provides details on the collection and use of personal information, circumstances under which it can be disclosed, management and security of personal information and how it can be accessed.

### **DIVERSITY POLICY**

The Board has approved a Diversity Policy which documents the Company's commitment to workplace diversity and recognises the benefits arising from the recruitment, development and retention of a talented, diverse and motivated workforce.

Diversity within the Company means all the things that make individuals different to one another, including, but not limited to, gender, ethnicity, religion, culture, language, disability and age. It involves a commitment to equality and treating one another with respect.

Responsibility for review of all matters contained within the Diversity Policy rests with the Board as a whole and is reflected accordingly in its Charter.

The ASX Corporate Governance Council's Principles and Recommendations requires the Company to set 'measurable objectives' for achieving gender diversity and to report against them on an annual basis. A number of objectives were put in place since the Board approved the Diversity Policy and the Board will continually review these objectives and update them as necessary.

In respect to gender diversity specifically, 14% of the total workforce globally are female. This statistic is somewhat skewed due to the cultural and educational challenges faced with increasing the female component of the workforce in Malawi at KM, which is also the largest division of the Group with a total of 741 employees. Here, females represent 9% (as for 2011) compared to 42% (an increase from 33% in 2011) with Australian based employees. Details across the Group are included in the table set out in the "Our People" section on page 55.

It is worth noting that female participation in the workforce has increased from 17% in 2011 to 19% at LHM. At a senior management level, females are represented by 21% in Australia, 20% at KM and 17% at LHM. At minesite level at Kayelekera female expatriates hold 10% of the supervisory roles and female nationals hold 16%. At Langer Heinrich, female nationals hold 24% of such roles.

## CORPORATE GOVERNANCE STATEMENT (continued)

### Measurable Objectives

Objective	Outcome
Promote and publish a Diversity Policy.	The Diversity Policy, adopted by the Board, is published on the Company's website and intranet and forms part of the employee induction process.
Undertake an annual gender pay audit to ensure equity in remuneration practices.	This was undertaken as part of the annual salary review process.
Establish baseline data across the Group for ongoing diversity reporting.	Completed, with results detailed in the 2012 Annual Report.
Encourage training and development to assist in furthering career goals.	105 females participated in educational initiatives during the year.
Develop and implement flexible working arrangements to support employees' personal or family commitments whilst continuing in employment.	The Company provides employees with flexible working arrangements and paid parental leave together with a financial incentive paid on return to work.
When the Board next recruits for an independent non-executive director, at least one woman must be included in the list of potential candidates.	Ongoing.

Further information on diversity within the Company can be found in the Our People section of this annual report.

### **ANTI-BRIBERY AND CORRUPTION COMPLIANCE**

Paladin does not operate in any country rated an extreme risk for corruption in the latest Transparency International Global Corruption Index – Australia and Canada are in the top quartile and rank 8<sup>th</sup> and 10<sup>th</sup> respectively (out of 183 countries surveyed); Namibia is in the second quartile and ranks 57<sup>th</sup>; Malawi and Niger are in the third quartile, ranked 100<sup>th</sup> and 134<sup>th</sup> respectively.

Paladin opposes corruption and honours the OECD *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* (OECD Convention). Paladin is committed to conducting its business in accordance with applicable laws, rules and regulations, and the highest standards of business ethics, and to full and accurate disclosure in compliance with applicable laws, rules and regulations. The Company operates under a Code of Business Conduct and Ethics and a Code of Conduct for its Directors. An Anti-Bribery and Corruption Compliance Guide provides practical advice on ethical business conduct for Paladin Directors, employees and third parties. A Whistleblower Policy and procedure are also in place to facilitate disclosure of any alleged corrupt practices.

The Company has established a Compliance Committee to oversee training of all Paladin Group employees and to ensure compliance with the Company's standards. The Committee has been trained by external legal counsel expert in the field. It is intended to roll out unified anti-corruption training across the Group during 2012-13 with the objective of 100 per cent attendance by management and employees. Paladin will also engage significant suppliers and contractors in regard to its stance on Anti-Bribery and Corruption.

Both LHM and KM operations have been independently assessed for risks related to corruption by a specialist fraud and corruption analyst from Australia and relevant corruption risks have been identified and included in the Corporate Risk Assessment Register.

Any changes to the above Codes and Policies are considered by the Board for approval.

## DIRECTORS' REPORT

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The Directors present their report on the Group consisting of Paladin Energy Ltd (Company) and the entities (Group) it controlled at the end of, or during, the year ended 30 June 2012.

### DIRECTORS

The following persons were Directors of Paladin Energy Ltd and were in office for this entire period unless otherwise indicated:

**Mr Rick Wayne Crabb** *B. Juris (Hons), LLB, MBA, FAICD*  
(Non-executive Chairman) Age 55

Mr Crabb holds degrees of Bachelor of Jurisprudence (Honours), Bachelor of Laws and Master of Business Administration from the University of Western Australia. He practised as a solicitor from 1980 to 2004 specialising in mining, corporate and commercial law. He has advised on all legal aspects, including financing, marketing, government agreements and construction contracts, of many resource development projects in Australia and Africa. Mr Crabb now focuses on his public company directorships and investments. He has been involved as a director and strategic shareholder in a number of successful public companies. He is also the non-executive chairman of Golden Rim Resources Ltd (since 2001), Ashburton Minerals Ltd (since 1999) and Otto Energy Ltd (since 2004). Mr Crabb is a councillor on the Western Australian Division of the Australian Institute of Company Directors.

Mr Crabb was appointed to the Paladin Board on 8 February 1994 and as Chairman on 27 March 2003.

*Former directorships of listed companies in last three years*  
Royal Resources Limited from 2004 to 11 August 2009  
Port Bouvard Ltd from 1996 to 30 March 2009

*Special Responsibilities*

Chairman of the Board

Member of Remuneration Committee from 1 June 2005

Member of Nomination Committee from 1 June 2005

Member of Sustainability Committee from 25 November 2010

**Mr John Borshoff** *B.Sc., F.AusIMM, FAICD*  
(Managing Director/Chief Executive Officer) Age 67

Mr Borshoff is a geologist who has been involved in the Australian and African exploration and mining industry for over 30 years. Mr Borshoff worked for International Nickel and Canadian Superior Mining before joining a German mining group, Uranerz from 1976 to 1991. He became Chief Geologist/Exploration Manager during the period 1981-1986 and served as its chief executive from 1987 to mid-1991 when the German parent of Uranerz made the decision to close its Australian operations. The primary focus of the Uranerz Group was the search and development of uranium with the company operating extensively throughout Australia, North America and Africa.

Mr Borshoff has extensive knowledge of the uranium industry and experience in company management and strategic planning. He serves on a number of industry organisations including the Board of the Minerals Council of Australia and the Board of the Australian Uranium Association of which he is the chairman of its Code of Practice working committee and a member of its Executive Committee.

Mr Borshoff founded Paladin and was appointed to the Paladin Board on 24 September 1993.

*Special Responsibilities*

Managing Director/Chief Executive Officer

Member of Nomination Committee from 1 June 2005

Member of Sustainability Committee from 25 November 2010

**Mr Sean Reveille Llewelyn** *LL.B*  
(Non-executive Director) Age 64

Mr Llewelyn originally qualified, and practised, as a solicitor in Australia and then re-qualified in England. He has subsequently worked in the finance and merchant banking industries for more than 20 years in Australia, the UK, the United States and South Africa. His considerable finance experience has been in derivatives (a founder, President and CEO of Capital Market Technology Inc.), structured finance and early stage investment relating to the metal markets. He has been involved with the uranium industry for many years and has a comprehensive understanding of the uranium market.



## DIRECTORS' REPORT (continued)

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Mr Llewelyn was the instigator and driving a force in the formation of Nufcor International Ltd, a major uranium marketing company, jointly owned between Anglo Gold and First Rand International.

Mr Llewelyn was appointed to the Paladin Board on 12 April 2005.

### *Special Responsibilities*

Member of Audit Committee from 12 April 2005

Chairman of Remuneration Committee from 26 November 2008 (member from 1 June 2005)

Chairman of Nomination Committee from 26 November 2008 (member from 1 June 2005)

### **Mr Donald Shumka B.A., MBA** (Non-executive Director) Age 70

Mr Shumka is a Vancouver based Corporate Director with more than 40 years' experience in financial roles. From 2004 to 2011, he was President and Managing Director of Walden Management, a consulting firm specialising in natural resources. From 1989 to 2004, he was Managing Director, Investment Banking with CIBC World Markets and Raymond James Ltd. Prior to 1989, Mr Shumka was Vice President, Finance and Chief Financial Officer of West Fraser Timber Co. Ltd., one of Canada's largest forest products companies. He holds a Bachelor of Arts Degree in Economics from the University of British Columbia and a Master of Business Administration Degree from Harvard University. Mr Shumka is also a director of Eldorado Gold Corp. (since May 2005), Alterra Energy Corp. (since March 2008), Lumina Copper Corp. (since January 2009) and Anfield Nickel Corp. (since December 2010).

Mr Shumka was appointed to the Paladin Board on 9 July 2007.

### *Special Responsibilities*

Chairman of Audit Committee from 9 July 2007

Member of Remuneration Committee from 10 August 2007

Member of Nomination Committee from 10 August 2007

### **Mr Peter Mark Donkin BEc, LLB., F Fin, MAICD** (Non-executive Director) Age 55

Mr Donkin has over 30 years' experience in finance, including 20 years arranging finance in the mining sector. Prior to leaving in early 2010 he was the Managing Director of the Mining Finance Division of Société Générale in Australia, having worked for that bank for 21 years in both their Sydney and London offices. Prior to that he was with the corporate and international banking division of the Royal Bank of Canada. His experience has involved arranging transactions for mining companies, both in Australia and internationally in a wide variety of financial products, including project finance, corporate finance, acquisition finance, export finance and early stage investment capital. Mr Donkin holds a Bachelor of Economics degree and a Bachelor of Law degree from the University of Sydney. He is a director of Allegiance Coal Ltd (since 2010) and was previously a director of Sphere Minerals Ltd (from March 2010 to November 2010).

Mr Donkin was appointed to the Paladin Board on 1 July 2010.

### *Special Responsibilities*

Member of Audit Committee from 25 November 2010

### **Mr Philip Baily BSc, MSc** (Non-executive Director) Age 68

Mr Baily is a metallurgist with more than 40 years' experience in the mining industry, including some 11 years in the uranium sector. Throughout his career, he has been involved in the design, construction, commissioning and operation of mineral processing plants including two uranium plants. Project locations have varied from the deserts of Australia to the tropics of Papua New Guinea and the high altitudes of Argentina. He has extensive experience, at senior management level, in the evaluation of projects from grass roots development to the acquisition of advanced projects and operating companies. These projects have been located throughout the world, many in developing countries and environmentally sensitive areas. Mr Baily holds a Bachelor of Science and a Master of Science degree in Metallurgy from the University of NSW.

Mr Baily was appointed to the Paladin Board on 1 October 2010.

## DIRECTORS' REPORT (continued)

### *Special Responsibilities*

Chairman of Sustainability Committee from 25 November 2010

### **COMPANY SECRETARY AND EXECUTIVE GENERAL MANAGER - CORPORATE SERVICES**

**Ms Gillian Swaby** Age 52  
*B.Bus, FCIS, FAICD*

Ms Swaby has been involved in financial and corporate administration for listed companies, as both Director and Company Secretary covering a broad range of industry sectors, for over 30 years. Ms Swaby has extensive experience in the area of secretarial practice, management accounting and corporate and financial management.

Ms Swaby is past Chair of the Western Australian Council of Chartered Secretaries of Australia, a former Director on their National Board and a lecturer for the Securities Institute of Australia. Ms Swaby is the principal of a corporate consulting company and was a member of the Paladin Board for a period of 10 years.

Ms Swaby was appointed acting Chief Financial Officer during the interim period after Mr Garry Korte resigned with effect from 24 May 2012 and Mr Alan Rule assumed the position on 23 July 2012.

### **BOARD AND COMMITTEE MEETINGS**

The number of Directors' meetings and meetings of committees held in the period each Director held office during the financial year, and the number of meetings attended by each Director were:

Name	Board of Directors		Audit Committee		Remuneration Committee		Sustainability Committee	
	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend
Mr Rick Crabb	17	17	-	-	3	3	2	2
Mr John Borshoff	16	17	-	-	-	-	2	2
Mr Sean Llewelyn	17	17	4	4	3	3	-	-
Mr Donald Shumka	17	17	4	4	3	3	-	-
Mr Peter Donkin	16	17	4	4	-	-	-	-
Mr Philip Baily	17	17	-	-	-	-	2	2

Of the above Board meetings, only 4 were face to face with the remainder held via electronic means. The Board meeting schedule also includes a scheduled conference call mid quarter between the face to face meetings.

17 Board meetings were held. By way of reference, an independent survey by CRA Plan Manager Pty Ltd states the average number of board meetings is 11 for small companies and around 21 for larger companies.

## DIRECTORS' REPORT (continued)

### INTERESTS IN THE SECURITIES OF THE COMPANY

As at the date of this report, the interests of the Directors in the securities of Paladin Energy Ltd were:

Director	Paladin Shares	Options (issued under the Paladin EXSOP)	Share Rights (issued under the Paladin Employee Plan)
Mr John Borshoff	21,877,394	657,000*	300,000** 500,000***
Mr Rick Crabb	4,881,528	Nil	Nil
Mr Sean Llewelyn	100,000	Nil	Nil
Mr Donald Shumka	100,000	Nil	Nil
Mr Peter Donkin	15,000	Nil	Nil
Mr Philip Baily	12,000	Nil	Nil

\* exercisable at A\$4.50 on or before 29 January 2013

\*\* due to vest on 26 March 2013 subject to performance conditions

\*\*\* due to vest on 5 November 2013 subject to performance conditions

### RESIGNATION, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution of the Company, Mr Donald Shumka and Mr Peter Donkin will seek re-election at the 2012 Annual General Meeting, following their retirement by rotation.

### PRINCIPAL ACTIVITY

The principal activity of the Group was the development and operation of uranium mines in Africa, together with global exploration and evaluation activities in Africa, Australia and Canada.

### REVIEW AND RESULTS OF OPERATIONS

A detailed operational and financial review of the Group is set out on pages 12 to 42 of this report under the section entitled Management Discussion and Analysis.

The Groups' loss after tax for the year is US\$172.8 (2011: US\$82.3M) representing an increase of 110% from the previous year.

### DIVIDENDS

No dividend has been paid during the financial year and no dividend is recommended for the current year.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year not otherwise dealt with in this report.

### SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Other than disclosed below, since the end of the year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2012 Financial Report:

#### Deep Yellow Ltd Entitlement Issue

On 30 July 2012 DYL announced the results of its entitlement issue. Paladin purchased 72,263,821 ordinary shares at a cost of A\$3M. Following this issue the Group has an investment in DYL of 297,198,282 fully paid ordinary shares. The holding of these ordinary shares represents a 23.43% interest (30 June 2012: 19.9%) of the ordinary shares in DYL.

## DIRECTORS' REPORT (continued)

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### Long-term Off-take Contract with a US\$200M Prepayment

On 15 August 2012, the Company announced that it had entered into a six year off-take agreement with a major utility to deliver a total of 13.73Mlb U<sub>3</sub>O<sub>8</sub> in the period from 2019 to 2024. A prepayment of US\$200M will be made to the Company in respect of part of the future U<sub>3</sub>O<sub>8</sub> product deliveries. Delivery of the future U<sub>3</sub>O<sub>8</sub> product will be at the Company's option either from its current African mining operations or from a project yet to be developed from the Company's significant existing project pipeline or from a combination of both. Uranium delivered under the long-term off-take contract will be sold at the market prices prevailing at the time of delivery bounded by escalating floor and ceiling prices.

To secure the Company's obligation to deliver product representing the prepayment amount, the utility will hold security over 60.1% of the Company's Michelin project in Canada. The percentage of Michelin secured will be reduced as the value of that project is enhanced by the Company's ongoing work. The Michelin security can also be replaced by other appropriate security if required.

Subject to formalities to be put in place between the Company and the utility, expected to occur in September 2012, such as required registration of the security documentation (which documentation is in agreed form) the US\$200M prepayment will be made in tranches to be completed by no later than 31 January 2013.

The US\$200M prepayment will be applied to repayment of the balance of the March 2013 convertible notes with the remainder retained for balance sheet strength as working capital.

### Mid-term Sales Contracts Secured

On 24 August 2012, the Company announced it has secured two mid-term off-take agreements for U<sub>3</sub>O<sub>8</sub> production originating from its mining operations at Langer Heinrich in Namibia and Kayelekera in Malawi.

These agreements are for the purchase of a total of 6.3Mlb U<sub>3</sub>O<sub>8</sub> to be delivered from late 2012 to end 2015 at approximately 2Mlb pa. Pricing will be determined predominately by the market price at the time of delivery (without floor or ceiling limitations) while a minority portion of the delivery prices will be in accordance with a series of specified fixed prices which exceed current spot uranium prices.

### LIKELY DEVELOPMENTS

Likely developments in the operations of the Group constituted by the Company and the entities it controls from time to time are set out under the section entitled Management, Discussion and Analysis.

### ENVIRONMENTAL REGULATIONS

The Group is subject to significant environmental regulation in respect to its exploration, evaluation, development and operational activities for uranium projects under the laws of the countries in which its activities are conducted. The Group currently has mining and processing operations in Namibia and Malawi, and exploration projects in Africa, Australia, Niger and Labrador. The Group's Policy is to comply with all applicable environmental laws and regulations in the countries in which it conducts business.

Specific environmental regulations, approvals and licences for the exploration, development and operation are applied to the activities conducted at each site. In addition many other international and industry standards are also applied to the Group's activities, including those specified for the global uranium industry. These environmental laws, regulations and standards relate to environmental factors such as radiation, water, flora, fauna, air quality, noise, waste management and pollution control.

The Directors are not aware of any environmental matters which would have a significant adverse effect on the Group.

### REMUNERATION FOR THE YEAR AT A GLANCE

The disclosure below aims to provide an overall picture of the group-wide remuneration platform and not simply focus on Key Management Personnel. Given the difficulties being currently experienced in attracting and retaining quality staff in the global resource sector and, more particularly, in the much narrower uranium sector, the focus is on policies to assist in attraction, motivation and retention of staff across the Group.

## DIRECTORS' REPORT (continued)

### REMUNERATION FOR THE YEAR AT A GLANCE (continued)

- The Managing Director/CEO voluntarily reduced his salary by 25% from 1 December 2011 to 30 November 2012 (which he later extended to 30 June 2013) setting the tone for the cost rationalisation programme undertaken across the Group.
- Salary increases across the Group were broadly based on Consumer Price Index (CPI) increases (3.1% for Australia). Certain adjustments for parity were made to ensure individual market competitiveness was maintained. This philosophy extended throughout the Group worldwide, with CPI adjustments relative to the country of operations.
- The cash bonus pool available for distribution was extremely limited this year as a result of continuing poor uranium prices and delayed ramp-up of Kayelekera Mine and paid only to those personnel who demonstrated exceptional performance and contribution.
- Total bonuses paid across the Group totalled A\$404,421 (US\$417,054), against A\$1,009,000 (US\$1,040,517) for the prior year.
- Site based employees accrued bonuses quarterly, based on a system linked to mine performance criteria, payable after the end of the financial year.
- A further annual grant of share rights was made under the long-term incentive plan totalling 1,984,400 share rights (2011: 4,202,117), 0.24% of issued capital (2011: 0.54%). This is a reduction in number of share rights granted of 53% over 2011.
- A total of 1,082,641 share rights vested during the year (0.13% of issued capital).
- Having remained at the same level for the past three years, Non-executive Directors' remuneration increased by 4%.
- During the year, as part of a general review of balance sheet provisions, a review was undertaken of all material accrued long service leave and annual leave with a view to reducing this liability as long as the entitlement did not then fall below 20 days. This resulted in a number of employees cashing out such entitlements. In accordance with this policy, the Managing Director/CEO cashed out 140 days of annual leave and 80 days of long service leave totalling A\$1,717,000 (US\$1,771,000). The Board did not consider it practical or in the interests of the Company, to require the Managing Director/CEO to use this accrued leave, or for the Company to continue to retain the liability.
- Long-term incentives on issue at balance date comprise the following:
  - 3,467,329 options on issue from grants made prior to June 2009, exercisable in the range of A\$4.50 to A\$5.37. The expiry dates range from January to April 2013. A further 750,000 options exercisable at A\$2.54 will be re-tested for vesting on 14 October 2012 with an expiry date of 14 October 2013; and,
  - 6,885,882 Performance Share Rights representing 0.82% of the issued capital.

### Executive Remuneration

Details of the remuneration received by the Key Management Personnel prepared in accordance with statutory requirements and accounting standards are detailed further in the Remuneration Report.

The tables below set out the cash value of earnings realised by the Managing Director/CEO and other executives considered to represent Key Management Personnel for 2012 and 2011 and the intrinsic value of share-based payments that vested to the executives during the period. The intrinsic value of share rights represents the Company's share price at vesting date, whilst the intrinsic value of options represents the difference between the exercise price of the award and the Company's share price at vesting date. Neither reflects the accounting value determined in accordance with the accounting standards upon which the preparation of the financial statements is based.

## DIRECTORS' REPORT (continued)

### REMUNERATION FOR THE YEAR AT A GLANCE (continued)

#### Executive Remuneration (continued)

The cash value of earnings realised include cash salary and fees, superannuation, cash bonuses and other benefits received in cash during the year and the intrinsic value of long-term incentives vesting during the 2012 year. The tables do not include the accounting value for share rights or options granted in the current and prior years, as this value may or may not be realised as they are dependent on the achievement of certain performance hurdles. The accounting value of other long-term benefits which were not received in cash during the year have also been excluded.

All cash remuneration is paid in Australian dollars to those parties listed below (with the exception of Mr D Garrow who is paid in US\$) therefore the tables are presented in both A\$ and US\$ being the functional and presentation currency. The detailed schedules of remuneration presented later in this report are presented in US\$.

#### Cash value of earnings realised

##### 2012 (A\$'000) / (US\$'000)

Name	Base Salary & Superannuation		Cash Bonus		Other		Total Cash		LTIP 26 March 2010 <sup>(1)</sup>		LTIP 5 Nov 2010 <sup>(2)</sup>		LTIP 15 Feb 2011 <sup>(3)</sup>		Total	
	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$
Mr John Borshoff	1,747	1,802	-	-	1,717 <sup>(4)</sup>	1,771 <sup>(4)</sup>	3,464	3,573	-	-	-	-	-	-	3,464	3,573
Mr Dustin Garrow	654	674	-	-	-	-	654	674	61	63	16	17	-	-	731	754
Ms Gillian Swaby	-	-	-	-	554 <sup>(5)</sup>	571 <sup>(5)</sup>	554	571	55	57	12	13	180	186	801	827
Mr Garry Korte <sup>(6)</sup>	497	513	30	31	-	-	527	544	27	28	10	10	-	-	564	582
Mr Mark Chalmers	500	516	30	31	61 <sup>(7)</sup>	63 <sup>(7)</sup>	591	610	-	-	-	-	-	-	591	610
<b>Total</b>	<b>3,398</b>	<b>3,505</b>	<b>60</b>	<b>62</b>	<b>2,332</b>	<b>2,405</b>	<b>5,790</b>	<b>5,972</b>	<b>143</b>	<b>148</b>	<b>38</b>	<b>40</b>	<b>180</b>	<b>186</b>	<b>6,151</b>	<b>6,346</b>

Refer to the Compensation of Key Management Personnel table later in the Remuneration Report for audited information required in accordance with the Corporations Act 2001 and its regulations.

- (1) Value of share rights granted on 26 March 2010 and vesting on 1 September 2011 at a market price of A\$2.03.
- (2) Value of share rights granted on 5 November 2010 and vesting on 1 September 2011 at a market price of A\$2.03.
- (3) Value of share rights granted on 15 February 2011 and vesting on 15 February 2012 at a market price of A\$1.665.
- (4) Other represents accrued annual leave (140 days) and accrued long service leave (80 days) paid out.
- (5) Fees for Company Secretarial services paid to a company of which Ms Gillian Swaby is a director and shareholder. Ms Swaby was appointed acting Chief Financial Officer during the interim period after Mr Garry Korte resigned with effect from 24 May 2012 and Mr Alan Rule assumed the position on 23 July 2012.
- (6) Mr Garry Korte resigned with effect from 24 May 2012.
- (7) Living away from home allowance.
- (8) Exchange rate used is average for year US\$1 = A\$0.96971.

##### 2011 (A\$'000) / (US\$'000)

Name	Base Salary & Superannuation		Cash Bonus		Other		Total Cash		LTIP 2008 <sup>(1)</sup>		LTIP 26 March 2010 <sup>(2)</sup>		Total	
	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$
Mr John Borshoff	2,032	2,002	234	231	-	-	2,266	2,233	256	252	-	-	2,522	2,485
Mr Dustin Garrow	661	651	72	71	-	-	733	722	55	54	76	75	864	851
Ms Gillian Swaby	-	-	50	49	520 <sup>(3)</sup>	512 <sup>(3)</sup>	570	561	53	52	68	67	691	680
Mr Garry Korte	460	453	55	54	-	-	515	507	-	-	34	33	549	540
Mr Wyatt Buck	448	442	-	-	51 <sup>(4)</sup>	50 <sup>(4)</sup>	499	492	41	40	61	59	601	591
Mr Mark Chalmers	88 <sup>(5)</sup>	87 <sup>(5)</sup>	-	-	-	-	88	87	-	-	-	-	88	87
<b>Total</b>	<b>3,689</b>	<b>3,635</b>	<b>411</b>	<b>405</b>	<b>571</b>	<b>562</b>	<b>4,671</b>	<b>4,602</b>	<b>405</b>	<b>398</b>	<b>239</b>	<b>234</b>	<b>5,315</b>	<b>5,234</b>

## DIRECTORS' REPORT (continued)

### REMUNERATION FOR THE YEAR AT A GLANCE (continued)

#### Cash value of earnings realised (continued)

- (1) Value of long-term incentive options granted on 29 January 2008 and vesting on 29 January 2011 at an exercise price of A\$4.50 vs market price at vesting of A\$4.89.
- (2) Value of share rights granted on 26 March 2010 and vesting on 1 September 2010 at a market price of A\$3.80.
- (3) Fees for Company Secretarial services paid to a company of which Ms Gillian Swaby is a director and shareholder.
- (4) School fees and accrued leave paid on resignation being 6 May 2011.
- (5) Employment commenced 27 April 2011.
- (6) Exchange rate used is average for year US\$1 = A\$1.01512.

### REMUNERATION REPORT (Audited)

This Remuneration Report outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (Cth) and its Regulations. For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director whether executive or otherwise of the parent company.

In addition to the Group's Directors, Key Management Personnel comprise:

- Mr John Borshoff, *Managing Director/CEO*
- Ms Gillian Swaby, *Company Secretary and Executive General Manager – Corporate Services*
- Mr Dustin Garrow, *Executive General Manager - Marketing*
- Mr Garry Korte, *Chief Financial Officer (Resigned 24 May 2012)*
- Mr Mark Chalmers, *Executive General Manager – Production*
- Mr Alan Rule, *Chief Financial Officer (Commenced 23 July 2012)*

For the purposes of this report, the term 'Executive' encompasses the Managing Director/CEO, senior executives, managers and company secretary of the Parent and the Group.

### REMUNERATION APPROVAL PROCESS

The Remuneration Committee is charged with assisting the Board by reviewing and making appropriate recommendations on remuneration packages for the Managing Director/CEO, Non-executive Directors and senior executives. In addition, it makes recommendations on long-term incentive plans and associated performance hurdles together with the quantum of grants made, taking into account both the individual's and the Company's performance.

The Remuneration Committee, chaired by Mr Sean Llewelyn, held three meetings during the year. Messrs Crabb and Shumka are also Committee members. The Managing Director/CEO is invited to attend those meetings which consider the remuneration strategy of the Group and recommendations in relation to senior executives.

Having regard to the recommendations made by the Managing Director/CEO, the Committee approves the quantum of the short-term incentive bonus pool and the total number of the long-term incentive grants to be made and recommends the same for approval by the Board. Individual awards are then determined by the Managing Director/CEO in conjunction with senior management, as appropriate. The remuneration for the Managing Director/CEO is determined by the Remuneration Committee.

### KEY ELEMENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION STRATEGY

The overall focus of Paladin's remuneration strategy is to:

- attract and retain talented, qualified and effective Executives;
- motivate short and long-term performance and reward past performance;
- provide competitive and fair reward;

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### KEY ELEMENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION STRATEGY (continued)

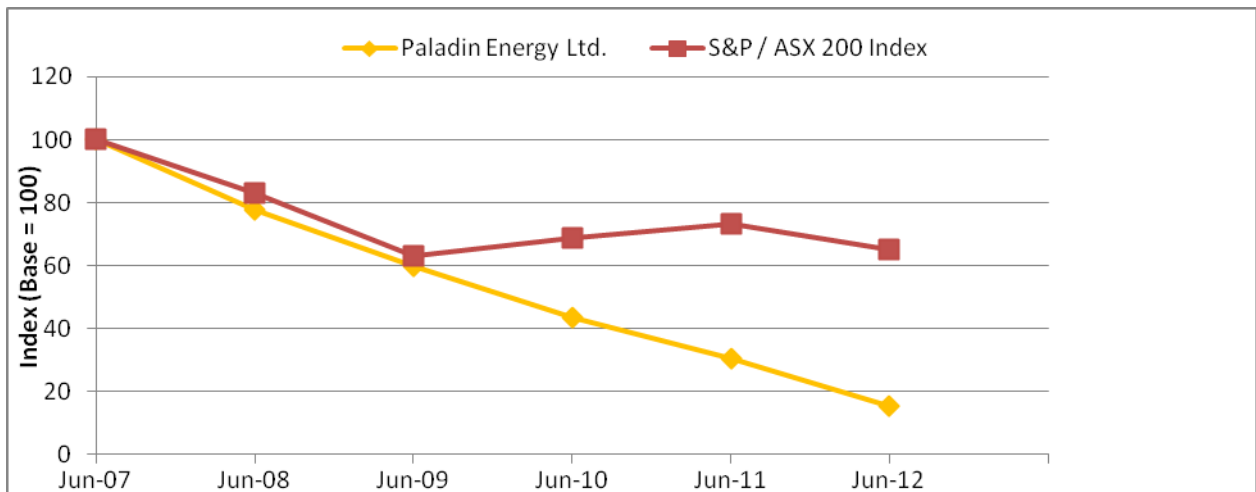
- be flexible and responsive in line with market expectations;
- align Executive interests with those of the Company's shareholders; and
- comply with applicable legal requirements and appropriate standards of governance.

This strategy applies group wide for all employees. Information in relation to the compensation on Non-executive Directors is detailed later in this Remuneration Report

The overall level of compensation takes into account the Company's earnings and growth in shareholder wealth of the Company together with the achievement of strategic goals. Consideration of the Company's earnings will be more relevant as the Company matures from its development and consolidation phase to profitability.

The Board is cognisant of general shareholder concern that long-term equity-based remuneration be linked to Company performance and growth in shareholder value. The Share Rights plan addresses this with performance conditions including reference to Earnings per Share (EPS), Total Shareholder Return (TSR) and Market Price conditions. A review of the performance conditions is currently in process to determine the appropriateness to the business. This is considered in more detail further in this report.

The chart below compares, assuming an initial investment of A\$100, the yearly percentage change in the cumulative total shareholder return on the Company's Ordinary Shares against the cumulative total shareholder return of the S&P/ASX 200 Index for the Company's five most recently completed financial years.



	30 June 2008	30 June 2009	30 June 2010	30 June 2011	30 June 2012
<b>Paladin Energy Ltd</b>	A\$78	A\$60	A\$43	A\$31	A\$15
<b>S&amp;P/ASX 200 Index</b>	A\$83	A\$63	A\$69	A\$73	A\$65
<b>EPS</b>	US\$(0.06)	US\$(0.78)	US\$(0.08)	US\$(0.11)	US\$(0.21)

The share price of the Company at 29 June 2012 was A\$1.25 (30 June 2011: A\$2.52)

The remuneration structure for the Key Management Personnel/Executives has three elements:

- fixed remuneration;
- short-term variable remuneration; and
- long-term incentives.



## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

These are detailed as follows:

Remuneration Component	Elements	Details
Fixed Remuneration	Annual base salary determined as at 1 January each year	The 'not at risk' cash component which may include certain salary sacrifice packaging.
	Statutory superannuation contributions	Statutory % of base salary.
	Expatriate benefits	Executives who fulfill their roles as an expatriate may receive benefits including relocation costs, health insurance, housing and car allowances, educational fees and tax advisory services.
	Foreign assignment allowance	An additional % of base salary is payable in relation to foreign assignments being 15% for Malawi and 10% for Namibia.
Variable Performance Linked Remuneration ("at risk" remuneration)	Short-term incentive, paid as a cash bonus	Rewards Executives for performance over a short period, being the year ending 31 December. Bonuses are awarded at the same time as the salary reviews. Assessment is based on the individual's performance and contribution to team and Company performance.
	Long-term incentive, granted under the Rights Plan	Award determined in the September quarter of each year, based on individual performance and contribution to team and Company performance. Vesting dependent on creation of shareholder value over a three year period, together with a retention element.

#### Fixed Remuneration

This is reviewed annually with consideration given to both the Company and the individual's performance and effectiveness. As competition in the global resource sector continues to grow, and given an even narrower sector of uranium expertise, a key to attracting and retaining talent is to maintain relevant and globally competitive remuneration packages. Market data focused on the mining industry is analysed with a focus on maintaining parity or above with companies of similar complexity and size operating in the resources sector and becoming an employer of choice. The Company did not engage remuneration consultants, however it subscribes to a number of remuneration surveys and reports including Boardroom Remuneration Review (Connect 4), GRG Resources KMP Remuneration Guide (Godfrey Remuneration Group Pty Ltd), The Resource Report (CRA Plan Managers Pty Ltd) and the AIM National Salary Survey (Australian Institute of Management). The Company also takes into consideration the annual Executive and Board Remuneration Report produced by Ernst & Young.

During the past year, salaries, as a general rule, were increased in accordance with the movements of the CPI only (as for the previous year), other than in cases where there was a role change or an anomalous situation relevant to labour market conditions. For Australian employees this amounted to 3.1%. For foreign operations, any CPI adjustment was relative to that country.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Fixed Remuneration (continued)

By way of comparison, salaries in the mining industry in Australia increased on average 5.75%. Whilst the level of increase was below the average, Paladin's long-term incentive scheme which operates through all levels provides a generous component of remuneration.

Mr John Borshoff is referred to as both Managing Director/CEO to clarify the understanding of his position in both North America and Australia, given Paladin's stock exchange listings in each jurisdiction.

##### Managing Director/CEO

There was no increase in the fixed remuneration (inclusive of superannuation) of A\$2,044,224 (US\$2,108,078). Base salary was voluntarily reduced by 25% to A\$1,533,600 (US\$1,581,503) from 1 December 2011 to 30 November 2012 (which he later extended to 30 June 2013). The remuneration level reflects the extensive knowledge and experience Mr John Borshoff has in the uranium sector gained over the past 40 years, as a recognised global authority. Expertise at this level is in extremely limited supply, particularly given the period of over 20 years of non activity in the uranium sector and the very small number of uranium producers worldwide. His knowledge and expertise of the sector have been key to the growth and acquisition strategy of the Company and integral to its development from a junior explorer to a uranium producer with two operating mines. In addition, his contract provides for payment of a benefit on retirement or early termination by the Company, other than for gross misconduct, equal to two times base salary for the two years immediately preceding the termination date. This benefit reflects approximately 19 years of service to the Company by John Borshoff, being the founder in 1993. As a comparison to retirement benefits generally seen in the North American markets (in which the Company is listed and a market from which executive staff are sourced), this benefit is not considered excessive by the Board. This benefit was approved by shareholders on 9 November 2005 at a time when retirement benefits generally were set at a much higher threshold.

##### Variable Remuneration

##### Short-term Incentives

The Company provides short-term incentives comprising a cash bonus to Executives of up to 30% of base salary. The bonus is entirely discretionary with the goal of focusing attention on short-term strategic and financial objectives. The amount is dependent on the Company's performance in its stated objectives and the individual's performance, together with the individual's position and level of responsibility. Bonuses in 2011 were paid in only very limited circumstances across the Group rewarding only those personnel who demonstrated exceptional performance and contribution having regard to continuing poor uranium prices and delays in the ramp-up of KM. Bonuses totalled A\$404,421 (US\$417,054) for the year against a total of A\$1,009,000 (US\$1,040,517) for the prior year. All cash bonuses granted have been paid during the year.

This component is an "at risk" component of overall remuneration designed to encourage exceptional performance whilst adhering to the Company values. Specific targets for individuals have not been set due to the philosophy of achieving a common goal for the Company, however, the following measures are taken into account where these are applicable to the Key Management Personnel and individual Executives and have been selected to align their interests to those of shareholders:

- (a) health, safety and environmental performance;
- (b) production performance;
- (c) project development performance;
- (d) additional uranium resources delineated;
- (e) performance of the Company in meeting its various other objectives;
- (f) financial performance of the Company; and
- (g) such other matters determined by the Remuneration Committee in its discretion.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Variable Remuneration (continued)

Managing Director/CEO

A bonus of up to 100% of base salary can be achieved under the terms of his contract, having consideration to outcomes achieved during the year, to be determined by the Remuneration Committee. For the calendar year 2011 no bonus was awarded (compared to 12% in the previous year). Matters to be considered as key outcomes for the CY2012 when considering payment of a bonus to J Borshoff fall within the following parameters which the Board considers best capture the essential elements for increasing shareholder returns:

	Factor	Indicative Weighting
1	Production and financial performance meeting or exceeding expectations.	35%
2	Sustainability matters achieving expectations.	20%
3	Organic and inorganic growth progressing in accordance with strategy.	30%
4	Organisational factors meeting expectations.	5%
5	Other factors at the discretion of the Remuneration Committee	10%

The Remuneration Committee may, in its discretion, vary the fee weighting to account for unusual/unexpected events or outcomes during the year. Any bonus payable, relating to the 2012 financial year, would be paid out in CY2013.

##### Long-term Incentives

The Company believes that encouraging its employees to become shareholders is the best way of aligning their interests with those of its shareholders.

In 2009, the Directors determined that a share rights plan was the most appropriate form of long-term incentive plan for the Group and at the 2009 AGM, shareholders approved the adoption of the Employee Performance Share Rights Plan (the Rights Plan).

Approval was also given to implement a share rights plan to reward a small number of key individual contractors who provide similar services to employees, the Contractor Performance Share Rights Plan (the Contractor Rights Plan). These plans are referred to jointly as the Rights Plans.

As the approval is only valid for a 3 year period, shareholders will be asked to re-approve the adoption of the Rights Plans at the 2012 AGM.

As a consequence of adopting the Rights Plans, no further grants will be made under the previous Executive Share Option Plan with the last option grant made on 24 June 2009. It was determined that this plan had a number of limitations and did not provide an appropriate incentive.

The Rights Plans are long-term incentive plans aimed at advancing the interests of the Company by creating a stronger link between employee performance and reward and increasing shareholder value by enabling participants to have a greater involvement with, and share in the future growth and profitability of the Company. They are an important tool to assist in attracting and retaining talented people.

Share Rights are granted under the plan for no consideration. Share Rights are rights to receive fully paid ordinary shares in the capital of the Company (Shares) in the future if certain individual and/or corporate performance metrics (Performance Conditions) are met in the measurement period.

The number of Share Rights able to be issued under the Plans is limited to 5% of the issued capital. The 5% limit includes incentive grants under all plans made in the previous 5 years (with certain exclusions under the Australian corporate legislation). This percentage now stands at 0.31%.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Variable Remuneration (continued)

###### Long-term Incentives (continued)

The Board is cognisant of general shareholder concern that long-term equity-based rewards should be linked to the achievement by the Company of a performance condition. Share Rights granted under the Rights Plan are subject to certain vesting and performance conditions as determined by the Board from time to time. The Company does not offer any loan facilities to assist in the purchase of shares by employees.

##### Vesting and Performance Conditions

The Share Rights issued in April 2012 and those from previous grants are subject to a range of vesting and performance conditions:

Proportion of Share Rights to which performance hurdle applies	Vesting and Performance Condition
10%	Time based – must remain in employ for 1 year from date of grant
15%	Time based – must remain in employ for 2 years from date of grant
25%	Time based – must remain in employ for 3 years from date of grant
20%	Total Shareholder Return (TSR) relative to mining companies in ASX S&P 200 Index
30%	Market Price Performance (MPP) measuring the increase in share price over the period

###### Managing Director/CEO

The Share Rights issued to the Managing Director/CEO have different vesting hurdles to reflect the “at risk” nature of 100% of this component of his remuneration and provide a direct link between Managing Director/CEO reward and shareholder return, and provide a clear line of sight between Managing Director/CEO performance and Company performance. No Share Rights were granted to Mr J Borshoff during the year ended 30 June 2012.

The performance conditions of all share rights granted to Managing Director/CEO are:

Proportion of Share Rights to which performance hurdle applies	Performance measure
50%	Total Shareholder Return (TSR) relative to mining companies in ASX S&P 200 Index*
50%	Earnings Per Share (EPS) Measuring the increase in earnings over the period

\*The initial measurement date of the Share Rights subject to the relative TSR condition is at the end of year three, calculated from the date of grant. At the end of year three, Mr John Borshoff can either:

- accept the vesting outcome achieved; or
- elect to have his Share Rights retested at the end of year four (in which case the same vesting schedule applies but the retest period covers the entire four year period from the date the Share Rights were granted).

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Vesting and Performance Conditions (continued)

Managing Director/CEO (continued)

He is not permitted to “double dip”, so by electing to have his Share Rights retested at the end of year four he forfeits any entitlement to Share Rights which otherwise would have vested at the end of year three. All Share Rights subject to the relative TSR condition will expire at the end of year four.

The Remuneration Committee allows one retest to reflect the volatile nature of the industry. The way in which the retest is applied maintains alignment with shareholder interests.

Why were these vesting conditions selected?

The Board considered the measures reflected an appropriate balance in terms of alignment between comparative shareholder return and individual reward, a market based performance measure and the encouragement of long-term retention. A review is currently underway to consider whether the various performance conditions, other than time based vesting, are the most appropriate for the Group. It is likely that, in future, performance measures related more to internal hurdles that support the Group's strategic objectives may be adopted.

Details of the various vesting and performance conditions follow:

<b>Time-based Vesting</b>
<p>50% of the Share Rights will vest based on the participant continuing to be employed with the Group. These are staggered over time and this condition is designed to assist in long-term retention of staff. Such benefits also assist in recruitment of suitably qualified personnel in a market place where both mining, and more particularly uranium experience, are in particularly short supply. Paladin competes in the global recruitment market and must offer competitive benefits to be successful and attract quality candidates. The available talent pool with uranium expertise is both small and internationally focussed and competition is high for quality personnel. Costs for replacement of personnel and the hidden costs of disruption to the business can be substantial. This vesting criteria does not apply to the Managing Director/CEO.</p>
<b>Total Shareholder Return (TSR)</b>
<p>20% of the Share Rights will vest based on the Company's TSR relative to the TSRs of a peer group of companies. This measure represents the change in the Company's share price over the measurement period, plus dividends (if any) notionally reinvested in the Company's shares, expressed as a percentage of the opening value. The peer group will comprise of mining companies in the S&amp;P/ASX 200 Index as at the date of the offer, excluding steel companies and any companies that pay a dividend during any year of the performance period.</p> <p>The limited number of uranium development and production companies globally presents difficulties in determining a suitable peer group. It was therefore decided that, as the primary listing is on the ASX and the majority of share trading takes place in that market, the peer group set out above is the most appropriate. This also reflects the Group's competitors for capital and talent.</p> <p>Relative TSR is independent of market conditions and is considered a more relevant measure of management performance in terms of value delivered to shareholders over the medium to long-term.</p>
<p>50% of the Share Rights granted to the Managing Director/CEO will vest based on the Company's Relative TSR.</p> <p>Mining companies are companies under the Global Industry Classification Standard (GICS) sub-industries: Oil &amp; Gas – Coal &amp; Consumable Fuels (10102050), Metals &amp; Mining – Aluminium (15104010), Metals &amp; Mining – Diversified Metals &amp; Mining (15104020), Metals &amp; Mining – Gold (15104030), Metals &amp; Mining – Precious Metals &amp; Minerals (15104040) and Metals &amp; Mining – Steel (15104050).</p> <p>The base and stretch targets for the TSR performance condition are as follows:</p>

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Vesting and Performance Conditions (continued)

Relative TSR percentile ranking	Percentage of Share Rights that may vest if the relative TSR performance condition is met
Less than 50 <sup>th</sup> percentile	0% of the Share Rights subject to the TSR condition
at 50 <sup>th</sup> percentile	50% of the Share Rights subject to the TSR condition
Greater than the 50th percentile but less than the 75 <sup>th</sup> percentile	Pro-rated vesting between 51% and 99% of the Share Rights subject to the TSR condition
At 75 <sup>th</sup> percentile or greater	100% of the Share Rights subject to the TSR condition
<b>Market Price Performance (MPP)</b>	
30% of the Share Rights are subject to MPP vesting condition which measures the increase in share price of the Company. Share Rights will vest if, at the end of the measurement period, the share price of the Company is 25% above the market price at the date of the offer. As part of the mix of performance conditions this provides a market based performance measure. The base price for each grant is detailed in the table on the following page.	
This does not apply to the Managing Director/CEO.	
<b>Earnings Per Share (EPS)</b>	
EPS is determined by dividing the operating profit or loss attributable to members of Paladin Group by the weighted average number of ordinary shares outstanding during the financial year. In the event that EPS is negative (representing a loss per share) a reduction of the loss per share is, for this purpose, treated as a growth in EPS. Growth in EPS will be measured by comparing the EPS in the base year (being the full financial year ending prior to the date of grant) and the measurement year. EPS has been chosen as a performance condition because it provides a clear line of sight between Managing Director/CEO performance and Company performance. It is also a generally recognised and understood measure of performance.	
50% of the Share Rights granted to the Managing Director/CEO will vest based on the Company's EPS.	
The base and stretch targets for the Share Rights subject to the EPS conditions are as follows:	
Average compound growth EPS over the performance period	Percentage of performance rights that may vest if the EPS hurdle is met
Less than 10% pa	0% of the Performance Rights subject to the EPS condition
At 10% pa	50% of the Performance Rights subject to the EPS condition
More than 10% pa but less than 20% pa	Pro rated vesting between 51% and 99% of the Performance Rights subject to the EPS condition
At 20% pa or greater	100% of the Performance Rights subject to the EPS condition

##### Shares Acquired Under the Rights Plan

Shares to be allocated to participants on vesting are currently issued from equity. No consideration is paid on the vesting of the Share Rights and resultant shares carry full dividend and voting rights.

##### Change of Control

All Share Rights will vest on a change of control event. The Remuneration Committee considers that this is appropriate given that shareholders (or a majority thereof) would have collectively elected to accept a change of control event. Moreover the number of Performance Rights relative to total issued shares is not significant and thus are not considered a disincentive to a potential bidder.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Cessation of Employment

Under the Rights Plan, employees' Share Rights will be cancelled on cessation of employment, unless special circumstances exist such as retirement, total and permanent disability, redundancy or death. Contractors will have their Share Rights cancelled, other than on death at which point the contractor's legal representative will be entitled to receive them.

##### Balance of Share Rights at 30 June 2012

Date rights granted	Vesting date	Vesting performance conditions	Number
26 March 2010	26 March 2013	TSR	*150,000
26 March 2010	26 March 2013	EPS	*150,000
26 March 2010	1 September 2012	Time based	759,850
26 March 2010	1 September 2012	TSR	607,880
26 March 2010	1 September 2012	Market Price (base price A\$3.82)	911,820
5 November 2010	5 November 2013	TSR	*250,000
5 November 2010	5 November 2013	EPS	*250,000
5 November 2010	1 September 2012	Time based	250,132
5 November 2010	1 September 2013	Time based	416,888
5 November 2010	1 September 2013	TSR	333,510
5 November 2010	1 September 2013	Market price (base price A\$3.62)	500,265
15 February 2011	15 February 2013	Time based	154,633
15 February 2011	15 February 2014	Time based	185,504
2 April 2012	1 September 2012	Time based	189,540
2 April 2012	1 September 2013	Time based	284,310
2 April 2012	31 December 2013	Time based	20,000
2 April 2012	1 September 2014	Time based	523,850
2 April 2012	1 September 2014	TSR	379,080
2 April 2012	1 September 2014	Market price (base price A\$1.94)	568,620
<b>Total</b>			<b>6,885,882</b>

\* Managing Director/CEO grant

In summary, this balance represents 0.82% of the issued capital whilst the proportion of time based Share Rights represents 0.33%.

##### Executive Share Option Plan (EXSOP)

Prior to the implementation of the Share Rights Plan, the EXSOP was the basis for the long-term incentive remuneration, approved by shareholders in November 2006. Grants under this plan ceased in June 2009.

Under the EXSOP, the exercise price of the options was set at the market price of the shares on the date of grant and performance is measured by comparing the Company's TSR (share price appreciation plus dividends reinvested) with a group of peer companies. The Company has chosen relative TSR, or how a company performs relative to its peers, as it believes that this is the most effective measure of the Company's performance and long-term shareholder value creation. The Company's performance will be measured over three years from the date of grant. To the extent that maximum performance is not achieved under the performance condition, performance will be retested every six months following the first three years until the end of the fourth year to allow for the effect of market factors beyond the individual's control.

In assessing whether the TSR hurdle for each grant has been met, the Group receives independent data from an external advisor, who provides both the Group's TSR growth from the commencement of each grant and that of the pre-selected peer group. The peer group chosen for comparison is the mining companies in the S&P/ASX200 Index at the date of grant. This peer group reflects the Group's competitors for capital and talent.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Executive Share Option Plan (EXSOP) (continued)

The Group's performance against the hurdle is determined according to Paladin's ranking against the peer group TSR growth over the performance period:

- when Paladin is ranked over the 75<sup>th</sup> percentile, 100% of the share options will vest;
- for rankings above the 50<sup>th</sup> and below the 75<sup>th</sup> percentile, the percentage of options to vest will be pro-rata between 50% and 100%;
- when Paladin is ranked at the 50<sup>th</sup> percentile, 50% of the share options will vest; and
- when Paladin is ranked below the 50<sup>th</sup> percentile the share options will not vest.

When a participant ceases employment prior to the vesting of their share options, the share options are cancelled unless cessation of employment is due to termination initiated by the Group other than for misconduct or death. In the event of a change of control all the awards will vest and may be exercised by the participant.

A summary of the options remaining on issue under the EXSOP at 30 June 2012 is set out below:

Number of Options	Exercise Price A\$	Expiry Date
3,013,849	4.50	29 January 2013
203,820	5.37	15 February 2013
249,660	4.59	18 April 2013
750,000	2.54	14 October 2013*
<b>Total</b>	<b>4,217,329</b>	

\* Subject to retesting on 14 October 2012

3,041,746 options that could no longer vest were cancelled on 29 June 2012. These options were out of the money and had no intrinsic value at cancellation date.

#### Hedging of Incentive Grants Prohibited

The Company's policy prohibits hedging of equity compensation grants. Prohibited hedging practices include put/call arrangements over "in money" options to hedge against a future drop in share price. The Board considers such hedging to be against the spirit of such remuneration and inconsistent with shareholder objectives.

#### Method of Valuation of Long-Term Incentives

Refer to Note 25(g) and 25(k) of the financial statements to see the key inputs used for valuation of the long-term incentives.

#### Retention Programme

As a component of the strategy for retention of key personnel, certain executives and staff participate in a retention bonus programme. Participation extends to a limited number of selected individuals that have been identified as possessing the requisite skills, expertise and experience in the uranium sector and those with specialist corporate and commercial skills that the Company requires to achieve its aggressive goals over coming years. This initiative is driven by a desire to retain the intellectual property pool considered necessary to ensure the continued success of the Company. The programme entitles the participants to receive a cash award at the end of the three year retention period. In the event employment is terminated for any of retirement, disablement, redundancy or death, after the first anniversary one third will be payable and after the second anniversary two thirds will be payable. The cash award varies between 50 and 100% of the average annual salary over the 3 year period. The first grant under this programme was on 1 July 2010 (payment date 1 July 2013) with a second on 1 January 2012 (payment date 1 January 2015). No proportion of these bonuses vested or were paid in the financial year ended 30 June 2012 (30 June 2011: US\$Nil). Garry Korte resigned with effect from 24 May 2012 and forfeited 100% of his retention bonus.



## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

##### Retention Programme (continued)

In addition, from time to time, the Board will make specific grants of share rights subject only to time vesting as part of the Company's retention strategy for key individuals. This has proved to be an important tool when seeking to fill senior management roles.

#### KEY ELEMENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION STRATEGY

The focus of the remuneration strategy is to:

- Attract and retain talented and dedicated directors.
- Remunerate appropriately to reflect the:
  - size of the Company;
  - the nature of its operations;
  - the time commitment required; and
  - the responsibility the Directors carry.

#### COMPONENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION

In accordance with corporate governance principles, Non-executive Directors are remunerated solely by way of fees and statutory superannuation. The aggregate annual remuneration permitted to be paid to Non-executive Directors is A\$1.2M (US\$1.2M) as approved by shareholders at the 2008 AGM. Fees paid for the year to 30 June 2012 total A\$1,023,000 (US\$1,054,955). A number of independent surveys looking at companies from a market capitalisation, (A\$1bn - \$3bn) perspective show Non-executive Director's fees from A\$154,000 (62.5<sup>th</sup> percentile) to A\$208,000 (90<sup>th</sup> percentile). In relation to Non-executive Chairman, the analysis ranges from A\$194,000 (50<sup>th</sup> percentile) to A\$406,000 (90<sup>th</sup> percentile). The median Audit Committee Chair fee is A\$27,500.

Remuneration Component	Elements	Details (per annum)
Base Fee	Must be contained within aggregate limit	Chairman A\$338,000 (US\$348,558)  Non-executive Director A\$166,000 (US\$171,185)
Committee Fees*	Paid to the Chairman of the Audit Committee	A\$21,000 (US\$21,656)
Superannuation	Statutory contributions are included in the fees set out above	Statutory % of fees

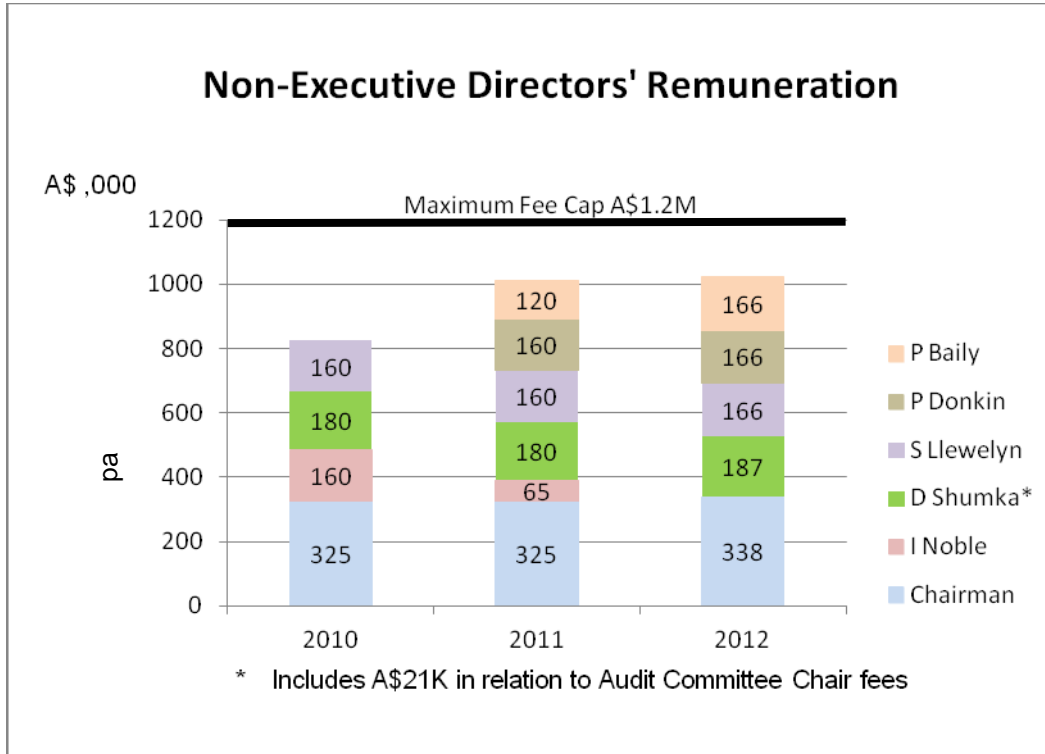
\* This is the only fee paid to any committee member. All other duties are remunerated as part of the base fee.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (Audited) (continued)

#### COMPONENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION (continued)

The following graph is provided to give a clearer understanding of the Non-executive Directors' remuneration.



#### Other Fees/Benefits

In addition, the Company's Constitution provides for additional compensation to be paid if any of the Directors are called upon to perform extra services or make any special exertions on behalf of the Company or the business of the Company. The Company may compensate such Director in accordance with such services or exertions, and such compensation may be either in addition to or in substitution for the Directors' fees referred to above. No additional fees were paid during the year, other than the Directors' fees disclosed.

Non-executive Directors are also entitled to be reimbursed for reasonable expenses incurred whilst engaged on Company business. There is no entitlement to compensation on termination of non-executive directorships. Non-executive Directors do not earn retirement benefits (other than the statutory superannuation) and are not entitled to any form of performance linked remuneration.

#### Rotation of Directors

Mr Donald Shumka and Mr Peter Donkin will retire by rotation and seek re-election at the 2012 Annual General Meeting.

#### REMUNERATION ACROSS THE GROUP

The strategies outlined for Executive remuneration apply across the Group. This extends to the provision of relevant short-term and long-term incentives. Site based employees at Langer Heinrich accrued bonuses quarterly based on a system linked to mine performance criteria covering production, safety, environmental performance and attendance. At Kayelekera, the bonus scheme will not be fully established until steady state nameplate production is achieved, however, to recognise the efforts made in working towards this, a bonus was paid in December 2011. To reflect the needs of local employees, their bonus took the form of shopping vouchers.

## **DIRECTORS' REPORT (continued)**

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### **REMUNERATION REPORT (Audited) (continued)**

#### **REMUNERATION ACROSS THE GROUP (continued)**

Permanent employees at LHM also participated in the allocation of Share Rights during the year. The vesting of a portion of these over time is well received, considered to be a tangible benefit and further cements the concept of broad employee share ownership, assisted by the Company's listing on the Namibian Stock Exchange. This is seen by employees as an extremely valuable benefit, particularly by the local national employees, and enables them to build up a shareholding in the Company over time.

At KM in Malawi, the allocation of Share Rights was limited to a small number of senior employees because of delays in ramp-up. Due to difficulties associated with local share ownership of Paladin shares given the absence of a local stock exchange on which Paladin could trade, an alternative reward system will be established for local nationals in that country once the mine reaches consistent design production levels. Senior employees will participate in the Rights Plan to a greater extent as mine production progresses.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (audited) (continued)

Compensation of Key Management Personnel for the year ended 30 June 2012 of the Group

	Short-Term Benefits				Post Employment		Long-Term Benefits		Share-Based Payment* Share Rights	Total US\$'000	Total A\$'000	Total Performance Related US\$'000	Total Performance Related %
	Salary & fees US\$'000	Cash bonus US\$'000	Other Company Benefits US\$'000	Other US\$'000	Super-annuation US\$'000	Retirement Benefits US\$'000	Long-Term Incentive Plan US\$'000	Long Service Leave US\$'000					
<b>Directors</b>													
Mr Rick Crabb	332	-	-	-	16	-	-	-	-	348	338	-	-
Mr John Borshoff	1,830 <sup>(1)</sup>	-	-	-	16	839 <sup>(3)</sup>	-	104	894	3,683	3,573	894	24.3
Mr Sean Llewelyn	157	-	-	-	14	-	-	-	-	171	166	-	-
Mr Donald Shumka	193	-	-	-	-	-	-	-	-	193	187	-	-
Mr Philip Baily	157	-	-	-	14	-	-	-	-	171	166	-	-
Mr Peter Donkin	157	-	-	-	14	-	-	-	-	171	166	-	-
<b>Subtotal</b>	<b>2,826</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74</b>	<b>839</b>	<b>-</b>	<b>104</b>	<b>894</b>	<b>4,737</b>	<b>4,596</b>	<b>894</b>	
<b>Key Management Personnel</b>													
Ms Gillian Swaby	-	-	-	571 <sup>(2)</sup>	-	-	239	-	1,162	1,972	1,912	128	6.5
Mr Garry Korte <sup>(4)</sup>	496	31	-	-	16	-	(99)	-	(139) <sup>(5)</sup>	305	296	(46)	(15.1)
Mr Dustin Garrow	714 <sup>(1)</sup>	-	-	-	-	-	281	-	328	1,323	1,283	150	11.3
Mr Mark Chalmers	520 <sup>(1)</sup>	31	63 <sup>(6)</sup>	-	16	-	81	-	30	741	719	35	4.8
<b>Subtotal</b>	<b>1,730</b>	<b>62</b>	<b>63</b>	<b>571</b>	<b>32</b>	<b>-</b>	<b>502</b>	<b>-</b>	<b>1,381</b>	<b>4,341</b>	<b>4,210</b>	<b>267</b>	
<b>Total</b>	<b>4,556</b>	<b>62</b>	<b>63</b>	<b>571</b>	<b>106</b>	<b>839</b>	<b>502</b>	<b>104</b>	<b>2,275</b>	<b>9,078</b>	<b>8,806</b>	<b>1,161</b>	

#### Notes to the Compensation Table

##### Presentation Currency

The compensation table has been presented in US\$, the Company's functional and presentation currency. The A\$ value has also been shown as this is considered to be the most relevant comparator between years, given that in 2011 more than 90% of KMP's contracts for services were denominated in A\$ and this eliminates the effects of fluctuations in the US\$ and A\$ exchange rate. Exchange rate used is average for year US\$ 1 = A\$0.96971

(1) Includes accrued annual leave.

(2) Other represents fees paid for company secretarial services to a company of which Ms Gillian Swaby is a director and shareholder.

(3) This is the present value of the amount required to be accrued in 2012 for the payment at a future date (as yet undetermined) of a retirement benefit to Mr Borshoff under the terms of his Services Contract.

(4) Mr Garry Korte – resigned 24 May 2012.

(5) Includes a credit of US\$150,000 relating to Share Rights forfeited upon resignation.

(6) Living away from home allowance.

\* A reconciliation of this figure in A\$ follows to enable a clearer understanding of how this number is calculated.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (audited) (continued)

Reconciliation of Share-Based Payment Compensation of Key Management Personnel for the year ended 30 June 2012 of the Group.

	Share Rights granted 26 March 2010 (vesting 2010 to 2013)		Share Rights granted 5 November 2010 (vesting 2011 to 2013)		Share Rights granted 15 February 2011 (vesting 2012 to 2014)		Share Rights granted 2 April 2012 (vesting 2012 to 2014)		Total Share-Based Payment	
	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000
<b>Directors</b>										
Mr John Borshoff	297	306	570	588	-	-	-	-	867	894
Subtotal	297	306	570	588	-	-	-	-	867	894
<b>Executives</b>										
Ms Gillian Swaby	173	178	83	86	856 <sup>(1)</sup>	883 <sup>(1)</sup>	14	15	1,126	1,162
Mr Garry Korte	(97)	(100)	(38)	(39)	-	-	-	-	(135) <sup>(2)</sup>	(139) <sup>(2)</sup>
Mr Dustin Garrow	192	198	111	114	-	-	16	16	319	328
Mr Mark Chalmers	-	-	-	-	-	-	29 <sup>(3)</sup>	30 <sup>(3)</sup>	29	30
Subtotal	268	276	156	161	856	883	59	61	1,339	1,381
<b>TOTAL</b>	<b>565</b>	<b>582</b>	<b>726</b>	<b>749</b>	<b>856</b>	<b>883</b>	<b>59</b>	<b>61</b>	<b>2,206</b>	<b>2,275</b>

It should be noted that time or performance vesting conditions are attached to all of the Share Rights referred to above. These are detailed elsewhere in this report.

Exchange rate used as the average for year US\$1 = A\$0.96971

(1) Issued pursuant to retention programme, vesting time based only.

(2) Includes a credit of A\$146,000 relating to Share Rights forfeited upon resignation.

(3) Includes A\$9,000 relating to 50,000 time-based shares negotiated as a sign-on bonus to assist in attracting quality personnel.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (audited) (continued)

Compensation of Key Management Personnel for the year ended 30 June 2011 of the Group

	Short-Term Benefits				Post Employment		Long-Term Benefits		Share-Based Payment*		Total <sup>(2)</sup>	Total	Total Performance Related	Total Performance Related
	Salary & fees	Cash bonus	Other Company Benefits	Other	Super-annuation	Retirement Benefits	Long-Term Incentive Plan	Long Service Leave	Options	Share Rights	US\$'000	A\$'000	US\$'000	%
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	A\$'000	US\$'000	%
<b>Directors</b>														
Mr Rick Crabb	305	-	-	-	15	-	-	-	-	-	320	325	-	-
Mr John Borshoff	2,226 <sup>(10)</sup>	231	-	-	15	584 <sup>(8)</sup>	-	99	688	655	4,498	4,567	1,574	35.0
Mr Sean Llewelyn	145	-	-	-	13	-	-	-	-	-	158	160	-	-
Mr Ian Noble <sup>(3)</sup>	59	-	-	-	5	-	-	-	-	-	64	65	-	-
Mr Donald Shumka	177	-	-	-	-	-	-	-	-	-	177	180	-	-
Mr Philip Baily <sup>(4)</sup>	108	-	-	-	10	-	-	-	-	-	118	120	-	-
Mr Peter Donkin <sup>(5)</sup>	145	-	-	-	13	-	-	-	-	-	158	160	-	-
<b>Subtotal</b>	<b>3,165</b>	<b>231</b>	<b>-</b>	<b>-</b>	<b>71</b>	<b>584</b>	<b>-</b>	<b>99</b>	<b>688</b>	<b>655</b>	<b>5,493</b>	<b>5,577</b>	<b>1,574</b>	
<b>Key Management Personnel</b>														
Ms Gillian Swaby	-	49	-	512 <sup>(1)</sup>	-	-	114	-	131	718	1,524	1,547	289	18.9
Mr Garry Korte	438	54	-	-	15	-	95	-	-	186	788	799	115	14.6
Mr Wyatt Buck <sup>(6)</sup>	427	-	50	-	15	-	-	-	102	(35) <sup>(9)</sup>	559	567	80	14.3
Mr Dustin Garrow	651	71	-	-	-	-	146	-	134	376	1,378	1,399	330	23.9
Mr Mark Chalmers <sup>(7)</sup>	83	-	-	-	4	-	-	-	-	-	87	88	-	-
<b>Subtotal</b>	<b>1,599</b>	<b>174</b>	<b>50</b>	<b>512</b>	<b>34</b>	<b>-</b>	<b>355</b>	<b>-</b>	<b>367</b>	<b>1,245</b>	<b>4,336</b>	<b>4,400</b>	<b>814</b>	
<b>Total</b>	<b>4,764</b>	<b>405</b>	<b>50</b>	<b>512</b>	<b>105</b>	<b>584</b>	<b>355</b>	<b>99</b>	<b>1,055</b>	<b>1,900</b>	<b>9,829</b>	<b>9,977</b>	<b>2,388</b>	

#### Notes to the Compensation Table

##### Presentation Currency

The compensation table has been presented in US\$, the Company's functional and presentation currency. The A\$ value has also been shown as this is considered to be the most relevant comparator between years, given that in 2011 more than 90% of KMP's contracts for services were denominated in A\$ and this eliminates the effects of fluctuations in the US\$ and A\$ exchange rate.

(1) Other represents fees paid for company secretarial services to a company of which Ms Gillian Swaby is a director and shareholder.

(2) Exchange rate used is average for year US\$ 1 = A\$1.01512

(3) Mr Ian Noble – retired 25 November 2010.

(4) Mr Philip Baily – appointed 1 October 2010.

(5) Mr Peter Donkin – appointed 1 July 2010.

(6) Mr Wyatt Buck – resigned 6 May 2011.

(7) Mr Mark Chalmers - appointed 27 April 2011.

(8) This is the present value of the amount required to be accrued in 2011 for the payment at a future date (as yet undetermined) of a retirement benefit to Mr Borshoff under the terms of his Services Contract.

(9) Includes a credit of US\$58,000 relating to Share Rights forfeited upon resignation.

(10) Adjusted from previously disclosed amount by US\$239,000 for accrued annual leave that had been omitted in the prior year.

\* A reconciliation of this figure in A\$ follows to enable a clearer understanding of how this number is calculated.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (audited) (continued)

Reconciliation of Share-Based Payment Compensation of Key Management Personnel for the year ended 30 June 2011 of the Group.

	A\$4.50 Options (expiring 29/1/2013)		Share Rights granted 26 March 2010 (vesting 2010 to 2013)		Share Rights granted 5 November 2010 (vesting 2011 to 2013)		Share Rights granted 15 February 2011 (vesting 2012 to 2014)		Total Share-Based Payment		% of Total Remuneration Consisting of Options
	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	
<b>Directors</b>											
Mr John Borshoff	698	688	292	287	374	368	-	-	1,364	1,343	16.2
Subtotal	698	688	292	287	374	368	-	-	1,364	1,343	
<b>Executives</b>											
Ms Gillian Swaby	133	131	257	253	72	71	400 <sup>(1)</sup>	394 <sup>(1)</sup>	862	849	8.6
Mr Garry Korte	-	-	128	127	60	59	-	-	188	186	0.0
Mr Wyatt Buck	103	102	(35) <sup>(2)</sup>	(35) <sup>(2)</sup>	-	-	-	-	68	67	17.0
Mr Dustin Garrow	136	134	285	281	96	95	-	-	517	510	9.8
Subtotal	372	367	635	626	228	225	400	394	1,635	1,612	
<b>TOTAL</b>	<b>1,070</b>	<b>1,055</b>	<b>927</b>	<b>913</b>	<b>602</b>	<b>593</b>	<b>400</b>	<b>394</b>	<b>2,999</b>	<b>2,955</b>	

When a long-term incentive is granted to an employee, it is valued at the grant date and that value is allocated as an expense over the financial years up to the date of vesting. The A\$4.50 options were expensed up to 29/1/2011 and therefore no expense will be recognised for these in future years.

It should be noted that time or performance vesting conditions are attached to all of the Options and Share Rights referred to above. These are detailed elsewhere in this report, however for Options, to the extent that maximum performance is not achieved under the performance condition, performance will be retested every six months following the first three years until the end of the fourth year. If performance conditions are still not met then the Options will lapse.

(1) Issued pursuant to retention programme, vesting time based only.

(2) Includes a credit of A\$59,000 relating to Share Rights lapsing upon resignation.

(3) Exchange rate used as the average for year US\$1 = A\$1.01512

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (audited) (continued)

#### CONTRACTS FOR SERVICES

Remuneration and other terms of employment for the Key Management Personnel are normally formalised in contracts for services.

All contracts with Key Management Personnel may be terminated early by either party providing between 3 to 6 months written notice or providing payments in lieu of the notice period (based on fixed component of remuneration). On termination notice by the Company, any options or rights that have vested, or that will vest during the notice period, will be released. Options or rights that have not yet vested will be forfeited.

Mr John Borshoff, *Managing Director/CEO*

Term of agreement – 4 years commencing 27 November 2009.

Base salary, inclusive of superannuation, A\$2,044,244. Base salary was voluntarily reduced by 25% to A\$1,533,600 from 1 December 2011 to 30 November 2012, and further extended by him to 30 June 2013.

3 months long service leave after 5 years continual service.

Payment of a benefit on retirement or early termination by the Company, other than for gross misconduct, equal to 2 times base salary for the two years immediately preceding the termination date. This benefit was approved by the Company shareholders on 9 November 2005.

Ms Gillian Swaby, *Company Secretary and Executive General Manager – Corporate Services*

Fees are paid in the ordinary course of business for company secretarial services to a company of which Ms Gillian Swaby is a director and shareholder.

Consultancy agreement with no fixed term.

Annual fee A\$567,000.

Notice period 3 months.

No termination benefit is specified in the agreement.

Retention bonus – 100%.

Mr Dustin Garrow, *Executive General Manager - Marketing*

Term of agreement – no fixed term.

Base salary, of US\$664,125 increased to US\$683,385 effective 1 January 2012.

No termination benefit is specified in the agreement.

Notice period 6 months.

Retention bonus – 100%.

Mr Garry Korte, *Chief Financial Officer (Resigned 24 May 2012)*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation of A\$503,500.

No termination benefit is specified in the agreement.

Notice period 3 months.

Retention bonus – 100%.

Mr Mark Chalmers, *Executive General Manager – Production*

Term of Agreement – no fixed term.

Base salary, of A\$490,000 increased to A\$514,500 effective 1 January 2012.

No termination benefit is specified.

Notice period 3 months

Retention bonus – 100%.

Mr Alan Rule, *Chief Financial Officer (Commenced 23 July 2012)*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation of A\$500,000.

No termination benefit is specified in the agreement.

Notice period 6 months.

Remuneration for all parties referred to above includes provision of an annual discretionary bonus and initial and ongoing discretionary participation in the Company's long-term incentive plans.



## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (audited) (continued)

#### GRANTS AND VESTING OF LONG-TERM INCENTIVES

During the year ended 30 June 2012, no options were granted as equity compensation benefits under the long-term incentive plan to Key Management Personnel. No options vested during the year ended 30 June 2012:

Share Rights awarded and shares issued on vesting of share rights to Key Management Personnel during the year ended 30 June 2012 (Consolidated and Company) are set out below:

30 June 2012	Grant No.	Grant date	Fair value per share right at award date (A\$) (US\$)		Vesting date	Shares issued on vesting of share rights <sup>(2)</sup> No. %	
<b>Directors</b>							
Mr John Borshoff	-	-	-	-	-	-	-
<b>Executive</b>							
Ms Gillian Swaby	55,000	2 April 2012	1.46	1.51	1 Sept 2012 to 1 Sept 2014	141,333	100
Mr Dustin Garrow	60,000	2 April 2012	1.46	1.51	1 Sept 2012 to 1 Sept 2014	38,000	100
Mr Mark Chalmers	125,000 <sup>(1)</sup>	2 April 2012	1.60	1.65	1 Sept 2012 to 1 Sept 2014	-	-
Mr Garry Korte	-	-	-	-	-	18,500	100
<b>Total</b>	<b>240,000</b>					<b>197,833</b>	

<sup>(1)</sup> Includes 50,000 time-based sign-on shares vesting on 1 September 2014.

<sup>(2)</sup> Vesting of share rights issued on 26 March 2010, 5 November 2010 and 15 February 2011.

30 June 2011	Grant No.	Grant date	Fair value per share right at award date (A\$) (US\$)		Vesting date	Shares issued on vesting of share rights <sup>(1)</sup> No. %	
<b>Directors</b>							
Mr John Borshoff	500,000	5 November 2010	3.82	3.85	5 November 2013	-	-
<b>Executive</b>							
Ms Gillian Swaby	60,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013	18,000	100
Ms Gillian Swaby	325,000	15 February 2011	5.41	5.43	15 Feb 2012 to 15 Feb 2014	-	-
Mr Garry Korte	50,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013	9,000	100
Mr Wyatt Buck	50,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013	16,000	100
Mr Dustin Garrow	80,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013	20,000	100
<b>Total</b>	<b>1,065,000</b>					<b>63,000</b>	

<sup>(1)</sup> Vesting of share rights issued on 26 March 2010.

End of audited Remuneration Report

## DIRECTORS' REPORT (continued)

### SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Date options granted	Date of initial performance condition test	Expiry date	Exercise price of options(A\$)	Number under option
29 January 2008	29 January 2011	29 January 2013	4.50	3,013,849
15 February 2008	15 February 2011	15 February 2013	5.37	203,820
18 April 2008	18 April 2011	18 April 2013	4.59	249,660
14 October 2008	14 October 2011*	14 October 2013	2.54	750,000
<b>Total</b>				<b>4,217,329</b>

\* Subject to retesting on 14 October 2012

Since the end of the financial year, no options were forfeited due to the cessation of employment.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

The outstanding balance of Performance Share Rights at the date of this report are as follows:

Date rights granted	Vesting date	Vesting performance conditions	Number
26 March 2010	26 March 2013	TSR	*150,000
26 March 2010	26 March 2013	EPS	*150,000
26 March 2010	1 September 2012	Time based	756,100
26 March 2010	1 September 2012	TSR	604,880
26 March 2010	1 September 2012	Market Price (base price A\$3.82)	907,320
5 November 2010	5 November 2013	TSR	*250,000
5 November 2010	5 November 2013	EPS	*250,000
5 November 2010	1 September 2012	Time based	249,007
5 November 2010	1 September 2013	Time based	415,013
5 November 2010	1 September 2013	TSR	332,010
5 November 2010	1 September 2013	Market price (base price A\$3.62)	498,015
15 February 2011	15 February 2013	Time based	154,633
15 February 2011	15 February 2014	Time based	185,504
2 April 2012	1 September 2012	Time based	188,140
2 April 2012	1 September 2013	Time based	282,210
2 April 2012	31 December 2013	Time based	20,000
2 April 2012	1 September 2014	Time based	520,350
2 April 2012	1 September 2014	TSR	376,280
2 April 2012	1 September 2014	Market price (base price A\$1.94)	564,420
<b>Total</b>			<b>6,853,882</b>

\* Managing Director/CEO grant

No shares were issued on the exercise of options. 1,080,841 shares were issued on the vesting of Share Rights during the year ended 30 June 2012. 972,716 options at an exercise price of A\$4.50 were forfeited. At the date of lapse, these options had zero value. In addition, 3,041,746 options were cancelled having failed to achieve performance conditions.

### DIRECTORS' INDEMNITIES

During the year the Company has incurred premiums to insure the Directors and/or officers for liabilities incurred as costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company and or its controlled entities. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

## DIRECTORS' REPORT (continued)

### ROUNDING

The amounts contained in this report, the Financial Report and the Management, Discussion and Analysis have been rounded to the nearest US\$100,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

### AUDITOR

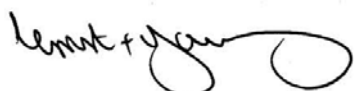
Ernst & Young were appointed auditors for the Company on 21 June 2005, which was approved by shareholders at the 2005 Annual General Meeting on 9 November 2005.

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

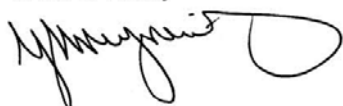
The Directors received the following declaration from the auditor of Paladin Energy Ltd.

#### Auditor's Independence Declaration to the Directors of Paladin Energy Ltd

In relation to our review of the financial report of Paladin Energy Ltd for the year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



G H Meyerowitz  
Partner  
30 August 2012

### NON-AUDIT SERVICES

The following non-audit and assurance services were provided by the Company's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit and assurance services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit and assurance service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	US\$'000
Tax compliance services	121
International tax consulting	545
Tax advice on mergers and acquisitions	67
Other tax advice	<u>48</u>
Total	<u>781</u>

Signed in accordance with a resolution of the Directors.



Mr John Borshoff  
Managing Director/CEO  
Perth, Western Australia  
30 August 2012

# PALADIN ENERGY LTD AND CONTROLLED ENTITIES FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2012

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**PALADIN ENERGY LTD AND CONTROLLED ENTITIES  
FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**PALADIN ENERGY LTD AND CONTROLLED ENTITIES  
CONSOLIDATED INCOME STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2012**

		<b>CONSOLIDATED</b>	
	<b>Notes</b>	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Revenue</b>			
Revenue	5(a)	367.4	268.9
Cost of sales	5(b)	(301.7)	(222.2)
Impairment – inventory and stores and consumables		<u>(39.0)</u>	<u>(26.4)</u>
Gross profit		26.7	20.3
Other income	5(c)	2.6	1.9
Exploration and evaluation expenses	13	(2.5)	(3.0)
Administration, marketing and non-production costs	5(d)	(49.8)	(54.0)
Other expenses	5(e)	<u>(199.8)</u>	<u>(8.8)</u>
Loss before interest and tax		(222.8)	(43.6)
Finance costs	5(f)	<u>(56.7)</u>	<u>(61.5)</u>
<b>Net loss before income tax</b>		<b>(279.5)</b>	<b>(105.1)</b>
Income tax benefit	6(a)	<u>78.7</u>	<u>16.6</u>
<b>Net loss after tax</b>		<b><u>(200.8)</u></b>	<b><u>(88.5)</u></b>
Attributable to:			
Non-controlling interests		(28.0)	(6.2)
Members of the parent		<u>(172.8)</u>	<u>(82.3)</u>
<b>Loss per share (US cents)</b>			
Loss after tax from operations attributable to ordinary equity holders of the Company			
– basic and diluted (US cents)	29	(21.1)	(11.1)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2012**

	CONSOLIDATED	
	2012 US\$M	2011 US\$M
<b>Net loss after tax from operations</b>	<b>(200.8)</b>	<b>(88.5)</b>
<b>Other comprehensive income</b>		
Net (loss)/gain on available-for-sale financial assets	(25.8)	10.8
Transfer of available-for-sale reserve on acquisition of entity	-	(3.2)
Transfer of impairment loss to income statement	8.0	-
Foreign currency translation	(44.0)	141.1
Income tax on items of other comprehensive income	3.3	(3.7)
<b>Other comprehensive (loss)/income for the year, net of tax</b>	<u>(58.5)</u>	<u>145.0</u>
<b>Total comprehensive (loss)/income for the year</b>	<u>(259.3)</u>	<u>56.5</u>
Total comprehensive (loss)/income attributable to:		
Non-controlling interests	(31.3)	9.2
Members of the parent	<u>(228.0)</u>	<u>47.3</u>
	<u>(259.3)</u>	<u>56.5</u>

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2012**

<b>CONSOLIDATED</b>			
	<b>Notes</b>	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	112.1	117.4
Trade and other receivables	8	82.8	20.5
Prepayments		10.2	13.8
Inventories	9	186.5	177.7
<b>TOTAL CURRENT ASSETS</b>		<b>391.6</b>	<b>329.4</b>
<b>Non current assets</b>			
Trade and other receivables	8	0.1	1.5
Inventories	9	114.2	73.6
Other financial assets	10	15.5	41.8
Property, plant and equipment	11	491.7	630.1
Mine development	12	88.3	106.6
Exploration and evaluation expenditure	13	1,143.2	1,177.9
Deferred tax asset	6(d)	85.0	19.7
Intangible assets	14	18.1	23.1
<b>TOTAL NON CURRENT ASSETS</b>		<b>1,956.1</b>	<b>2,074.3</b>
<b>TOTAL ASSETS</b>		<b>2,347.7</b>	<b>2,403.7</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	67.1	69.7
Interest bearing loans and borrowings	16	183.4	43.9
Provisions	17	3.4	5.3
<b>TOTAL CURRENT LIABILITIES</b>		<b>253.9</b>	<b>118.9</b>
<b>Non current liabilities</b>			
Interest bearing loans and borrowings	16	655.1	675.8
Deferred tax liabilities	6(d)	203.5	217.5
Provisions	17	40.4	36.3
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>899.0</b>	<b>929.6</b>
<b>TOTAL LIABILITIES</b>		<b>1,152.9</b>	<b>1,048.5</b>
<b>NET ASSETS</b>		<b>1,194.8</b>	<b>1,355.2</b>
<b>EQUITY</b>			
Contributed equity	18 (a)	1,839.2	1,768.1
Reserves	18 (c)	177.8	205.2
Accumulated losses		(874.6)	(701.8)
Parent interests		1,142.4	1,271.5
Non-controlling interests		52.4	83.7
<b>TOTAL EQUITY</b>		<b>1,194.8</b>	<b>1,355.2</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2012**

Notes	Contributed Equity US\$M	Available -for-Sale Reserve US\$M	Share- Based Payments Reserve US\$M	Convertible Bond Non- Distrib- utable Reserve US\$M	Foreign Currency Revaluation Reserve US\$M	Premium on Acquisition Reserve US\$M	Option Application Reserve US\$M	Consol- idated Reserve US\$M	Accumu- lated Losses US\$M	Attributable to Owners of the Parent US\$M	Non- Controlling Interests US\$M	Total US\$M
<b>CONSOLIDATED</b>												
<b>Balance at 1 July 2010</b>	<b>1,474.6</b>	<b>7.7</b>	<b>38.0</b>	<b>38.9</b>	<b>(56.8)</b>	<b>14.9</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(619.5)</b>	<b>897.7</b>	<b>73.2</b>	<b>970.9</b>
Loss for the period	-	-	-	-	-	-	-	-	(82.3)	(82.3)	(6.2)	(88.5)
Other comprehensive income	-	4.0	-	-	125.6	-	-	-	-	129.6	15.4	145.0
Total comprehensive income/(loss) for the year net of tax	-	4.0	-	-	125.6	-	-	-	(82.3)	47.3	9.2	56.5
Share-based payment	-	-	14.6	-	-	-	-	-	-	14.6	-	14.6
Vesting performance rights	3.1	-	(3.1)	-	-	-	-	-	-	-	-	-
Contributions of equity, net of transaction costs	290.4	-	-	-	-	-	-	-	-	290.4	1.3	291.7
Convertible bonds – equity component, net of tax and transaction costs	-	-	-	28.1	-	-	-	-	-	28.1	-	28.1
Convertible bonds – buyback	-	-	-	(6.6)	-	-	-	-	-	(6.6)	-	(6.6)
<b>Balance at 30 June 2011</b>	<b>1,768.1</b>	<b>11.7</b>	<b>49.5</b>	<b>60.4</b>	<b>68.8</b>	<b>14.9</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(701.8)</b>	<b>1,271.5</b>	<b>83.7</b>	<b>1,355.2</b>
<b>Balance at 1 July 2011</b>	<b>1,768.1</b>	<b>11.7</b>	<b>49.5</b>	<b>60.4</b>	<b>68.8</b>	<b>14.9</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(701.8)</b>	<b>1,271.5</b>	<b>83.7</b>	<b>1,355.2</b>
Loss for the period	-	-	-	-	-	-	-	-	(172.8)	(172.8)	(28.0)	(200.8)
Other comprehensive income	-	(14.5)	-	-	(40.7)	-	-	-	-	(55.2)	(3.3)	(58.5)
Total comprehensive income/(loss) for the year net of tax	-	(14.5)	-	-	(40.7)	-	-	-	(172.8)	(228.0)	(31.3)	(259.3)
Share-based payment	-	-	7.4	-	-	-	-	-	-	7.4	-	7.4
Vesting performance rights	4.7	-	(4.7)	-	-	-	-	-	-	-	-	-
Contributions of equity, net of transaction costs	66.4	-	-	-	-	-	-	-	-	66.4	-	66.4
Convertible bonds – equity component, net of tax and transaction costs	-	-	-	27.9	-	-	-	-	-	27.9	-	27.9
Convertible bonds – buyback	-	-	-	(2.8)	-	-	-	-	-	(2.8)	-	(2.8)
<b>Balance at 30 June 2012</b>	<b>1,839.2</b>	<b>(2.8)</b>	<b>52.2</b>	<b>85.5</b>	<b>28.1</b>	<b>14.9</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(874.6)</b>	<b>1,142.4</b>	<b>52.4</b>	<b>1,194.8</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2012

		<b>CONSOLIDATED</b>	
	<b>Notes</b>	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		313.9	281.0
Payments to suppliers and employees		(401.1)	(348.6)
Interest received		1.4	1.6
Interest paid		(38.0)	(33.2)
Exploration and evaluation expenditure		(2.5)	(3.0)
Other income		0.5	0.2
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	7(a)	<b><u>(125.8)</u></b>	<b><u>(102.0)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capitalised exploration expenditure		(12.1)	(17.6)
Payments for property, plant and equipment		(70.1)	(129.4)
Payments for controlled entities net of cash acquired		-	(3.5)
Proceeds from sale of property, plant & equipment		-	11.7
Proceeds from sale of tenements		-	3.0
Proceeds from sale of investments		-	3.3
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b><u>(82.2)</u></b>	<b><u>(132.5)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from convertible bonds		274.0	300.0
Repayment of convertible bonds		(191.0)	(253.3)
Convertible bond finance costs		(5.9)	(6.4)
Share placement		64.7	-
Rights issue		-	1.3
Equity fundraising costs		(2.1)	(0.5)
Project finance facility establishment costs		(2.0)	-
Repayment of borrowings		(77.2)	(51.8)
Proceeds from borrowings		141.0	12.0
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b><u>201.5</u></b>	<b><u>1.3</u></b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b><u>(6.5)</u></b>	<b><u>(233.2)</u></b>
Cash and cash equivalents at the beginning of the financial year		117.4	347.9
Effects of exchange rate changes on cash and cash equivalents		1.2	2.7
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	7	<b><u>112.1</u></b>	<b><u>117.4</u></b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 1. CORPORATE INFORMATION**

The Financial Report of Paladin for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 24 August 2012.

Paladin is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the ASX with additional listings on the Toronto Stock Exchange in Canada as well as Munich, Berlin, Stuttgart and Frankfurt Stock Exchanges in Europe; and the Namibian Stock Exchange in Africa.

The nature of the operations and principal activities of the Group are described in the Management Discussion and Analysis on pages 12 to 42.

**NOTE 2. GOING CONCERN**

The Group's consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

During the year ended 30 June 2012, the Group incurred net losses after tax attributable to the members of US\$172.8M (2011: US\$82.3M) and had net cash outflow of US\$6.5M (2011: US\$233.2M). At balance date the Group had a net working capital surplus of US\$137.7M (2011: US\$210.5M) including cash on hand of US\$112.1M (2011: US\$117.4M). Included within this cash on hand is US\$26.2M (2011: US\$19.5M) which is restricted for use in respect of the LHM and KM project finance facilities.

Repayment obligations, during the next 12 months, in respect of interest bearing loans and borrowings are summarised as follows:

- Secured bank loans principal repayments of US\$53.1M for LHM and KM project financing;
- Interest payments of US\$40.5M for LHM and KM project financing and Convertible Bonds; and
- The final US\$134.0M payment on the US\$325.0M Convertible Bond which matures on 11 March 2013.

As set out in note 27, the Group announced on 15 August 2012 that it had entered into a six year sales off-take agreement with a leading international utility to sell a total of 13.73Mlb U<sub>3</sub>O<sub>8</sub> in the period from 2019 to 2024. Pursuant to this agreement, prepayment of US\$200M will be made to Paladin in respect of part of the future U<sub>3</sub>O<sub>8</sub> product deliveries.

In addition, in arriving at its position in relation to going concern, the Directors have given consideration to the following:

- Paladin has been in discussions with a select group of nuclear industry parties on strategic initiatives; and
- Paladin has a history of refinancing some of its debt.

Accordingly, the directors believe that the Group will obtain sufficient funding to enable the Group to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation and Statement of Compliance**

The Financial Report is a general purpose Financial Report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The Financial Report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Financial Report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

In addition to these Australian requirements further information has been included in the Consolidated Financial Statements for the year ended 30 June 2012 in order to comply with applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

The Financial Report is presented in US dollars and all values are rounded to the nearest hundred thousand dollars (US\$100,000) unless otherwise stated under the option available to the Company under Australian Securities and Investments Commission (ASIC) Class Order 98/100. The Company is an entity to which the class order applies.

Apart from changes in accounting policies noted below, the accounting policies adopted are consistent with those disclosed in the Financial Report for the year ended 30 June 2011. Certain comparative information has been reclassified to be presented on a consistent basis with the current year's presentation.

**(b) New accounting Standards and Interpretations**

**(i) Changes in accounting policy and disclosures**

The Group has adopted all new and amended Australian Accounting Standards and AASB interpretations effective from 1 July 2011, including:

<b>Reference</b>	<b>Title</b>
AASB 124 (Revised)	<p>The revised AASB 124 <i>Related Party Disclosures (December 2009)</i> simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> <li>(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other.</li> <li>(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other.</li> <li>(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.</li> </ul>

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) New accounting Standards and Interpretations (continued)**

(i) Changes in accounting policy and disclosures (continued)

Reference	Title
AASB 2009-12	<p>Amendments to Australian Accounting Standards</p> <p>[AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 &amp; 1031 and Interpretations 2, 4, 16, 1039 &amp; 1052]</p> <p>Makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p>
AASB 2010-4	<p>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</p> <p>[AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]</p> <p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>
AASB 2010-5	<p>Amendments to Australian Accounting Standards</p> <p>[AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 &amp; 1038 and Interpretations 112, 115, 127, 132 &amp; 1042]</p> <p>This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretation including amendments to reflect changes made to the text of IFRS by the IASB.</p> <p>These amendments have no major impact on the requirements of the amended pronouncements.</p>
AASB 1054	<p>Australian Additional Disclosures</p> <p>This Standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.</p> <p>This Standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <ul style="list-style-type: none"> <li>(a) Compliance with Australian Accounting Standards.</li> <li>(b) The statutory basis or reporting framework for financial statements.</li> <li>(c) Whether the entity is a for-profit or not-for-profit entity.</li> <li>(d) Whether the financial statements are general purpose or special purpose.</li> <li>(e) Audit fees.</li> <li>(f) Imputation credits.</li> </ul>
AASB 2010-6	<p>Amendments to Australian Accounting Standards – Disclosures on Transfer of Financial Assets [AASB 1 &amp; AASB 7]</p> <p>The amendments increase the disclosure requirements for transactions involving transfers of financial assets but which are not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.</p>

The new and amended Standards and Interpretations had no impact on the financial position or performance of the Group.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) New accounting Standards and Interpretations (continued)**

(ii) Accounting Standards and Interpretations issued but not yet effective

The following Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been applied by the Group for the annual reporting period ending 30 June 2012, outlined in the table below:

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investments can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>- The change attributable to changes in credit risk are presented in other comprehensive income (OCI).</li> <li>- The remaining change is presented in profit or loss.</li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1 January 2013**	1 July 2013

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) New accounting Standards and Interpretations (continued)**

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7.</p>	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	<p>AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and UIG-113 <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i>. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.</p>	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	<p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.</p>	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	1 January 2013	1 July 2013

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) New accounting Standards and Interpretations (continued)**

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
AASB 119	Employee Benefits	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</p>	1 January 2013	1 July 2013
Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	<p>This interpretation applies to stripping costs incurred during the production phase of a surface mine.</p> <p>Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset".</p> <p>The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.</p> <p>Consequential amendments were also made to other standards via AASB 2011-12.</p>	1 January 2013	1 July 2013
AASB 2012-5	Annual Improvements 2009-2011 Cycle	<p>Amendments to Australian Accounting Standards arising from this standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this Standard:</p> <p>AASB 1 First-time Adoption of International Financial Reporting Standards</p> <ul style="list-style-type: none"> <li>• Repeated application of IFRS 1.</li> <li>• Borrowing costs.</li> </ul> <p>AASB 2 Presentation of Financial Statements</p> <ul style="list-style-type: none"> <li>• Clarification of the requirements for comparative information.</li> </ul> <p>AASB 116 Property, Plant and Equipment</p> <ul style="list-style-type: none"> <li>• Classification of servicing equipment.</li> </ul> <p>AASB 132 Financial Instruments: Presentation</p> <ul style="list-style-type: none"> <li>• Tax effect of distribution to holders of equity instruments.</li> </ul> <p>AASB 134 Interim Financial Reporting</p> <ul style="list-style-type: none"> <li>• Interim financial reporting and segment information for total assets and liabilities.</li> </ul>	1 January 2013	1 July 2013



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) New accounting Standards and Interpretations (continued)**

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirement for disclosing entities that are not companies.	1 July 2013	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards.</p> <p>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit entities in the private sector that have public accountability (as defined in this Standard).</p> <p>(b) The Australian Government and State, Territory and Local Governments.</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit private sector entities that do not have public accountability.</p> <p>(b) All not-for-profit private sector activities.</p> <p>(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.</p> <p>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.</p>	1 July 2013	1 July 2013

\* Designates the beginning of the applicable annual reporting period unless otherwise stated.

\*\* AASB ED 215 *Mandatory effective date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of ED 215 is still pending by the AASB. However, the IASB has deferred the mandatory effective date IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

The potential effect of these Standards is yet to be fully determined.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of Paladin Energy Ltd and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (refer to Note 3(j)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss and;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Significant Accounting Judgements, Estimates and Assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Net Realisable Value of Inventories

The Group reviews the carrying value of inventories regularly to ensure that their cost does not exceed net realisable value. In determining net realisable value various factors are taken into account including sales prices and costs to complete inventories to their final form.

(ii) Impairment of Property, Plant and Equipment; Mine Development and Intangibles

Property, plant and equipment; mine development and intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The Group conducts an internal review of asset values at each reporting date, which is used as a source of information to assess for any indicators of impairment. Factors, such as changes in uranium prices, production performance and mining and processing costs are monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(iii) Available-for-Sale Financial Assets and Financial Assets Held for Trading

The Group measures the fair value of available-for-sale financial assets by reference to the fair value of the equity instruments at the date at which they are valued. The fair value of the unlisted securities is determined using valuation techniques. Such techniques include using recent arm's length market transactions, net asset values and by an external valuer using the Black-Scholes valuation model.

(iv) Carrying Value of Exploration and Evaluation Expenditure

The Group reviews the carrying value of exploration and evaluation expenditure at each reporting date. This requires judgement as to the status of the individual projects and their future economic value.

(v) Deferred Tax Assets and Liabilities

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining deferred tax assets and liabilities. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Significant Accounting Judgements, Estimates and Assumptions (continued)**

(vi) Rehabilitation Provision

The value of this provision represents the discounted value of the present obligation to rehabilitate the mine and to restore, dismantle and close the mine. The discounted value reflects a combination of management's assessment of the cost of performing the work required, the timing of the cash flows and the discount rate. A change in any, or a combination, of the three key assumptions (estimated cash flows, discount rates or inflation rates), used to determine the provision could have a material impact to the carrying value of the provision.

(vii) Share-Based Payment Transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using either the Black-Scholes valuation model or Monte-Carlo simulation model as appropriate, using assumptions detailed in Note 25.

(viii) Proved and Probable Reserves

The Group uses the concept of a life of mine as an accounting value to determine such things as depreciation rates and the appropriate period to discount mine closure provisions. In determining life of mine the proved and probable reserves measured in accordance with the 2004 edition of the JORC Code specific to a mine are taken into account which by their very nature require judgements, estimates and assumptions.

(ix) Production Start Date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine and the processing plant is substantially complete, ready for its intended use. At this time, any costs capitalised to 'construction work in progress' are reclassified to 'mine development' and 'property, plant and equipment'. Some of the criteria will include, but are not limited, to the following:

- availability of the plant
- completion of a reasonable period of testing of the mine plant and equipment
- ability to produce metal in saleable form (within specifications)
- ability to sustain ongoing production of metal at commercial rates of production

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs that qualify for capitalisation relating to mine asset additions or improvements, mine development or mineable reserve development. It is also at this point that depreciation / amortisation commences.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Segment Reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group's executive management team (the chief operating decision makers) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the executive management team.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Company has identified its operating segments to be Exploration, Namibia and Malawi on the basis of the nature of activity and geographical location and different regulatory environments.

**(f) Foreign Currency Translation**

**(i) Functional and Presentation Currency**

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in United States dollars (US dollars), which is the Company's functional and presentation currency.

**(ii) Transactions and Balances**

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Translation differences on available-for-sale financial assets are included in the available-for-sale reserve.

**(iii) Group Companies**

Some Group entities have a functional currency of US dollars which is consistent with the Group's presentational currency. For all other Group entities the functional currency has been translated into US dollars for presentation purposes. Assets and liabilities are translated using exchange rates prevailing at the balance sheet date; revenues and expenses are translated using average exchange rates prevailing for the income statement year; and equity transactions are translated at exchange rates prevailing at the dates of transactions. The resulting difference from translation is recognised in a foreign currency translation reserve. Foreign currency translation reserves upon the sale of a subsidiary is recycled to the Income Statement.

The following material operating subsidiaries have a US dollar functional currency:

- Paladin Finance Pty Ltd
- Paladin (Africa) Limited
- Langer Heinrich Uranium (Pty) Ltd
- Paladin Nuclear Ltd
- Indo Energy Ltd

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Foreign Currency Translation (continued)**

(iii) Group Companies (continued)

The following material operating subsidiaries have an Australian dollar functional currency:

- Northern Territory Uranium Pty Ltd
- Mount Isa Uranium Pty Ltd
- Paladin Energy Minerals NL
- Summit Resources (Aust) Pty Ltd
- Fusion Resources Pty Ltd

The following material operating subsidiaries have a Canadian dollar functional currency:

- Aurora Energy Ltd
- Michelin Uranium Ltd
- Paladin Canada Holdings (NL) Ltd
- Paladin Canada Investments (NL) Ltd

**(g) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Sale of Uranium

Revenue from sale of uranium is recognised when risk and reward of ownership pass which is when title of the product passes from the Group pursuant to an enforceable contract, when selling prices are known or can be reasonably estimated and when the product is in a form that requires no further treatment by the Group.

(ii) Interest Revenue

Interest revenue from investments in cash is recognised in the Income Statement as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iii) Database Licence Revenue

Licence revenue generated from granting third parties access to proprietary database information on mineral property regions is recognised in the Income Statement on a straight line basis over the licence term.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Income Tax**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Paladin and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian tax law.

**(i) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the lease incentive liability on a straight line basis over the period of the lease.

**(j) Business Combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. Prior to 1 July 2009 the purchase method of accounting was used to account for business combinations.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Business Combinations (continued)**

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

**(k) Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(l) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(m) Trade and Other Receivables**

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

**(n) Inventories**

Consumable stores inventory are valued at the lower of cost and net realisable value using the weighted average cost method, after appropriate allowances for redundant and slow moving items.

Finished goods and work in progress inventory are valued at the lower of cost and net realisable value using the weighted average cost method. Cost is derived on an absorption costing basis including both fixed and variable production costs and attributable overheads incurred up to the delivery point where legal title to the product passes. No accounting value is attributed to stockpiles containing ore at less than the cut-off grade.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Inventories (continued)**

Any inventory produced during the development phase is initially recognised at its deemed cost, being net realisable value and deducted from capitalised development costs.

The costs of production include labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore (including any recognised expense of stripping costs); the depreciation of property, plant and equipment used in the extraction and processing of ore; and production overheads.

Inventory held for trading by Paladin Energy Ltd and Paladin Nuclear Ltd, the Group's marketing entity, is valued at the lower of actual cost and net realisable value, using a blend of spot and long-term prices.

**(o) Investments and Other Financial Assets**

The Group classifies its investments and other financial assets in the following categories: loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial assets held for trading. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Classification

**(i) Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the Statement of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method.

**(ii) Held-to-Maturity Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

**(iii) Available-for-Sale Financial Assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance date.

Purchases and sales of investments are recognised on trade-date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-Sale financial assets are subsequently carried at fair value. Unrealised gains and losses which arise from changes in the fair value of non monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the Income Statement as gains and losses from investment securities.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Investments and Other Financial Assets (continued)**

(iv) Financial Assets Held for Trading

Financial assets are classified as held for trading if they are derivative instruments or acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the Statement of Comprehensive Income.

(v) Fair value of Financial Instruments

The fair values of quoted investments are based on current bid prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The nominal value less estimated adjustments of trade receivables and payables are assumed to approximate their fair values.

(vi) Impairment of Financial Instruments

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the Income Statement. Any subsequent increase in value is recognised in equity.

**(p) Interests in Jointly Controlled Assets**

The Group has interests in joint ventures that are jointly controlled assets. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled asset involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in jointly controlled assets by recognising its interest in the assets and the liabilities of the joint venture. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by jointly controlled assets.

**(q) Property, Plant and Equipment**

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Property, plant and equipment costs include both the costs associated with construction of equipment associated with establishment of an operating mine, and the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

Land is not depreciated. Depreciation on other assets is calculated using either the unit of production basis or the straight line method to allocate their cost amount, net of their residual values, over their estimated useful lives, as follows:

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Property, Plant and Equipment (continued)**

- Buildings 20 years
- Databases 10 years
- Plant and equipment 2-6 years
- Leasehold improvements 7 years
- Mine plant and equipment lesser of life of asset and unit of production basis

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Income Statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

**(r) Mine Development**

Pre-production costs are deferred as development costs until such time as the asset is capable of being operated in a manner intended by management. Post-production costs are recognised as a cost of production.

Overburden cost is capitalised and depreciated on a units of production basis. Stripping costs are recognised as a production cost as incurred.

**(s) Exploration and Evaluation Expenditure**

Exploration and evaluation expenditure related to areas of interest is capitalised and carried forward to the extent that:

- (i) rights to tenure of the area of interest are current; and
- (ii) costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale.

Exploration and evaluation expenditure is allocated separately to specific areas of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the area of interest.

Costs related to the acquisition of properties that contain Mineral Resources are allocated separately to specific areas of interest.

If costs are not expected to be recouped through successful development and exploitation of the area of interest or alternatively by sale, costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditure that is capitalised is included as part of cash flows from investing activities whereas exploration and evaluation expenditure that is expensed is included as part of cash flows from operating activities.

When a decision to proceed to development is made the exploration and evaluation capitalised to that area is transferred to mine development. All costs subsequently incurred to develop a mine prior to the start of mining operations within the area of interest are capitalised and carried at cost. These costs include expenditure incurred to develop new ore bodies within the area of interest, to define further mineralisation in existing areas of interest, to expand the capacity of a mine and to maintain production.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(s) Exploration and Evaluation Expenditure (continued)**

Capitalised amounts for an area of interest may be written down to its recoverable amount if the area of interest's carrying amount is greater than its estimated recoverable amount.

**(t) Intangibles**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on the intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

Right to use water and power supply

Useful lives	Life of mine
Amortisation method used	Amortised over the life of the mine on a unit of production basis
Impairment testing	Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

The rights to use water and power supply have been granted for a minimum of 17 years from April 2007 by the relevant utilities with the option of renewal without significant cost at the end of this period.

Kayelekera Mining Lease

Useful lives	Finite
Amortisation method used	Amortised over the life of the mine on a straight-line basis.
Impairment testing	Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(t) Intangibles (continued)**

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Comprehensive Income when the asset is derecognised.

**(u) Trade and Other Payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(v) Interest Bearing Loans and Borrowings**

Bank loan borrowings are initially recognised at fair value, net of transaction costs incurred. Bank loan borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

The component of convertible bonds that exhibits characteristics of debt is recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity. The carrying amount of the equity component is not remeasured in subsequent years.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(w) Borrowing Costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed as incurred including the unwinding of discounts related to mine closure provisions. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

**(x) Employee Benefits**

**(i) Wages and Salaries, Annual Leave and Sick Leave**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised as a current liability in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

**(ii) Long Service Leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(x) Employee Benefits (continued)**

(iii) Long-Term Incentive Plan

The liability for the retention programme is recognised in the provision for employee benefits as the present value of expected future payments to be made in respect of the retention bonus programme. Consideration is given to expected future salary levels and experience of employee departures. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future cash outflows. Projected unit credit method has been used to calculate the provision.

(iv) Share-Based Payments

Share-based compensation benefits were provided to employees via the Paladin Executive Share Option Plan (EXSOP). Following the implementation of the Employee Performance Share Rights Plan and the Contractor Performance Share Rights Plan (Rights Plans) detailed in Note 25, no further options will be granted pursuant to the EXSOP.

The fair value of options granted under both the EXSOP and rights under the Rights Plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights.

The fair value of options and rights at grant date is independently determined using the Black-Scholes valuation model that takes into account the exercise price, the term of the option or right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option or right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The Monte-Carlo model is used to model the future value of the Company's shares and the movement of the comparator companies' Total Shareholder Return (TSR) on the various vesting dates associated with vesting requirements of the options.

The rights with a non-market based performance condition (time based and EPS) were valued using a Black-Scholes valuation model. The rights that contained a market based performance condition (TSR and market price) were valued using a Monte-Carlo simulation model.

Non-market vesting conditions are included in assumptions about the number of options or rights that are expected to become exercisable or granted. At each balance date, the entity revises its estimate of the number of options and rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options or the grant of rights, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The Group measures the cost of equity-settled transactions with other parties by reference to the fair value of the goods or services received. Where the fair value of the goods or services cannot be reliably determined, or where the goods or services cannot be identified, the Group measures the cost of the transaction by reference to the fair value of the equity instruments granted.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(y) Mine Closure and Rehabilitation**

Mine closure and restoration costs include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the infrastructure. Mine closure costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

As the value of the provision for mine closure represents the discounted value of the present obligation to restore, dismantle and close the mine, the increase in this provision due to the passage of time is recognised as a finance cost. The discount rate used is a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

Provision is made for rehabilitation work when the obligation arises and this is recognised as a cost of production or development. The rehabilitation costs, provided for are the present value of the estimated costs to restore operating locations. The value of the provision represents the discounted value of the current estimate to restore and the discount rate used is the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

**(z) Onerous Contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

**(aa) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(ab) Earnings Per Share**

**(i) Basic Earnings Per Share**

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

**(ii) Diluted Earnings Per Share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 4. SEGMENT INFORMATION**

**Identification of Reportable Segments**

The Company has identified its operating segments to be Exploration, Namibia and Malawi, on the basis of the nature of the activity and geographical location and different regulatory environments. The main segment activity in Namibia and Malawi is the production and sale of uranium from the mines located in these geographic regions. The Exploration segment is focused on developing exploration and evaluation projects in Australia, Niger and Canada. Unallocated portion covers the Company's sales and marketing, treasury, corporate and administration.

Discrete financial information about each of these operating segments is reported to the Group's executive management team (chief operating decision makers) on at least a monthly basis.

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 3 to the accounts and in the prior period.

Inter-entity sales are priced with reference to the spot rate.

Corporate charges comprise non-segmental expenses such as corporate office expenses. A proportion of the corporate charges are allocated to Namibia and Malawi on the basis of timesheet allocations with the balance remaining in Unallocated.

The following items are not allocated to segments as they are not considered part of the core operations of any segment:

- Interest revenue
- Non project finance interest and borrowing expense
- Unallocated corporate and labour costs

The Group's customers are major utilities and other entities located mainly in USA, Australia, China, Taiwan and UK. These revenues are attributed to the geographic location of the mines being the reporting segments Namibia and Malawi.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 4. SEGMENT INFORMATION (continued)**

The following tables present revenue, expenditure and asset information regarding operating segments for the years ended 30 June 2012 and 30 June 2011.

Year ended 30 June 2012	Exploration US\$M	Namibia US\$M	Malawi US\$M	Unallocated US\$M	Consolidated US\$M
Sales to external customers	-	239.2	126.6	-	365.8
Other revenue	-	-	-	1.6	1.6
Inter segment sales	-	15.1	-	-	15.1
Total segment revenue	-	254.3	126.6	1.6	382.5
Elimination of inter segment sales	-	(15.1)	-	-	(15.1)
<b>Total consolidated revenue</b>	<b>-</b>	<b>239.2</b>	<b>126.6</b>	<b>1.6</b>	<b>367.4</b>
Impairment of inventory	-	-	(39.0)	-	(39.0)
Segment (loss)/profit before income tax and finance costs and impairments	(1.3)	60.4	(64.6)	(31.3)	(36.8)
Impairment for available for sale asset	-	-	-	(8.0)	(8.0)
Impairment of asset	-	-	(178.0)	-	(178.0)
Finance costs	-	(7.8)	(7.5)	(41.4)	(56.7)
Loss before income tax	(1.3)	52.6	(250.1)	(80.7)	(279.5)
Income tax benefit/(expense)	0.4	(4.2)	65.2	17.3	78.7
<b>Loss after income tax</b>	<b>(0.9)</b>	<b>48.4</b>	<b>(184.9)</b>	<b>(63.4)</b>	<b>(200.8)</b>
<b>Segment assets/total assets</b>	<b>1,148.0</b>	<b>628.7</b>	<b>465.1</b>	<b>105.9</b>	<b>2,347.7</b>

	Australia US\$M	Canada US\$M	Malawi US\$M	Namibia US\$M	Other US\$M	Consolidated US\$M
<b>Non current assets by country*</b>	863.4	260.0	233.5	461.9	36.8	1,855.6

In 2012, the two most significant customers equated on a proportionate basis to 22% (US\$79.9M Namibia, Malawi) and 11% (US\$41.0M Namibia, Malawi) of the Group's total sales revenue.

Year ended 30 June 2011	Exploration US\$M	Namibia US\$M	Malawi US\$M	Unallocated US\$M	Consolidated US\$M
Sales to external customers	-	166.5	100.3	-	266.8
Other revenue	-	-	-	2.1	2.1
Inter segment sales	-	26.9	-	-	26.9
Total segment revenue	-	193.4	100.3	2.1	295.8
Elimination of inter segment sales	-	(26.9)	-	-	(26.9)
<b>Total consolidated revenue</b>	<b>-</b>	<b>166.5</b>	<b>100.3</b>	<b>2.1</b>	<b>268.9</b>
Impairment of inventory	-	-	(26.4)	-	(26.4)
Segment (loss)/profit before income tax and finance costs	(1.4)	44.9	(37.4)	(49.7)	(43.6)
Finance costs	-	(3.6)	(8.8)	(49.1)	(61.5)
Loss before income tax	(1.4)	41.3	(46.2)	(98.8)	(105.1)
Income tax benefit/(expense)	0.5	(15.7)	22.3	9.5	16.6
<b>Loss after income tax</b>	<b>(0.9)</b>	<b>25.6</b>	<b>(23.9)</b>	<b>(89.3)</b>	<b>(88.5)</b>
<b>Segment assets/total assets</b>	<b>1,184.0</b>	<b>498.4</b>	<b>576.7</b>	<b>144.6</b>	<b>2,403.7</b>

	Australia US\$M	Canada US\$M	Malawi US\$M	Namibia US\$M	Other US\$M	Consolidated US\$M
<b>Non current assets by country*</b>	892.9	270.2	427.9	385.7	36.1	2,012.8

In 2011, the two most significant customers equated on a proportionate basis to 14% (US\$37.4M Namibia, Malawi) and 14% (US\$36.5M Malawi) of the Group's total sales revenue.

\* Excluding deferred tax assets and financial instruments.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 5. REVENUES AND EXPENSES**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>(a) Revenue</b>		
Sale of uranium	365.8	266.8
Interest income from non-related parties	1.4	1.4
Database licence revenue	-	0.2
Other revenue	0.2	0.5
Total	367.4	268.9
<b>(b) Cost of Sales</b>		
Production costs before depreciation and amortisation	(256.7)	(170.9)
Depreciation and amortisation	(49.3)	(36.1)
Impairment loss in prior year relating to inventory sold during the year	23.4	-
Product distribution costs	(11.6)	(9.2)
Royalties	(7.5)	(6.0)
Total	(301.7)	(222.2)
<b>(c) Other Income</b>		
Foreign exchange gain (net)	1.4	-
Gain on disposal of investment	-	0.8
Profit on convertible bond buyback	1.2	-
Gain on disposal of available for sale investments	-	1.1
Total	2.6	1.9
<b>(d) Administration, Marketing and Non-Production Costs</b>		
Corporate and marketing	(21.0)	(26.5)
Mine sites (LHM & KM)	(10.9)	(9.3)
Canadian operations	(2.5)	(1.3)
Non-cash – share-based payments	(6.9)	(11.6)
Non-cash - depreciation	(2.1)	(1.0)
Royalties	(2.8)	(2.2)
LHM Stage 4 expansion project	(3.6)	(2.1)
Total	(49.8)	(54.0)
<b>(e) Other Expenses</b>		
Loss on disposal of property, plant and equipment	-	(0.9)
Foreign exchange loss (net)	-	(6.0)
Impairment for available for sale financial assets	(8.0)	-
KM fixed costs during plant shutdown	(9.7)	-
Impairment of asset <sup>(1)</sup>	(178.0)	-
KM Slope remediation <sup>(2)</sup>	(3.3)	(1.9)
KM medical expenses <sup>(3)</sup>	(0.8)	-
Total	(199.8)	(8.8)

<sup>(1)</sup> September 2011 – the continued deterioration of the uranium price post-Fukushima has resulted in a reduction of the carrying value to the recoverable amount of US\$337M of the KM assets from US\$470M resulting in an impairment charge of US\$132.1M (US\$178.0M before tax reduced by a tax benefit of US\$45.9M) (2011: US\$Nil).

<sup>(2)</sup> Slope remediation expenditure expensed pending the outcome of the insurance claim currently with the underwriter's loss adjustor.

<sup>(3)</sup> KM medical expenditure expensed pending the outcome of an insurance claim currently with the underwriter.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 5. REVENUES AND EXPENSES (continued)**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>(f) Finance Costs</b>		
Interest expense	(36.4)	(36.4)
Accretion relating to convertible bonds (non-cash)	(12.9)	(11.9)
Loss on convertible bond buyback	-	(4.6)
Mine closure provision discount interest expense	(1.8)	(2.0)
Facility costs	(5.6)	(6.6)
Total	<u>(56.7)</u>	<u>(61.5)</u>

Total depreciation and amortisation expense for the year included in the Consolidated Income Statement is US\$51.4M (2011: US\$37.1M).

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 6. INCOME TAX**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>(a) Income Tax Benefit</b>		
<i>Current income tax</i>		
Current income tax expense	0.1	0.1
<i>Deferred income tax</i>		
Related to the origination and reversal of temporary differences	(59.7)	20.3
Tax benefits previously not recognised now recognised	(11.9)	(37.0)
Adjustments relating to prior period	(7.2)	-
Income tax benefit reported in the Income Statement	<u>(78.7)</u>	<u>(16.6)</u>
<b>(b) Amounts Charged or Credited Directly to Equity</b>		
<i>Deferred income tax related to items charged or credited directly to equity:</i>		
Unrealised (loss)/gain on available-for-sale investments	(3.3)	2.8
Convertible bonds	13.3	10.7
Changes in foreign exchange on exploration	(5.6)	35.3
Other and prior period	(4.9)	1.1
Income tax (benefit)/expense reported in equity	<u>(0.5)</u>	<u>49.9</u>
<b>(c) Numerical Reconciliation of Income Tax Benefit to Prima Facie Tax Payable</b>		
Loss before income tax expense	<u>(279.5)</u>	<u>(105.1)</u>
Tax at the Australian tax rate of 30% (2011 – 30%)	(83.8)	(31.5)
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:		
Share-based payments	1.8	3.5
Convertible bonds	-	(1.0)
Permanent foreign exchange differences	(114.9)	4.6
Other expenditure not allowable	1.5	1.1
	<u>(195.4)</u>	<u>(23.3)</u>
Difference in overseas tax rates	9.5	3.8
Under/over prior year adjustment	(7.2)	-
Losses not recognised/(derecognised)	1.7	14.4
Temporary foreign exchange differences	111.3	(5.2)
Other	1.4	(6.3)
Income tax benefit reported in the Income Statement	<u>(78.7)</u>	<u>(16.6)</u>

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 6. INCOME TAX (continued)**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>(d) Deferred Income Tax</b>		
<i>Deferred tax liabilities</i>		
Accelerated prepayment deduction for tax purposes	(0.9)	(0.4)
Accelerated depreciation for tax purposes	(157.8)	(155.1)
Exploration expenditure	(23.7)	(21.2)
Recognition of acquired exploration expenditure	(175.2)	(180.8)
Foreign currency balances	-	(17.5)
Capitalised interest	(6.1)	(10.8)
Recognition of convertible bond for accounting purposes	(20.5)	(12.6)
	(384.2)	(398.4)
Gross deferred tax liabilities		
Set off of deferred tax assets	180.7	180.9
	(203.5)	(217.5)
Net deferred tax liabilities		
<i>Deferred tax assets</i>		
Revenue losses available for offset against future taxable income	167.5	167.1
Equity raising costs	1.8	2.7
Provisions for employee benefits	0.5	0.8
Inventory	1.8	18.3
Available for sale securities	9.2	1.4
Accruals	5.2	4.3
Foreign currency balances	13.4	-
Interest bearing liabilities	66.0	5.7
Other	0.3	0.3
	265.7	200.6
Gross deferred tax assets		
Set off against deferred tax liabilities	(180.7)	(180.9)
	85.0	19.7
Net deferred tax assets recognised		

The net deferred tax assets recognised are in respect of revenue losses expected to be offset against future taxable income.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 6. INCOME TAX (continued)**

**(e) Tax Losses**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
Australian unused tax losses for which no deferred tax asset has been recognised	208.7	206.5
Other unused tax losses for which no deferred tax asset has been recognised <sup>(1)</sup>	6.2	4.6
Total unused tax losses for which no deferred tax asset has been recognised	214.9	211.1
Potential tax benefit at the Australian tax rate of 30%	64.5	63.3

<sup>(1)</sup>Includes US\$5.3M losses in Canada with expiry dates commencing in 2032

This benefit for tax losses will only be obtained if:

- (i) the Consolidated Entities derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the Consolidated Entities continue to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entities in realising the benefit from the deductions for the losses.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 7. CASH AND CASH EQUIVALENTS**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
Cash at bank and on hand	21.8	27.6
Short-term bank deposits	90.3	89.8
Total cash and cash equivalents	112.1	117.4

Total cash and cash equivalents includes US\$26.2M (2011: US\$19.5M) restricted for use in respect of the LHM and KM project finance facilities (refer to Note 16).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

**(a) Reconciliation of Net Loss After Tax to Net Cash Flows Used in Operating Activities**

Net loss	(200.8)	(88.5)
<i>Adjustments for</i>		
Depreciation and amortisation	51.4	37.1
(Gain)/loss recognised on re-measurement to fair value	(1.2)	4.6
Gain on disposal of investments	-	(1.8)
Database licence revenue	-	(0.2)
Net exchange differences	(1.7)	6.0
Share-based payments	7.2	11.6
Non-cash financing costs	20.4	20.2
Inventory impairment and obsolescence expense	39.0	26.4
Asset impairment	178.0	-
Available for sale asset impairment	8.0	-
Interest capitalised as property, plant and equipment	(3.3)	-
Loss on disposal of property, plant and equipment	-	0.9
<i>Changes in assets and liabilities</i>		
Decrease in prepayments	5.5	0.2
(Increase)/decrease in trade and other receivables	(61.9)	9.5
Decrease in trade and other payables	(0.8)	(11.3)
Increase in provisions	1.5	0.5
Increase in inventories	(88.4)	(106.9)
(Decrease)/increase in deferred tax liabilities	(16.7)	5.3
Increase in deferred tax assets	(62.0)	(15.6)
Net cash flows used in operating activities	(125.8)	(102.0)

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 8. TRADE AND OTHER RECEIVABLES**

	Note	CONSOLIDATED	
		2012 US\$M	2011 US\$M
<b>Current</b>			
Trade receivables	(a)	52.0	-
GST and VAT	(b)	22.9	11.9
Sundry debtors		7.9	8.6
Total current receivables		82.8	20.5
(a) Trade receivables are non-interest bearing and are generally on 30 day terms. Carrying value approximates fair value due to the short-term nature of the receivables. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No expense has been recognised for the current year or the previous year.			
(b) GST and VAT debtor relates to Australia, Namibia, Malawi and Canada.			
<b>Non Current</b>			
Sundry debtors		0.1	1.5
Total non current receivables		0.1	1.5



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 9. INVENTORIES**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Current</b>		
Stores and consumables (at cost)	39.4	30.3
Stockpiles (at cost)	0.4	2.5
Stockpiles (at net realisable value)	4.2	7.3
Work-in-progress (at cost)	2.2	3.1
Work-in-progress (at net realisable value)	11.3	4.6
Finished goods (at cost)	72.2	78.5
Finished goods (at net realisable value)	56.8	51.4
Total current inventories at the lower of cost and net realisable value	186.5	177.7

**(a) Inventory Expense**

Inventories sold recognised as an expense for the year ended 30 June 2012 totalled US\$301.7M (2011: US\$222.2M) for the Group as part of cost of goods sold.

**(b) Impairment of Inventory Expense**

During 2012 inventory held at KM was reduced to net realisable value resulting in an impairment loss of US\$31.9M (2011: US\$26.4M) for the year, recognised in cost of sales.

**(c) Stores and Consumables Obsolescence Expense**

During 2012 stores and consumables held at KM were reduced by US\$3.3M (2011: US\$Nil) due to obsolescence. This resulted in an obsolescence expense recognised in cost of sales.

**Non Current**

Stockpiles (at cost)	112.3	71.2
Stockpiles (at net realisable value)	1.9	2.4
Total non current inventories at the lower of cost and net realisable value	114.2	73.6

Stockpiles at LHM and KM that are unlikely to be processed within 12 months of the balance date.

**(a) Impairment of Inventory Expense**

During 2012 inventory held at KM was reduced to net realisable value resulting in an impairment loss of US\$3.8M (2011: US\$NIL) for the year, recognised in cost of sales.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 10. OTHER FINANCIAL ASSETS**

	<b>CONSOLIDATED</b>	
<b>Non Current</b>	<b>2012 US\$M</b>	<b>2011 US\$M</b>
Available-for-sale financial assets	15.5	41.8
Total non current other financial assets	15.5	41.8

**Available-for-Sale Financial Assets**

The Group has an investment in DYL and at 30 June 2012 held 224,934,461 (2011: 224,934,461) fully paid ordinary shares.

The holding of these fully paid ordinary shares represents a 19.9% interest at 30 June 2012 (2011: 19.9%) of the ordinary shares of DYL, a uranium explorer listed on ASX. The market value of the shares in DYL at 30 June 2012 is A\$10.3M (US\$10.5M) (2011: A\$33.7M / US\$35.7M) based on a share price of 4.6 Australian cents per share (2011: 15.0 Australian cents).

On 19 June 2012 DYL announced a non-renounceable entitlement issue. Paladin Energy Ltd committed to a general sub underwriting of A\$4M. From July 2012 the investment will be accounted for as an associate. At 30 June 2012, the Group had subscribed A\$2M for a convertible note issued by DYL (included in Sundry debtors in Note 8). The convertible note formed part of the underwriting of the DYL non-renounceable entitlement issue and was converted into DYL shares in July 2012. Refer to Note 27 for the results of the entitlement issue.

The Group also holds minor investments in other companies.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 11. PROPERTY, PLANT AND EQUIPMENT**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
Plant and equipment – at cost	700.6	566.6
Less accumulated depreciation and impairment	(223.1)	(80.6)
Total plant and equipment	477.5	486.0
Land and buildings - at cost	11.4	11.4
Less accumulated depreciation	(1.8)	(1.5)
Total land and buildings	9.6	9.9
Construction work in progress – at cost	5.3	134.2
Less impairment	(0.7)	-
Total construction work in progress	4.6	134.2
Total property, plant and equipment	491.7	630.1

**Property, plant and equipment pledged as security for liabilities**

Refer to Note 16 for information on property, plant and equipment pledged as security.

The continued deterioration of the uranium price post-Fukushima resulted in an impairment loss of US\$178.0M in September 2011 which represents the write-down of KM assets including plant and equipment, construction work in progress, mine development and intangible assets to recoverable amount which is based on value in use. In determining the value in use the cash flows were discounted at a rate of 10.8% on a pre-tax basis, consensus pricing was used and specific committed targeted cost optimisation were included.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 11. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the year are set out below:

	Total US\$M	Plant and Equipment US\$M	Land and Building US\$M	Construction Work in Progress US\$M
<b>Consolidated – 2012</b>				
Carrying amount at start of year	630.1	486.0	9.9	134.2
Additions	60.0	13.0	0.1	46.9
Depreciation and amortisation expense	(41.8)	(41.5)	(0.3)	-
Impairment of assets	(132.2)	(131.5)	-	(0.7)
Reclassification of assets	-	175.7	0.1	(175.8)
Reclassification to mine development <sup>(1)</sup>	(23.3)	(23.3)	-	-
Reclassification to exploration	(0.8)	(0.8)	-	-
Profit/(loss) on disposal of asset	(0.1)	(0.1)	-	-
Foreign currency translation	(0.2)	-	(0.2)	-
Carrying amount at end of year	<u>491.7</u>	<u>477.5</u>	<u>9.6</u>	<u>4.6</u>
<b>Consolidated – 2011</b>				
Carrying amount at start of year	541.1	495.8	8.7	36.6
Additions	132.6	25.0	-	107.6
Depreciation and amortisation expense	(44.4)	(43.9)	(0.5)	-
Reclassification of assets	-	9.0	0.8	(9.8)
Reclassification to mine development	(0.2)	-	-	(0.2)
Foreign currency translation	1.0	0.1	0.9	-
Carrying amount at end of year	<u>630.1</u>	<u>486.0</u>	<u>9.9</u>	<u>134.2</u>

<sup>(1)</sup>Tailings Dam at LHM transferred from plant & equipment to mine development of \$23.3M

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 12. MINE DEVELOPMENT**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
Mine development – at cost	167.7	122.4
Less accumulated depreciation and impairment	(79.4)	(15.8)
Total mine development	88.3	106.6
Carrying amount at start of year	106.6	119.2
Additions	11.1	1.4
Depreciation and amortisation expense	(14.5)	(10.2)
Effects in changes of underlying assumptions & discount rates	3.6	(5.5)
Reclassification from exploration	0.1	1.5
Reclassification from property, plant and equipment <sup>(1)</sup>	23.3	0.2
Impairment	(41.9)	-
Carrying amount at end of year	88.3	106.6

<sup>(1)</sup>Tailings Dam at LHM transferred from plant & equipment to mine development of \$23.3M

Canadian securities law requires the following description of the Group's interests in mineral property tenements:

**Langer Heinrich Mine (Namibia) - Paladin 100%**

LHM consists of one mining licence – ML 140 - covering 4,375 hectares in the Namib Naukluft Desert 180km west of Windhoek, the capital of Namibia, and 80km east of the major seaport of Walvis Bay. The licence was granted on 26 July 2005 for a 25 year term expiring on 25 August 2030. Rights conferred by the licence include the right to mine and sell base and rare metals and nuclear fuel groups of minerals and to carry out prospecting operations. The project was purchased from Acclaim Uranium NL in August 2002. LHM is owned through a wholly owned Namibian entity, LHUPL.

Construction of the processing plant was commenced in late 2005 with staged commissioning being completed in December 2006. Following an extended ramp-up phase the plant and mine achieved nameplate production in 2007. Construction of the Stage 2 expansion to 3.7Mlb pa commenced in CY2008 and design capacity was reached in December 2009. The plant consistently operated at the 3.7Mlb pa rate from the beginning of CY2010. Construction of the Stage 3 expansion to 5.2Mlb commenced at the beginning of CY2010 and was completed at 31 March 2012. Commercial production was declared from 1 April 2012. The plant has achieved Stage 3 design and further optimisation work will continue.

LHUPL also holds an exclusive prospecting licence, EPL 3500, covering 30km<sup>2</sup> to the west of the mining licence.

**Kayelekera Mine (Malawi) - Paladin 85%**

KM consists of one mining licence - ML 152 - covering 5,550 hectares in northern Malawi 650km north of Lilongwe, the capital of Malawi, and 52km west of the provincial town of Karonga on the shore of Lake Malawi. The licence was granted on 2 April 2007 for a 15 year term expiring on 1 April 2022. Rights conferred by the licence include the exclusive right to mine and sell uranium and associated minerals. The Group acquired its interest in the Kayelekera project in February 1998 when it entered into a joint venture with Balmain Resources Pty Ltd, a private company based in Perth, Western Australia. In 2000 the Group increased its interest in the Kayelekera project to 90% and in July 2005 acquired the remaining 10% interest held by Balmain Resources Pty Ltd. Paladin's interest in KM is held through a Malawian entity, PAL, in which the Government of Malawi has a 15% interest.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 12. MINE DEVELOPMENT (continued)**

A Development Agreement was entered into between the Government of Malawi and PAL in which the Government of Malawi received a 15% interest in PAL. Subsequent to the Development Agreement and the acceptance of the project's Environmental Impact Assessment the Government of Malawi granted the mining licence covering the project area to PAL. Construction of the plant was commenced in 2007 and the mine was officially opened in April 2009. The processing facility achieved commercial production at the end of June 2010. Additional resource definition drilling has been carried out to the west of the current pit design to confirm the final pit limits with an updated mineral resource and ore reserve expected during the second half of 2011.

PAL also holds four exclusive prospecting licences in northern Malawi covering 1,298km<sup>2</sup> surrounding and to the south of the KM mining licence and these are being actively explored.

**NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE**

Canadian securities law requires the following description of the Group's interests in mineral property tenements:

**Labrador Project (Canada) - Paladin 100%**

On 1 February 2011 the Company completed the acquisition of the uranium assets of Aurora Energy Resources Inc. (Aurora) from Fronteer Gold Inc. The project covers approximately 81,200ha. Included in the total are 28 map staked licences and 6 quarry licences. An additional 4 map staked licences were staked along a proposed infrastructure corridor from the settlement of North West River. All licences are held in the name of Aurora. All licences are in good standing.

The Labrador Inuit Land Claims agreement was ratified by the Inuit in May 2004 leading to the formation of the Inuit Government on 1 December 2005. The agreement created two categories of land: the Labrador Inuit Settlement Area (LISA) and Labrador Inuit Lands (LIL). A significant portion of the project area is covered by LISA lands. During 2008 the Nunatsiavut Government imposed a 3 year moratorium on mining uranium on properties located within the LISA, effective initially until the 31 March 2011. In December 2011, the Nunatsiavut Government voted to lift the three year moratorium of the mining development and production of uranium on Labrador Inuit land. In March 2012, the Government enacted an amendment to the Labrador Inuit Lands Act, finally lifting that moratorium.

The project area has a 2% net sales royalty from uranium production and a 2% net smelter return (NSR) on base and precious metals payable to Altius Resources Inc.

Exploration commenced in the project area in the mid 1950's. By 1980, British Newfoundland Exploration Limited (Brinex) had completed geological mapping, 290 core holes at the Michelin deposit, a decline of approximately 580m in length and a mineral resource estimation. Brinex ceded its exploration concession in 1980 but held mining leases over a number of deposits in the area until 1994. Work undertaken in 2003-2005 by the Fronteer – Altius Alliance commenced with a re-evaluation of the area for Cu-Au-U targets. The Alliance subsequently acquired a number of mineral licences. The uranium interests in the licences were transferred to Aurora in 2005. Fronteer completed a number of exploration programmes between 2005 and 2008 which culminated with mineral resource estimations in 2007 with an update in 2008. The Company expects to re-commence active exploration early in the second half of CY2012.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)**

**Niger Project (Niger) - Paladin 100%**

Following the completion of the takeover of NGM in December 2010 the Company took possession of the wholly owned British Virgin Islands company, Indo Energy Ltd. Indo Energy Ltd holds 3 exploration concessions in the Tim Mersoï basin, Tagait 4 (TAG4), Tolouk 1 (TOU1) and Terzemazour 1 (TER1), covering an area of 1,480km<sup>2</sup>. The concessions are located approximately 30km to the north and north west of the township of Agadez in northern Niger. Prior to acquisition, NGM had completed a mineral resource estimation conforming to the JORC (2004) guidelines for the Takardeit deposit in the central portion of concession TER1. The concessions were originally granted on the 21 May 2007 for a period of 3 years, however in view of the political and security situation then prevailing in the country, in June 2010 the concessions were given a 27 month extension of the permits until December 2012. After the 2011 drilling programme was evaluated in July/August 2011, a 15,000m follow-up drilling programme was developed which was planned to start in November 2011. This, however, has been delayed until late 2012. In addition the Company is actively pursuing an extension to the permits in the light of the current security situation.

The concessions are located in the Tim Mersoï Basin and are prospective for sandstone type uranium mineralisation in Carboniferous, Permian and Jurassic sediments. The basin has historically produced in excess of 280Mlb U<sub>3</sub>O<sub>8</sub> from two Areva mines (Somair and Cominak) and a third mine Imouraren is under construction.

Due to the security situation caused by Al-Qaeda activities, especially in the northern desert region where the project is located, no experienced expatriate personnel from the company are permitted to visit the project site or directly supervise the exploration effort. On-ground exploration and mapping has been carried out during 2011 and 2012, with guidance from Perth head office, by local personnel.

**Manyingee Uranium Project (Australia) - Paladin 100%**

The Manyingee Uranium Project consists of three granted mining leases – M08/86, M08/87 and M08/88 - covering 1,307 hectares in the north-west of Western Australia, 1,100km north of Perth, the state capital and 90km south of the township of Onslow on the north-west coast. The Group purchased the Manyingee Uranium Project in 1998 from Afmeco Mining and Exploration Pty Ltd (AFMEX), a subsidiary company of Cogema of France. Under the terms (as amended) of the purchase agreement a final payment of A\$0.75M is payable to AFMEX when all development approvals have been obtained. Royalties of 2.5% for the first 2,000t of uranium oxide and 1.5% for the following 2,000t of uranium oxide are also payable to AFMEX and associated companies which formerly held interests in the project. The three mining leases were granted on 18 May 1989 for a 21-year term to 17 May 2010. The leases have now been renewed for a further 21-year term to 17 May 2031. Rights conferred by the three mining leases include the exclusive right to explore and mine minerals, subject to environmental and other approvals. The interest in Manyingee is held through the wholly owned entity, PEM. Following the lifting of the ban on uranium mining in Western Australia in late 2008 exploration planning has been undertaken with the intention of undertaking a drilling programme. By the end of 2011 the Company's Programme of Works was approved by the Western Australian Department of Mines and Energy. After completing archaeological clearance of the proposed work areas in April 2012, the Company plans to start drilling in August 2012.

**Oobagooma Uranium Project (Australia) - Paladin 100%**

The Oobagooma Uranium Project consists of four applications for exploration licences covering 452km<sup>2</sup> in the West Kimberley region of northern Western Australia, 1,900km north-north-east of Perth, the state capital and 70km north-east of the regional town of Derby. The four applications for exploration licences are 04/145 and 04/146 lodged on 28 December 1983 and 04/776 and 04/777 lodged on 28 November 1991 which largely overlie the earlier applications. The Group purchased the Oobagooma Project in 1998 from AFMEX. Under the terms of the purchase agreement a final payment of A\$0.75M is payable to AFMEX when the tenements are granted. A gross royalty of 1.0% on production is also payable to AFMEX. The applications for exploration licences remain in the name of Afmeco Pty Ltd (a company associated with AFMEX) until the date that they are granted after which title will be transferred. The interest in Oobagooma is held through the wholly owned entity, PEM. Following the change of government in Western Australia in late 2008 the granting of the lease applications is being actively pursued with both the Federal and State Governments.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)**

**Valhalla North Uranium Project (Australia) - Paladin 100%**

The Valhalla North Uranium Project consists of two granted exploration permits – Exploration Permit for Minerals 12572 (EPM 12572) and EPM 16006 - covering 457km<sup>2</sup> to the north of Mount Isa in north-western Queensland. The Group acquired the Valhalla North Uranium Project following the successful takeover of Fusion in February 2009. EPM 12572 was granted on 11 January 2006 and EPM 16006 was granted on 26 March 2008, each for a period of five years with the potential to be renewed for further five year periods. The renewal of EPM 12572 for a further period of five years has been lodged and is awaiting grant. The area was investigated during the 1950's and resulted in the discovery of the Duke and Batman deposits, with limited mining of surface high grade mineralisation being undertaken with subsequent treatment at the Mary Kathleen mine. During the 1970's the area was explored by both Queensland Mines Limited and Agip Australia Pty Ltd. Prior to the completion of the takeover, Fusion announced Mineral Resources conforming to the JORC guidelines on two deposits, Duke Batman and Honeypot. Drilling at the Duke Batman deposit did not extend the mineralisation but identified a high grade core to the mineralisation and significantly added to the geological understanding of the deposit.

**Bigrlyi Uranium Project (Australia) - Paladin 41.71%**

The Bigrlyi Uranium Project lies in the Northern Territory of Australia approximately 320km north-west of Alice Springs and is comprised of ten exploration retention licences (ERLs 46-55) covering 1,214 hectares. These tenements were originally granted in 1983 and have been subject to five yearly renewals since 1988. The project is now a joint venture between Energy Metals Limited 53.29%, Southern Cross Exploration NL 5.00% and Northern Territory Uranium Pty Ltd 41.71% (100% owned by Paladin) with Energy Metals Limited being operator and manager.

The Bigrlyi uranium deposit was originally discovered by Agip Australia Pty Ltd in the mid 1970's before being transferred to Central Pacific Minerals NL in the early 1980's. The deposit was subject to extensive drilling between 1974 and 1982 which Ore Reserve studies carried out during the 1980's and 1990's. During 2005/2006 a drilling campaign was undertaken by the Joint Venture partners which resulted in an initial JORC Resource. Resource definition drilling is ongoing at the project and an Initial Scoping Study was released in November 2007 and an Updated Scoping Study released in July 2008. Resource updates were released in April and July 2009 with additional drilling completed in late 2009 and 2010. In June 2011 an increased Indicated and Inferred Mineral Resource totalling 21.1Mlb U<sub>3</sub>O<sub>8</sub> at a cut-off grade of 500ppm was announced. In the second half of 2011, Energy Metals Limited carried out infill and resource extension drilling followed by detailed geological mapping early in 2012. Currently all data are being collated to develop an updated geological model and update the resource estimate.

**Isa Uranium Joint Venture (Australia) - Paladin 91.04%**

The IUJV in Northern Queensland is a 50:50 joint venture between SRA (Paladin 82.08% effective ownership) and MIU (Paladin 100% ownership) with SRA being the operator and manager. The IUJV covers two defined blocks of land totalling 27km<sup>2</sup> containing the Valhalla and Skal uranium deposits. Paladin's effective equity in the IUJV was increased from 50% to 91.03% following the acquisition of 81.9% of Summit in 2007.

**Valhalla Uranium Deposit (Australia) - Paladin 91.04%**

The Valhalla Uranium Deposit is situated on EPM 17514 granted in January 2010 for a five year term to 5 January 2015. The Valhalla Uranium Deposit is located approximately 40km north of Mount Isa and straddles the Barkly Highway. The ground was previously worked on by Mount Isa Mines Limited and Queensland Mines Limited from the mid 1950's to the early 1970's. Queensland Mines Limited, in particular, conducted extensive exploration over the Valhalla ground between 1968 and 1972 including the estimation of resources and reserves. Queensland Mines Limited allowed the tenement to lapse in 1991 and the ground was subsequently acquired by SRA in 1992, with EPM 9221 being granted in 1993. During 2008 resource definition drilling was commenced to enable completion of a detailed scoping study. As a result of the scoping study additional resource drilling was undertaken with the updating of the Mineral Resource being announced in October 2010. Geotechnical and metallurgical studies are ongoing.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)**

**Odin Uranium Deposit**

The Odin Uranium Deposit is located 1km north of Valhalla at EPL 17514. The deposit is essentially 'blind' with little or no surface expression and its discovery is a result of an extensive regional prospectivity mapping exercise undertaken by the Company since 2009. Following a number of drilling programmes in 2009, 2010 and 2011 an Indicated and Inferred category Mineral Resource has now been estimated.

**Skal Uranium Deposit (Australia) - Paladin 91.04%**

The Skal Uranium Deposit is situated on EPM 17519, granted in January 2010 for a five year term to 5 January 2015. The Skal Uranium Deposit is located approximately 8km south-east of the Valhalla Uranium Deposit and 32km north of Mount Isa. The ground was previously held by SRA as EPM 14048 granted in 2005. Skal was originally discovered by Mount Isa Mines Limited in the mid 1950's and was subject to mapping and drilling at that time. Queensland Mines Limited acquired the project in the 1960's and conducted further drilling resulting in an estimation of a resource for the project. The deposit is situated on EPM 14048 and the IUJV re-commenced drilling in 2005. An initial JORC compliant resource estimate was completed in mid 2008, with an updated resource reported in early 2009. Additional resource definition drilling was undertaken in 2009 and followed up with a resource update in October 2009. Resource definition drilling was completed on all the individual mineralised zones in late 2011 and an updated mineral resource estimate was released in March 2012.

**Summit Resources Ltd (Australia) - Paladin 82.08%**

Paladin acquired an 81.9% interest in Summit as a result of a takeover bid which closed on 1 June 2007. SRA, which is a wholly owned subsidiary of Summit, holds a large number of exploration tenements surrounding and to the north of Mount Isa in Northern Queensland. Other than the Andersons, Bikini and Watta Projects, for which JORC Inferred Mineral Resource estimates have been completed, limited exploration activities have taken place on these tenements in recent years and as such they are not considered material to Paladin at this point in time. Following the completion of regional drilling programmes in 2010 and 2011 the Mineral Resources at Andersons and Bikini have been updated along with a maiden Mineral Resource estimate for the Mirrioola deposit.

**Angela and Pamela Projects (Australia) - Paladin 50%**

In early 2008, the Northern Territory Government advised that the Angela Project Joint Venture (Paladin 50% and Cameco Australia Pty Ltd 50%) had been selected to explore the Angela and Pamela uranium deposits located near Alice Springs in the Northern Territory. Exploration Licence 25758 covering 3,767 hectares was granted on 3 October 2008 for a six year term with the potential for further renewal. Exploration and resource definition drilling was planned. Drilling programmes were completed in 2009 and 2010 and these are being evaluated to determine the future direction of the project. A successful mud rotary drilling trial was undertaken in early 2011 which is now expected to reduce overall drilling costs and improve drilling rates. An initial Mineral Resource estimate has now been completed and reported. Paladin assumed the management of the project in September 2011.

**Other Mineral Property Interests**

The Group holds various other mineral property interests, however, these are not considered material and as a result no further disclosure of mineral property tenement information has been included in the consolidated financial statements.

**Environmental Contingency**

The Group's exploration, evaluation, development and operation activities are subject to various national, federal, provincial and local laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Group has made, and expects to make in the future, expenditures to comply with such laws and regulations. The impact, if any, of future legislative or regulatory changes cannot be determined.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**  
EXPRESSED IN US DOLLARS

**NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)**

The following table details the expenditures on interests in mineral properties by area of interest for the year ended 30 June 2012:

Areas of interest	Valhalla /Skal <sup>(1)</sup>	Isa North	Fusion	Angela Pamela	Bigryli	NGM	KM	LHM	Canada	Other Uranium Projects	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Balance 30 June 2011	663.1	156.5	12.3	6.9	29.4	36.0	-	-	269.1	4.6	1,177.9
<b>Acquisition property payments</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Project exploration and evaluation expenditure</b>											
Labour	0.9	0.8	0.1	0.1	0.9	0.4	0.4	-	1.6	1.1	6.3
Outside services	1.3	0.7	-	0.1	0.7	-	0.5	0.1	0.4	0.1	3.9
Other expenses	1.2	1.1	0.1	0.2	1.0	0.4	0.3	-	0.5	0.8	5.6
Total expenditure	3.4	2.6	0.2	0.4	2.6	0.8	1.2	0.1	2.5	2.0	15.8
Expenditure expensed	-	-	(0.1)	(0.2)	-	-	(1.2)	-	-	(1.0)	(2.5)
<b>Expenditure capitalised</b>	<b>3.4</b>	<b>2.6</b>	<b>0.1</b>	<b>0.2</b>	<b>2.6</b>	<b>0.8</b>	<b>-</b>	<b>0.1</b>	<b>2.5</b>	<b>1.0</b>	<b>13.3</b>
<b>Foreign exchange differences</b>	(27.1)	(6.6)	(0.5)	(0.3)	(1.3)	-	-	-	(12.7)	(0.2)	(48.7)
<b>Transferred to Mine Development</b>	-	-	-	-	-	-	-	(0.1)	-	-	(0.1)
<b>Transferred from Property, Plant &amp; Equipment</b>	-	-	-	-	-	-	-	-	0.8	-	0.8
<b>Balance 30 June 2012</b>	<b>639.4</b>	<b>152.5</b>	<b>11.9</b>	<b>6.8</b>	<b>30.7</b>	<b>36.8</b>	<b>-</b>	<b>-</b>	<b>259.7</b>	<b>5.4</b>	<b>1,143.2</b>

<sup>(1)</sup> Summit has a 50% interest in the Valhalla/Skal Projects with the other 50% interest held by the Paladin Group. As a consequence of the takeover of the Summit Group, the above table now reflects 100% of the Valhalla/Skal Projects with the non-controlling interest reflected on the face of the Statement of Financial Position.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**  
EXPRESSED IN US DOLLARS

**NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)**

The following table details the expenditures on interests in mineral properties by area of interest for the year ended 30 June 2011:

Areas of interest	Valhalla /Skal <sup>(1)</sup>	Isa North	Fusion	Angela Pamela	Bigryli	NGM	KM	LHM	Canada	Other Uranium Projects	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Balance 30 June 2010 as previously stated	529.1	126.0	8.5	-	15.2	-	-	-	-	1.2	680.0
Effect of accounting policy change	-	-	1.0	4.5	6.3	-	-	1.5	-	1.8	15.1
<b>Balance 30 June 2010 - restated</b>	<b>529.1</b>	<b>126.0</b>	<b>9.5</b>	<b>4.5</b>	<b>21.5</b>	<b>-</b>	<b>-</b>	<b>1.5</b>	<b>-</b>	<b>3.0</b>	<b>695.1</b>
<b>Acquisition property payments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34.0</b>	<b>-</b>	<b>-</b>	<b>261.8</b>	<b>-</b>	<b>295.8</b>
<b>Project exploration and evaluation expenditure</b>											
Labour	0.9	1.2	0.2	0.2	0.4	0.2	0.2	-	0.5	1.7	5.5
Outside services	2.5	1.7	0.2	0.7	1.4	1.4	0.3	0.2	-	0.3	8.7
Other expenses	2.0	0.8	0.2	0.4	0.7	0.4	0.4	-	0.3	0.7	5.9
Total expenditure	5.4	3.7	0.6	1.3	2.5	2.0	0.9	0.2	0.8	2.7	20.1
Expenditure expensed	-	-	(0.1)	-	-	-	(0.9)	-	-	(2.0)	(3.0)
<b>Expenditure capitalised</b>	<b>5.4</b>	<b>3.7</b>	<b>0.5</b>	<b>1.3</b>	<b>2.5</b>	<b>2.0</b>	<b>-</b>	<b>0.2</b>	<b>0.8</b>	<b>0.7</b>	<b>17.1</b>
<b>Foreign exchange differences</b>	<b>128.6</b>	<b>26.8</b>	<b>2.3</b>	<b>1.1</b>	<b>5.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6.5</b>	<b>0.9</b>	<b>171.6</b>
<b>Transferred to Mine Development</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.7)</b>	<b>-</b>	<b>-</b>	<b>(1.7)</b>
<b>Balance 30 June 2011</b>	<b>663.1</b>	<b>156.5</b>	<b>12.3</b>	<b>6.9</b>	<b>29.4</b>	<b>36.0</b>	<b>-</b>	<b>-</b>	<b>269.1</b>	<b>4.6</b>	<b>1,177.9</b>

<sup>(1)</sup> Summit has a 50% interest in the Valhalla/Skal Projects with the other 50% interest held by the Paladin Group. As a consequence of the takeover of the Summit Group, the above table now reflects 100% of the Valhalla/Skal Projects with the non-controlling interest reflected on the face of the Statement of Financial Position.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 14. INTANGIBLE ASSETS**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>At 30 June</b>		
Cost	27.8	27.8
Accumulated amortisation	(5.9)	(4.7)
Impairment	(3.8)	-
Net carrying amount of non current intangible assets	18.1	23.1

Amortisation of US\$1.2M (2011: US\$1.5M) is included in costs of sales in the Income Statement.

**Movements in Intangible Assets**

Movements in each group of intangible asset during the financial year are set out below:

	<b>Right to Supply of Power US\$M</b>	<b>Right to Supply of Water US\$M</b>	<b>Kayelekera Mining Lease US\$M</b>	<b>Total US\$M</b>
<b>Consolidated - 2012</b>				
Carrying amount at 1 July 2011	4.1	9.8	9.2	23.1
Amortisation expense	(0.1)	(0.4)	(0.7)	(1.2)
Impairment	-	-	(3.8)	(3.8)
Carrying amount at 30 June 2012	4.0	9.4	4.7	18.1
<b>Consolidated - 2011</b>				
Carrying amount at 1 July 2010	4.3	10.3	10.0	24.6
Amortisation expense	(0.2)	(0.5)	(0.8)	(1.5)
Carrying amount at 30 June 2011	4.1	9.8	9.2	23.1

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 14. INTANGIBLE ASSETS (continued)**

**(c) Description of the Group's Intangible Assets**

(i) Right to supply of power

LHUPL has entered into a contract with NamPower in Namibia for the right to access power at LHM. In order to obtain this right, the power line connection to the mine was funded by LHM. However, ownership of the power line rests with NamPower. The amount funded is being amortised on a unit of production basis.

(ii) Right to supply of water

LHUPL has entered into a contract with NamWater in Namibia for the right to access water at LHM. In order to obtain this right, the water pipeline connection to the mine was funded by LHM. However, ownership of the pipeline rests with NamWater. The amount funded is being amortised on a unit of production basis.

(iii) Kayelekera Mining Lease

In exchange for the Mining Lease, PEM and PAL have entered into a Development Agreement with the Government of Malawi for the development of the Garnet Halliday Karonga Water Supply Project and other social development projects. In terms of the Development Agreement PAL has spent US\$10M on agreed community infrastructure projects. This amount has been recognised as an intangible asset and is being amortised over the life of the mine estimated to be 9 years on a straight-line basis.

**NOTE 15. TRADE AND OTHER PAYABLES**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>Current</b>		
Trade and other payables	67.1	69.7
Total current payables	67.1	69.7

Trade payables are non-interest bearing and are normally settled on 30 day terms.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 16. INTEREST BEARING LOANS AND BORROWINGS**

		<b>CONSOLIDATED</b>	
	<b>Maturity</b>	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Current</b>			
Secured bank loans		51.0	43.9
Unsecured convertible bonds <sup>(1)</sup>	2013	132.4	-
Total current interest bearing loans and borrowings		183.4	43.9
<b>Non Current</b>			
Unsecured convertible bonds <sup>(1)</sup>	2013	-	315.6
Unsecured convertible bonds <sup>(2)</sup>	2015	267.0	258.6
Unsecured convertible bonds <sup>(3)</sup>	2017	229.0	-
Secured bank loan	amortised to 2012	-	8.1
Secured bank loan	amortised to 2015	65.3	93.5
Secured bank loan	amortised to 2017	93.8	-
Total non current interest bearing loans and borrowings		655.1	675.8

The above figures include transaction costs which offset the balance in accordance with the requirements of Accounting Standards.

*Fair value disclosures*

Details of the fair value of the Group's interest bearing liabilities are set out in Note 19(g).

*Unsecured convertible bonds*

- <sup>(1)</sup> On 11 March 2008, the Company issued US\$325M in convertible bonds with a coupon rate of 5.0% (underlying effective interest rate of 7.13%), maturity 11 March 2013 and a conversion price of US\$6.52 for Company shares. On 29 May 2012, pursuant to its tender offer the Company repurchased and cancelled US\$191M bonds. At 30 June 2012 US\$134M bonds remain.
- <sup>(2)</sup> On the 5 November 2010, the Company issued US\$300M in convertible bonds with a coupon rate of 3.625%, (underlying effective interest rate of 7.47%) maturing on 5 November 2015 with a conversion price of US\$5.61, for Company shares.
- <sup>(3)</sup> On 30 April 2012, the Company issued US\$274M in convertible bonds with a coupon rate of 6% (underlying effective interest rate of 10.68%) maturing on 30 April 2017 with a conversion price of US\$2.19 for Company shares.

Pursuant to the terms of the Bonds the prevailing Conversion Price is subject to adjustment where any new issue of shares is at less than 95% of the Current Market Price. Following the completion of the Placement on 6 October 2011, the Conversion Prices have been adjusted as follows:

- Convertible bonds due 2013: US\$6.523 (previously US\$6.59)
- Convertible bonds due 2015: US\$5.608 (previously US\$5.665)

In disclosing the convertible bonds in the Consolidated Financial Statements, the Company has accounted for them in accordance with Australian Accounting Standards. Under these standards the convertible bonds consist of both a liability (underlying debt) and equity component (conversion rights into Company shares).

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 16. INTEREST BEARING LOANS AND BORROWINGS (continued)**

*Secured bank loans*

Langer Heinrich Mine, Namibia - US\$71M Stage 1 Project Finance Facility

On 26 May 2006 the Company entered into a project financing facility amounting to US\$71M for the construction of LHM. The financing was provided by Société Générale Australia Branch (as lead arranger), Nedbank Capital and Standard Bank Limited and consisted of a seven year project finance facility of US\$65M and a standby cost overrun facility of US\$6M.

Part of the proceeds of the LHM - US\$141M Stage 3 project finance facility (see below) have been used to repay this facility in full. At 30 June 2012 US\$Nil (30 June 2011: US\$24.8M) was outstanding under the LHM Stage 1 project finance facility.

Kayelekera Mine, Malawi - US\$167M Project Finance Facility

On 30 March 2009, the Company entered into a project financing facility amounting to US\$167M for the construction of KM. The project finance consists of a six year project finance facility of US\$145M, a standby cost overrun facility of US\$12M and a performance bond facility of US\$10M. The facilities are being provided by Société Générale Corporate and Investment Banking (as inter-creditor agent and commercial lender), Nedbank Capital a division of Nedbank Limited (ECIC lender) and Standard Bank Limited (as ECIC facility agent and lender). The facilities are secured over the assets of PAL. The commercial bank tranche bears interest at the London Interbank Offered Rate (LIBOR) plus 3.0% and reduces to LIBOR plus 2.5% post the completion date. The ECIC tranche bears interest at LIBOR plus 2.5% whilst the cost overrun facility bears interest at LIBOR plus 3.5%. The facilities are repayable on a four monthly basis over the term of the loan. The Company has provided a project completion guarantee as part of the facilities.

At 30 June 2012 US\$98.0M (30 June 2011: US\$127.9M) was outstanding under the KM project finance facility.

Langer Heinrich Mine, Namibia - US\$141M Stage 3 Project Finance Facility

On 26 August 2011 the Company entered into a project financing facility amounting to US\$141M for the construction of Stage 3 of LHM. The financing is provided by Société Générale (as Agent), Nedbank Capital, Standard Bank Plc, Barclays Capital (the investment banking division of Barclays Bank PLC) and Rand Merchant Bank, a division of FirstRand Bank Limited. The facility consists of a six year US\$135M project financing facility and a US\$6M cost overrun facility. The facility was fully drawn down during the December 2011 quarter. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus 3.75% and reduces to LIBOR plus 3.25% post the completion date. The facilities are repayable on a six monthly basis over the term of the loan. The facilities are secured with fixed and floating charges over the assets of LHUPL and its immediate holding companies.

At 30 June 2012 US\$118.5M (30 June 2011: US\$Nil) was outstanding under the LHM Stage 3 project finance facility.

Deferred Borrowing costs relating to the establishment of the facilities have been included as part of interest bearing loans and borrowings.

Borrowing costs capitalised during the year as part of the LHM Stage 3 expansion US\$3.3M (2011: US\$NIL). The rate used to determine the amount of borrowing costs eligible for capitalisation was LIBOR plus 3.75% (2011:N/A) which is the effective interest rate of the specific borrowing.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 16. INTEREST BEARING LOANS AND BORROWINGS (continued)***Financing facilities available*

At reporting date, the following financing facilities had been negotiated and were available:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Total facilities:		
Unsecured convertible bonds	708.0	625.0
Secured bank loans	216.5	152.7
	924.5	777.7
Facilities used at reporting date:		
Unsecured convertible bonds	708.0	625.0
Secured bank loans	216.5	152.7
	924.5	777.7
Facilities unused at reporting date:		
Unsecured convertible bonds	-	-
Secured bank loans	-	-
	-	-

*Assets pledged as security*

The carrying amounts of assets pledged as security for current and non current interest bearing liabilities (secured bank loans) are:

**Current***Floating charge*

Cash and cash equivalents	54.0	65.3
Trade and other receivables	74.1	31.4
Inventories	191.6	149.8
Total current assets pledged as security	319.7	246.5

**Non Current**

Inventories	118.0	73.6
Property, plant and equipment	454.4	573.5
Mine development	88.3	106.6
Deferred tax asset	38.3	19.7
Intangible assets	18.1	23.1
Total non current assets pledged as security	717.1	796.5
Total assets pledged as security	1,036.8	1,043.0

Assets pledged include both LHM and KM.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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**NOTE 17. PROVISIONS**

	Note	CONSOLIDATED	
		2012 US\$M	2011 US\$M
<b>Current</b>			
Employee benefits	23	3.4	5.3
Total current provisions		3.4	5.3
<b>Non Current</b>			
Employee benefits	23	6.5	3.3
Rehabilitation provision		31.9	30.6
Demobilisation provision		2.0	2.4
Total non current provisions		40.4	36.3

For a description of the nature and timing of cash flows associated with the above provisions, refer to section (b) of this note.

**(a) Movements in Provisions**

Movements in each class of provision during the financial year, excluding provisions relating to employee benefits, are set out below:

	Demob- ilisation US\$M	Rehab- ilitation US\$M	Total US\$M
<b>Consolidated</b>			
At 1 July 2011	2.4	30.6	<b>33.0</b>
Arising during the year	0.2	1.4	<b>1.6</b>
Effects of changes in discount rates	(0.1)	3.7	<b>3.6</b>
Foreign currency movements	(0.5)	(3.8)	<b>(4.3)</b>
At 30 June 2012	2.0	31.9	<b>33.9</b>
<b>2012</b>			
Current	-	-	-
Non current	2.0	31.9	<b>33.9</b>
	2.0	31.9	<b>33.9</b>
<b>2011</b>			
Current	-	-	-
Non current	2.4	30.6	<b>33.0</b>
	2.4	30.6	<b>33.0</b>

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 17. PROVISIONS (continued)****(b) Nature and Timing of Provisions****(i) Rehabilitation**

A provision for rehabilitation and mine closure has been recorded in relation to LHM and KM. A provision is made for rehabilitation work when the obligation arises and this is recognised as a cost of production or development as appropriate. Additionally the provision includes the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the infrastructure to a state acceptable to various authorities. The provision is estimated using the assumption that remediation will not take place until 10 to 20 years' time.

**(ii) Employee benefits**

Refer to Note 23.

**(iii) Demobilisation**

A provision for demobilisation has been recorded in relation to LHM for the costs of demobilising the mining contractor.

**NOTE 18. CONTRIBUTED EQUITY AND RESERVES****(a) Issued and Paid Up Capital**

	<b>Number of Shares</b>		<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Ordinary shares</b>			<b>US\$M</b>	<b>US\$M</b>
Issued and fully paid	835,645,290	777,698,217	1,839.2	1,768.1

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)**

**(b) Movements in Ordinary Shares On Issue**

Date		Number of Shares	Issue Price A\$	Exchange Rate US\$: A\$	Total US\$M
Balance 30 June 2010		717,142,802			1,474.6
August 2010	Rights vested	750,000 <sup>(1)</sup>	-	-	-
September 2010	Rights vested	530,580	-	-	-
November 2010	NGM acquisition	7,155,938	4.28	1.01557	30.1
January 2011	Options exercised	960	4.50	1.00415	-
February 2011	Aurora takeover	52,097,937	5.04	1.00670	260.6
February 2011	Rights vested	20,000	-	-	-
	Transfer from reserves				3.1
	Transaction costs				(0.3)
<b>Balance 30 June 2011</b>		<b>777,698,217<sup>(1)</sup></b>			<b>1,768.1</b>

<sup>(1)</sup> Includes 250,000 shares held in trust, vesting variously over time up to 1 January 2012 subject to conditions and 125,000 shares held by Paladin Employee Plan Pty Ltd.

Balance 30 June 2011		777,698,217			1,768.1
September 2011	Rights vested	827,515	-	-	-
October 2011	Share placement	56,866,232	1.20	1.04459	65.3
October 2011	Rights vested	37,500	-	-	-
November 2011	Rights vested	54,600	-	-	-
January 2012	Rights vested	1,980	-	-	-
February 2012	Rights vested	159,246	-	-	-
	Transfer from share-based payments reserves				4.7
	Tax effect on prior period				3.2
	Transaction costs				(2.1)
<b>Balance 30 June 2012</b>		<b>835,645,290<sup>(1)</sup></b>			<b>1,839.2</b>

<sup>(1)</sup> Includes 217,566 shares held by Paladin Employee Plan Pty Ltd.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 June 2012**

**NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)**

**(c) Reserves**

	Consolidation reserve	Listed option application reserve	Share- based payments reserve	Available -for-sale reserve	Foreign currency translation reserve	Convertible bond non- distributable reserve	Premium on acquisition reserve	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>CONSOLIDATED</b>								
At 1 July 2010	(0.2)	0.1	38.0	7.7	(56.8)	38.9	14.9	42.6
Net unrealised movement on available-for-sale investments	-	-	-	10.9	-	-	-	10.9
Share-based payments	-	-	11.5	-	-	-	-	11.5
Foreign currency translation	-	-	-	-	125.6	-	-	125.6
Income tax	-	-	-	(3.7)	-	-	-	(3.7)
Transfer to statement of financial position	-	-	-	(3.2)	-	-	-	(3.2)
Convertible bonds, equity component net of tax and transaction costs	-	-	-	-	-	28.1	-	28.1
Convertible bonds, buy back	-	-	-	-	-	(6.6)	-	(6.6)
<b>At 30 June 2011</b>	<b>(0.2)</b>	<b>0.1</b>	<b>49.5</b>	<b>11.7</b>	<b>68.8</b>	<b>60.4</b>	<b>14.9</b>	<b>205.2</b>
At 1 July 2011	(0.2)	0.1	49.5	11.7	68.8	60.4	14.9	205.2
Net unrealised movement on available-for-sale investments	-	-	-	(25.8)	-	-	-	(25.8)
Share-based payments	-	-	2.7	-	-	-	-	2.7
Foreign currency translation	-	-	-	-	(40.7)	-	-	(40.7)
Income tax	-	-	-	3.3	-	-	-	3.3
Transfer of impairment loss to income statement	-	-	-	8.0	-	-	-	8.0
Convertible bonds, equity component net of tax and transaction costs	-	-	-	-	-	27.9	-	27.9
Convertible bonds, buy back	-	-	-	-	-	(2.8)	-	(2.8)
<b>At 30 June 2012</b>	<b>(0.2)</b>	<b>0.1</b>	<b>52.2</b>	<b>(2.8)</b>	<b>28.1</b>	<b>85.5</b>	<b>14.9</b>	<b>177.8</b>

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)**

**Nature and Purpose of Reserves**

Consolidation reserve

This reserve recognises the difference between the fair value of the 15% interest in PAL allotted to the Government of Malawi, at the net present value of the Kayelekera Project on the date the Development Agreement was signed (22 February 2007), and the non-controlling interest share of the net assets of PAL.

Listed option application reserve

This reserve consists of proceeds from the issue of listed options, net of expenses of issue. These listed options expired unexercised and no restriction exists for the distribution of this reserve.

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to Directors, employees and consultants as part of their remuneration. Refer to Note 25 for further details on share-based payments.

Available-for-sale reserve

This reserve records the fair value changes on the available-for-sale financial assets as set out in Note 10.

Foreign currency translation reserve

This reserve is used to record exchange differences arising on translation of the group entities that do not have a functional currency of US dollars and have been translated into US dollars for presentation purposes, as described in Note 3(f).

Convertible bond non-distributable reserve

This reserve records the equity portion of the convertible bonds issued as described in Note 16.

Acquisition reserve

This reserve represents the premium paid on the acquisition of a non-controlling interest in Summit.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

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**NOTE 19. FINANCIAL INSTRUMENTS**

**(a) Financial Risk Management Objectives and Policies**

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to:

- meet all its financial commitments; and
- maintain the capacity to fund corporate growth activities

The Group monitors its forecast financial position on a regular basis.

Market, liquidity and credit risk (including foreign exchange, commodity price and interest rate risk) arise in the normal course of the Group's business. These risks are managed under Board approved directives which underpin treasury practices and processes. The Group's principal financial instruments comprise interest bearing debt, cash and short-term deposits and available for sale financial assets. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

The Group's forecast financial risk position with respect to key financial objectives and compliance with treasury practice is regularly reported to the Board.

**(b) Market Risk**

**(i) Foreign Exchange Risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not the functional currency of the relevant Group company.

The Group's borrowings and deposits are largely denominated in US dollars. Currently there are no foreign exchange hedge programmes in place. However, the Group treasury function manages the purchase of foreign currency to meet operational requirements.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)****(b) Market Risk (continued)****(i) Foreign Exchange Risk (continued)**

The financial instruments exposed to movements in the Australian dollar are as follows:

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Financial assets</b>		
Cash and cash equivalents	4.0	3.8
Trade and other receivables	1.3	3.2
Available-for-sale financial assets	7.7	26.0
	13.0	33.0
<b>Financial liabilities</b>		
Trade and other payables	(8.5)	(9.3)
Net exposure	4.5	23.7

The financial instruments exposed to movements in the Namibian dollar are as follows:

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Financial assets</b>		
Cash and cash equivalents	0.8	6.1
Trade and other receivables	25.0	17.2
	25.8	23.3
<b>Financial liabilities</b>		
Trade and other payables	(23.4)	(31.8)
Net exposure	2.4	(8.5)

The following table summarises the sensitivity of financial instruments held at balance date to movements in the exchange rate of the Australian dollar to the US dollar and the Namibian dollar to the US dollar, with all other variables held constant. The 5% sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding five year period.

	<b>IMPACT ON PROFIT/LOSS</b>		<b>IMPACT ON EQUITY</b>	
	<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Post-Tax Gain/(Loss)</b>				
AUD/USD +5% (2011: +5%)	(0.1)	(0.1)	0.3	0.9
AUD/USD -5% (2011: -5%)	0.1	0.1	(0.3)	(1.0)
NAD/USD +5% (2011: +5%)	0.1	(0.3)	-	-
NAD/USD -5% (2011: -5%)	(0.1)	0.3	-	-

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)**

**(b) Market Risk (continued)**

(ii) Interest Rate Risk

Interest rate risk is the risk that the Group's financial position will be adversely affected by movements in interest rates that will increase the cost of floating rate debt or opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. Interest rate risk on cash and short-term deposits is not considered to be a material risk due to the short-term nature of these financial instruments.

The Group's main interest rate risk arises from long-term debt. Floating rate debt exposes the Group to cash flow interest rate risk and fixed rate debt exposes the Group to fair value interest rate risk. All other financial assets and liabilities in the form of receivables, investments in shares, payables and provisions, are non interest bearing.

The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

The floating rate financial instruments exposed to interest rates movements are as follows:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<hr/>		
<b>Financial assets</b>		
Cash and cash equivalents	<u>90.3</u>	<u>89.8</u>
 <b>Financial liabilities</b>		
Interest-bearing liabilities	<u>(216.5)</u>	<u>(152.7)</u>
Net exposure	<u>(126.2)</u>	<u>(62.9)</u>

The following table summarises the cash flow sensitivity of cash and cash equivalent financial instruments held at balance sheet date following a movement in LIBOR, with all other variables held constant. The sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

	<b>IMPACT ON PROFIT/LOSS</b>	
	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$</b>
<hr/>		
<b>Post-Tax Gain/(Loss)</b>		
LIBOR +1% (2011: +1%)	(0.9)	(0.4)
LIBOR -0.1% (2011: -0.1%)	0.1	-



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)**

**(b) Market Risk (continued)**

(iii) Market Price Risk

Price risk is the risk that the Group's financial position will be adversely affected by movements in the market value of its available-for-sale financial assets.

The financial instruments exposed to movements in market value are as follows:

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
<b>Financial assets</b>		
Other financial assets	15.5	41.8

The following table summarises the sensitivity of financial instruments held at balance date to movements in the market price of available-for-sale financial instruments, with all other variables held constant. The 25% sensitivity is based on reasonable possible changes, over a financial year, using the observed range of actual historical prices for 2012 and 2011.

	<b>IMPACT ON EQUITY</b>	
	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$</b>
<b>Post-tax gain/(loss)</b>		
Market price +25% (2011: +25%)	-	-
Market price -25% (2011: -25%)	(0.9)	-
<b>Post-tax impact on reserve</b>		
Market price +25% (2011: +25%)	2.7	7.3
Market price -25% (2011: -25%)	(1.8)	(7.3)

**(c) Liquidity Risk**

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group treasury function continually reviews the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Sensitivity analysis is conducted on a range of pricing and market assumptions to ensure the Group has the ability to meet repayment commitments. This enables the Group to manage cash flows on a long-term basis and provides the flexibility to pursue a range of funding alternatives if necessary. Note 16 details the repayment obligations in respect of the amount of the facilities.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)**

**(c) Liquidity Risk (continued)**

The maturity analysis of payables at the reporting date was as follows:

<b>Payables maturity analysis</b>					
	<b>Total</b>	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>&gt;3 years</b>
<b>2012</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
<b>Consolidated</b>					
Trade and other payables	67.1	67.1	-	-	-
Loans and borrowings	924.5	187.1	53.7	62.0	621.7
Interest payable	143.2	40.5	32.1	30.4	40.2
<b>Total payables</b>	<b>1,134.8</b>	<b>294.7</b>	<b>85.8</b>	<b>92.4</b>	<b>661.9</b>
<b>2011</b>					
<b>Consolidated</b>					
Trade and other payables	69.7	69.7	-	-	-
Loans and borrowings	777.7	46.1	363.5	29.9	338.2
Interest payable	85.5	31.4	25.5	12.9	15.7
<b>Total payables</b>	<b>932.9</b>	<b>147.2</b>	<b>389.0</b>	<b>42.8</b>	<b>353.9</b>

**(d) Credit Risk**

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument that will result in a financial loss to the Group. The carrying amount of financial assets represents the maximum credit exposure. The Group trades only with recognised, credit worthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The maximum exposure to credit risk at the reporting date was as follows:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>Current</b>		
Cash and cash equivalents*	112.1	117.4
Trade receivables	52.0	-
Other receivables – other entities	30.8	20.5
	<u>194.9</u>	<u>137.9</u>
<b>Non Current</b>		
Other receivables – other entities	0.1	1.5
<b>Total</b>	<u>195.0</u>	<u>139.4</u>

\* The Group's maximum deposit with a single financial institution represents 34% (2011: 25%) of cash and cash equivalents.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)**

**(d) Credit Risk (continued)**

The ageing of receivables at the reporting date was as follows:

	Receivables ageing analysis				
	Total	Current	<1 year	1-2 years	>2 years
<b>2012</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
<b>Consolidated</b>					
Trade receivables	52.0	52.0	-	-	-
Other receivables	30.9	30.8	0.1	-	-
<b>Total receivables</b>	<b>82.9</b>	<b>82.8</b>	<b>0.1</b>	<b>-</b>	<b>-</b>
<b>2011</b>					
	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Consolidated</b>					
Trade receivables	-	-	-	-	-
Other receivables	22.0	20.5	1.5	-	-
<b>Total receivables</b>	<b>22.0</b>	<b>20.5</b>	<b>1.5</b>	<b>-</b>	<b>-</b>

No receivables are past due or impaired.

**(e) Financial Instruments Measured at Fair Value**

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

	Year ended 30 June 2012			Year ended 30 June 2011			
	Quoted market price (Level 1)	Valuation technique- market observable inputs (Level 2)	Valuation technique- non market observable inputs (Level 3)	Total	Quoted market price (Level 1)	Valuation technique- market observable inputs (Level 2)	Valuation technique non market observable inputs (Level 3)
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Consolidated</b>							
<b>Financial assets</b>							
Available-for-sale investments							
Listed investments	14.0	-	-	14.0	40.8	-	-
Unlisted investments	-	-	1.5	1.5	-	-	1.0
	<b>14.0</b>	<b>-</b>	<b>1.5</b>	<b>15.5</b>	<b>40.8</b>	<b>-</b>	<b>1.0</b>
							<b>41.8</b>

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)**

**(e) Fair Value of Financial Instruments Measured at Fair Value (continued)**

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

The fair value of unlisted debt and equity securities, as well as other investments that do not have an active market, are based on latest private share placement price before 30 June 2012.

**Reconciliation for Level 3 Fair Value Movements**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>Opening balance</b>	<b>1.0</b>	<b>3.5</b>
Other comprehensive income	0.6	-
Additions	-	0.5
Disposals	(0.1)	(3.0)
<b>Closing balance</b>	<b>1.5</b>	<b>1.0</b>
Total gain or loss stated in the table above for assets held at the end of the period	0.6	-

**(f) Capital Management**

When managing capital, management's objective is to ensure adequate cash resources to meet the Company's commitments are maintained, as well as to maintain optimal returns to shareholders through ensuring the lowest cost of capital available to the entity.

The Company utilises a combination of debt, equity and convertible bonds to provide the cash resources required. Management reviews the capital structure from time to time as appropriate.

The Group treasury function is responsible for the Group's capital management, including management of the long-term debt and cash as part of the capital structure. This involves the use of corporate forecasting models which enable analysis of the Group's financial position including cash flow forecasts to determine the future capital management requirements. To ensure sufficient funding for operational expenditure and growth activities, a range of assumptions are modelled so as to provide the flexibility in determining the Group's optimal future capital structure.

Group treasury monitors gearing and compliances with various contractual financial covenants. The Company's project finance facility is subject to various financial undertakings including a negative pledge, debt service coverage ratio, loan life coverage ratio and project life coverage ratio. At the time of reporting, the Company was in compliance with all of the facility's financial undertakings.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 19. FINANCIAL INSTRUMENTS (continued)**

**(f) Capital Management (continued)**

	<b>CONSOLIDATED</b>	
	<b>2012 US\$M</b>	<b>2011 US\$M</b>
Total borrowings	838.5	719.7
Less cash and cash equivalents	(112.1)	(117.4)
<b>Net debt</b>	<b>726.4</b>	<b>602.3</b>
Total equity	1,194.8	1,355.2
<b>Total Capital</b>	<b>1,921.2</b>	<b>1,957.5</b>
Gearing Ratio	38%	31%

**(g) Fair Value of Financial Assets and Financial Liabilities Carried at Amortised Cost**

The fair value representing the mark to market of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate to their carrying values, as a result of their short maturity or because they carry floating rates of interest.

The fair value of the debt component of the convertible bonds has been determined using a valuation technique based on the quoted market price of the convertible bonds.

All financial assets and liabilities where the fair value does not approximate to the carrying value are as follows:

	<b>CONSOLIDATED</b>			
	<b>2012 US\$M</b>		<b>2011 US\$M</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Convertible bonds – debt component	639.9	609.7	583.1	566.1

**(h) Commodity Price Risk**

Uranium is not traded in any significant volume on global commodity exchanges. The Group has customer sales contracts in place for delivery over the period 2012 to 2024.

The contracted selling price is determined by a formula which references common industry published prices for spot and term contracts and is subject to an escalating floor price and also escalating ceiling prices.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 20. KEY MANAGEMENT PERSONNEL**

**(a) Details of Key Management Personnel**

(i) Directors

Mr Rick Crabb	Chairman (Non-executive)
Mr John Borshoff	Managing Director/CEO
Mr Sean Llewelyn	Director (Non-executive)
Mr Donald Shumka	Director (Non-executive)
Mr Peter Donkin	Director (Non-executive)
Mr Philip Baily	Director (Non-executive)

(ii) Executives

Ms Gillian Swaby	Company Secretary and Executive General Manager – Corporate Services
Mr Garry Korte	Chief Financial Officer (resigned 24 May 2012)
Mr Dustin Garrow	Executive General Manager – Marketing
Mr Mark Chalmers	Executive General manager – Production
Mr Alan Rule	Chief Financial Officer (commenced 23 July 2012)

**(b) Compensation of Key Management Personnel: Compensation by Category**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Short-term employee benefits	5,252	5,492
Post employment benefits	945	689
Long-term benefits	606	454
Share-based payment	<u>2,275</u>	<u>2,955</u>
	<u>9,078</u>	<u>9,590</u>

Average exchange rate used for year to 30 June 2012, US\$1 = A\$0.96971 (2011 US\$1 = A\$1.01512).

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 20. KEY MANAGEMENT PERSONNEL (continued)**

**(c) Option Holdings of Key Management Personnel (Group)**

30 June 2012	01 Jul 11	Granted as remune- -ration	Options exercised	Net change other <sup>(1)</sup>	30 Jun 12	Vested/ exercisable	Not vested/ not exercisable
<b>Directors</b>							
Mr John Borshoff	1,250,000	-	-	(593,000)	657,000	657,000	-
<b>Executives</b>							
Ms Gillian Swaby	258,785	-	-	(122,767)	136,018	136,018	-
Mr Dustin Garrow	266,199	-	-	(126,284)	139,915	139,915	-
<b>Total</b>	<b>1,774,984</b>	<b>-</b>	<b>-</b>	<b>(842,051)</b>	<b>932,933</b>	<b>932,933</b>	<b>-</b>

(1) Options that could no longer vest were cancelled on 29 June 2012. These options were out of the money and had no intrinsic value at cancellation date.

30 June 2011	01 Jul 10	Granted as remune- -ration	Options exercised	Net change other	30 Jun 11	Vested/ exercisable	Not vested/ not exercisable
<b>Directors</b>							
Mr John Borshoff	2,750,000	-	-	(1,500,000) <sup>(2)</sup>	1,250,000	657,000	593,000
<b>Executives</b>							
Ms Gillian Swaby	333,785	-	-	(75,000) <sup>(2)</sup>	258,785	136,018	122,767
Mr Wyatt Buck	351,533	-	-	(351,533) <sup>(1)</sup>	-	-	-
Mr Dustin Garrow	344,769	-	-	(78,570) <sup>(2)</sup>	266,199	139,915	126,284
<b>Total</b>	<b>3,780,087</b>	<b>-</b>	<b>-</b>	<b>(2,005,103)</b>	<b>1,774,984</b>	<b>932,933</b>	<b>842,051</b>

No other Key Management Personnel held options during the year ended 30 June 2011.

(1) Mr Wyatt Buck resigned on 6 May 2011. 105,926 options lapsed on 6 June 2011 and 95,607 were forfeited on 6 May 2011. 150,000 lapsed during the year as the vesting conditions were not met.

(2) Lapsed during the year as the vesting conditions were not met.

**(d) Share Rights Holdings of Key Management Personnel (Group)**

30 June 2012	01 Jul 11	Granted as remune- -ration	Vested as shares	Forfeited	30 Jun 12
<b>Directors</b>					
Mr John Borshoff	800,000	-	-	-	800,000
<b>Executives</b>					
Ms Gillian Swaby	547,000	55,000	(141,333)	-	460,667
Mr Garry Korte	131,000	-	(18,500)	(112,500) <sup>(1)</sup>	-
Mr Dustin Garrow	260,000	60,000	(38,000)	-	282,000
Mr Mark Chalmers	-	125,000	-	-	125,000
<b>Total</b>	<b>1,738,000</b>	<b>240,000</b>	<b>(197,833)</b>	<b>(112,500)</b>	<b>1,667,667</b>

(1) Mr Garry Korte resigned on 24 May 2012 and his outstanding share rights were forfeited.

30 June 2011	01 Jul 10	Granted as remune- -ration	Vested as shares	Forfeited	30 Jun 11
<b>Directors</b>					
Mr John Borshoff	300,000	500,000	-	-	800,000
<b>Executives</b>					
Ms Gillian Swaby	180,000	385,000	(18,000)	-	547,000
Mr Garry Korte	90,000	50,000	(9,000)	-	131,000
Mr Dustin Garrow	200,000	80,000	(20,000)	-	260,000
Mr Wyatt Buck	160,000	50,000	(16,000)	(194,000) <sup>(1)</sup>	-
<b>Total</b>	<b>930,000</b>	<b>1,065,000</b>	<b>(63,000)</b>	<b>(194,000)</b>	<b>1,738,000</b>

No other Key Management Personnel held share rights during the year ended 30 June 2011.

(1) Mr Wyatt Buck resigned on 6 May 2011 and his outstanding share rights were forfeited.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 20. KEY MANAGEMENT PERSONNEL (continued)**

**(e) Shareholdings of Key Management Personnel (Group)**

Shares held in Paladin Energy Ltd (number)

<b>30 June 2012</b>	<b>Balance 01 Jul 11</b>	<b>On Exercise of Options</b>	<b>On Vesting of Rights</b>	<b>Net Change Other</b>	<b>Balance 30 June 12</b>
<b>Directors</b>					
Mr Rick Crabb	4,881,528	-	-	-	4,881,528
Mr John Borshoff	21,877,394	-	-	-	21,877,394
Mr Sean Llewelyn	100,000	-	-	-	100,000
Mr Donald Shumka	100,000	-	-	-	100,000
Mr Peter Donkin	15,000	-	-	-	15,000
Mr Philip Baily	12,000	-	-	-	12,000
<b>Executives</b>					
Ms Gillian Swaby	3,586,655	-	141,333	(3,609,655)	118,333
Mr Garry Korte <sup>(1)</sup>	9,000	-	18,500	(27,500)	-
Mr Dustin Garrow	-	-	38,000	(38,000)	-
<b>Total</b>	<b>30,581,577</b>	<b>-</b>	<b>197,833</b>	<b>(3,675,155)</b>	<b>27,104,255</b>

No other Key Management Personnel held shares during the year ended 30 June 2012.

(1) Mr Garry Korte resigned on 24 May 2012. No longer required to disclose shareholdings.

<b>30 June 2011</b>	<b>Balance 01 Jul 10</b>	<b>On Exercise of Options</b>	<b>On Vesting of Rights</b>	<b>Net Change Other</b>	<b>Balance 30 June 11</b>
<b>Directors</b>					
Mr Rick Crabb	4,881,528	-	-	-	4,881,528
Mr John Borshoff	21,877,394	-	-	-	21,877,394
Mr Ian Noble <sup>(1)</sup>	21,000	-	-	(21,000)	-
Mr Sean Llewelyn	100,000	-	-	-	100,000
Mr Donald Shumka	50,000	-	-	50,000	100,000
Mr Peter Donkin	-	-	-	15,000	15,000
Mr Philip Baily	-	-	-	12,000	12,000
<b>Executives</b>					
Ms Gillian Swaby	5,036,655	-	18,000	(1,468,000)	3,586,655
Mr Wyatt Buck <sup>(2)</sup>	110,000	-	16,000	(126,000)	-
Mr Garry Korte	-	-	9,000	-	9,000
Mr Dustin Garrow	-	-	20,000	(20,000)	-
Mr Mark Chalmers	-	-	-	-	-
<b>Total</b>	<b>32,076,577</b>	<b>-</b>	<b>63,000</b>	<b>(1,558,000)</b>	<b>30,581,577</b>

No other Key Management Personnel held shares during the year ended 30 June 2011.

(1) Mr Ian Noble retired on 25 November 2010. No longer required to disclose shareholdings.

(2) Mr Wyatt Buck resigned on 6 May 2011. No longer required to disclose shareholdings.

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 20. KEY MANAGEMENT PERSONNEL (continued)**

**(f) Other Transactions and Balances with Key Management Personnel**

Fees paid in the normal course of business in 2012 for company secretarial services totalling US\$571,000 (2011: US\$561,000) were paid/payable (balance outstanding at 30 June 2012 and included in trade creditors US\$Nil (2011: US\$Nil)) to a company of which Ms Gillian Swaby is a director and shareholder. All amounts are excluding GST.

**NOTE 21. AUDITORS' REMUNERATION**

The auditor of the Paladin Energy Ltd Group is Ernst & Young.

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Amounts received or due and receivable by Ernst &amp; Young (Australia) for:</i>		
• Audit or review of the financial report of the consolidated Group	658	741
• Other services	146 <sup>(1)</sup>	327 <sup>(2)</sup>
• Taxation services:		
Tax compliance services	81	97
International tax consulting	406	165
Tax advice on mergers and acquisitions	67	232
Other tax advice	31	51
Sub-total	1,389	1,613

(1) \$121,000 relates to services performed in relation to the issue of Convertible Bonds.

(2) \$98,000 relates to services performed in relation to the issue of Convertible Bonds.

*Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:*

• Audit or review of the financial report of subsidiaries and audit related services	231	389
• Taxation services:		
Tax compliance services	40	4
International tax consulting	139	-
Other	17	-
Sub-total	427	393

The level of non-audit related fees was driven by the tax compliance requirements of multiple jurisdictions and by the specialist advice requirements of potential acquisitions and group restructures.

Whilst always striving to meet the highest corporate governance standards, Paladin is also cognisant of the need to retain the value of the best available specialist advice. Paladin engaged Ernst & Young because of their specialised experience in both Africa and the mining sector and Ernst & Young's detailed understanding of the Paladin Group.

In terms of the Company's Corporate Governance Policy all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor and that the nature of the services provided does not compromise the Code of Ethics for Professional Accountants APES 110 issued by the Accounting Professional and Ethical Standards Board.

All non-audit services provided by Ernst & Young were allowable services that received the sign off of the audit partner confirming that, in his professional opinion, they do not in any way impair the independence of the firm. Where any service might be perceived to be subjective, Ernst & Young policy requires approval by the Oceania Independence and Conflicts Leader.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 22. COMMITMENTS AND CONTINGENCIES**

There were no outstanding commitments or contingencies, which are not disclosed in the Financial Report of the Group as at 30 June 2012 other than:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
<b>(a) Tenements</b>	<b>US\$M</b>	<b>US\$M</b>
Commitments for tenements contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	5.4	19.0
Later than one year but not later than 5 years	4.8	17.0
More than 5 years	26.6	28.4
Total tenements commitment	36.8	64.4

These include commitments relating to tenement lease rentals and the minimum expenditure requirements of the Namibian, Malawian, Nigerian, Canadian, Western Australian, South Australian, Northern Territorial and Queensland Mines Departments attaching to the tenements and are subject to re-negotiation upon expiry of the exploration leases or when application for a mining licence is made.

These are necessary in order to maintain the tenements in which the Group and other parties are involved. All parties are committed to meet the conditions under which the tenements were granted in accordance with the relevant mining legislation in Namibia, Malawi, Australia, Canada and Niger.

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
<b>(b) Mine Construction Commitments</b>	<b>US\$M</b>	<b>US\$M</b>
Commitments for mine construction contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	1.5	18.8
Later than one year but not later than 5 years	-	-
More than 5 years	-	-
Total mine construction	1.5	18.8

These commitments in 2012 relate to construction of Stage 3 at LHM (2011: construction of Stage 3 at LHM).

**(c) Operating Lease Commitments**

The Group has entered into various property leases relating to rental of offices and residential accommodation.

These non-cancellable leases have remaining terms of between 1 month and 10 years. All leases include a clause to enable upward revision of rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Within one year	1.4	1.5
Later than one year but not later than 5 years	3.8	5.3
More than 5 years	-	0.1
Total operating lease commitment	5.2	6.9

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 22. COMMITMENTS AND CONTINGENCIES (continued)**

**(d) Other Commitments**

Commitments for mining, transport and reagents contracted for at the reporting date but not recognised as liabilities, payable:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Within one year	33.0	47.9
Later than one year but not later than 5 years	2.5	3.1
More than 5 years	-	-
Total other commitment	35.5	51.0

**(e) Acquisition Costs**

The Group acquired a call option on 19 June 1998 in relation to the purchase of the Oobagooma Uranium Project and, in turn, granted a put option to the original holder of the project. Both the call and put options have an exercise price of A\$0.75M (US\$0.76M) (2011: A\$0.75M (US\$0.79M)) and are subject to the Department of Minerals & Energy granting tenements comprising two exploration licence applications. The A\$0.75M is payable by the Group within 10 business days of the later of the grant of the tenements or the exercise of either the call or put option. The options will expire three months after the date the tenements are granted.

In relation to the Manyingee Uranium Project, the re-negotiated acquisition terms provide for a payment of A\$0.75M (US\$0.76M) (2011: A\$0.75M (US\$0.79M)) by the Group to the vendors when all project development approvals are obtained.

**(f) Bank Guarantees**

As at 30 June 2012 the Group has outstanding US\$889,944 (A\$876,016) (2011: US\$911,837 / A\$860,619) as a current guarantee provided by a bank for the corporate office lease and a US\$270,960 (A\$266,719) (2011: US\$289,700 / A\$273,428) guarantee for tenements.

**(g) Contingent Liability**

A dispute has arisen between a Group company and a contractor in relation to the contract for the Stage 3 expansion at LHM. The contractor is seeking payment of the disputed sum of US\$32M. The Group denies the claim and will vigorously defend it. The Group is also counterclaiming damages from the contractor and cross-claiming from another contractor. The precise quantum of the counter-claim and cross claim has not yet been established but is expected to exceed the contractor's claim.

**NOTE 23. EMPLOYEE BENEFITS**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Provision for annual leave and long service leave aggregate employment benefit liabilities	9.9	8.6
<b>Employee Benefits Expense</b>		
Wages and salaries	72.3	62.7
Defined contribution superannuation	4.4	3.9
Share-based payments	8.7	14.3
Other employee benefits	5.3	5.1
Total employee benefits expense	90.7	86.0

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 23. EMPLOYEE BENEFITS (continued)**

**Superannuation**

The Company contributes to employees' superannuation plans in accordance with the requirements of Occupational Superannuation Legislation. Contributions by the Company represent a defined percentage of each employee's salary. Employee contributions are voluntary.

**Employee Share Incentive Option Plan and Employee Performance Share Rights Plan**

Details of the Employee Share Incentive Option Plan and Employee Performance Share Rights Plan for the Company are disclosed in Note 25.

**NOTE 24. RELATED PARTIES**

**Key Management Personnel**

Details relating to Key Management Personnel can be found at Note 20.

**NOTE 25. SHARE-BASED PAYMENT PLANS**

	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Share-based payment expense	7.0	11.9

The share-based payment plans are described below.

**(a) Types of Share-Based Payment Plans**

Executive Share Option Plan (EXSOP)

On 21 November 2006, the EXSOP was approved by shareholders at the Company's Annual General Meeting. The number of shares that may be issued under the EXSOP must not exceed 5% of the total number of shares on issue.

Share options are granted to employees under the EXSOP which is designed to create a stronger link between increasing shareholder value and employee reward. Under the EXSOP, the exercise price of the options is set at the market price of the shares on the date of grant and performance is measured by comparing the Company's TSR (share price appreciation plus dividends reinvested) with a group of peer companies. The Company's performance will be measured over three years from the date of grant. To the extent that maximum performance is not achieved under the performance condition, performance will be retested every six months following the first three years until the end of the fourth year.

In assessing whether the TSR hurdle for each grant has been met, the Group receives independent data from an external advisor, who provides both the Group's TSR growth from the commencement of each grant and that of the pre-selected peer group. The peer group chosen for comparison is the resource companies in the S&P/ASX200 Index at the date of grant. This peer group reflects the Group's competitors for capital and talent.

The Group's performance against the hurdle is determined according to Paladin's ranking against the peer group TSR growth over the performance period:

- when Paladin is ranked over the 75<sup>th</sup> percentile, 100% of the share options will vest;
- for rankings above the 50<sup>th</sup> and below the 75<sup>th</sup> percentile, the percentage of options to vest will be pro-rata between 50% and 100%;
- when Paladin is ranked at the 50<sup>th</sup> percentile, 50% of the share options will vest; and
- when Paladin is ranked below the 50<sup>th</sup> percentile the share options will not vest.

When a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Group other than for misconduct or death. In the event of a change of control all the awards will vest and may be exercised by the participant.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 25. SHARE-BASED PAYMENT PLANS (continued)**

Executive Share Option Plan (EXSOP) (continued)

The contractual life of each option granted is five years. There are no cash settlement alternatives.

Following the adoption of the Rights Plan referred to below, no further grants will be made under the EXSOP. The last grant under this Plan was made on 24 June 2009.

**(b) Types of Share-Based Payment Plans (continued)**

Employee Performance Share Rights Plan

The Employee Performance Share Rights Plan (Rights Plan) was approved by shareholders on 25 November 2009. The Rights Plan replaces the EXSOP and no further options will be granted under the EXSOP.

The Rights Plan is a long-term incentive plan aimed at advancing the interests of the Company by creating a stronger link between employee performance and reward and increasing shareholder value by enabling participants to have a greater involvement with, and share in the future growth and profitability of the Company. It is an important tool to assist in attracting and retaining talented people.

Share Rights are granted under the plan for no consideration. Share Rights are rights to receive fully paid ordinary shares in the capital of the Company (Shares) in the future if certain individual and/or corporate performance metrics (Performance Conditions) are met in the measurement period.

The Board is cognisant of general shareholder concern that long-term equity based reward for staff should be linked to the achievement by the Company of a performance condition. Share Rights granted under the Rights Plan are subject to performance conditions as determined by the Board from time to time.

The Share Rights issued are subject to a combination of Performance Conditions:-

- **Time-based Performance** conditions which prescribe a period of time that the employee must stay employed by the Company prior to automatic vesting.
- **The Total Shareholder Return (TSR)** measure which represents the change in the Company's Share price over the relevant period, plus dividends (if any) notionally reinvested in the Company's Shares, expressed as a percentage of the opening value.

The TSR of the Company from the date of the offer to the measurement date will be compared with the TSR of all mining companies in the ASX S&P 200 Index for the same period excluding, for such time as Paladin does not pay a dividend, all companies that paid a dividend during any year of the measurement period.

The number of Share Rights that vest depends on the TSR percentile ranking of the Company, as set out below:

<b>Relative TSR Percentile Ranking</b>	<b>Percentage of share rights that may vest if the relative TSR performance condition is met</b>
Less than 50 <sup>th</sup> percentile	0% of the Share Rights subject to the TSR condition
at 50 <sup>th</sup> percentile	50% of the Share Rights subject to the TSR condition
Greater than the 50 <sup>th</sup> percentile but less than the 75 <sup>th</sup> percentile	Pro-rated vesting between 51% and 99% of the Share Rights subject to the TSR condition
At 75 <sup>th</sup> percentile or greater	100% of the Share Rights subject to the TSR condition

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 25. SHARE-BASED PAYMENT PLANS (continued)**

**(b) Types of Share-Based Payment Plans (continued)**

Employee Performance Share Rights Plan (continued)

- **The Market Price Performance condition** measures the increase in share price of the Company. Share Rights subject to the Market Price Performance Condition will vest if, at the end of the measurement period, the Share price of the Company is 25% above the market price as at the date of the offer.
- **The Earnings Per Share (EPS) Performance condition**, which is determined by dividing the operating profit attributable to members of the Paladin Group by the weighted average number of Ordinary Shares outstanding during the financial year. Growth in EPS will be measured by comparing the EPS in the base year and the measurement year.

Vesting will only occur if the Company achieves average compound growth in EPS of at least 10% pa over the three year performance period, calculated from the date of the grant of the Share Rights.

The vesting schedule of the Share Rights subject to the EPS conditions is as follows:

<b>Average compound growth EPS over the performance period</b>	<b>Percentage of share rights that may vest if the EPS condition is met</b>
Less than 10% pa	0% of the Share Rights subject to the EPS condition
At 10% pa	50% of the Share Rights subject to the EPS condition
More than 10% pa but less than 20% pa	Pro-rated vesting between 51% and 99% of the Share Rights subject to the EPS condition
At 20% pa or greater	100% of the Share Rights subject to the EPS condition

When a participant ceases employment prior to the vesting of their Share Rights, the Share Rights lapse unless cessation of employment is due to retirement, total and permanent disablement, redundancy or death. In the event of a change of control all the Share Rights will vest.

Contractor Performance Share Rights Plan

The Company has also implemented a plan to reward a small number of key individual contractors, who provide similar services to employees. This plan and the Rights Plan applicable to employees, as detailed above, differ only in respect of the class of individuals who are eligible for participation. This Plan was approved by shareholders on 25 November 2009.

**(c) Summaries of Options Granted Under EXSOP**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	<b>2012 No.</b>	<b>2012 WAEP A\$</b>	<b>2011 No.</b>	<b>2011 WAEP A\$</b>
Outstanding at the beginning of the year	8,231,791	4.36	12,768,755	5.26
Forfeited during the year	(972,716)	4.50	(1,841,734)	4.13
Exercised during the year <sup>(1)</sup>	-	-	(960)	4.50
Expired during the year	(3,041,746) <sup>(2)</sup>	4.53	(2,694,270)	8.77
Outstanding at the end of the year	<u>4,217,329</u>	<u>4.20</u>	<u>8,231,791</u>	<u>4.36</u>
Exercisable at the end of the year	3,467,329	4.56	4,032,078	4.55

<sup>(1)</sup> The weighted average share price at the date of exercise is A\$N/A (2011: A\$5.35).

<sup>(2)</sup> Options that can no longer vest were cancelled on 29 June 2012.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 25. SHARE-BASED PAYMENT PLANS (continued)**

**(c) Summaries of Options Granted Under EXSOP (continued)**

The outstanding balance as at 30 June 2012 is represented by:

<b>Date options granted</b>	<b>Exercisable</b>	<b>Expiry date</b>	<b>Exercise price of options</b>	<b>Number under option</b>
29 January 2008	29 January 2011	29 January 2013	4.50	3,013,849
15 February 2008	15 February 2011	15 February 2013	5.37	203,820
18 April 2008	18 April 2011	18 April 2013	4.59	249,660
14 October 2008	14 October 2011	14 October 2013	2.54	750,000
<b>Total</b>				<b>4,217,329</b>

Please refer to Outstanding Share Information table in the Management Discussion & Analysis for movements since the year end.

**(d) Weighted Average Remaining Contractual Life**

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 0.7 years (2011: 1.7 years).

**(e) Range of Exercise Price**

The range of exercise prices for options outstanding at the end of the year was A\$2.54 – A\$5.37 (2011: A\$2.54 – A\$5.37).

**(f) Weighted Average Fair Value**

There were no options granted during 2011 or 2012.

**(g) Option Pricing Model: EXSOP**

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a Black-Scholes valuation model taking into account the terms and conditions upon which the options were granted. There were no options granted during 2011 or 2012.

**(h) Summaries of Performance Share Rights Granted Under the Rights Plans**

The following table illustrates the number (No.) of and movements in share rights issued during the year:

	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No.</b>
Outstanding at the beginning of the year	6,947,337	5,014,500
Granted during the year *	1,980,400	4,292,117
Forfeited during the year	(928,580)	(1,058,700)
Vested during the year <sup>(1)</sup>	(1,113,275)	(1,300,580)
Outstanding at the end of the year	<u>6,885,882</u>	<u>6,947,337</u>

\* Includes 145,000 rights granted under the Contractor Performance Share Rights Plan (2010: 490,000).

<sup>(1)</sup> The weighted average share price at the vesting date is A\$1.93 (2011: A\$3.80).

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 25. SHARE-BASED PAYMENT PLANS (continued)**

**(h) Summaries of Performance Share Rights Granted Under the Rights Plans (continued)**

The outstanding balance as at 30 June 2012 is represented by:

<b>Date rights granted</b>	<b>Vesting date</b>	<b>Vesting Performance Conditions</b>	<b>Number</b>
26 March 2010	26 March 2013	Relative total shareholder return	150,000
26 March 2010	26 March 2013	Earnings per share	150,000
26 March 2010	1 September 2012	Time based	759,850
26 March 2010	1 September 2012	Relative total shareholder return	607,880
26 March 2010	1 September 2012	Market price	911,820
5 November 2010	5 November 2013	Earnings per share	250,000
5 November 2010	5 November 2013	Relative total shareholder return	250,000
5 November 2010	1 September 2012	Time based	250,132
5 November 2010	1 September 2013	Time based	416,888
5 November 2010	1 September 2013	Relative total shareholder return	333,510
5 November 2010	1 September 2013	Market price	500,265
15 February 2011	15 February 2013	Time based	154,633
15 February 2011	15 February 2014	Time based	185,504
2 April 2012	1 September 2012	Time based	189,540
2 April 2012	1 September 2013	Time based	284,310
2 April 2012	31 December 2013	Time based	20,000
2 April 2012	1 September 2014	Time based	523,850
2 April 2012	1 September 2012	Relative total shareholder return	379,080
2 April 2012	1 September 2012	Market price	568,620
<b>Total</b>			<b>6,885,882</b>

Please refer to Outstanding Share Information table in the Management Discussion & Analysis for movements since the year end.

**(i) Weighted Average Remaining Contractual Life**

The weighted average remaining contractual life for the share rights outstanding as at 30 June 2012 is 1.0 years (2011: 1.5 years).

**(j) Weighted Average Fair Value**

The weighted average fair value of share rights granted during the year was A\$1.47 (2011: A\$3.86).

**(k) Rights Pricing Model**

The fair value of the equity-settled share rights granted under the plan is estimated as at the date of grant using either the Black-Scholes valuation model for rights with non-market based performance conditions (time based and EPS) or the Monte-Carlo simulation model for rights that contained a market based performance condition (TSR and market price).

The following table lists the inputs to the model used for the years ended 30 June 2012 and 30 June 2011.

	<b>2012</b>	<b>2011</b>
Dividend yield (%)	Nil	Nil
Expected volatility (%)	53%	39%
Risk-free interest rate (%)	3.57%	4.77% - 5.03%
Expected life of right (years)	0.4 - 2.4 years	0.8 - 4 years
Closing share price at grant date (A\$)	A\$1.80	A\$4.48

The expected volatility was determined using an historical sample of 1 year's historic data.



**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 26. INTERESTS IN JOINTLY CONTROLLED ASSETS**

**(a) Joint Venture Details**

**Bigrlyi Joint Venture**

The Bigrlyi Joint Venture is involved in the identification of and exploration for uranium resources in the Northern Territory, Australia. The joint venture is between Energy Metals Ltd 53.29%, Southern Cross Exploration NL 5.0% and Northern Territory Uranium Pty Ltd (NTU) 41.71% (NTU is 100% owned by Paladin) with Energy Metals Ltd as manager and operator of the joint venture.

**Angela Joint Venture**

The Angela Joint Venture is involved in the identification of and exploration for uranium resources on tenements to the south of Alice Springs in the Northern Territory, Australia. The joint venture is between Cameco Australia Pty Ltd (Cameco) 50% and Paladin NT Pty Ltd (PNT) 50% (PNT is 100% owned by Paladin) with Paladin as manager and operator of the joint venture.

**Other Joint Ventures**

The Group also has a number of other interests in joint ventures to explore for uranium and other minerals. The Group's share of expenditure in respect of these exploration activities is expensed in accordance with the accounting policy stated in Note 3(s) and no revenue is generated. The Group's share of the assets and liabilities in respect of these joint ventures is not material.

**(b) Assets Utilised in the Bigrlyi and Angela Joint Ventures**

The Group's share of the assets utilised in these jointly controlled assets, which are included in the Consolidated Financial Statements, is as follows:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
<b>Non Current Assets</b>		
Exploration and evaluation expenditure	37.6	36.3
Total assets	37.6	36.3

The interest of NTU in the Bigrlyi Joint Venture was acquired on 7 September 2006 and includes the allocation of the acquisition value.

The interest of PNT in the Angela Project joint venture was acquired on 20 February 2008.

**(c) Commitments Relating to the Joint Venture**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Share of tenement commitments (Note 22(a))	1.5	2.7

**(d) Impairment**

No assets employed in the jointly controlled assets were impaired during the year (2011: US\$Nil).

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 27. EVENTS AFTER THE BALANCE DATE**

Other than disclosed below, since the end of the financial year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2012 Financial Report:

**Deep Yellow Ltd Entitlement Issue**

At 30 June 2012, the Group had subscribed A\$2M for a convertible note issued by DYL. The convertible note formed part of the underwriting of the DYL non-renounceable issue and was converted into DYL shares on 30 July 2012. In total Paladin purchased 72,263,821 ordinary shares at a cost of A\$3M. Following this issue the Group has an investment in DYL of 297,198,282 (30 June 2012: 224,934,461) fully paid ordinary shares. The holding of these ordinary shares represents a 23.43% interest (30 June 2012: 19.9%) of the ordinary shares in DYL.

**Long-term Off-take Contract with a US\$200M Prepayment**

On 15 August 2012, the Company announced that it had entered into a six year off-take agreement with a major utility to deliver a total of 13.73Mlb U<sub>3</sub>O<sub>8</sub> in the period from 2019 to 2024. A prepayment of US\$200M will be made to the Company in respect of part of the future U<sub>3</sub>O<sub>8</sub> product deliveries. Delivery of the future U<sub>3</sub>O<sub>8</sub> product will be at the Company's option either from its current African mining operations or from a project yet to be developed from the Company's significant existing project pipeline or from a combination of both. Uranium delivered under the long-term off-take contract will be sold at the market prices prevailing at the time of delivery bounded by escalating floor and ceiling prices.

To secure the Company's obligation to deliver product representing the prepayment amount, the utility will hold security over 60.1% of the Company's Michelin project in Canada. The percentage of Michelin secured will be reduced as the value of that project is enhanced by the Company's ongoing work. The Michelin security can also be replaced by other appropriate security if required.

Subject to formalities to be put in place between the Company and the utility, expected to occur in September 2012, such as required registration of the security documentation (which documentation is in agreed form) the US\$200M prepayment will be made in tranches to be completed by no later than 31 January 2013.

The US\$200M prepayment will be applied to repayment of the balance of the March 2013 convertible notes with the remainder retained for balance sheet strength as working capital.

**Mid-term Sales Contracts Secured**

On 24 August 2012, the Company announced it has secured two mid-term off-take agreements for U<sub>3</sub>O<sub>8</sub> production originating from its mining operations at Langer Heinrich in Namibia and Kayelekera in Malawi.

These agreements are for the purchase of a total of 6.3Mlb U<sub>3</sub>O<sub>8</sub> to be delivered from late 2012 to end 2015 at approximately 2Mlb pa. Pricing will be determined predominately by the market price at the time of delivery (without floor or ceiling limitations) while a minority portion of the delivery prices will be in accordance with a series of specified fixed prices which exceed current spot uranium prices.

**NOTE 28. NON-CASH FINANCING AND INVESTMENT ACTIVITIES**

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Issue of shares to acquire 100% of NGM	-	30.1
Issue of shares to acquire the Aurora uranium assets	-	260.6

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 29. EARNINGS PER SHARE**

(i) Basic Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

(ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Diluted earnings per share is the same as basic earnings per share in 2012 and 2011 as the Group is in a loss position.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$M</b>	<b>US\$M</b>
Net loss attributable to ordinary equity holders of the Parent from continuing operations	(172.8)	(82.3)
	<b>2012</b>	<b>2011</b>
	<b>Number</b>	<b>Number</b>
	<b>of Shares</b>	<b>of Shares</b>
Weighted average number of ordinary shares for basic and diluted earnings per share	820,299,671	744,054,692
Total number of securities not included in weighted average calculation due to their antidilutive nature in the current period, that could potentially dilute basic earnings per share in the future	210,255,068	117,453,027

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 30. PARENT ENTITY INFORMATION**

	2012 US\$M	2011 US\$M
<b>(a) Information Relating to Paladin Energy Ltd</b>		
Current assets	158.1	146.2
Total assets	<u>1,740.3</u>	<u>1,768.6</u>
Current liabilities	142.0	12.7
Total liabilities	<u>671.7</u>	<u>613.9</u>
Issued capital	1,839.2	1,768.1
Retained earnings	(908.8)	(734.3)
Option application reserve	0.1	0.1
Share-based payments reserve	52.2	49.5
Available-for-sale investment revaluation reserve	0.4	10.9
Convertible bond non distributable reserve	<u>85.5</u>	<u>60.4</u>
Total shareholders' equity	<u>1,068.6</u>	<u>1,154.7</u>
Net loss after tax from operations	(174.4)	(50.4)
Total comprehensive loss	<u>(180.9)</u>	<u>(45.0)</u>

**(b) Details of Any Guarantees Entered Into by the Parent in Relation to the Debts of its Subsidiaries**

As part of the Project Finance Facility for the construction of KM, Paladin has provided a guarantee for the loan outstanding to the lenders until satisfaction of the Bankers Completion Test.

**(c) Details of Any Contingent Liabilities of the Parent Entity**

Paladin has provided the following guarantees:

- i. Guarantee of US\$21.5M for the LHM Environmental Trust Fund.

**(d) Details of Any Contractual Commitments by the Parent Entity for the Acquisition of Property, Plant and Equipment**

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

**(e) Tax Consolidation**

Paladin and its 100% owned Australian resident subsidiaries formed a tax consolidated group (the Group) with effect from 1 July 2003. Paladin is the head entity of the Group. Members of the Group have entered into a tax sharing agreement that provides that the head entity will be liable for all taxes payable by the Group from the consolidation date. The parties have agreed to apportion the head entity's taxation liability within the Group based on each contributing member's share of the Group's taxable income and losses.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**NOTE 30. PARENT ENTITY INFORMATION (continued)**

**(f) Investments in Material Controlled Entities**

NAME	INCORPORATION INVESTMENT	COUNTRY OF PERCENTAGE INTEREST HELD	
		2012	2011
		%	%
Paladin Finance Pty Ltd	Australia	100	100
Paladin Energy Minerals NL	Australia	100	100
PEM Malawi Pty Ltd	Australia	100	100
Eden Creek Pty Ltd	Australia	100	100
Paladin (Africa) Limited	Malawi	85	85
Kayelekera Holdings SA	Switzerland	100	100
Paladin Netherlands BV	Netherlands	100	100
Paladin Netherlands Holdings Cooperatief U.A.	Netherlands	100	100
Langer Heinrich Mauritius Holdings Ltd	Mauritius	100	100
Langer Heinrich Uranium (Pty) Ltd	Namibia	100	100
Valhalla Uranium Pty Ltd	Australia	100	100
Northern Territory Uranium Pty Ltd	Australia	100	100
Mount Isa Uranium Pty Ltd	Australia	100	100
Paladin Nuclear Ltd	Australia	100	100
Summit Resources Ltd	Australia	82	82
Summit Resources (Aust) Pty Ltd	Australia	82	82
Pacific Mines Pty Ltd	Australia	82	82
Paladin NT Pty Ltd	Australia	100	100
Fusion Resources Pty Ltd	Australia	100	100
NGM Resources Pty Ltd	Australia	100	100
Indo Energy Ltd	B.V.I.	100	100
Paladin Energy Canada Ltd	Canada	100	100
Michelin Uranium Ltd	Canada	100	100
Paladin Canada Investment (NL) Ltd	Canada	100	100
Paladin Canada Holdings (NL) Ltd	Canada	100	100
Aurora Energy Ltd	Canada	100	100

All investments comprise ordinary shares and all shares held are unquoted, with the exception of Summit's shares which are quoted on the ASX and Paladin Netherlands Holdings Cooperatief U.A. which issues membership equity.

## DIRECTORS' DECLARATION

---

In accordance with a resolution of the Directors of Paladin Energy Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 3(a);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2012.

On behalf of the Board



Mr John Borshoff  
Managing Director/CEO  
Perth, Western Australia  
30 August 2012



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## Independent auditor's report to the members of Paladin Energy Ltd

### Report on the financial report

We have audited the accompanying financial report of Paladin Energy Ltd, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of income and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Liability limited by a scheme approved  
 under Professional Standards Legislation



### **Opinion**

In our opinion:

- a. the financial report of Paladin Energy Ltd is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 3.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 79 to 97 of the Directors' Report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Opinion**

In our opinion, the Remuneration Report of Paladin Energy Ltd for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz  
Partner  
Perth  
30 August 2012





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## Independent auditor's report to the members of Paladin Energy Ltd

We have audited the accompanying financial report of Paladin Energy Ltd, prepared for the purposes of complying with Canadian securities regulatory requirements, which comprises the statement of financial position as at 30 June 2012 and the consolidated income statement and statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended 30 June 2012, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the *International Accounting Standards* (including the Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with *International Standards on Auditing*. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have met the independence requirements of the Australian professional accounting bodies. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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 under Professional Standards Legislation



### **Auditor's Opinion**

In our opinion:

1. the financial report of Paladin Energy Ltd, prepared for the purposes of complying with Canadian securities regulatory requirements, presents fairly, in all material respects, the financial position of the consolidated entity at 30 June 2012 and of its performance for the year ended 30 June 2012; and
2. the financial report also complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young', with a stylized flourish at the end.

Ernst & Young  
Perth  
30 August 2012



## Paladin Energy Ltd

### Comments by auditor for Canadian readers

Reporting standards under Canadian generally accepted auditing standards may differ from those under *International Standards on Auditing* in the form and content of the auditor's report, depending on the circumstances.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young', with a stylized flourish at the end.

Ernst & Young  
Perth  
30 August 2012

## ADDITIONAL INFORMATION

### Tenements held

#### URANIUM PROJECTS

#### **NAMIBIA – AFRICA**

Project	Tenements	Interest %	JV Partner/s	Operator	Note
Langer Heinrich	1 MLI	100.00%	-	LHU	
Gawib	1 MLI (A)	100.00%	-	LHU	
Gawib	1 EPL	100.00%	-	LHU	

#### **NIGER – AFRICA**

Tagait 4	1 EPL	100.00%	-	IEL	
Terzemazour 1	1 EPL	100.00%	-	IEL	
Toulouk 1	1 EPL	100.00%	-	IEL	

#### **MALAWI – AFRICA**

Kayelekera	1 MLI	100.00%	-	PAL	1
Chilumba	1 EPL	100.00%	-	PAL	1
Chilongo	1 EPL	100.00%	-	PAL	1
Mpata	1 EPL	100.00%	-	PAL	1
Mapambo	1 EPL	100.00%	-	PAL	1
Chisitu	1 EPL	100.00%	-	PAL	1

#### **LABRADOR/NEWFOUNDLAND – CANADA**

Central Mineral Belt	32 MLC	100.00%	-	AUR	
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#### **QUEENSLAND**

Isa North	5 EPMs	82.08%	(see Note 3)	SRA	2,3
	3 MDLs (A)	82.08%	(see Note 3)	SRA	2,3
Valhalla North	2 EPMs	100.00%	-	FSN	

#### **NORTHERN TERRITORY**

Angela and Pamela	1 EL	50.00%	Cameco Australia Pty Ltd	PDN	4
	1 EL (A)	50.00%	Cameco Australia Pty Ltd	PDN	4
Bigrlyi	10 ERLs	41.71%	) Energy Metals Limited	EME	
	20 MCs (A)	41.71%	) Southern Cross Exploration NL	EME	
	2 MLs (A)	41.71%	)	EME	
Walbiri	1 ERL (A)	58.13%	Energy Metals Limited	EME	
Malawiri	1 ERL (A)	47.96%	Energy Metals Limited	EME	
Minerva	12 ERLs (A)	100.00%		NTU	
Beatrice South	1 EL (A)	33.33%	Afmeco Mining and Exploration Pty Ltd	Afmeco	
Mount Gilruth	1 EL (A)	33.33%	Afmeco Mining and Exploration Pty Ltd	Afmeco	

## ADDITIONAL INFORMATION (continued)

### Tenements held (continued)

#### WESTERN AUSTRALIA

Manyingee	3 MLs	100.00%	-	PEM
Spinifex Well	1 EL	100.00%	-	PEM
Oobagooma	4 ELs (A)	100.00%	-	PEM

#### SOUTH AUSTRALIA

Project	Tenements	Interest %	JV Partner/s	Operator Note
Petermorra	1 EL	20.00%	Quasar Resources Pty Ltd	Quasar
Mt Yerila	1 EL	15.00%	Quasar Resources Pty Ltd J E Risinger	Quasar

### NON-URANIUM PROJECTS

#### QUEENSLAND

**Western Isa Joint Venture** (See Note 4)  
(Summit Resources (Aust) Pty Ltd, Pacific Mines Pty Ltd)

Isa South	7 EPMs	20.00%	Aston Metals (Qld) Limited	AML
	1 EPM	18.00%	Aston Metals (Qld) Limited Centaurus Metals Limited	AML
May Downs	3 EPMs	20.00%	Aston Metals (Qld) Limited	AML
Mount Kelly	1 EPM	20.00%	Aston Metals (Qld) Limited	AML
Constance Range	4 EPMs	20.00%	Aston Metals (Qld) Limited	AML

#### SOUTH AUSTRALIA

Reaphook JV	1 EL	7.50%	Perilya Limited Signature Resources NL	Perilya
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## ADDITIONAL INFORMATION (continued)

### Tenements held (continued)

Operators	Paladin Equity (direct and indirect)	Note
EME	Energy Metals Limited	0%
FSN	Fusion Resources Pty Ltd	100%
LHU	Langer Heinrich Uranium (Pty) Limited	100%
MIU	Mount Isa Uranium Pty Ltd	100%
AML	Aston Metals (Qld) Limited	0%
NTU	Northern Territory Uranium Pty Ltd	100%
PAC	Pacific Mines Pty Ltd	100%
PAL	Paladin (Africa) Limited	100%      1
PEM	Paladin Energy Minerals NL	100%
SRA	Summit Resources (Aust) Pty Ltd	82.08%      2
AUR	Aurora Energy Ltd	100%
IEL	Indo Energy Ltd	100%
PDN	Paladin Energy Ltd	

### Notes

1. Paladin holds 85% equity in Paladin (Africa) Limited ("PAL") with 15% equity having been issued to the Government of Malawi pursuant to the terms of the Development Agreement for KM between the Government of Malawi, PAL and Paladin Energy Minerals NL.
2. Paladin's interest in these tenements is held by virtue of Paladin's 82.08% equity holding in Summit Resources Limited which in turn holds 100% equity interest in Summit Resources (Aust) Pty Ltd ("SRA") and Pacific Mines Pty Ltd.
3. The Valhalla and Skäl uranium deposits lie within the Isa North tenement block within defined blocks of land (17 km<sup>2</sup> and 10 km<sup>2</sup> respectively) subject to the Isa Uranium Joint Venture between SRA (50% and Operator) and Mount Isa Uranium Pty Ltd (50%).
4. Paladin Energy Ltd (PDN) became "operator" of the Angela and Pamela tenements under the Northern Territory Mining Management Act as at 1<sup>st</sup> September 2011.

### Tenement Types

EL	Exploration Licence (Australia)
EPL	Exclusive Prospecting Licence (Africa)
EPM	Exploration Permit for Minerals (Australia)
ERL	Exploration Retention Licence (Australia)
MC	Mineral Claim (Australia)
ML	Mining Lease (Australia)
MLI	Mining Licence (Africa)
MLC	Mineral Licence (Newfoundland/Labrador)
(A)	Pending Application

## ADDITIONAL INFORMATION (continued)

### LIST OF ABBREVIATIONS

A\$	Australian dollars		
bcm	bank cubic metres		
BFS	Bankable Feasibility Study	M	million
CCD	Counter Current Decantation	Mlb	million pounds
DFS	Definitive Feasibility Study	m	metres
DIFR	disabling incident frequency rate	Ma	million years
ft	feet	MIK	Multiple Indicator Kriging
g	gram	mm	millimetres
g/m <sup>3</sup>	grams per cubic metre	MMI	Mobile Metal Ion
g/t	grams per tonne	mSv	millisiverts
hr	hours	Mtpa	million tonnes per annum
ISO	International Organisation for Standardisation	NOSA	National Occupational Safety Association
ISR	in situ recovery	NPV	net present value
JORC	Joint Ore Reserves Committee	pa	per annum
K	thousand	PAL	Paladin (Africa) Limited
kg	kilogram	ppb	parts per billion
kg/t	kilogram per tonne	ppm	parts per million
km	kilometres	QC	quality control
KM	Kayelekera Mine	RC	reverse circulation
km <sup>2</sup>	square kilometres	RIP	resin-in-pulp
kW	kilowatts	t	tonnes
lb	pounds	t/m <sup>3</sup>	tonnes per cubic metre
LHM	Langer Heinrich Mine	tpa	tonnes per annum
LHUPL	Langer Heinrich Uranium (Pty) Ltd	tph	tonnes per hour
LTI	lost time injury	U	uranium
LTIFR	lost time injury frequency rate	U <sub>3</sub> O <sub>8</sub>	Uranium Oxide
		US\$	US dollars
		w:o	waste to ore ratio

## ADDITIONAL INFORMATION (continued)

### SHAREHOLDER REPORTING TIMETABLE

**Please note the lodgement dates are deadlines  
and reports may be released early.**

#### Important Dates

#### 2012

31 October 2012	September Quarterly Activities Report (ASX)
14 November 2012	September Quarterly Financial Statements including MD&A (TSX)
15 November 2012	Conference Call and Investor Update (proposed date)
22 November 2012	Annual General Meeting to be held in Perth, Western Australia

#### 2013

31 January 2013	December Quarterly Activities Report (ASX)
14 February 2013	Half Yearly Financial Statements incorporating December Quarter and MD&A (Appendix 4D - ASX)
15 February 2013	Conference Call and Investor Update (proposed date)
30 April 2013	March Quarterly Activities Report (ASX)
15 May 2013	March Quarterly Financial Statements including MD&A (TSX)
16 May 2013	Conference Call and Investor Update (proposed date)
31 July 2013	June Quarterly Activities Report (ASX)
29 August 2013	Audited Annual Financial Statements for the year ended 30 June 2013 including MD&A (ASX/TSX) & (Appendix 4E - ASX)
30 August 2013	Conference Call and Investor Update (proposed date)
27 September 2013	Annual Information Form (TSX)
31 October 2013	September Quarterly Activities Report (ASX)
14 November 2013	September Quarterly Financial Statements including MD&A (TSX)
15 November 2013	Conference Call and Investor Update (proposed date)
21 November 2013	Annual General Meeting to be held in Perth, Western Australia



## CORPORATE DIRECTORY

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### Directors

#### Non-executive Chairman

Mr Rick Crabb

#### Managing Director/CEO

Mr John Borshoff

#### Non-executive Directors

Mr Sean Llewelyn  
Mr Donald Shumka  
Mr Peter Donkin  
Mr Philip Bailly

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#### Share Registries

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or 1 888 453 0330 (within North America)

Paladin Energy Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Paladin Energy Ltd  
Level 4, 502 Hay Street  
SUBIACO WA 6008

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial statements and other information are available on our website [www.paladinenergy.com.au](http://www.paladinenergy.com.au).

### Investor Relations

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#### Auditors

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Perth Western Australia 6000

#### Stock Exchange Listings

Australian Securities Exchange  
and Toronto Stock Exchange

Code: PDN

Munich, Berlin, Stuttgart  
and Frankfurt Stock Exchanges

Code: PUR

Namibian Stock Exchange

Code: NM-PDN