



# PALADIN ENERGY LTD

ACN 061 681 098

Ref: 256038

14 February 2012

ASX Market Announcements  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

By Electronic Lodgement

Dear Sir/Madam

## **31 December 2011 Half Year Financial Report**

Attached please find 31 December 2011 Half Year Financial Report for the six months ended 31 December 2011 including News Release, Appendix 4D, Report to Shareholders, Management Discussion and Analysis, Interim Financial Statements and Certifications as required in accordance with Canadian reporting requirements. Additionally the Half Year Report includes an Independence Declaration and Review Opinion from the Company's Auditors.

Yours faithfully  
Paladin Energy Ltd

**GILLIAN SWABY**  
Company Secretary



## PALADIN ENERGY LTD

ACN 061 681 098

### NEWS RELEASE

For Immediate Distribution

### FINANCIAL REPORT FOR SIX MONTHS ENDED 31 DECEMBER 2011

Perth, Western Australia – 14 February 2012: Paladin Energy Ltd (“Paladin” or “the Company”) (TSX:PDN / ASX:PDN) announces the release of its Financial Report for the six months ended 31 December 2011. The Financial Report is appended to this News Release.

#### Highlights

- Record half year production of 3.069Mlb U<sub>3</sub>O<sub>8</sub> an 8.5% increase on the corresponding 2010 period.
- In the December 2011 quarter, the Langer Heinrich Mine production increased to 92% of Stage 3 design capacity recording a 40% increase over the September 2011 quarter.
- The Kayelekera Mine production increased to over 90% of design for the December 2011 quarter recording a 60% increase over the September 2011 quarter.
- The key production measures for the Kayelekera Mine bankers’ technical completion test, covering 90 days from 1 November 2011 to 31 January 2012, have been passed. Work is continuing on final completion test certification.
- US\$3.2M profit after tax for the quarter ended 31 December 2011.
- Cash position strengthened with US\$141M Stage 3 project finance drawdown and A\$68M share placement.
- Ending of three-year moratorium on the mining, development and production of uranium gives access to the world class Michelin Uranium Deposit validating decision to acquire the Aurora uranium assets at a discounted price of US\$1.90/lb.
- New contracts for delivery of 2.8Mlb signed with three new customers.
- Mid to long term uranium market fundamentals intact.
- Progress on minority JV partner farm-outs on Australian projects with evaluation expected to be completed in the March quarter.

#### Results

*(References to 2011 and 2010 refer to the equivalent six months ended 31 December 2011 and 2010 respectively).*

- **Safety and Sustainability:**
  - Safety continued to improve - rolling 12-month Loss Time Injury Frequency Rate down from 0.8 to 0.7.
- **Production:**
  - Record half year production of 3.069Mlb U<sub>3</sub>O<sub>8</sub> – an increase of 8.5% from the 2010 half year.
  - Record quarterly production of 1.825Mlb U<sub>3</sub>O<sub>8</sub> – an increase of 47% over the September 2011 quarter.
  - Operations during the first part of the half year were affected by a combination of planned shutdowns on both projects and unscheduled remediation work at Kayelekera. Upgrades and remedial work has since been successfully completed with record final quarter production achieved.

- **Langer Heinrich Mine:**

- December 2011 half year  $U_3O_8$  production increased to 2.042Mlb from 1.832Mlb in 2010, an 11% increase. Production was impacted by Stage 3 tie-in shutdowns, however increasing production benefits evident as new equipment comes on-line.
- December 2011 quarter  $U_3O_8$  production 1.193Mlb, a 40% increase over the quarter ended September 2011. Quarterly production in the December 2011 quarter represented 92% of Stage 3 design capacity.
- Construction of the Stage 3 expansion project reached an overall 99% state of completion. Commissioning and overall staged ramp-up is well advanced with steam generation and NIMCIX areas recently coming on stream for production ramp-up. Ramp-up of plant is expected to be completed in March 2012. Stage 3 will increase annual production capacity from 3.7Mlb  $U_3O_8$  to 5.2Mlb  $U_3O_8$  per annum ("pa").
- Economic results of feasibility study for Stage 4 expansion evaluation expected to be available by April 2012. Stage 4 is targeting conventional production of 8.7Mlb pa and 1.3Mlb pa through processing of low grade material.

- **Kayelekera Mine:**

- December 2011 half year  $U_3O_8$  production increased to 1.027Mlb from 0.997Mlb in 2010, a 3% increase. Production was impacted by planned plant upgrade shut down (3 weeks) and unscheduled remediation work (3 weeks).
- December 2011 quarter  $U_3O_8$  production of 0.632Mlb was an increase of 60% above the quarter ended September 2011, despite 12 days lost in October due to the acid plant being offline.
- Both November and December 2011 were record production months averaging 93% of nameplate.
- Bankers' technical completion test commenced on 1 November and completed as scheduled on 31 January 2012. The lenders technical expert has confirmed that the key production tests have been met. Work will continue with lenders over the next month to finalise completion test certification.
- Localised ground movement abated with conditions continuing to be stable.

- **Cost Optimisation:**

- Implementation plan approved to target reducing corporate and marketing costs by 15%.
- Tighter control has led to a reduction of corporate overheads. Labour costs have been reduced as the high capital investment phase has largely been completed.
- Administration, marketing and site non-production costs reduced from US\$14.3M to US\$11.8M in the December 2011 quarter as a result of the cost optimisation programme.
- Discretionary exploration expenditure reduced by US\$5M for FY12 by extending programme timeframes.
- Kayelekera Mine cost optimisation programme is a key focus with production nearing design performance. Fourteen areas have been identified with specific targeted cost saving opportunities including the key areas of acid, reagents, diesel and transport. A restructure of the mining contract has been completed and agreement has been reached with the contractor to reduce transport costs.

- **Sales:**

- Sales revenue increased 50% from US\$115.8M in 2010 to US\$173.4M for the half year ended December 2011, mainly as a result of higher sales volumes for the December 2011 half year of 3.320Mlb  $U_3O_8$  compared to the December 2010 half year sales volume of 2.317Mlb  $U_3O_8$ . The average realised uranium price for the December 2011 half year was US\$52/lb compared to US\$50/lb for 2010.
- Total sales volume for the December 2011 quarter of 1.318Mlb  $U_3O_8$ , a 34% decrease compared to the September 2011 quarter sales volume of 2.002Mlb  $U_3O_8$ . Uranium sales are expected to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant scheduling by utility customers. The average realised uranium price for the December 2011 quarter was US\$53/lb, the same level as recorded for the September 2011 quarter.
- New contracts signed for the delivery of 2.8Mlb from 2012 to 2016 at pricing from mid to low US\$60s per lb.

- **Cash Cost of Sales (C1 cost)<sup>(1)</sup>:**

- Overall C1 cost for the six months ended December 2011 increased to US\$34/lb from US\$31/lb in 2010 as a result of a higher proportion of sales from the Kayelekera Mine as production at that mine continues to ramp up to design levels.
- Overall C1 cost for quarter ended December 2011 decreased to US\$32/lb U<sub>3</sub>O<sub>8</sub> from US\$35/lb U<sub>3</sub>O<sub>8</sub> for the September 2011 quarter reflecting a higher proportion of lower cost Langer Heinrich Mine sales.
- Langer Heinrich Mine C1 cost for quarter ended December 2011 decreased to US\$31/lb U<sub>3</sub>O<sub>8</sub> from US\$32/lb U<sub>3</sub>O<sub>8</sub> for the September 2011 quarter due to the effects of the lower Namibian dollar. With increased production from the ramp-up towards Stage 3 production levels, cost of production has reduced. This lower cost is expected to reflect in cost of sales in future results. FY12 target of US\$28/lb remains unchanged.
- Kayelekera Mine C1 cost for the quarter ended December 2011 increased from US\$40/lb in the quarter ended September 2011 to US\$46/lb in the quarter ended December 2011. Inventory sold in the December quarter was produced in the September quarter when production was lower as a result of the plant shutdown. The product sold in the September 2011 quarter was predominantly from inventory held at 30 June 2011, which had previously been written down to a recoverable value of US\$52.75/lb, with a C1 cost component of approximately US\$40/lb. As production reaches design performance, a key focus is cost optimisation. Specific targeted costs saving areas include acid, reagents, diesel, transport and providing increased opportunities for local workers.

<sup>(1)</sup> Cash cost of sales (C1 cost) = cost of sales excluding product distribution costs, sales royalties and depreciation and amortisation.

- **Profit and Loss**

	Three Months Ended		Six Months Ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$M	US\$M	US\$M	US\$M
<b>Revenue</b>	<b>70.4</b>	<b>66.7</b>	<b>173.4</b>	<b>115.8</b>
C1 cost	(42.8)	(42.7)	(112.0)	(71.6)
Royalties and distribution	(3.1)	(4.1)	(9.6)	(7.4)
Amortisation and depreciation	(7.5)	(8.9)	(24.8)	(15.8)
<b>Gross profit</b>	<b>17.0</b>	<b>11.0</b>	<b>27.0</b>	<b>21.0</b>
Exploration expenses	(0.6)	(0.5)	(1.4)	(1.0)
Site non-production costs	(4.8)	(2.7)	(10.2)	(4.9)
Corporate and marketing	(5.1)	(7.3)	(11.0)	(11.8)
	<b>6.5</b>	<b>0.5</b>	<b>4.4</b>	<b>3.3</b>
Non-cash costs	(1.9)	(4.3)	(4.4)	(8.3)
Other income & expenses	0.8	(2.3)	(185.1)	(8.3)
<b>Profit/(loss) before interest and tax</b>	<b>5.4</b>	<b>(6.1)</b>	<b>(185.1)</b>	<b>(13.3)</b>
Finance costs	(14.1)	(20.6)	(27.9)	(33.7)
Loss before income tax	(8.7)	(26.7)	(213.0)	(47.0)
Income tax benefit	10.8	6.4	72.1	21.6
Profit/(loss) after income tax	2.1	(20.3)	(140.9)	(25.4)
Non-controlling interests	1.1	2.7	20.7	4.3
Net profit/(loss) after tax attributable to members of the parent	<b>3.2</b>	<b>(17.6)</b>	<b>(120.2)</b>	<b>(21.1)</b>

- Gross profit for the December 2011 half year increased to US\$27.0M for 2011 from US\$21M in 2010 due to higher sales volumes and prices. Adding back amortisation and depreciation of US\$24.8M for the 2011 half year (2010: US\$15.8M), gross profit before amortisation and depreciation increased to US\$51.8M in 2011 from US\$36.8M in 2010.
- Site non-production costs for the December 2011 half year were higher at US\$10.2M due to higher royalties on increased sales, the acquisition of the Canadian operations and the Stage 4 expansion evaluation study.

- Corporate and marketing costs were US\$0.8M lower for the December 2011 half year due to cost savings achieved through the cost rationalisation programme which has started to show results in the last quarter.
  - Non-cash costs, mainly share based payments, for the December 2011 half year reduced from US\$8.3M to US\$4.4M as a result of no new grant of share rights in this period.
  - Other income and expenses for the December 2011 half year mainly reflects the September 2011 impairment of the Kayelekera Mine asset expense of US\$178.9M pre-tax (US\$133M post-tax) caused by the deterioration of uranium prices since events in Japan in March 2011.
  - Finance costs for the December 2011 half year decreased by US\$5.8M due to the December 2010 expense, including a US\$4.6M non-cash loss on convertible bond buy-back.
  - A net loss of US\$120.2M was recorded for the half year ended December 2011, mainly as a result of the US\$133M (post-tax) impairment cost associated with the write down of the Kayelekera Mine assets that occurred in the previous quarter ended September 2011. The write down was considered necessary as a result of the reduction in uranium prices post Fukushima.
  - Company recorded US\$3.2M profit after tax attributable to the ordinary equity holders for the quarter ended December 2011 compared to a US\$17.6M loss in the comparative quarter as a result of higher sales volumes and prices as well as lower overhead and finance costs.
- **Cash Flow:**
    - Positive cash flow of US\$41.1M generated by the Langer Heinrich and Kayelekera mine operations for the six months before US\$79.2M investment into working capital, administration, marketing and non-production costs of US\$21.2M, exploration of US\$1.4M and net interest paid of US\$17.3M. The increase in working capital was mainly due to a reduction in creditors with the wind down of Stage 3 construction and an increase in debtors due to timing of sales at end of December 2011. Higher inventories associated with higher production levels at the Kayelekera Mine also contributed.
    - Positive cash flow from financing activities of US\$145.7M attributable to the drawdown of the Langer Heinrich Stage 3 project finance facility, proceeds from the share placement and after scheduled repayments of the Langer Heinrich and Kayelekera project finance facilities.
  - **Cash Position:**
    - Cash of US\$126.9M at 31 December 2011.
  - **Funding:**
    - US\$141M Langer Heinrich Stage 3 project finance facility fully drawdown.
    - Remaining US\$24.8M of Langer Heinrich Stage 1 project finance facility repaid.
  - **Capital Raising:**
    - Successfully completed A\$68M institutional private placement.

*The documents comprising the Appendix 4D - Financial Report for the six months ended 31 December 2011, including the Report to Shareholders, Management Discussion and Analysis and Financial Statements and Certifications are attached and will be filed with the Company's other documents on Sedar (sedar.com) and on the Company's website (paladinenergy.com.au).*

**Generally Accepted Accounting Practice**

*The news release includes non-GAAP performance measures: Cash cost of sales (C1 cost), gross profit before amortisation and depreciation, non-cash costs as well as other income and expenses. The Company believes that, in addition to the conventional measures prepared in accordance with GAAP, the Company and certain investors use this information to evaluate the Company's performance and ability to generate cash flow. The additional information provided herein should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.*

February 14, 2012

## Conference Call

Conference Call and Investor Update scheduled for 06:00 Perth & Hong Kong, Thursday 16 February 2012, 17:00 Toronto, Wednesday 15 February 2012 and 22:00 London, Wednesday 15 February 2012.

Details were included in a separate news release made on 8 February 2012.

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**Appendix 4D - Financial Report  
Half year ended 31 December 2011**

**Paladin Energy Ltd**

ABN or equivalent company reference

ACN. 061 681 098

**Results for announcement to the market**

				31 December 2011 US\$M	31 December 2010 US\$M
Revenue from sales of uranium oxide	<b>Up</b>	51%	to	172.7	114.7
Revenue	<b>Up</b>	50%	to	173.4	115.8
Loss after tax attributable to members	<b>Up</b>	470%	to	(120.2)	(21.1)
Net loss for the year attributable to members	<b>Up</b>	470%	to	(120.2)	(21.1)
Loss per share (US cents)				(14.9)	(3.0)

<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
It is not proposed to pay dividends for the year	N/A	N/A
Previous corresponding year: No dividend paid	N/A	N/A

An explanation of the results is included in the Management Discussion & Analysis and the Financial Report attached.

	31 December 2011	31 December 2010
Net tangible assets per share	US\$1.46	US\$1.56

**Other**

Previous corresponding period is the half year ended 31 December 2010.

All foreign subsidiaries are prepared using IFRS.

**Commentary on Results for the Year**

A commentary on the results for the year is contained in the press release dated 14 February 2012.



**PALADIN ENERGY LTD**

A.C.N.061 681 098

**HALF YEAR FINANCIAL REPORT**

**FOR THE SIX MONTHS ENDING**

**31 DECEMBER 2011**

# PALADIN ENERGY LTD

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# PALADIN ENERGY LTD

## Report to Shareholders

For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)

### SAFETY

Safety throughout the Company continues to improve with the 12 month moving average Lost Time Injury Frequency Rate (LTIFR) decreasing from 0.8 to 0.7. One LTI was recorded at the Kayelekera Mine (KM) when a process operator received a minor chemical burn to the hand and arm whilst taking a plant sample. Following an investigation, corrective actions have been implemented to prevent a reoccurrence of such incidents.

The annual external safety, health and environment National Occupational Safety Association (NOSA) audit at Langer Heinrich Mine (LHM) for the period December 2010 to November 2011 was conducted and a preliminary 5 Star platinum performance rating was achieved. Formal notification is expected in February 2012. In addition, Karabib Mining and Construction (KMCC), the LHM mining contractors, achieved over 1,200 days LTI free and the LHM Stage 3 construction workforce achieved over 2.5 million LTI free hours.

### QUARTERLY URANIUM SALES

Sales for the quarter were 1,317,983lb U<sub>3</sub>O<sub>8</sub> generating revenue of US\$69.9M, representing an average sales price of US\$53.06/lb U<sub>3</sub>O<sub>8</sub> (average Ux spot price for the quarter was US\$52.50/lb U<sub>3</sub>O<sub>8</sub>). Uranium sales tend to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant delivery scheduling by utility customers. A larger portion of contracted sales occur in the second half of the financial year.

During the October-December period, the uranium spot price, as published by UxC, showed minimal volatility. Effects of Fukushima continued to impact the near-term market as reflected in the spot price averaging \$52.50/lb U<sub>3</sub>O<sub>8</sub>. Spot market volume for the quarter totalled 11.0Mlb U<sub>3</sub>O<sub>8</sub> while aggregate volume reported for calendar year 2011 approached 52Mlb U<sub>3</sub>O<sub>8</sub>, slightly more than in calendar year 2010. The UxC term price (LT U<sub>3</sub>O<sub>8</sub> Price) declined US\$1/lb U<sub>3</sub>O<sub>8</sub> to US\$63/lb U<sub>3</sub>O<sub>8</sub>.

### LANGER HEINRICH MINE, Namibia

#### Production by quarter

LHM	Mar Qtr	Jun Qtr	Sep Qtr	Dec Qtr
Production lb	795,808	896,761	849,067	1,192,785

During the December quarter, the plant produced in excess of 90% of the Stage 3 nameplate production. The majority of the Stage 3 equipment has been commissioned, with commissioning of the final modules having commenced and the ramp-up phase of production expected to continue into the March quarter.

Production for the December quarter amounted to 1,192,785lb (Sep 2011 quarter – 849,067lb), an increase of 40.5% over the previous quarter and an increase of 33% on the previous quarterly record.

# PALADIN ENERGY LTD

## Report to Shareholders

For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)

### Mining

	Sep Qtr	Dec Qtr
<b>Ore mined (t)</b>	2,020,638	<b>1,490,963</b>
<b>Grade (ppm)</b>	687	<b>695</b>
<b>Additional low grade ore mined (t)</b>	1,214,524	<b>1,257,414</b>
<b>Grade (ppm)</b>	328	<b>322</b>
<b>Waste/Ore ratio</b>	1.12	<b>1.17</b>

Higher grade ores were mined from Pit B to support Stage 3 commissioning. Cut-back development is continuing on Pit A and Pit C to expose Stage 3 specification grade ore for the March quarter. Waste material is being strategically mined to provide material for the next construction phase of Tailings Facility 2 (TSF2).

### Process Plant

The increased plant throughput and production continued in the December quarter resulting in positive flow-on effects as reflected below:

<u>Operational data</u>	Sep Quarter	Dec Quarter
<b>Ore milled (dry tonnes)</b>	499,384	<b>630,397</b>
<b>Grade (ppm)</b>	962	<b>1,023</b>
<b>Scrub efficiency (%)</b>	96.8	<b>95.7</b>
<b>Leach efficiency (%)</b>	85.0	<b>87.9</b>
<b>Wash efficiency (%)</b>	81.6	<b>79.8</b>
<b>Overall recovery (%)</b>	80.2	<b>83.8</b>

Tonnage through the process plant increased by 26% from the previous quarter with a throughput of 630,397t of ore crushed.

The front end circuits continue to perform well following the introduction of the new crushing and scrubbing circuit. The new bigger scrubber continues to provide much improved scrubbing efficiency and commissioning of the second primary classification unit has also commenced.

The leach extraction circuit is improving primarily due to the addition of steam heating to the leach circuit as commissioning of Stage 3 equipment is ramping-up. The commissioning of the new Flash/Splash heat exchange system will continue during the March quarter and is expected to further improve leach recoveries. Two new leach tanks have been commissioned and put into full operation.

Counter-Current Decantation (CCD) continues to operate according to expectations. The additional CCD tanks have been fully commissioned and put into operation.

The existing Ion Exchange circuit performed well during the quarter with high levels of efficiency recorded. The commissioning of the NIMCIX Ion Exchange Circuit also started during the quarter.

The overall plant efficiency improved during the quarter to 83.8% from 80.2% in the September quarter.

The drying plant continues to perform well. Batch drying and packaging of the transported "paste" yellowcake product from KM continued without impediment to LHM production. Batch processing of

## PALADIN ENERGY LTD

### Report to Shareholders

*For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)*

KM product will be discontinued in early 2012 as the relocated drying and packaging facility at KM is now fully operational.

#### Tailings

During the September quarter the new TSF2 and tailings thickening circuit commenced commissioning. Commissioning is ongoing and modifications to the Magra tailings thickener will continue to improve performance.

#### Stage 3 Expansion

The Langer Heinrich Stage 3 expansion project construction phase is now complete.

The overall staged ramp-up phase is well advanced, with the steam generation and NIMCIX areas recently coming on stream for production ramp-up. The NIMCIX area is progressing well in its process ramp-up and the steam injection and Flash/Splash areas are undergoing final process optimisation.

The main construction workforce is now de-mobilised.

Ramp-up of the plant is expected to be completed in the March quarter of 2012 with the project at an overall 99% state of completion.

#### Stage 4 Feasibility Study

All technical aspects of the Stage 4 Feasibility Study were completed by 31 December 2011 and the economic modelling and sensitivity analysis are in progress. It is expected that the economic results of the study will be available by April. The Environment Impact Assessment (EIA) has been completed and public meetings were held in early February 2012, with no major issues identified.

#### KAYELEKERA MINE, Malawi

##### Production by quarter

KM	Mar Qtr	Jun Qtr	Sept Qtr	Dec Qtr
<b>Production lb</b>	606,034	566,248	395,478	<b>631,780</b>

##### Production by month

KM	Oct*	Nov	Dec
<b>Production lb</b>	120,648	253,106	258,026

\* Only 19 days of operation in October.

Kayelekera's production performance during the December quarter was up 60% from the previous quarter, largely as a result of the benefits obtained from the recent upgrades and significantly improved operating time achieved during the quarter. This reflects a significant step-change in plant performance with the operation now nearing nameplate production.

As announced during the quarter, a total of 12 days were lost during October due to the acid plant being offline. Once the acid plant was restarted on 7 October and the main plant became operational on 14 October, there was only minor downtime for the remainder of the quarter.

Both November and December were record production months and represented an average of 93% of nameplate production. Production for the quarter was 631,780lb (77% of nameplate) with the production deficit largely the result of the lost days in October.

## PALADIN ENERGY LTD

### Report to Shareholders

For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)

#### Mining

A total of 1,086,500t were mined during the quarter.

	Sept Qtr	Dec Qtr
<b>Ore mined t</b>	213,416	<b>338,716</b>
<b>Grade ppm</b>	1,301	<b>1,196</b>
<b>Additional low grade mined t</b>	101,076	<b>165,483</b>
<b>Grade ppm</b>	519	<b>511</b>
<b>Waste t</b>	421,912	<b>582,280</b>

#### Process Plant

##### Operating data

	Sept Qtr	Oct	Nov	Dec	Dec Qtr
<b>Operating time hrs</b>	<b>1,119</b>	416	596	638	<b>1,650</b>
<b>Mill feed, t</b>	<b>181,537</b>	73,764	113,472	125,066	<b>312,302</b>
<b>Grade ppm</b>	<b>1,217</b>	955	1,113	1,269	<b>1,112</b>
<b>Leach extraction %</b>	<b>85.6</b>	84.7	90.1	90.1	<b>88.3</b>
<b>RIP efficiency %</b>	<b>89.7</b>	96.5	96.2	96.9	<b>96.5</b>
<b>Overall efficiency %</b>	<b>76.1</b>	81.4	85.5	85.4	<b>84.1</b>

The positive trend of improved running times and increased throughput was clearly evident during November and December and this is continuing into January. The plant improvements completed in August have substantially improved plant operability, throughput rates (to nameplate) and efficiencies.

Overall uranium recovery levels for the quarter improved significantly to a record high of 84.1% as operator knowledge and operational conditions were optimised on the various ore blends utilised.

The crushing/grinding circuit operated well during the latter part of October and the months of November and December. Run time was 1,650hrs for the quarter, including 638 hours in December, an all-time record. While the slurry handling leach launders have had limited plant throughput since start-up, following the plant upgrade in August, their throughput capability is now in excess of 190t per hour. The new launders have significantly contributed to the plant performance now approaching nameplate tonnages. The focus going forward in the Resin-in-Pulp circuit will be on resin and elution management and maintaining an effective maintenance regime to manage acid corrosion and reduce downtime.

As previously reported, the relocated drying and packaging plant came back online on 12 November and is operating very well at near nameplate capacity. During the period that the KM packaging and drying section was under construction, a "paste" yellowcake product was transported to LHM, where drying and final packaging was undertaken as an interim solution. The treatment of the paste product at LHM will cease in early 2012.

#### Kayelekera Mine Bankers' Technical Completion Test

The key production measures for the Kayelekera Mine bankers' technical completion test, covering 90 days from 1 November 2011 to 31 January 2012, have been passed. Work is continuing on final completion test certification.

# PALADIN ENERGY LTD

## Report to Shareholders

For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)

### Cost Optimisation

A key focus for the KM project is cost optimisation now that production is nearing design performance. Fourteen areas have been identified with specific targeted cost savings opportunities, including the key areas acid, reagents, diesel and transport.

### KM Ground Movement

During the period, ground movement to the west of the plant continued to decrease appreciably and appears stabilised. Several remedial programmes were completed and included the partial movement of a waste dump, hydrogeological drilling for possible dewatering and drainage works throughout the area in preparation for the wet season. Some ground movement may return during the wet season but it is expected to be manageable due to these remediation works.

### OVERALL QUARTERLY PRODUCTION

The Company achieved record production at both sites for the December quarter and the long sought after production uplift toward nameplate design on both operations is finally being achieved.

### Combined Production

Combined (LHM & KM) contribution by quarter is as follows:

Combined	Mar Qtr	Jun Qtr	Sep Qtr	Dec Qtr
Production lb	1,401,842	1,463,009	1,244,545	<b>1,824,565</b>

Combined (LHM & KM) contribution by Month is as follows:

Combined	Oct	Nov	Dec
Production lb	550,687	654,802	619,076

Currently, a guidance range of 7.4Mlb to 7.9Mlb U<sub>3</sub>O<sub>8</sub> is in place for FY2012, which was provided in July 2011. Due to the combination of the unscheduled shutdowns at KM of the acid plant and drying and packaging circuit to complete remediation work made necessary due to localised ground movement and the later than scheduled ramp-up of Stage 3 at LHM, guidance has been revised to between 7.1Mlb and 7.4Mlb U<sub>3</sub>O<sub>8</sub>.

### MOUNT ISA REGION PROJECTS, Queensland

The Mount Isa regional projects comprise the Isa Uranium Joint Venture (IUJV) (Paladin Energy Ltd 50%, Summit Resources (Aust) Pty Ltd 50% Operator), the Mount Isa North Uranium Project (MINUP) (Summit Resources (Aust) Pty Ltd 100% - Paladin holds 82.08% of Summit), and the Valhalla North Project (VNP) (Fusion Resources 100% - Paladin Energy Ltd holds 100% of Fusion).

### Odin Uranium Deposit (IUJV)

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 reported below at a 250ppm U<sub>3</sub>O<sub>8</sub> cut off grade. For the first time, Indicated Mineral Resources have now been defined.

## PALADIN ENERGY LTD

### Report to Shareholders

For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)

Resource Category	Mt	U <sub>3</sub> O <sub>8</sub> (ppm)	U <sub>3</sub> O <sub>8</sub> (t)	U <sub>3</sub> O <sub>8</sub> (Mlb)
Indicated	8.2	555	4,534	9.99
Inferred	5.8	590	3,430	7.6

The total mineral resource represents a 70.3% increase on the previous, all Inferred category, mineral resource.

#### Skal Uranium Deposit (IUJV)

Skal resource drilling has now been completed following a nine-month hiatus. 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. A total of 57 RC holes for 9,592m have now been added to the Skal dataset.

All holes have been radiometrically logged and downhole surveyed and are now only awaiting confirmation assays to be received. It is expected that an updated mineral resource model will be completed during the March quarter.

#### Exploration

Evaluation of auger drilling data from 1,675 holes along the Valhalla-Gunpowder corridor identified a number of new drill targets. These are located along magnetic lineaments coincident with magnetic highs and spectrometric anomalies, where overburden thickness is 1-3m. Additional assay work is currently underway on samples from the auger programme in order to better define and prioritise follow-up drill targets.

#### AURORA – MICHELIN URANIUM PROJECT, Canada

##### Uranium Moratorium Lifted

On 15 December 2011, Paladin announced that the Nunatsiavut Government voted to lift the three-year moratorium on the mining, development and production of uranium on Labrador Inuit Lands at the Nunatsiavut Assembly sitting on Wednesday 14 December 2011. The effective date of the moratorium lifting will be at the proclamation of the Nunatsiavut Environmental Protection Act, which was passed by the Assembly in February 2011. The proclamation is scheduled for early March 2012, to allow for the Act's regulations to be completed.

The ending of the three-year moratorium validates Paladin's decision to acquire the Aurora uranium assets in February 2011 at the highly discounted pricing of US\$1.90/lb, which reflected the development risk prevailing at that time. The Company now controls a highly attractive asset with significant uranium resources in a region available for potential development in what is expected will become the second most important uranium province in Canada and considered to be of worldwide significance. This positive development further consolidates the value of Paladin's deep and diverse project pipeline in an industry where significant uranium deposits with development potential, combined with a proven builder/operator, remain scarce.

Paladin holds title to significant uranium assets through its wholly owned subsidiary Aurora Energy Ltd. ("Aurora") within the highly prospective Central Mineral Belt (CMB) of Labrador, Eastern Canada. This includes 15.1Mlb U<sub>3</sub>O<sub>8</sub> at a grade of 0.08% of Measured Mineral Resources, 68.7Mlb U<sub>3</sub>O<sub>8</sub> at a grade of 0.10% Indicated Mineral Resources and 53.0Mlb U<sub>3</sub>O<sub>8</sub> at a grade of 0.08% of Inferred Mineral Resources, using a cut off of 0.02% U<sub>3</sub>O<sub>8</sub> for open pit resources and 0.05% U<sub>3</sub>O<sub>8</sub> for underground, across six deposits: Michelin, Jacques Lake, Rainbow, Nash, Inda and Gear. 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 Frontier

## PALADIN ENERGY LTD

### Report to Shareholders

*For the Six Months Ended 31 December 2011  
(All figures are in US dollars unless otherwise indicated)*

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Gold (previous owner of Aurora) on Sedar. The technical report has been reviewed by David Princep, Principal Geologist–Resources with Paladin. Paladin is not aware of any new information that would make this disclosure of the mineral resources either inaccurate or misleading. The Aurora tenements hold excellent potential for both expanding the resource base within the existing identified deposits and making additional discoveries.

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.

With the lifting of the moratorium and no impediments from the Federal and Provincial Governments, Paladin will be planning for a mid-2012 exploration programme.

Drilling is expected to start in the third quarter of CY2012. Initially, camp and support infrastructure will be re-established to allow ground geological and geophysical work to go ahead, to define drilling targets. Drilling is planned to start with infill and extension drilling of the Michelin mineralisation.

Field work in October concentrated mainly on the Croteau concessions, which are located on Crown land to the west of the Nunatsiavut lands. Geological mapping, prospecting and ground scintillometry identified clusters of radiometric anomalies in an area of 800m x 150m. Some of these areas were trenched using a small excavator, substantially adding to the geological understanding of the area and identifying zones of significant mineralisation.

#### **BIGLRYI JOINT VENTURE, Northern Territory – Australia (Paladin 41.71%)**

The joint venture manager, Energy Metals Ltd, is carrying out resource extension and infill drilling. Energy Metals has recently announced results including:

- BRC11138: 16.95m @ 0.87% eU<sub>3</sub>O<sub>8</sub> from 72.4m  
24.15m @ 0.23% eU<sub>3</sub>O<sub>8</sub> from 39.3m
- BDD11115: 19.70m @ 0.50% eU<sub>3</sub>O<sub>8</sub> from 1m
- BDD11088: 9.05m @ 0.59% eU<sub>3</sub>O<sub>8</sub> from 27.7m
- BDD11133: 13.90m @ 0.33% eU<sub>3</sub>O<sub>8</sub> from 21.4m
- BRC11114: 50.4m @ 0.095% eU<sub>3</sub>O<sub>8</sub> from 74.3m

Intersections are at a cut-off of 100ppm eU<sub>3</sub>O<sub>8</sub>, minimum thickness 1m and 3m maximum internal waste.

Following completion of the drilling, it is anticipated that a revised geological model and improved understanding of the controls on mineralisation will be developed in early 2012.

#### **ANGELA JOINT VENTURE, Northern Territory – Australia (Paladin 50% - Cameco 50%)**

In September 2011, Cameco handed over management of the joint venture to Paladin. Active exploration at Angela is currently not planned to resume before the June quarter of 2012.

### **CORPORATE**

#### **Selected Asset Farm-outs**

The process of seeking joint venture parties for farming-out minority interests in selected non-producing Australian assets is continuing. The Company has received strong interest to date and expects good progress to be made in the March quarter.

## PALADIN ENERGY LTD

### Report to Shareholders

*For the Six Months Ended 31 December 2011*  
*(All figures are in US dollars unless otherwise indicated)*

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#### URANIUM MARKET COMMENTS AND OUTLOOK

In November 2011, the *International Energy Agency (IEA)* released its latest World Energy Outlook covering forecasts through to 2035. The IEA still projects nuclear energy production to increase by 70% by 2035, which is only slightly lower than its previous forecast, but warns that if nuclear power is adversely affected by post-Fukushima uncertainty then a decline in the nuclear contribution would lead to higher electricity costs, greater security of supply concerns, and increased difficulties dealing with carbon emissions.

Paladin has completed a comprehensive assessment of current and future uranium demand and supply dynamics, the results of which were presented before the World Nuclear Association 36<sup>th</sup> Annual Symposium in mid-September ("A Perspective on Supply from a New Producer"). That study analysed approximately 100 producing and proposed development projects, worldwide, incorporating assessments of technical risk, political/regulatory risk, costs and the probability of achieving production. The study concluded that primary production must at least double by 2020 and that projected demand requirements can only be met with the development of mines with operating costs significantly higher than those currently in production. A follow-on, detailed analysis of the economics of ten industry projects representing a combined 80Mlb of potential annual production showed that, on average, a life-of-mine realised sales price greater than \$80/lb U<sub>3</sub>O<sub>8</sub> would be required to provide adequate returns in the context of the general global resource boom and to incentivise project development.

Moving into CY2012, the spot price is beginning to show signs of strengthening as new demand emerges. As the market effects of the Fukushima incident continue to work their way through the overall nuclear/uranium market, price improvement is anticipated throughout the year, although periods of volatility can be expected.

Yours faithfully  
Paladin Energy Ltd



**John Borshoff**  
**Managing Director/CEO**

## **PALADIN ENERGY LTD**

### **Management Discussion and Analysis** *For the Six Months Ended 31 December 2011* *(All figures are in US dollars unless otherwise indicated)*

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The following Management Discussion and Analysis (“MD&A”) for Paladin Energy Ltd (“Company”) should be read in conjunction with the Report to Shareholders and the Consolidated Financial Statements for the six months ended 31 December 2011. The effective date of this report is 14 February 2012.

The financial information presented in this MD&A has been extracted from the attached financial statements.

In addition to these Australian requirements, further information has been included in the Consolidated Financial Statements for the six months ended 31 December 2011 in order to comply with applicable Canadian securities law, as the Company is also listed on the Toronto Stock Exchange.

Additional information relating to the Company, including the Company’s most recent Annual Report for the year ended 30 June 2011 and other public announcements, are 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.

### **OVERVIEW**

Paladin is a uranium production company with projects in Australia, Africa and Canada, two operating mines in Africa, and a strategy to become a major uranium mining house. The Company is incorporated under the laws of Western Australia with a primary share market listing on the Australian Securities Exchange (ASX) and additional listings on the Toronto Stock Exchange (TSX) in Canada; as well as the Munich, Berlin, Stuttgart and Frankfurt Stock Exchanges in Europe; and the Namibian Stock Exchange in Africa.

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

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The main activities undertaken during the six months ended 31 December 2011 were:

- Record half year production of 3.069Mlb U<sub>3</sub>O<sub>8</sub> - an increase of 7% from the previous six months, despite operations being affected by a combination of planned shutdowns and unscheduled remediation work.
  - LHM 2.042Mlb U<sub>3</sub>O<sub>8</sub> and KM 1.027Mlb U<sub>3</sub>O<sub>8</sub>.
  - demonstrated production and performance benefits achieved from plant upgrades and Stage 3 production ramp-up.
- Langer Heinrich produced 1,193Mlb U<sub>3</sub>O<sub>8</sub> in the three months ended 31 December 2011, a 40% increase above the three months ended 30 September 2011, with this latest production representing 92% of Stage 3 design capacity.
- Kayelekera delivered a record of 0.632Mlb U<sub>3</sub>O<sub>8</sub> in the three months ended 31 December 2011, a 60% increase over the three months ended 30 September 2011, in spite of 12 days lost in October due to the acid plant being offline:
  - both November and December were record production months averaging 93% of nameplate.
  - The key production measures for the Kayelekera Mine bankers' technical completion test, covering 90 days from 1 November 2011 to 31 January 2012, have been passed. Work is continuing on final completion test certification.
  - localised ground movement abated with conditions continuing to be stable.
- Total sales volume for the six months was 3.320Mlb U<sub>3</sub>O<sub>8</sub> at an average realised uranium sales price of US\$52/lb U<sub>3</sub>O<sub>8</sub>.
- Average combined C1 cost US\$32/lb for the three months ended 31 December 2011 down from US\$35/lb for the three months ended 30 September 2011.
- Expansions:
  - LHM Stage 3 construction completed. Overall staged ramp-up is well advanced with the steam generation and NIMCIX areas recently coming on stream for production ramp-up. Ramp-up of the plant is expected to be completed in March of 2012 with the project at an overall 99% state of completion.
  - LHM Stage 4 Feasibility Study – all technical aspects were completed with economic results of the study expected to be available by April 2012.
- Safety continues to improve – 12 month moving average Lost Time Injury Frequency Rate decreasing from 0.8 to 0.7 from the September to the December quarter
- Moratorium on development and production of uranium was lifted by the Nunatsiavut Government enabling access to the world class 100% owned Michelin Uranium Project in Labrador, Canada.
- Corporate:
  - US\$141M LHM Stage 3 project finance facility fully drawdown.
  - Remaining US\$24.8M of LHM Stage 1 project finance facility repaid.
  - Completion of A\$68M Institutional Private Placement.

# PALADIN ENERGY LTD

## **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

### SUMMARISED INCOME STATEMENT

	Three Months Ended 31 December		Six Months Ended 31 December	
	2011 US\$M	2010 US\$M	2011 US\$M	2010 US\$M
<b>Revenue</b>	<b>70.4</b>	<b>66.7</b>	<b>173.4</b>	<b>115.8</b>
<b>Gross profit</b>	<b>17.0</b>	<b>11.0</b>	<b>27.0</b>	<b>21.0</b>
Exploration and evaluation expenses	(0.6)	(0.5)	(1.4)	(1.0)
Administration, marketing and site non-production costs	(11.8)	(14.3)	(25.6)	(25.0)
Other expenses and income	0.8	(2.3)	(185.1)	(8.3)
Finance costs	(14.1)	(20.6)	(27.9)	(33.7)
Income tax benefit	10.8	6.4	72.1	21.6
Profit/(loss) after tax	2.1	(20.3)	(140.9)	(25.4)
Profit/(loss) after tax attributable to:				
Non controlling interests	(1.1)	(2.7)	(20.7)	(4.3)
<b>Members of the parent</b>	<b>3.2</b>	<b>(17.6)</b>	<b>(120.2)</b>	<b>(21.1)</b>
Earnings/(loss) per share - basic & diluted (U.S. cents)	0.4	(2.5)	(14.9)	(3.0)

### Three Months Ended 31 December 2011

(References below to 2011 and 2010 refer to the equivalent three months ended 31 December 2011 and 2010 respectively.)

Cash cost of sales (C1 cost) = cost of sales excluding product distribution costs, sales royalties and depreciation and amortisation. C1 cost is a widely used 'industry standard' term. C1 cost information has been extracted from the reviewed financial statements. For an analysis of total cost of sales refer to Note 4(b) on page 39.

### Analysis of Income Statement

*Revenue* increased from US\$66.7M to US\$70.4M in 2011 as a result of increased sales of uranium of US\$69.9M (2010: US\$66.3M). Total sales volume for the quarter was 1.318Mlb U<sub>3</sub>O<sub>8</sub> (2010: 1.274Mlb). LHM sold 1.168Mlb U<sub>3</sub>O<sub>8</sub>, including 0.100Mlb of LHM material sold through Paladin Energy Ltd, and KM sold 0.150Mlb U<sub>3</sub>O<sub>8</sub>. Total production for the quarter was 1.825Mlb U<sub>3</sub>O<sub>8</sub> (2010: 1.466Mlb). LHM produced 1.193Mlb U<sub>3</sub>O<sub>8</sub> (2010: 0.933Mlb) and KM produced 0.632Mlb

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

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U<sub>3</sub>O<sub>8</sub> (2010: 0.533Mlb). Uranium sales tend to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant delivery scheduling by utility customers. The Company's average realised uranium sales price in 2011 was US\$53/lb U<sub>3</sub>O<sub>8</sub> (2010: US\$52/lb). The average sales price reflects the high proportion of spot sales during the quarter. A higher proportion of contracted deliveries are scheduled in the coming six months to 30 June 2012.

*Gross Profit* in 2011 of US\$17.0M is higher than in 2010 (US\$11.0M) due to higher sales and lower C1 cost per lb due to a higher proportion of LHM sales during the quarter. Overall C1 cost has reduced to US\$32/lb compared to US\$33/lb in 2010. The C1 cost for LHM in 2011 increased to US\$31/lb U<sub>3</sub>O<sub>8</sub> (2010: US\$27/lb) due to effects of a stronger Namibian dollar and the lower production volumes from downtime associated with Stage 3 tie-ins. The C1 cost for KM in 2011 has decreased to US\$46/lb U<sub>3</sub>O<sub>8</sub> (2010: US\$51/lb) due to the lower net realisable value of inventory at 30 June 2011. The KM product sold in the December 2011 quarter was predominantly from inventory held at 30 June 2011 which had previously been written down to a recoverable value of US\$52.75/lb with a C1 cost component of approximately US\$40/lb. KM also benefited from increased production levels in November and December 2011.

*Exploration and Evaluation Expenditure* of US\$0.6M in 2011 relates to early stage work and project generation activities in Australia and Malawi and remains relatively unchanged from 2010 (US\$0.5M).

*Administration, Marketing Expenses and Site Non-production Costs* have decreased from US\$14.3M to US\$11.8M due predominantly to corporate and marketing cost savings of US\$2.2M 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. Labour costs have reduced as the high capital investment phase has largely been completed. Additionally there has been a decrease of US\$2.7M in non-cash share based payments expense as there has been no new grant of share rights in this period. These savings have been partially offset by an increase in expenditure of US\$1.4M relating to the LHM Stage 4 expansion evaluation project, which is now close to completion, and US\$0.6M relating to the addition of the Canadian operations.

*Other Expenses and Income* have moved from an expense of US\$2.3M to an income of US\$0.8M due predominantly a foreign exchange gain on US\$2.1M which has been partially offset by the write off of the fixed costs of KM during the plant shutdown of US\$1.2M and slope remediation expenses of US\$0.1M. The KM plant shutdown expenses are a result of the planned plant upgrade shutdown which commenced 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.

*Finance Costs* have decreased by US\$6.5M to US\$14.1M. In 2010, finance costs included the US\$4.6M loss on the US\$250M convertible bond buy back. 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\$108.0M project finance loan for KM and the US\$129.7M project finance loan for LHM Stage 3.

*Income Tax Benefit* of US\$10.8M for the three months to 31 December 2011 is larger than expected, 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.

*Non-controlling Interest* in net losses of US\$1.1M is attributable to the 18.0% interest in Summit held by third parties and the 15% interest in Paladin (Africa) Ltd held by the Government of Malawi.

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

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The resulting *Profit after Tax attributable to the members of the parent* for 2011 of US\$3.2M is a turnaround from the loss after tax for 2010 of US\$17.6M predominantly as a result of the higher gross profit and lower administration, marketing expenses, site non-production costs and finance costs.

The *Earnings per Share* (loss per share in 2010) noted on the Income Statement reflects the underlying result for the specific reported periods and the additional shares issued in 2011 compared to 2010.

#### **Six Months Ended 31 December 2011**

(References below to 2011 and 2010 refer to the equivalent six months ended 31 December 2011 and 2010 respectively.)

#### **Analysis of Income Statement**

*Revenue* increased from US\$115.8M to US\$173.4M in 2011 as a result of increased sales of uranium of US\$172.7M (2010: US\$114.7M). Total sales volume for the six months was 3.320Mlb U<sub>3</sub>O<sub>8</sub> (2010: 2.317Mlb). LHM sold 2.420Mlb U<sub>3</sub>O<sub>8</sub>, including 0.650Mlb of LHM material sold through Paladin Energy Ltd, and KM sold 0.900Mlb U<sub>3</sub>O<sub>8</sub>. Total production for the six months was 3.069Mlb U<sub>3</sub>O<sub>8</sub> (2010: 2.829Mlb). LHM produced 2.042Mlb U<sub>3</sub>O<sub>8</sub> (2010: 1.832Mlb) and KM produced 1.027Mlb U<sub>3</sub>O<sub>8</sub> (2010: 0.997Mlb). Uranium sales tend to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant delivery scheduling by utility customers. The average realised uranium sales price in 2011 was US\$52/lb U<sub>3</sub>O<sub>8</sub> (2010: US\$50/lb). The average sales price reflects the high proportion of spot sales during the period. A higher proportion of contracted deliveries are scheduled in the forthcoming six months to 30 June 2012.

*Gross Profit* in 2011 of US\$27.0M is higher than in 2010 (US\$21.0M) due to higher sales volumes and prices. A higher proportion of sales were attributable to KM as production continued to ramp-up to design levels. This resulted in an increase to the average C1 cost from US\$31/lb in 2010 to US\$34/lb in 2011. The C1 cost for LHM in 2011 increased to US\$31/lb U<sub>3</sub>O<sub>8</sub> (2010: US\$26/lb) due to effects of a higher Namibian dollar and the lower production volumes from downtime associated with Stage 3 tie-ins. After trading mostly below N\$7.00:US\$ for the majority of 2011, the Namibian Dollar has currently weakened to a level of below N\$7.50:US\$. With the increased volumes from the Stage 3 ramp-up and a weaker exchange rate, cost of production has reduced to below US\$28/lb at the end of 2011. This is expected to be reflected in cost of sales once inventory moves through the 3 to 4 month inventory cycle. The C1 cost for KM in 2011 has decreased to US\$41/lb U<sub>3</sub>O<sub>8</sub> (2010: US\$51/lb) due to the lower net realisable value of inventory at 30 June 2011. The KM product sold in the six months to 31 December 2011 was predominantly from inventory held at 30 June 2011 which had previously been written down to a recoverable value of US\$52.75/lb with a C1 cost component of approximately US\$40/lb. The KM C1 cost also benefited from increased production levels in November and December 2011.

*Exploration and Evaluation Expenditure* of US\$1.4M in 2011 relates to early stage work and project generation activities in Australia and Malawi and remains relatively unchanged from 2010 (US\$1.0M).

*Administration, Marketing Expenses and Site Non-production Costs* have increased slightly from US\$25.0M to US\$25.6M due predominantly to an increase in expenditure of US\$2.8M relating to the LHM Stage 4 expansion evaluation project, which is now close to completion, and US\$1.1M relating to the addition of the Canadian operations. This has been partially offset by corporate and marketing cost savings of US\$0.8M achieved through the cost rationalisation programme which has started to show results in the last quarter of 2011. Additionally there has been a decrease of

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

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US\$4.5M in non-cash share based payments expense as there has been no new grant of share rights in this period.

*Other Expenses and Income* have increased from US\$8.3M to US\$185.1M due predominantly to an impairment of the KM assets in the September quarter of US\$178.9M and the write off of the fixed costs of KM during the plant shutdown of US\$9.2M. The continued deterioration of the uranium price post-Fukushima resulted in a reduction of the carrying value of the KM, based on a value in use discounted cash flow valuation, resulting in an impairment charge of US\$133M (US\$178.9M before tax reduced by a tax benefit of US\$45.9M) (2010: US\$Nil). 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.

*Finance Costs* have decreased by US\$5.8M to US\$27.9M. In 2010 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\$108.0M project finance loan for KM and the US\$129.7M project finance loan for LHM Stage 3.

*Income Tax Benefit* of US\$72.1M for the six months to 31 December 2011 is larger than expected predominantly due to previously unrecognised losses of Summit being recognised to partially offset the deferred tax liability arising from the fair value adjustment of Summit exploration. Excluding this, the income tax benefit is broadly 30% of the loss before tax. This comprises a larger tax benefit in Namibia arising due to the foreign exchange movements which is largely 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. 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.

*Non-controlling Interest* in net losses of US\$20.7M has been recorded in 2011 attributable to the 18.0% interest in Summit held by third parties and the 15% interest in Paladin (Africa) Ltd held by the Government of Malawi.

The *Loss after Tax attributable to the members of the parent* for 2011 of US\$120.2M was higher than the loss after tax for 2010 of US\$21.1M predominantly as a result of the recognition of the KM impairment expenses discussed earlier.

The *Earnings per Share* noted on the Income Statement reflects the underlying result for the specific reported periods and the additional shares issued in 2011 compared to 2010.

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

#### Summary of Quarterly Financial Results

	<b>2011 Dec Qtr US\$M</b>	<b>2011 Sep Qtr US\$M</b>	<b>2011 Jun Qtr US\$M</b>	<b>2011 Mar Qtr US\$M</b>
Total revenues	70.4	103.0	60.2	92.9
Profit/(loss) after tax	3.2	(123.4)	(47.7)	(13.5)
Basic and diluted profit/(loss) per share (US cents)	0.4	(15.3)	(6.3)	(1.8)

	<b>2010 Dec Qtr US\$M</b>	<b>2010 Sep Qtr US\$M</b>	<b>2010 Jun Qtr US\$M</b>	<b>2010 Mar Qtr US\$M</b>
Total revenues	66.7	49.1	49.8	53.3
Loss after tax	(17.6)	(3.5)	(25.2)	(5.7)
Basic and diluted loss per share (US cents)	(2.5)	(0.5)	(3.5)	(0.8)

Total revenues for the quarters ended December 2011, September 2011, June 2011 and March 2011, have increased when compared to the equivalent comparative quarter as a result of higher sales volumes of uranium. Uranium sales tend to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant delivery scheduling by utility customers.

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 an increase in gross profit in 2011 of US\$6.0M due to 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 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\$123.4M 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 \$133M.

Loss after tax for the quarter ended June 2011 of US\$47.7M is higher than the comparative quarter loss of US\$25.2M predominantly as a result of higher finance costs in 2011 after cessation of capitalisation of KM and the recognition of an impairment of inventory expense of US\$23.4M.

Loss after tax for the quarter ended March 2011 of US\$13.5M is higher than the comparative quarter loss of US\$5.7M predominantly as a result of higher finance costs in 2011 after cessation of capitalisation of KM.

#### **Segment Disclosure (refer to Note 3)**

The profit before tax and finance costs of US\$30.3M in the Namibian segment of the Company increased by US\$2.7M (2010: US\$27.6M) due to higher sales volumes and prices. In the Malawian segment the Company reflected a loss before tax and finance costs of US\$197.7M compared to a loss of US\$12.3M in 2010 due to the recognition of the KM impairment expense detailed on page 16. Exploration activities have remained relatively consistent from 2010 to 2011. In the

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

Unallocated portion the Company reflected the remaining Income Statement activities which for 2011, comprises mainly marketing, corporate, finance and administration costs. This area has reduced from a net loss before finance costs of US\$28.0M to a net loss of US\$17.0M due to the benefits being realised from the cost optimisation programme.

#### SEGMENT GROSS PROFIT

	DECEMBER 2011 QUARTER			SEPTEMBER 2011 QUARTER		
	LHM	KM	TOTAL	LHM	KM	TOTAL
Volume Sold (lb)	1,167,983 <sup>(1)</sup>	150,000	1,317,983	1,251,673 <sup>(2)</sup>	750,000	2,001,673
Average Sales Prices/lb			US\$53/lb			US\$51/lb
Revenue			US\$69.9M			US\$102.8M
C1 cost	US\$35.9M	US\$6.9M	US\$42.8M	US\$39.1M	US\$30.2M	US\$69.2M
C1 cost/lb	US\$31/lb	US\$46/lb	US\$32/lb	US\$32/lb	US\$40/lb	US\$35/lb
Profit after C1 cost			US\$27.1M			US\$33.6M
Other Revenue and remaining cost of sales, mainly amortisation			US\$10.1M			US\$23.6M
<b>GROSS PROFIT</b>			<b>US\$17.0M</b>			<b>US\$10.0M</b>

(1) Includes 100,000lb of LHM produced U<sub>3</sub>O<sub>8</sub> sold via Paladin Energy Ltd as part of marketing arrangements.

(2) Includes 550,000lb of LHM produced U<sub>3</sub>O<sub>8</sub> sold via Paladin Energy Ltd as part of marketing arrangements.

Sales of 1,317,983lb U<sub>3</sub>O<sub>8</sub> at an average of US\$53/lb generated revenue of US\$69.9M in the quarter ended 31 December 2011. By comparison sales in the quarter ended 30 September 2011 were 2,001,673lb at an average realised price of \$51/lb.

C1 cost for LHM in the quarter ended 31 December 2011 decreased to US\$31/lb U<sub>3</sub>O<sub>8</sub> (30 September 2011: US\$32/lb U<sub>3</sub>O<sub>8</sub>) due to the effects of the lower Namibian dollar. With increased production from the ramp up towards Stage 3 production levels cost of production has reduced. This lower cost is expected to reflect in cost of sales in the next quarter.

C1 cost for KM increased from US\$40/lb in the quarter ended 30 September 2011 to US\$46/lb in the quarter ended 31 December 2011. Inventory sold in the December quarter was produced in the September quarter when production was lower due to the plant shutdown. The product sold in the September 2011 quarter was predominantly from inventory held at 30 June 2011 which had previously been written down to a recoverable value of US\$52.75/lb, with a C1 cost component of approximately US\$40/lb. As production reaches design performance, a key focus is cost optimisation. Specific targeted costs saving areas include acid, reagents, diesel, transport and providing increased opportunities for local workers.

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### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

#### SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$M	US\$M	US\$M	US\$M
<b>Net profit/(loss) after tax from operations</b>	<b>2.1</b>	<b>(20.3)</b>	<b>(140.9)</b>	<b>(25.4)</b>
<b>Net gain/(loss) on available for sale financial assets</b>	<b>3.6</b>	<b>40.4</b>	<b>(4.9)</b>	<b>48.3</b>
<b>Transfer of available for sale reserve on acquisition</b>	<b>-</b>	<b>(3.2)</b>	<b>-</b>	<b>(3.2)</b>
<b>Foreign currency translation</b>	<b>28.1</b>	<b>38.8</b>	<b>(42.2)</b>	<b>107.3</b>
<b>Income tax on items of other comprehensive income</b>	<b>(0.5)</b>	<b>(14.5)</b>	<b>2.5</b>	<b>(18.2)</b>
<b>Total comprehensive income for the period</b>	<b>33.3</b>	<b>41.2</b>	<b>185.5</b>	<b>108.8</b>

#### Three months ended 31 December 2011

*Net Profit after Tax* is discussed under the Summarised Income Statement section and is an increase from the loss in the comparative period.

*Net Gain on Available-for-Sale Financial Assets* in 2011 of US\$3.6M primarily relates to the fair value increment in Deep Yellow Limited (DYL) attributable to the increase in the DYL share price and the strengthening of the Australian dollar.

*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 period.

*Income Tax on Items of Other Comprehensive Income* in 2011 relates to tax on movements in Available-for-Sale Financial Assets.

#### Six months ended 31 December 2011

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

*Net Loss on Available-for-Sale Financial Assets* in 2011 of US\$4.9M primarily relates to the fair value decrement in Deep Yellow Limited (DYL) attributable to the decrease in the DYL share price and the weakening of the Australian dollar.

*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 period.

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

*Income Tax on Items of Other Comprehensive Income* in 2011 relates to tax on movements in Available-for-Sale Financial Assets.

#### SUMMARISED STATEMENT OF FINANCIAL POSITION

	<b>As at 31 December 2011 US\$M</b>	<b>As at 30 June 2011 US\$M</b>
Total current assets	394.4	329.4
Total non current assets	1,943.5	2,074.3
Total assets	2,337.9	2,403.7
Total current liabilities	109.0	118.9
Total non current liabilities	991.7	929.6
Total liabilities	1,100.7	1,048.5
<b>Net Assets</b>	<b>1,237.2</b>	<b>1,355.2</b>

*Current Assets* have increased to US\$394.4M at 31 December 2011 due to an increase in cash, trade and other receivables and inventories.

Cash and cash equivalents have increased to US\$126.9M at 31 December 2011 as a result of the net drawdown of US\$139.1M under the LHM Stage 3 project finance facility and the US\$62.6M net proceeds from the capital raising. This has been partially offset by 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 and corporate costs for the six months ended 31 December 2011.

Trade and other receivables have increased from US\$20.5M to US\$64.0M at 31 December 2011 as a result of the timing of a US\$40.5M sale in December 2011.

Inventories have increased from US\$177.7M to US\$187.1M at 31 December 2011 despite sales volumes for the six months of 3.320Mlb U<sub>3</sub>O<sub>8</sub>, being larger than production volumes of 3.069Mlb U<sub>3</sub>O<sub>8</sub>. The increase is predominantly due to a higher proportion of finished goods being held at KM, which has a higher cost than LHM finished goods, in order to deliver into sales contracts in the six months ended 30 June 2012. Delivery quantities under sales contracts are not evenly distributed from month to month resulting in fluctuations between production and sales between reporting periods.

*Non Current Assets* have decreased to US\$1,943.5M at 31 December 2011 primarily as a result of property, plant and equipment and mine development decreasing due to the KM impairment expense recognised in September 2011 and through amortisation. This has been partially offset by capital expenditure on the Stage 3 expansion at LHM. The US\$36.7M 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

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

the decrease in the DYL share price and the foreign exchange movement due to the appreciation of the United States dollar against the Australian currency. ROM stockpiles have increased as planned ahead of the Stage 3 production expansion in order to meet mine plan requirements. An increase in Deferred Tax Assets from US\$19.7M to US\$78.3M mainly relates to the tax effect of the impairment of the KM assets.

*Current Liabilities* have decreased from US\$118.9M to US\$109.0M at 31 December 2011 primarily as a result of a decrease in trade and other payables as Stage 3 construction activity winds down. This has been partially offset by an increase in the current portion of interest bearing loans and borrowings of US\$22.2M as a result of the drawdown under the LHM Stage 3 project finance facility which has partially been offset by the repayment of the current portion of US\$16.2M of the LHM Stage 1 project finance facility.

*Non Current Liabilities* have increased from US\$929.6M to US\$991.7M at 31 December 2011 primarily due to an increase in the non current portion of interest bearing loans and borrowings of US\$85.4M predominantly as a result of the drawdown under the LHM Stage 3 project finance facility of US\$118.5M which has partially been offset by the repayment of the non current portion of US\$8.6M of the LHM Stage 1 project finance facility, a US\$19.9M repayment of the KM project finance facility and a US\$11.3M repayment of the LHM Stage 3 project finance facility.

#### **Segment Disclosure (refer to Note 3)**

In the Statement of Financial Position as at 31 December 2011, the Company reflected an increase in assets for the Namibian segment in the period predominantly due to the Stage 3 expansion. For the Malawian segment, a decrease in assets occurred in the period predominantly as a result of impairment of assets at the KM. The Exploration segment has increased following the acquisition of the Michelin project in Canada.

### **SUMMARISED STATEMENT OF CHANGES IN EQUITY**

	<b>Six Months Ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>US\$M</b>	<b>US\$M</b>
Total equity at the beginning of the financial period	1,355.2	971.0
Total comprehensive (loss)/gain for the period	(185.5)	108.8
Recognised value of unlisted employee options and performance share rights	4.3	9.3
Movement in other reserves	-	21.5
Contributions of equity, net of transaction costs	63.2	31.5
<b>Total Equity at the End of the Financial Period</b>	<b>1,237.2</b>	<b>1,142.1</b>

*Total Comprehensive Income for the Six Months Ended 31 December 2011* is discussed under the Statement of Comprehensive Income section.

*Recognised Value of Unlisted Employee Options and Performance Rights* in 2011 totals US\$4.3M. During the period 563,097 employee options were forfeited with an exercise price of A\$4.50 per

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

share. During the period 921,415 performance share rights vested and 574,115 performance share rights were cancelled.

*Movement in Other Reserves* in 2010 of US\$21.5M relates to the creation of the non-distributable reserve of US\$28.1M from the issue of US\$300M of convertible bonds on 5 November 2010 and a US\$6.6M transfer from the convertible bond reserve as a result of the US\$250M convertible bond buyback.

*Contributions of Equity* in 2010 of US\$31.5M relates to the issue of 7,155,938 shares to acquire NGM Resources Limited and the non-controlling interest's participation in Summit Resources Limited's renounceable rights issue. *Contributions of Equity* in 2011 of \$63.2M relates to the share placement of 56,866,232 shares at \$1.20 each. The number of fully paid ordinary shares on issue at 31 December 2011 is 835,484,064, an increase of 57,785,847 during the six month period. Share options of 7,668,694 and performance rights of 5,451,807 remain outstanding at 31 December 2011 to the employees and consultants directly engaged in corporate, mine construction, operations, exploration and evaluation work.

#### SUMMARISED STATEMENT OF CASH FLOWS

	Three Months Ended		Six Months Ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$M	US\$M	US\$M	US\$M
Net cash outflow from operating activities	(58.7)	(42.3)	(78.0)	(65.0)
Net cash outflow from investing activities	(30.2)	(38.0)	(58.9)	(73.4)
Net cash inflow from financing activities	54.8	56.9	145.7	40.2
Net (decrease)/increase in cash held	(34.1)	(23.4)	8.8	(98.2)
Cash at the beginning of the financial period	158.4	275.2	117.4	348.8
Effects of exchange rate changes	2.6	-	0.7	1.2
<b>Cash at the End of the Financial Period</b>	<b>126.9</b>	<b>251.8</b>	<b>126.9</b>	<b>251.8</b>

#### **Three months ended 31 December 2011**

*Net Cash Outflow from Operating Activities* of US\$58.7M in 2011 was primarily due to the investment in working capital associated with the increase in production levels at KM and the timing of sales. The LHM and KM operations generated US\$22.7M in cash in 2011 before investment in working capital of US\$63.1M, administration, marketing and site non-production costs of US\$9.9M, exploration of US\$0.6M and net interest paid of US\$7.8M. Increase in working capital was mainly due to the timing of sales that occurred at the end of December 2011 and higher production of KM

## **PALADIN ENERGY LTD**

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

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material as production reaches design levels. The remaining expenditure was for exploration, corporate, administration, marketing and interest paid.

*Net Cash Outflow from Investing Activities* of US\$30.2M in 2011 and US\$38.0M in 2010 was due primarily to the Stage 3 expansion at LHM and capitalised exploration expenditure.

*Net Cash Inflow from Financing Activities* of US\$54.8M in 2011 is attributable to the US\$13.5M net proceeds from the drawdown of LHM Stage 3 project finance facilities which has been offset by the repayment of US\$11.3M of the LHM Stage 3 project finance facility and US\$10.0M repayment from the KM project finance facility, as well as net proceeds received from the share placement of US\$62.6M. The net cash inflow of US\$56.9M in 2010 was mainly attributable to the net inflow from the issue of the US\$300M convertible bond after repayment of the US\$250M convertible bond.

*Net Decrease in Cash and Cash Equivalents* in 2011 was US\$34.1M, as compared to the net decrease in cash over the previous corresponding period in 2010 of US\$23.4M. The change is predominantly the result of an increase in working capital due to higher production levels at KM offset by lower cash outflows from investing activities in 2011 as construction activities moved to completion.

*Effect of Exchange Rate Changes* on cash balances is an increase of US\$2.6M for 2011.

#### **Six months ended 31 December 2011**

*Net Cash Outflow from Operating Activities* was US\$78.0M in 2011 primarily due to the investment in working capital associated with the increase in production and sales levels. The LHM and KM operations generated US\$41.1M in cash in 2011 before investment in working capital of US\$79.2M, administration, marketing and site non-production costs of US\$21.2M, exploration of US\$1.4M and net interest paid of US\$17.3M. Increase in working capital was mainly due to a reduction in creditors with the wind down of Stage 3 construction and an increase in debtors due to the timing of sales at the end of December 2011 as well as higher inventories associated with higher production levels at KM. The remaining expenditure was for exploration, corporate, administration, marketing and interest paid.

*Net Cash Outflow from Investing Activities* was US\$58.9M in 2011 and US\$73.4M in 2010 due primarily to the Stage 3 expansion at LHM and capitalised exploration expenditure.

*Net Cash Inflow from Financing Activities* of US\$145.7M in 2011 is attributable to the US\$139.1M net proceeds from the drawdown of LHM Stage 3 project finance facilities which has been partially offset by the full repayment of outstanding balance of US\$24.8M of the LHM Stage 1 project finance facility, US\$11.3M repayment of the LHM Stage 3 project finance facility and US\$19.9M repayment from the KM project finance facility, as well as net proceeds received from the share placement of US\$62.6M. The net cash inflow of US\$40.2M in 2010 is attributable the issue of the US\$300M convertible bond, which was partially offset by the repayment of the US\$250M convertible bond and repayments of project financing facilities for both LHM and KM.

*Net Increase in Cash and Cash Equivalents* in 2011 was US\$8.8M, as compared to the net decrease in cash over the previous corresponding period in 2010 of US\$98.2M. The change is predominantly the result of the higher level of fundraising in 2011 through the US\$139.1M net proceeds from the drawdown of LHM Stage 3 project finance facilities and the US\$62.6M net proceeds received from the share placement compared with the net cash inflow of US\$40.2M in 2010 arising from the funds raised from the issue of the US\$300M convertible bond net of the repayment of the US\$250M convertible bond.

*Effect of Exchange Rate Changes* on cash balances is an increase of US\$0.7M for 2011.

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### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

#### LIQUIDITY AND CAPITAL RESOURCES

The Group's principal source of liquidity as at 31 December 2011 is cash of US\$126.9M (30 June 2011: US\$117.4M). This includes US\$26.0M of restricted use funds in respect of the LHM and KM project finance facilities (US\$19.5M: 30 June 2011). Of this US\$99.7M is held in US dollars.

The Group's principal sources of cash for the quarter ended 31 December 2011 were uranium sales receipts, proceeds from the drawdown of US\$13.5M under the LHM Stage 3 Project Finance Facility, net proceeds from the share placement of US\$62.6M and interest received from cash investments.

The remaining amount outstanding on the LHM project finance facilities was US\$129.7M and for the KM project finance facility, US\$108.0M.

The following is a summary of the Group's outstanding commitments as at 31 December 2011:

	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	19.0	7.9	11.1	-
Mine construction	1.9	1.9	-	-
Operating leases	6.0	1.4	4.6	-
Manyingee acquisition costs	0.8	-	-	0.8
<b>Total commitments</b>	<b>27.7</b>	<b>11.2</b>	<b>15.7</b>	<b>0.8</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.

## PALADIN ENERGY LTD

### **Management Discussion and Analysis** For the Six Months Ended 31 December 2011 (All figures are in US dollars unless otherwise indicated)

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#### **OUTSTANDING SHARE INFORMATION**

As at 14 February 2012 Paladin had 835,492,003 fully paid ordinary shares issued and outstanding. 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 14 February 2012</b>	<b>Number</b>
Outstanding shares	835,492,003
Issuable under Executive Share Option Plan	7,615,115
Issuable under Employee Performance Share Rights Plan	5,278,868
Issuable in relation to the US\$325M Convertible Bonds	49,823,700
Issuable in relation to the US\$300M Convertible Bonds	53,495,007
<b>Total</b>	<b>951,704,693</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 expense and assessment of reserves. Actual results could differ from these estimates.

#### **VOLUNTARY CHANGE IN ACCOUNTING POLICY**

The half year financial report has been prepared on the basis of the new accounting policy for exploration and evaluation expenditure adopted on 31 March 2011 and applied retrospectively.

As disclosed in the Annual Report for the year ended 30 June 2011, the new exploration and evaluation expenditure accounting policy is to capitalise and carry forward exploration and evaluation expenditure as an asset when rights to tenure of the area of interest are current and costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale.

The impact of the change in accounting policy on the comparatives in the Consolidated Income Statement and Consolidated Statements of Cash Flows for 31 December 2010 is set out below:

##### Consolidated Income Statement

Exploration and evaluation expenditure related to qualifying areas of interest has been capitalised in accordance with the accounting policy subject to an impairment review. This has resulted in a decrease in exploration and evaluation expenditure of US\$8.4M for the half year to 31 December 2010. There has been no impact on the non-controlling interests for the half year to 31 December 2010.

Net loss before and after tax before non-controlling interests has decreased by US\$8.4M for the half year to 31 December 2010.

Basic and diluted loss per share has also been restated. This has resulted in a reduction of 1.1 US cents in the loss per share for the half year ended 31 December 2010.

## **PALADIN ENERGY LTD**

### **Management Discussion and Analysis** *For the Six Months Ended 31 December 2011* *(All figures are in US dollars unless otherwise indicated)*

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#### Consolidated Statement of Cash Flows

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. This has resulted in additional cash outflows from investing activities being reflected for capitalised exploration expenditure of US\$7.4M for the half year to 31 December 2010. This has also resulted in a corresponding reduction being reflected in the net cash outflow from operating activities for the equivalent periods.

#### **FINANCIAL INSTRUMENTS**

At 31 December 2011 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 six months ended 31 December 2011 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 six months ended 31 December 2011 and associated Management

## **PALADIN ENERGY LTD**

### **Management Discussion and Analysis** *For the Six Months Ended 31 December 2011* *(All figures are in US dollars unless otherwise indicated)*

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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 six months ended 31 December 2011. 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 31 December 2011.

During the six months 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 three months 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.

#### **SUBSEQUENT EVENTS**

Since the end of the six months, 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 periods with the exception of the following, the financial effects of which have not been provided for in the 31 December 2011 Financial Report:

#### **Kayelekera Mine Bankers' Technical Completion Test**

The key production measures for the Kayelekera Mine bankers' technical completion test, covering 90 days from 1 November 2011 to 31 January 2012, have been passed. Work is continuing on final completion test certification.

# PALADIN ENERGY LTD

## **Directors' Report**

*For the Six Months Ended 31 December 2011*  
*(All figures are in US dollars unless otherwise indicated)*

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The Directors present their report on the Company consisting of Paladin Energy Ltd and the entities it controlled at the end of, or during, the six months ended 31 December 2011.

### **Directors**

The following persons were Directors of Paladin Energy Ltd (Company) during the whole of the six months and up to the date of this report unless otherwise indicated:

Mr Rick Wayne Crabb (Non-executive Chairman)  
Mr John Borshoff (Managing Director/CEO)  
Mr Sean Llewelyn (Non-executive Director)  
Mr Donald Shumka (Non-executive Director)  
Mr Peter Donkin (Non-executive Director)  
Mr Philip Baily (Non-executive Director)

### **Review of Operations**

A detailed operational and financial review of the Company is set out on pages 3 to 27 under the sections titled Report to Shareholders and Management Discussion and Analysis.

The loss after tax attributable to the ordinary equity holders for the six months ended 31 December 2011 was US\$120.2M (loss after tax of US\$21.1M for the six months ended 31 December 2010).

### **Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 29, which forms part of the Directors' Report.

### **Rounding**

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest US\$100,000 in accordance with that class order.

This report is made in accordance with a resolution of the Directors.

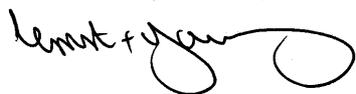


Mr John Borshoff  
Managing Director/CEO

Perth, Western Australia  
14 February 2012

## 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 half-year ended 31 December 2011, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'G H Meyerowitz'.

G H Meyerowitz  
Partner  
Perth  
14 February 2012

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INCOME STATEMENT**  
EXPRESSED IN US DOLLARS

	Notes	Three Months Ended		Six Months Ended	
		31 December		31 December	
		2011	2010	2011	2010
		US\$M	US\$M	US\$M	US\$M
<b>Revenue</b>					
Revenue	4(a)	70.4	66.7	173.4	115.8
Cost of sales	4(b)	(53.4)	(55.7)	(146.4)	(94.8)
Gross Profit		17.0	11.0	27.0	21.0
Other income	4(c)	2.1	-	3.8	-
Exploration and evaluation	11	(0.6)	(0.5)	(1.4)	(1.0)
Administration, marketing and site non-production costs	4(d)	(11.8)	(14.3)	(25.6)	(25.0)
Other expenses	4(e)	(1.3)	(2.3)	(188.9)	(8.3)
Profit /(loss) before interest and tax		5.4	(6.1)	(185.1)	(13.3)
Finance costs	4(f)	(14.1)	(20.6)	(27.9)	(33.7)
<b>Loss before income tax</b>		(8.7)	(26.7)	(213.0)	(47.0)
Income tax benefit	5	10.8	6.4	72.1	21.6
<b>Net profit/(loss) after tax</b>		2.1	(20.3)	(140.9)	(25.4)
Attributable to:					
Non-controlling interests		(1.1)	(2.7)	(20.7)	(4.3)
Members of the parent		3.2	(17.6)	(120.2)	(21.1)
		2.1	(20.3)	(140.9)	(25.4)
<b>Profit/(loss) per share (US cents)</b>					
Profit/(loss) after tax from operations attributable to ordinary equity holders of the Company					
- basic and diluted (US cents)		0.4	(2.5)	(14.9)	(3.0)

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**  
EXPRESSED IN US DOLLARS

	Three Months Ended		Six Months Ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$M	US\$M	US\$M	US\$M
<b>Net profit/(loss) after tax from operations</b>	2.1	(20.3)	(140.9)	(25.4)
<b>Other comprehensive income</b>				
Net gain/(loss) on available-for-sale financial assets	3.6	40.4	(4.9)	48.3
Transfer of available-for-sale reserve on acquisition of entity	-	(3.2)	-	(3.2)
Foreign currency translation	28.1	38.8	(42.2)	107.3
Income tax on items of other comprehensive income	(0.5)	(14.5)	2.5	(18.2)
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<u>31.2</u>	<u>61.5</u>	<u>(44.6)</u>	<u>134.2</u>
<b>Total comprehensive income/(loss) for the period</b>	<u>33.3</u>	<u>41.2</u>	<u>(185.5)</u>	<u>108.8</u>
Total comprehensive income/(loss) attributable to:				
Non-controlling interests	1.9	1.5	(23.9)	8.3
Members of the parent	<u>31.4</u>	<u>39.7</u>	<u>(161.6)</u>	<u>100.5</u>
	<u>33.3</u>	<u>41.2</u>	<u>(185.5)</u>	<u>108.8</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**  
 EXPRESSED IN US DOLLARS

	Notes	31 December 2011 US\$M	30 June 2011 US\$M
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	126.9	117.4
Trade and other receivables	7	64.0	20.5
Prepayments		16.4	13.8
Inventories	8	187.1	177.7
<b>TOTAL CURRENT ASSETS</b>		394.4	329.4
<b>Non current assets</b>			
Trade and other receivables	7	1.3	1.5
Inventories	8	90.8	73.6
Other financial assets		36.6	41.8
Property, plant and equipment	9	490.4	630.1
Mine development	10	86.2	106.6
Exploration and evaluation expenditure	11	1,141.2	1,177.9
Deferred tax asset		78.3	19.7
Intangible assets	12	18.7	23.1
<b>TOTAL NON CURRENT ASSETS</b>		1,943.5	2,074.3
<b>TOTAL ASSETS</b>		2,337.9	2,403.7
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		55.7	69.7
Interest bearing loans and borrowings	13	50.4	43.9
Provisions	14	2.9	5.3
<b>TOTAL CURRENT LIABILITIES</b>		109.0	118.9
<b>Non current liabilities</b>			
Interest bearing loans and borrowings	13	761.2	675.8
Deferred tax liabilities		196.4	217.5
Provisions	14	34.1	36.3
<b>TOTAL NON CURRENT LIABILITIES</b>		991.7	929.6
<b>TOTAL LIABILITIES</b>		1,100.7	1,048.5
<b>NET ASSETS</b>		1,237.2	1,355.2
<b>Equity</b>			
Contributed equity	15	1,834.9	1,768.1
Reserves		164.5	205.2
Accumulated losses		(822.0)	(701.8)
Parent interests		1,177.4	1,271.5
Non-controlling interests		59.8	83.7
<b>TOTAL EQUITY</b>		1,237.2	1,355.2

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**  
 EXPRESSED IN US DOLLARS

	Contributed Equity US\$M	Available- for-Sale Reserve US\$M	Share- Based Payments Reserve US\$M	Convertible Bond Non- Distributable Reserve US\$M	Foreign Exchange Revaluation Reserve US\$M	Premium on Acquisition Reserve US\$M	Option Application Reserve US\$M	Consoli- -dation 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>Balance at 1 July 2010 as previously stated</b>	<b>1,474.6</b>	<b>7.8</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>(634.1)</b>	<b>883.2</b>	<b>73.2</b>	<b>956.4</b>
<b>Effect of accounting policy change</b>	-	-	-	-	-	-	-	-	14.6	14.6	-	14.6
<b>Balance at 1 July 2010 – restated</b>	<b>1,474.6</b>	<b>7.8</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>897.8</b>	<b>73.2</b>	<b>971.0</b>
Loss for the period	-	-	-	-	-	-	-	-	(21.1)	(21.1)	(4.3)	(25.4)
Other comprehensive income	2.8	33.0	-	-	85.8	-	-	-	-	121.6	12.6	134.2
Total comprehensive income/(loss) for the six months, net of tax	2.8	33.0	-	-	85.8	-	-	-	(21.1)	100.5	8.3	108.8
Share-based payment	-	-	9.3	-	-	-	-	-	-	9.3	-	9.3
Vesting of performance rights	1.8	-	(1.8)	-	-	-	-	-	-	-	-	-
Contributions of equity, net of transactions costs	30.2	-	-	-	-	-	-	-	-	30.2	1.3	31.5
Convertible bonds- equity component, net of tax	-	-	-	28.1	-	-	-	-	-	28.1	-	28.1
Convertible bonds - buyback	-	-	-	(6.6)	-	-	-	-	-	(6.6)	-	(6.6)
<b>Balance at 31 December 2010</b>	<b>1,509.4</b>	<b>40.8</b>	<b>45.5</b>	<b>60.4</b>	<b>29.0</b>	<b>14.9</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(640.6)</b>	<b>1,059.3</b>	<b>82.8</b>	<b>1,142.1</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	-	-	-	-	-	-	-	-	(120.2)	(120.2)	(20.7)	(140.9)
Other comprehensive income	-	(2.4)	-	-	(39.0)	-	-	-	-	(41.4)	(3.2)	(44.6)
Total comprehensive loss for the six months, net of tax	-	(2.4)	-	-	(39.0)	-	-	-	(120.2)	(161.6)	(23.9)	(185.5)
Contributions of equity, net of transaction costs	63.2	-	-	-	-	-	-	-	-	63.2	-	63.2
Share-based payment expense	-	-	4.3	-	-	-	-	-	-	4.3	-	4.3
Vesting of performance rights	3.6	-	(3.6)	-	-	-	-	-	-	-	-	-
<b>Balance at 31 December 2011</b>	<b>1,834.9</b>	<b>9.3</b>	<b>50.2</b>	<b>60.4</b>	<b>29.8</b>	<b>14.9</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(822.0)</b>	<b>1,177.4</b>	<b>59.8</b>	<b>1,237.2</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**  
EXPRESSED IN US DOLLARS

	Three Months Ended		Six Months Ended	
	31 December		31 December	
	2011	2010	2011	2010
	US\$M	US\$M	US\$M	US\$M
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	34.5	65.5	132.2	128.2
Payments to suppliers and employees	(84.8)	(101.2)	(191.5)	(176.2)
Exploration and evaluation expenditure	(0.6)	(0.5)	(1.4)	(1.0)
Other income	-	0.1	-	0.1
Interest received	0.5	0.8	0.7	1.1
Interest paid	(8.3)	(7.0)	(18.0)	(17.2)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(58.7)</b>	<b>(42.3)</b>	<b>(78.0)</b>	<b>(65.0)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments for property, plant and equipment	(26.6)	(34.7)	(51.0)	(65.9)
Proceeds from sale of property, plant and equipment	-	0.5	-	0.5
Proceeds from disposal of tenements	-	3.2	-	3.2
Payments for controlled entities net of cash acquired	-	0.1	-	0.1
Capitalised exploration expenditure	(3.6)	(7.1)	(7.9)	(11.3)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(30.2)</b>	<b>(38.0)</b>	<b>(58.9)</b>	<b>(73.4)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Project finance facility establishment costs	(0.3)	-	(1.9)	-
Proceeds from subsidiary rights issue	-	1.3	-	1.3
Convertible bond establishment costs	-	(5.9)	-	(5.9)
Repayment of borrowings	(21.3)	(17.6)	(56.0)	(34.3)
Drawdown of borrowings	13.8	12.0	141.0	12.0
Proceeds from convertible bonds	-	300.0	-	300.0
Repayment of convertible bonds	-	(232.9)	-	(232.9)
Proceeds from share placement	64.7	-	64.7	-
Equity fundraising costs	(2.1)	-	(2.1)	-
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>	<b>54.8</b>	<b>56.9</b>	<b>145.7</b>	<b>40.2</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(34.1)</b>	<b>(23.4)</b>	<b>8.8</b>	<b>(98.2)</b>
Cash and cash equivalents at the beginning of the financial period	158.4	275.2	117.4	348.8
Effects of exchange rate changes on cash and cash equivalents	2.6	-	0.7	1.2
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	<b>126.9</b>	<b>251.8</b>	<b>126.9</b>	<b>251.8</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**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**  
EXPRESSED IN US DOLLARS

**NOTE 1. CORPORATE INFORMATION**

The Half Year Financial Report of Paladin for the six months ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 14 February 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 the 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 11 to 27.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

This general purpose condensed financial report for the six months ended 31 December 2011 has been prepared in accordance with Australian Accounting Standards Board (AASB) 134 *Interim Financial Reporting* and International Financial Reporting Standard, IAS 34 *Interim Financial Reporting* and the Corporations Act.

In addition to these requirements further information has been included in the Consolidated Financial Statements for the six months ended 31 December 2011 in order to comply with applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2011 and any public announcements made by Paladin Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of ASX listing rules.

The financial report is presented in United States 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 orders applies.

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated.

**New and amended accounting standards and interpretations**

From 1 July 2011 the Company has adopted all Australian Accounting Standards and Interpretations effective for annual periods beginning on or before 1 July 2011.

The adoption of new and amended standards and interpretations had no impact on the financial position or performance of the Company.

The Company has not elected to early adopt any new accounting standards and interpretations.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**  
EXPRESSED IN US DOLLARS

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Voluntary change in accounting policy**

The half year financial report has been prepared on the basis of the new accounting policy for exploration and evaluation expenditure adopted on 31 March 2011 and applied retrospectively.

As disclosed in the Annual Report for the year ended 30 June 2011, the new exploration and evaluation expenditure accounting policy is to capitalise and carry forward exploration and evaluation expenditure as an asset when rights to tenure of the area of interest are current and costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale.

The impact of the change in accounting policy on the comparatives in the Consolidated Income Statement and Consolidated Statements of Cash Flows for 31 December 2010 is set out below:

**Consolidated Income Statement**

Exploration and evaluation expenditure related to qualifying areas of interest has been capitalised in accordance with the accounting policy subject to an impairment review. This has resulted in a decrease in exploration and evaluation expenditure of US\$8.4M for the half year to 31 December 2010. There has been no impact on the non-controlling interests for the half year to 31 December 2010.

Net loss before and after tax before non-controlling interests has decreased by US\$8.4M for the half year to 31 December 2010.

Basic and diluted loss per share has also been restated. This has resulted in a reduction of 1.1 US cents in the loss per share for the half year ended 31 December 2010.

**Consolidated Statement of Cash Flows**

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. This has resulted in additional cash outflows from investing activities being reflected for capitalised exploration expenditure of US\$7.4M for the half year to 31 December 2010. This has also resulted in a corresponding reduction being reflected in the net cash outflow from operating activities for the equivalent periods.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**  
EXPRESSED IN US DOLLARS

**NOTE 3. 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. The Unallocated portion covers the Company's sales and marketing, treasury, corporate and administration. The prior period comparatives have been restated due to the change in operating segments.

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 the restated amounts reflected for 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 North America, Australia, Asia and Europe. 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**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**  
EXPRESSED IN US DOLLARS

**NOTE 3. SEGMENT INFORMATION (continued)**

The following tables present revenue, expenditure and asset information regarding operating segments for the six months ended 31 December 2011 and 31 December 2010.

<b>Six months ended 31 December 2011</b>	<b>Exploration US\$M</b>	<b>Namibia US\$M</b>	<b>Malawi US\$M</b>	<b>Unallocated US\$M</b>	<b>Consolidated US\$M</b>
Sales to external customers	-	126.0	46.7	-	172.7
Other revenue	-	0.2	-	0.5	0.7
<b>Total consolidated revenue</b>	<b>-</b>	<b>126.2</b>	<b>46.7</b>	<b>0.5</b>	<b>173.4</b>

Segment (loss)/profit before income tax and finance costs	(0.7)	30.3	(197.7)	(17.0)	(185.1)
Finance costs	-	(3.7)	(3.8)	(20.4)	(27.9)
Loss before income tax					(213.0)
<b>Income tax benefit</b>	0.2	3.9	58.5	9.5	72.1
<b>Loss after income tax</b>					(140.9)
<b>Segment assets/total assets</b>	<b>1,146.1</b>	<b>567.1</b>	<b>483.9</b>	<b>140.8</b>	<b>2,337.9</b>

<b>Six months ended 31 December 2010</b>	<b>Exploration US\$M</b>	<b>Namibia US\$M</b>	<b>Malawi US\$M</b>	<b>Unallocated US\$M</b>	<b>Consolidated US\$M</b>
Sales to external customers	-	92.5	22.2	-	114.7
Other revenue	-	-	-	1.1	1.1
<b>Total consolidated revenue</b>	<b>-</b>	<b>92.5</b>	<b>22.2</b>	<b>1.1</b>	<b>115.8</b>
Segment (loss)/profit before income tax and finance costs	(0.6)	27.6	(12.3)	(28.0)	(13.3)
Finance costs	-	(1.8)	(3.1)	(28.8)	(33.7)
Loss before income tax					(47.0)
<b>Income tax benefit/(expense)</b>	0.2	(10.0)	7.0	24.4	21.6
<b>Loss after income tax</b>					(25.4)
<b>Segment assets/total assets</b>	<b>843.6</b>	<b>423.3</b>	<b>581.1</b>	<b>320.8</b>	<b>2,168.8</b>

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**  
EXPRESSED IN US DOLLARS

**NOTE 4. REVENUE AND EXPENSES**

	Three Months Ended 31 December		Six Months Ended 31 December	
	2011 US\$M	2010 US\$M	2011 US\$M	2010 US\$M
<b>(a) Revenue</b>				
Sale of uranium	69.9	66.3	172.7	114.7
Interest income from non-related parties	0.5	0.4	0.7	0.9
Database licence revenue	-	-	-	0.1
Other revenue	-	-	-	0.1
<b>Total</b>	<b>70.4</b>	<b>66.7</b>	<b>173.4</b>	<b>115.8</b>
<b>(b) Cost of Sales</b>				
Costs before depreciation and amortisation	(42.8)	(42.7)	(112.0)	(71.6)
Depreciation and amortisation	(7.5)	(8.9)	(24.8)	(15.8)
Product distribution costs	(1.6)	(2.4)	(5.4)	(4.3)
Royalties	(1.5)	(1.7)	(4.2)	(3.1)
<b>Total</b>	<b>(53.4)</b>	<b>(55.7)</b>	<b>(146.4)</b>	<b>(94.8)</b>
<b>(c) Other income</b>				
Foreign exchange gain (net)	2.1	-	3.8	-
<b>Total</b>	<b>2.1</b>	<b>-</b>	<b>3.8</b>	<b>-</b>
<b>(d) Administration, marketing and site non-production costs</b>				
Corporate and marketing	(5.1)	(7.3)	(11.0)	(11.8)
LHM and KM	(2.6)	(2.0)	(5.0)	(4.1)
Canada	(0.6)	-	(1.1)	-
Share based payments – non-cash	(1.4)	(4.1)	(3.4)	(7.9)
Depreciation – non-cash	(0.5)	(0.2)	(1.0)	(0.4)
Royalties	(0.2)	(0.4)	(1.0)	(0.5)
LHM Stage 4 expansion evaluation project	(1.4)	(0.3)	(3.1)	(0.3)
<b>Total</b>	<b>(11.8)</b>	<b>(14.3)</b>	<b>(25.6)</b>	<b>(25.0)</b>

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**NOTE 4. REVENUE AND EXPENSES (continued)**

**(e) Other expenses**

Impairment of inventory	-	-	-	(3.0)
Foreign exchange loss (net)	-	(2.3)	-	(5.3)
Impairment of assets <sup>(1)</sup>	-	-	(178.9)	-
Slope remediation	(0.1)	-	(0.8)	-
KM fixed costs during plant shutdown	(1.2)	-	(9.2)	-
	<hr/>			
Total	(1.3)	(2.3)	(188.9)	(8.3)

<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 from US\$470M based on a value in use discounted cash flow model resulting in an impairment charge of US\$133M (US\$178.9M before tax reduced by a tax benefit of US\$45.9M) (2010: US\$Nil).

**(f) Finance costs**

Interest expense	(9.6)	(9.2)	(18.3)	(17.5)
Accretion relating to convertible bonds (non-cash)	(3.0)	(3.3)	(5.9)	(6.1)
Loss on convertible bond buyback (non-cash)	-	(4.6)	-	(4.6)
Mine closure provision discount interest expense	(0.4)	(0.4)	(0.9)	(1.0)
Facility costs	(1.1)	(3.1)	(2.8)	(4.5)
	<hr/>			
Total	(14.1)	(20.6)	(27.9)	(33.7)

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**NOTE 5. INCOME TAX**

**Reconciliation of income tax benefit to prima facie tax payable**

	Three Months Ended 31 December		Six Months Ended 31 December	
	2011 US\$M	2010 US\$M	2011 US\$M	2010 US\$M
Loss before income tax expense	(8.7)	(26.7)	(213.0)	(47.0)
Tax at the Australian rate of 30% (2010 – 30%)	(2.6)	(8.0)	(63.9)	(14.1)
Tax effect of amounts which are (deductible)/ taxable in calculating taxable income:				
Share-based payments	0.5	1.2	1.1	2.4
Permanent foreign exchange functional currency differences	(0.9)	6.7	(32.5)	9.3
Other expenditure not allowable	0.6	1.3	0.8	1.3
	(2.4)	1.2	(94.5)	(1.1)
Difference in overseas tax rates	1.4	1.0	6.6	2.3
Under/(over) prior year adjustment	-	-	(7.1)	-
Losses not recognised	0.2	3.2	10.9	3.2
Losses previously not recognised now recognised	(11.1)	(3.8)	(11.1)	(12.9)
Temporary foreign exchange differences	0.7	(1.2)	22.2	(6.2)
Convertible notes	-	(6.1)	-	(6.1)
Other	0.4	(0.7)	0.9	(0.8)
Income tax benefit reported in Income Statement	(10.8)	(6.4)	(72.1)	(21.6)

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**NOTE 6. CASH AND CASH EQUIVALENTS**

	<b>31 December 2011 US\$M</b>	<b>30 June 2011 US\$M</b>
Cash at bank and on hand	27.3	27.6
Short-term bank deposits	99.6	89.8
	<hr/>	<hr/>
Total cash and cash equivalents	126.9	117.4

Total cash and cash equivalents includes US\$26.0M (US\$19.5M: 30 June 2011) restricted for use in respect of the LHM and KM project finance facilities.

**NOTE 7. TRADE AND OTHER RECEIVABLES**

**Current**

Trade receivables	40.5	-
Less allowance for doubtful debts	-	-
Net trade receivables	<hr/> 40.5	<hr/> -
Interest receivable	0.1	-
GST and VAT	15.4	11.9
Sundry debtors	8.0	8.6
	<hr/>	<hr/>
Total current receivables	64.0	20.5

**Non Current**

Sundry debtors	1.3	1.5
	<hr/>	<hr/>
Total non current receivables	1.3	1.5

**NOTE 8. INVENTORIES**

**Current**

Stores and spares (at cost)	39.5	30.3
Stockpiles (at cost)	4.0	2.5
Stockpiles (at net realisable value)	9.7	7.3
Work-in-progress (at cost)	2.0	3.1
Work-in-progress (at net realisable value)	8.7	4.6
Finished goods (at cost)	58.5	78.5
Finished goods (at net realisable value)	64.7	51.4
	<hr/>	<hr/>

Total current inventories at the lower of cost and net realisable value	<hr/> 187.1	<hr/> 177.7
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**Non Current**

Stockpiles (at cost)	87.2	71.2
Stockpiles (at net realisable value)	3.6	2.4
	<hr/>	<hr/>

Total non current inventories at the lower of cost and net realisable value	<hr/> 90.8	<hr/> 73.6
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Stockpiles at LHM and KM that are classified as non current are unlikely to be processed within 12 months of the balance date.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
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**NOTE 9. PROPERTY, PLANT AND EQUIPMENT**

	<b>31 December 2011 US\$M</b>	<b>30 June 2011 US\$M</b>
Plant and equipment (at net realisable value) <sup>(1)(2)</sup>	525.9	566.6
Less accumulated depreciation and impairment <sup>(3)</sup>	<u>(204.2)</u>	<u>(80.6)</u>
Total plant and equipment	<u>321.7</u>	<u>486.0</u>
Land and buildings (at cost)	11.3	11.4
Less accumulated depreciation	<u>(1.7)</u>	<u>(1.5)</u>
Total land and buildings	<u>9.6</u>	<u>9.9</u>
Construction work in progress (at net realisable value) <sup>(4)(5)</sup>	<u>159.1</u>	<u>134.2</u>
Total property, plant and equipment (at net realisable value)	<u>490.4</u>	<u>630.1</u>

<sup>(1)</sup> Tailings Dam at LHM transferred from plant & equipment to mine development of \$24.4M.

<sup>(2)</sup> Includes additions of US\$3.7M

<sup>(3)</sup> Includes US\$130.7M impairment charge

<sup>(4)</sup> Includes additions of US\$34.0M

<sup>(5)</sup> Includes US\$1.5M impairment charge

**NOTE 10. MINE DEVELOPMENT**

Mine development (at net realisable value) <sup>(1) (2)</sup>	156.8	122.4
Less accumulated depreciation and impairment <sup>(3)</sup>	<u>(70.6)</u>	<u>(15.8)</u>
Total mine development	<u>86.2</u>	<u>106.6</u>

<sup>(1)</sup> Tailings Dam at LHM transferred from plant & equipment to mine development of \$24.4M.

<sup>(2)</sup> Includes additions of US\$5.3M

<sup>(3)</sup> Includes US\$42.9M impairment charge

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**NOTE 11. EXPLORATION AND EVALUATION EXPENDITURE**

The following table details the expenditures on interests in mineral properties by area of interest for the six months ended 31 December 2011:

Areas of interest	Valhalla /Skal <sup>(1)</sup>	Isa North	Fusion	Angela/ Pamela	Bigryli	Niger	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
<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>269.1</b>	<b>4.6</b>	<b>1,177.9</b>
<b>Project exploration and evaluation expenditure</b>											
Labour	0.7	0.4	-	0.1	0.7	0.2	0.1	-	0.8	0.5	3.5
Outside services	1.3	0.5	-	-	0.5	-	0.4	0.1	-	0.1	2.9
Other expenses	0.8	0.6	0.1	0.1	0.7	0.2	0.3	-	0.3	0.4	3.5
<b>Total expenditure</b>	<b>2.8</b>	<b>1.5</b>	<b>0.1</b>	<b>0.2</b>	<b>1.9</b>	<b>0.4</b>	<b>0.8</b>	<b>0.1</b>	<b>1.1</b>	<b>1.0</b>	<b>9.9</b>
Expenditure expensed	-	-	-	(0.1)	-	-	(0.8)	-	-	(0.5)	(1.4)
<b>Expenditure capitalised</b>	<b>2.8</b>	<b>1.5</b>	<b>0.1</b>	<b>0.1</b>	<b>1.9</b>	<b>0.4</b>	<b>-</b>	<b>0.1</b>	<b>1.1</b>	<b>0.5</b>	<b>8.5</b>
<b>Foreign exchange differences</b>	<b>(26.1)</b>	<b>(6.4)</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>(1.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11.3)</b>	<b>(0.2)</b>	<b>(45.9)</b>
<b>Transferred to Mine Development</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>
<b>Transferred from Property, Plant and Equipment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.8</b>	<b>-</b>	<b>0.8</b>
<b>Balance 31 December 2011</b>	<b>639.8</b>	<b>151.6</b>	<b>12.0</b>	<b>6.7</b>	<b>30.1</b>	<b>36.4</b>	<b>-</b>	<b>-</b>	<b>259.7</b>	<b>4.9</b>	<b>1,141.2</b>

<sup>(1)</sup> Summit has a 50% interest in the Valhalla/Skal Projects with the other 50% interest held directly 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 Consolidated Statement of Financial Position.

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**NOTE 12. INTANGIBLE ASSETS**

	<b>31 December 2011 US\$M</b>	<b>30 June 2011 US\$M</b>
Intangible assets (at net realisable value)	27.8	27.8
Accumulated amortisation and impairment <sup>(1)</sup>	(9.1)	(4.7)
	<hr/>	<hr/>
Net carrying amount of non current intangible assets	18.7	23.1

<sup>(1)</sup> Includes US\$3.8M impairment charge

**NOTE 13. INTEREST BEARING LOANS AND BORROWINGS**

	<b>Maturity</b>		
<b>Current</b>			
Secured bank loans		50.4	43.9
		<hr/>	<hr/>
<b>Non Current</b>			
Unsecured convertible bonds <sup>(1)</sup>	2013	318.4	315.6
Unsecured convertible bonds <sup>(2)</sup>	2015	262.7	258.6
Secured bank loan	2012	-	8.1
Secured bank loan	amortised to 2015	74.4	93.5
Secured bank loan	amortised to 2017	105.7	-
		<hr/>	<hr/>
Total non current interest bearing loans and borrowings		761.2	675.8

The above figures include transaction costs, which offset the balance in accordance with the requirements of Accounting Standards.

*Unsecured convertible bonds*

- (1) On 11 March 2008, the Company issued US\$325M in convertible bonds with an underlying 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.
- (2) On the 5 November 2010, the Company issued US\$300M in convertible bonds with an underlying 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.

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).

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**NOTE 13. INTEREST BEARING LOANS AND BORROWINGS (continued)**

*Secured bank loans*

Langer Heinrich Mine, Namibia - US\$71M Stage 1 Project Finance Facility

On 26th May 2006 the Company entered into a project financing facility amounting to US\$71M for the construction of the 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 31 December 2011 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 30th March 2009, the Company entered into a project financing facility amounting to US\$167M for the construction of the 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 Paladin (Africa) Ltd. 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 31 December 2011 US\$108.0M (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 26th August 2011 the Company entered into a project financing facility amounting to US\$141M for the construction of Stage 3 of the 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. No requirement for political risk insurance exists under the terms of the project finance facility. The facilities are secured with fixed and floating charges over the assets of Langer Heinrich Uranium (Pty) Ltd and its immediate holding companies.

At 31 December 2011 US\$129.7M (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 set off against the balance of the interest bearing loans and borrowings.

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**NOTE 14. PROVISIONS**

	<b>31 December 2011 US\$M</b>	<b>30 June 2011 US\$M</b>
<b>Current</b>		
Employee benefits	2.9	5.3
Total current provisions	<u>2.9</u>	<u>5.3</u>
<b>Non Current</b>		
Employee benefits	4.7	3.3
Rehabilitation provision	27.4	30.6
Demobilisation provision	2.0	2.4
Total non current provisions	<u>34.1</u>	<u>36.3</u>

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**NOTE 15. CONTRIBUTED EQUITY**

**(a) Issued and paid up capital**

Ordinary shares	31 December		31 December	
	2011	2010	2011	2010
	Number of Shares		US\$M	US\$M
Issued and fully paid	835,484,064	725,579,320	1,834.9	1,509.4

**(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	30.2
	Transfer from share based payments reserves				1.8
	Tax effect on prior period				3.1 <sup>(2)</sup>
	Transaction costs				(0.3)
<b>Balance 31 December 2010</b>		<b>725,579,320</b>			<b>1,509.4</b>
	Shares held in trust	(750,000) <sup>(1)</sup>			-
<b>Adjusted Balance 31 December 2010</b>		<b>724,829,320</b>			<b>1,509.4</b>
Balance 30 June 2011		777,698,217			1,768.1
September 2011	Rights vested	827,515	-	-	-
September 2011	Share placement	56,866,232	1.20	1.04459	65.3
October 2011	Rights vested	37,500	-	-	-
November 2011	Rights vested	54,600	-	-	-
	Transfer from share based payments reserves				3.6
	Transaction costs				(2.1)
<b>Balance 31 December 2011</b>		<b>835,484,064</b>			<b>1,834.9</b>
	Shares held in trust	(248,200) <sup>(1)</sup>			-
<b>Adjusted Balance 31 December 2011</b>		<b>835,235,864</b>			<b>1,834.9</b>

<sup>(1)</sup> 750,000 shares held in trust, vesting variously over time up to 1 January 2012 subject to conditions.

<sup>(2)</sup> Tax effect of the transaction costs of the share placement in September 2009.

<sup>(1)</sup> 248,200 shares held by Paladin Employee Plan Pty Ltd.

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**NOTE 15. CONTRIBUTED EQUITY (continued)**

**(c) Options**

Issued unlisted employee options outstanding to the employees and consultants directly engaged in corporate, mine construction, operations and exploration and evaluation work for the Company are as follows:

	<b>31 December 2011</b> <b>Number</b>
Number of unlisted employee options	7,668,694

Consisting of the following:

Date options granted	Exercisable	Expiry date	Exercise price of options	Number under option
29 January 2008	29 January 2011	29 January 2013	A\$4.50	6,143,694
15 February 2008	15 February 2011	15 February 2013	A\$5.37	300,000
18 April 2008	18 April 2011	18 April 2013	A\$4.59	475,000
14 October 2008	14 October 2011	14 October 2013	A\$2.54	750,000
<b>Total</b>				<b>7,668,694</b>

**(d) Performance Share Rights**

Issued unlisted employee share rights outstanding to the employees and consultants directly engaged in corporate, mine construction, operations and exploration and evaluation work for the Company are as follows:

	<b>31 December 2011</b> <b>Number</b>
Number of unlisted employee share rights	5,451,807

Consisting of the following:

Date rights granted	Vesting date	Vesting performance conditions	Number
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	832,175
26 March 2010	1 September 2012	Relative total shareholder return	665,740
26 March 2010	1 September 2012	Market price	998,610
5 November 2010	5 November 2013	Relative total shareholder return	250,000
5 November 2010	5 November 2013	Earnings per share	250,000
5 November 2010	1 September 2012	Time based	270,877
5 November 2010	1 September 2013	Time based	451,463
5 November 2010	1 September 2013	Relative total shareholder return	361,170
5 November 2010	1 September 2013	Market price	541,755
15 February 2011	15 February 2012	Time based	149,336
15 February 2011	15 February 2013	Time based	169,838
15 February 2011	15 February 2014	Time based	210,843
<b>Total</b>			<b>5,451,807</b>

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**NOTE 16. COMMITMENTS AND CONTINGENCIES**

There were no outstanding commitments or contingencies, which are not disclosed in the Financial Report of the Group as at 31 December 2011 other than:

<b>(a) Tenements</b>	<b>31 December 2011 US\$M</b>	<b>31 December 2010 US\$M</b>
Commitments for tenements contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	7.9	14.5
Later than one year but not later than 5 years	11.1	24.9
More than 5 years	-	0.3
Total tenements commitment	<u>19.0</u>	<u>39.7</u>

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>(b) Mine Construction Commitments</b>	<b>31 December 2011 US\$M</b>	<b>31 December 2010 US\$M</b>
Commitments for mine construction contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	1.9	22.5
Later than one year but not later than 5 years	-	-
More than 5 years	-	-
Total mine construction	<u>1.9</u>	<u>22.5</u>

These commitments in 2011 relate to construction of Stage 3 at LHM (2010: construction of Stage 3 at LHM).

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**NOTE 16. COMMITMENTS AND CONTINGENCIES (continued)**

**(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 one month and eight 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 31 December are as follows:

	<b>31 December 2011 US\$M</b>	<b>31 December 2010 US\$M</b>
Within one year	1.4	1.5
Later than one year but not later than 5 years	4.6	5.3
More than 5 years	-	0.6
Total operating lease commitment	<u>6.0</u>	<u>7.4</u>

**(d) Legal Actions**

Mount Isa Uranium Joint Venture

On 3 August 2007, the Company's wholly owned subsidiary, Mt Isa Uranium Pty Ltd (MIU) entered into a settlement agreement with respect to proceedings which had been commenced by Summit Resources (Aust) Pty Ltd (SRA) (which had, by the time of the settlement, become ultimately 82.0% owned by the Company) against MIU and the unrelated entity, Resolute Pty Ltd (Summit Proceedings). The Summit Proceedings related to alleged breaches of confidentiality provisions in the Mount Isa Uranium Project joint venture agreement. If successful in the Summit Proceedings, SRA would have been entitled to the transfer of MIU's 50% interest in the Mount Isa Uranium Project joint venture for 85% of its market value.

Areva NC (Australia) Pty Ltd (Areva), being a 10.01% shareholder of Summit Resources Ltd (Summit), being the parent company of SRA, subsequently applied to the Supreme Court of Western Australia for, relevantly, orders under Section 237 of the Corporations Act 2001, to be granted leave to intervene in and effectively re-open the Summit Proceedings, notwithstanding the settlement (Areva intervention proceedings). The trial of the Areva intervention proceedings was heard over the period from 18 May 2009 to 3 June 2009 and the Court reserved its decision.

Early in 2011 the Company finalised the settlement of the Areva intervention proceedings. Although the effect of the settlement is that the Summit Proceedings remain on foot, as previously announced, the Company is confident that, if pursued, those proceedings will be able to be successfully defended and, in any event, the Company has the benefit of an indemnity from Resolute. Further, the Company has an ultimate 82% interest in SRA. As a consequence, a change in the ownership of the 50% interest in the Mount Isa Uranium joint venture from MIU to SRA would not be of significance to the Company.

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**  
EXPRESSED IN US DOLLARS

**NOTE 16. COMMITMENTS AND CONTINGENCIES (continued)**

**(d) Legal Actions (continued)**

Mount Isa Uranium Joint Venture (continued)

SRA made application to the Supreme Court of Western Australia for orders which would allow it to settle the Summit Proceedings, essentially on the terms contemplated by the 2007 settlement agreement (Application). One of the shareholders of Summit (namely Revelation Special Situations Fund Ltd (Revelation) which holds 5.09% of the share capital of Summit) requisitioned a meeting of the shareholders of Summit to consider a resolution as to whether Summit should, in effect, give effect to the 2007 settlement agreement. At that meeting of shareholders on 3 November 2011, the shareholders resolved that Summit should give effect to the 2007 settlement agreement. However, there is an issue as to the effectiveness of such a resolution and, in any event, Summit advised, in the Explanatory Memorandum to the Notice of Meeting, that it intended to continue to pursue the Application, no matter the outcome of the vote at the meeting.

The Application was heard on 7 December 2011, and at that hearing, Revelation opposed the orders sought by SRA. The Court reserved its decision. Paladin will make a further announcement to the market once the Court delivers its decision.

**NOTE 17. EVENTS AFTER THE BALANCE SHEET DATE**

Since the end of the six months, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report or the Financial Statements, 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 periods with the exception of the following, the financial effects of which have not been provided for in the 31 December 2011 Financial Report:

**Kayelekera Mine Bankers' Technical Completion Test**

The key production measures for the Kayelekera Mine bankers' technical completion test, covering 90 days from 1 November 2011 to 31 January 2012, have been passed. Work is continuing on final completion test certification.

*Directors' Declaration*

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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 31 December 2011 and its performance for the second quarter and half year ended on that date; and
  - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting*, International Financial Reporting Standard, IAS 34 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'John Borshoff', with a stylized flourish at the end.

Mr John Borshoff  
Managing Director/CEO

Perth, Western Australia  
14 February 2012

To the members of Paladin Energy Ltd

## Report on the Second Quarter and Half-Year Financial Report

We have reviewed the accompanying second quarter and half-year financial report of Paladin Energy Ltd, which comprises the statement of financial position as at 31 December 2011, the income statement, statement of comprehensive income and statement of cash flows for the second quarter and half-year ended on that date and the statement of changes in equity for the half-year ended on that date and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Second Quarter and Half-Year Financial Report

The directors of the company are responsible for the preparation of the second quarter and half-year 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 second quarter and half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the second quarter and half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the second quarter and half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Paladin Energy Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, 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.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the second quarter and half-year financial report of Paladin Energy Ltd is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the second quarter and half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Ernst & Young', written in a cursive style.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz', written in a cursive style.

G H Meyerowitz  
Partner  
Perth  
14 February 2012

## APPENDIX A

### Form 52-109F2 - Certification of interim filings – full certificate

I, John Borshoff, Managing Director and Chief Executive Officer, Paladin Energy Ltd, certify the following:

1. Review: I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Paladin Energy Limited for the interim period ended 31 December 2011.
2. No misrepresentation: Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the interim filings.
3. Fair presentation: Based on my knowledge, having exercised reasonable due diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. Responsibility: The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, for the issuer.
5. Design: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer and I have, as at the end of the period covered by the interim filings
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that:
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.
- 5.1 Control Framework: The control framework the issuer's other certifying officer and I used to design the issuer's ICFR is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 ICFR – material weakness relating to design: N/A
- 5.3 Limitation on scope of design: N/A
6. Reporting changes in ICFR: The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on 1 July 2011 to 31 December 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Dated: 14 February 2012



**John Borshoff**  
**Managing Director/CEO**

## APPENDIX A

### Form 52-109F2 - Certification of interim filings – full certificate

I, Garry Korte, Chief Financial Officer, Paladin Energy Ltd, certify the following:

1. Review: I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Paladin Energy Limited for the interim period ended 31 December 2011.
2. No misrepresentation: Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the interim filings.
3. Fair presentation: Based on my knowledge, having exercised reasonable due diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. Responsibility: The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim Filings, for the issuer.
5. Design: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer and I have, as at the end of the period covered by the interim filings
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that:
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 Control Framework: The control framework the issuer’s other certifying officer and I used to design the issuer’s ICFR is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 ICFR – material weakness relating to design: N/A
- 5.3 Limitation on scope of design: N/A
6. Reporting changes in ICFR: The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on 1 July 2011 to 31 December 2011 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Dated: 14 February 2012



**Garry Korte**  
**Chief Financial Officer**