



PALADIN ENERGY LTD

ACN 061 681 098

Ref: 231720

31 August 2011

Company Announcements Office
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

By Electronic Lodgement

Dear Sir/Madam

**Paladin Energy Ltd
30 June 2011 Annual Report**

Attached please find the 2011 Annual Report including audited financial statements for the year ended 30 June 2011 together with Appendix 4E and Management, Discussion and Analysis.

Yours faithfully
Paladin Energy Ltd

JOHN BORSHOFF
Managing Director/CEO



PALADIN ENERGY LTD

ACN 061 681 098

NEWS RELEASE

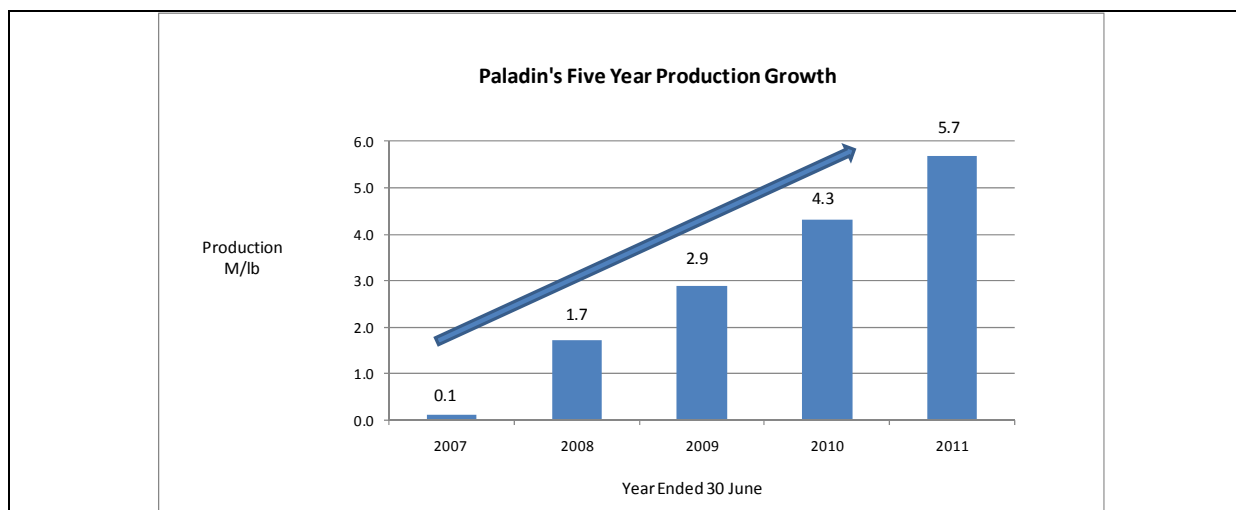
For Immediate Distribution

30 JUNE 2011 ANNUAL REPORT

Perth, Western Australia – 31 August 2011: Paladin Energy Ltd ("Paladin" or "the Company") (**TSX:PDN / ASX:PDN**) announces the release of its Annual Report incorporating the financial statements for the year ended 30 June 2011. The Annual Report is appended to this News Release.

Proven production growth and transitioning into an optimisation phase

Paladin has delivered consistent growth in production over the past five years as it established the Company as an independent, global leader in the uranium industry. This production growth is set to continue with the completion of the Langer Heinrich Stage 3 expansion and finalisation of the Kayelekera Mine debottlenecking that will take Paladin to an installed annual production capacity of 8.5Mlb of U_3O_8 .



This rapid growth in the period 2005-2010 required a high level of capital investment and resourcing to plan, execute and deliver the projects. During this period costs have been disproportionate to the concurrent production levels as new expansion capacity was installed. The staging of development projects means that, with the imminent completion of the Stage 3 expansion, the Company will move into a phase where there is a natural break in project construction and costs will become much more synchronised with production output. This will complete the high investment and working capital requirements of the past five years. Paladin will use this window to consolidate and undertake essential cost and production optimisation measures across all of its operations.

Paladin has continued to receive inquiries from a range of parties interested in securing sales contracts or equity participation at a project level. The Company is currently evaluating partially monetising some of its non-producing assets through the introduction of strategic minority partners. Paladin believes this will better demonstrate the significant value of these projects and increase cash resources.

As part of this transition from rapid growth to optimisation, Paladin has embarked on a company-wide initiative to reduce costs. Discretionary exploration programmes will be reduced and corporate overheads will be reviewed with targeted reduction objectives.

Final 2011 Year Results

(References to 2011 and 2010 below refer to the equivalent twelve months ended 30 June 2011 and 2010 respectively.)

- **Safety and Sustainability:**
 - Kayelekera long term injury frequency rate (LTIFR) down from 6.8 in 2010 to 0.6 in 2011.
 - Langer Heinrich LTIFR down from 1.5 in 2010 to 0.8 in 2011.
 - Established Sustainability Committee reporting directly to the Paladin Board.
- **Production:**
 - Increased U_3O_8 production by 32% from 4.3Mlb in 2010 to 5.7Mlb in 2011.
- **Langer Heinrich Mine:**
 - Production increased 5% to 3.5Mlb in 2011 from 3.3Mlb in 2010.
 - Stage 3 expansion is near completion with commissioning and staged ramp-up progressing well. Stage 3 will increase annual production from 3.7Mlb U_3O_8 to 5.2Mlb U_3O_8 .
 - Commissioning of the Stage 3 expansion front end in May showed immediate results enabling the plant to produce at 82% of Stage 3 nameplate production in June 2011.
 - Feasibility Study for Stage 4 expansion targeting annual production of 10Mlb is well advanced in regards to process design and capability estimation. The study is set to be completed in the December 2011 quarter.
- **Kayelekera Mine:**
 - Production increased 126% from 1Mlb in 2010 to 2.2Mlb in 2011.
 - Plant operating time continued to improve with consecutive records for uptime set in May and June 2011.
 - Further plant debottlenecking by increasing leach launder capacity completed in August 2011.
 - Bankers' completion test postponed until after the planned maintenance shutdown completed at the end of August 2011.
- **Sales:**
 - Total sales volume for 2011 of 4.8Mlb U_3O_8 was a 29% increase compared to 2010. The average realised uranium sales price for 2011 was US\$55/lb U_3O_8 .
 - Revenue from sales of uranium of US\$266.8M was a 32% increase when compared to 2010.
- **Cost of Sales (C1):**
 - Langer Heinrich Mine cost of sales (C1) for 2011 increased slightly to US\$28/lb from US\$26/lb in 2010, due to an 8% appreciation of the Namibian Dollar.
 - Kayelekera Mine cost of sales (C1) for 2011 was US\$50/lb. Costs were higher due to lower volumes during the production ramp-up phase. With the completion of the current plant upgrade, production volumes are expected to increase further with a proportionate reduction in costs.
- **Cash Flow:**
 - Positive cash flow of US\$83.7M generated by the Langer Heinrich and Kayelekera operations for 2011 before US\$104.2M investment in working capital, mainly comprising inventory to fill the stock pipeline to the converter needed to support higher production and sales levels.
 - Finished goods stock levels at 30 June 2011 were higher than usual because of the additional inventory held to satisfy the in excess of 1Mlb of customer deliveries completed in July 2011.
- **Funding:**
 - Cash of US\$117.4M at 30 June 2011 invested with Australian banks with a minimum AA Standard & Poor's credit rating.
 - Funding agreements signed with lenders for a US\$141M Langer Heinrich Stage 3 project finance loan, to replace existing project loan and reimburse Stage 3 construction costs. Drawdown on the financing, which is expected to provide additional cash of approximately US\$100M after repayment of the residual balance of the original loan, is subject to fulfilment of conditions precedent usual for this type of facility.

- **Capital Raising:**
 - Successful raising of US\$300M via the issue of 5 year convertible bonds expiring November 2015. Existing US\$250M convertible bonds expiring December 2011 were bought back.
- **Acquisition of Aurora and NGM:**
 - Acquisition of the Aurora uranium assets in Canada added 83.8Mlb U₃O₈ of Measured and Indicated Mineral Resources at a grade of 0.09% and 53.0Mlb U₃O₈ of Inferred Mineral Resources at a grade of 0.08%. Aurora represents a major addition to Paladin's project development pipeline. The Company is awaiting the lifting of the three year moratorium on uranium mining by the Nunatsiavut Government which is expected within the next year. The initial focus on the Aurora project will be to add value through further exploration and drilling to significantly expand the resource base, once the moratorium is lifted.
 - Completion of the takeover of NGM Resources Ltd represented a significant addition to Paladin's portfolio of uranium exploration projects. This established a presence in Niger, a major underexplored uranium province. A scout drilling programme was completed in early July. A follow-up drilling programme is planned.
- **Reserve and Resource Upgrades:**
 - **Langer Heinrich Mine** increased Reserves 104% to 134.1Mlb with a grade of 550ppm U₃O₈.
 - **Valhalla** increased Measured and Indicated Mineral Resources by 5.6% to 63.4Mlb U₃O₈ with an additional 12.8Mlb U₃O₈ Inferred Mineral Resources.
 - **Odin** adds an Inferred Mineral Resource of 10.3Mlb U₃O₈ at a grade of 0.06%, increasing the Mount Isa projects' inventory.
 - **Bikini** adds 18% in contained metal for a total Indicated Mineral Resource of 6.3Mlb and an Inferred Mineral Resource of 7.3Mlb, both at a grade of 0.05%, further increasing the Mount Isa projects' inventory.
 - **Angela** announced an Inferred Mineral Resource of 30.8Mlb U₃O₈ at a grade of 0.13%.
- **Summit Resources Ltd:**
 - Paladin settled its dispute with Areva NC (Australia) Pty Ltd (Areva). The settlement paves the way for Paladin and Areva to work co-operatively as shareholders of Summit Resources Ltd and provides Paladin with control of the Mount Isa projects' sales and marketing rights.
- **Profit and Loss**

	Year Ended 30 June 2011 US\$M	Year Ended 30 June 2010 US\$M
Revenue	268.9	204.3
Cost of sales	(170.9)	(131.6)
Royalties and distribution	(15.2)	(7.4)
Gross profit (before amortisation)	82.8	65.3
Exploration	(3.0)	(9.4)
Corporate and non-production costs	(54.0)	(38.6)
Contribution from continuing operations	25.8	17.3
Amortisation and depreciation	(36.1)	(14.3)
Non-recurring income & expenses	(33.3)	0.4
Earnings before interest and tax	(43.6)	3.4
Finance costs	(61.5)	(21.4)
Loss before income tax	(105.1)	(18.0)
Income tax benefit/(expense)	16.6	(28.5)
Loss after income tax	(88.5)	(46.5)
Non-controlling interests	6.2	0.9
Net loss after tax – members of parent	(82.3)	(45.6)

- Revenue increased to a record US\$268.9M for 2011 due to increased uranium sales volumes and the higher realised uranium sales price.
- Gross profit before amortisation increased to US\$82.8M for 2011 from US\$65.3M for 2010.
- Contribution from continuing operations before amortisation and non-recurring items increased to US\$25.8M in 2011 from US\$17.3M in the previous year.

August 31, 2011

- Corporate and non-production costs for 2011 include non-cash expenses of US\$12.6M as well as costs associated with the Canadian and African operations of US\$10.6M.
- Non-recurring expenses includes an impairment of inventory expense of US\$26.4M at Kayelekera due to higher operating costs experienced during ramp-up and the lower prevailing uranium spot price seen since events in Japan in March.
- Increased finance costs for 2011 reflect the cessation of the capitalisation of costs with the Kayelekera Mine entering commercial production on 1 July 2010 and US\$6.3M related to the early buyback of the December 2011 convertible bond.

The documents comprising the Annual Report for the year ended 30 June 2011, including the Appendix 4E, Management Discussion and Analysis and Financial Statements 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).

Conference Call

Conference Call and Investor Update scheduled for 07:00 Perth & Hong Kong, Friday 2 September 2011.
19:00 Toronto, Thursday 1 September 2011 and 24:00 London, Thursday 1 September 2011.

Details were included in a separate news release made on 24 August 2011.

Contacts

For additional information, please contact:

John Borshoff

Managing Director/CEO

Tel: +61-8-9381-4366 or Mobile: +61-419-912-571

Email: john.borshoff@paladinenergy.com.au

Greg Taylor

Investor Relations Contact

Tel: +905 337-7673 or Mobile: +416-605-5120 (Toronto)

Email: greg.taylor@paladinenergy.com.au

Garry Korte

Chief Financial Officer

Tel: +61-8-9381-4366 or Mobile: +61-409-875910

Email: garry.korte@paladinenergy.com.au

Appendix 4E - Financial Report
Financial year ended 30 June 2011

Paladin Energy Ltd

ABN or equivalent company reference

ACN. 061 681 098

Results for announcement to the market

				30 June 2011 US\$M	30 June 2010 US\$M
Revenue from sales of uranium oxide	Up	32%	to	266.8	202.0
Revenue	Up	32%	to	268.9	204.3
Loss after tax attributable to members	Up	80%	to	82.3	45.6
Net loss for the year attributable to members	Up	80%	to	82.3	45.6
Loss per share (US cents)				(11.1)	(6.5)

Dividends	Amount per security	Franked amount per security
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.

	30 June 2011	30 June 2010
Net tangible assets per share	US\$1.71	US\$1.32

Other

Previous corresponding period is the year ended 30 June 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 31 August 2011.



PALADIN ENERGY LTD

ACN 061 681 098

ANNUAL

REPORT

2011

CONTENTS

CORPORATE VALUES AND KEY ACHIEVEMENTS	3
CHAIRMAN'S LETTER	6
INSIGHTS FROM THE MANAGING DIRECTOR/CEO	7
NUCLEAR POWER – MEETING THE CHALLENGE	9
MANAGEMENT DISCUSSION AND ANALYSIS	12
REVIEW OF OPERATIONS.....	13
HEALTH & SAFETY	31
FINANCIAL REVIEW	34
SUSTAINABLE DEVELOPMENT	45
ENVIRONMENT	45
SOCIAL RESPONSIBILITY.....	49
OUR PEOPLE	55
COPORATE GOVERNANCE STATEMENT	58
DIRECTORS' REPORT.....	69
REMUNERATION REPORT	73
CONTENTS OF THE FINANCIAL REPORT.....	99
CONSOLIDATED INCOME STATEMENT.....	101
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	102
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	103
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	104
CONSOLIDATED STATEMENT OF CASH FLOWS	105
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	106
DIRECTORS' DECLARATION.....	178
INDEPENDENT AUDIT REPORT	179
ADDITIONAL INFORMATION.....	184
CORPORATE DIRECTORY.....	189

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

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

Paladin Energy Ltd
Level 4
502 Hay Street
SUBIACO WA 6008

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

CORPORATE VALUES AND KEY ACHIEVEMENTS

CORPORATE VALUES

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

KEY ACHIEVEMENTS FOR THE YEAR

September 2010	Takeover offer for NGM Resources Limited completed October 2010, establishing footprint in Niger.
October 2010	Significant mineral resource upgrade for Langer Heinrich Mine. Ore reserve increased 104% to 134.1Mlb U ₃ O ₈ .
October 2010	Successful raising of US\$300M through the issue of senior Convertible Bonds due November 2015.
December 2010	Maiden resource of 10.3Mlb U ₃ O ₈ at 0.06% issued for the Odin deposit adding to the Mount Isa projects resource inventory.
January 2011	Buy back of US\$250M Convertible Bonds expiring December 2011 completed.
February 2011	Acquisition of the Aurora uranium assets in Eastern Canada (at US\$1.90 per resource pound) added a significant project to Paladin pipeline.
June 2011	Langer Heinrich Mine achieved all time monthly record production of 355,513lbs.

KEY ANNUAL DATA

Lost Time Injury Frequency Rate decreased from 5.6 to 1.2 from FY2010 to FY2011
 4.81Mlb sold up from 3.73Mlb, a 29% increase
 Sales revenue up 32% from US\$202M to US\$266.8M
 Production up 32% from 4.3Mlb to 5.7Mlb U₃O₈
 Exploration spend increased from US\$17.1M to US\$20M
 Group employees increased to 1,185 from 896

CORPORATE VALUES AND KEY ACHIEVEMENTS

WHAT WE SET OUT TO DO IN 2011

- Complete Stage 3 construction at Langer Heinrich Mine with ramp-up commencing early CY2011.
Delayed due to engineering and equipment issues
- Progress Stage 4 Langer Heinrich Mine feasibility study.
Ongoing according to schedule
- Optimise production at Kayelekera Mine.
Due to new resin-in-pulp technology, achieving nameplate delayed
- 2011 production objective of 7Mlb.
Langer Heinrich Stage 3 delays and Kayelekera ramp-up slower than anticipated
- Ongoing implementation of NOSA health and safety system.
- Continue resource expansion at Mount Isa.
- Develop Paladin's term contract sales to targeted levels.
- Ongoing commitment to global exploration.
- Continue to populate Paladin's growth pipeline through M&A and expand through organic growth.
- Focus on talent management and career development across the Group.



CODE	
	Not achieved
	Ongoing
	Achieved

WHAT WE PLAN TO DO IN 2012

- Complete Stage 3 expansion at Langer Heinrich Mine with commissioning September quarter 2011.
- Ramp up production to design levels at Kayelekera Mine.
- Deliver Stage 4 Langer Heinrich Mine feasibility study by end of CY2011.
- 2012 production guidance in the range of 7.4 to 7.9Mlb U₃O₈.
- Publish resource update for Kayelekera Mine.
- Continue to advance NOSA health and safety system rating for Langer Heinrich and Kayelekera Mines.

CORPORATE VALUES AND KEY ACHIEVEMENTS

- Commence sustainability reporting.
- Ongoing commitment to global exploration.
- Expand production through organic growth.
- Seek value increase in existing pipeline projects through joint venture and M&A.
- Optimise production and costs at Langer Heinrich and Kayelekera Mines.

CHAIRMAN'S LETTER

Dear Fellow Shareholders

It is fair to say that the 2010/11 financial year will be remembered forever within the uranium industry. The tragic earthquake and tsunami event in Japan in March stimulated considerable misinformation and led many to what, I believe, is inaccurate speculation about the future of nuclear power, much of which has largely since been rectified.

Whilst we are convinced that there is a solid future for continued growth in nuclear power and uranium demand, investors remain cautious. Other global economic uncertainties, particularly concerning the US and Europe, have depressed global stock markets. Accordingly, the market for uranium shares has suffered multiple blows. Tellingly the term price for uranium oxide has remained relatively stable over this period, however the spot price has retracted somewhat. I encourage you to study the commentary in this Annual Report on Paladin's view of the current and future uranium market, to understand how this shapes the Company's strategic plans. Nevertheless, it has been recognised by the Paladin Board and management that for the time being we are operating in a different paradigm in terms of how the investment market perceives the uranium industry. On the other hand, both the emerging nuclear economies and the existing nuclear power markets (except Germany) have affirmed their commitment to nuclear power.

Paladin's focus during 2010/11 has been on consolidating its position as the new builder and operator of modern uranium mines by increasing production. This goal was and remains independent of events outside our control. I am pleased to say that we are on track to achieve our goals and expect to make further progress this year.

We are very pleased with the improved safety results, achieved during a time of much activity at both mine sites and on our exploration projects. Safety of our workforce and achievement of the highest environmental practices remain top priorities of the Board and management.

Due to various factors explained in the Company's releases, the annual production target was downgraded during the year and the final result missed guidance by some 250,000 lbs. Understandably, this result drew criticism from market analysts. However, year to year production increased by some 33% overall. The Company remains in a high growth phase and has the philosophy of setting ambitious yet realistic targets to encourage employees and contractors to work effectively and efficiently to ensure this growth. This approach will not change but our expectations are that our Langer Heinrich and Kayelekera Mines will meet production guidance in the 2011/12 year. All efforts are being made at all levels of operations to increase throughput and efficiency, whilst maintaining required sustainability practices.

The Company also made timely acquisitions, at appropriate valuations, of quality uranium assets in Canada and Niger. These uranium projects complement Paladin's pipeline of uranium resources in Australia, giving the Company a long-term strategic stable of assets that cannot be replicated. This position, coupled with Paladin's production centres in Namibia and Malawi and our team's ability to build new operations, means that Paladin occupies a unique space in the global uranium industry. I remind shareholders to reflect on these particular characteristics of your Company, notwithstanding perceived uncertainties in the stock market and the uranium industry.

The Company's strategies for organic and inorganic growth are constantly under review and are considered in the context of the current market dynamics and Paladin's primary focus on production and earnings per share growth. My Board is conscious of the critical stage the Company is now in both in terms of building investor confidence and entrenching its position in the global uranium industry.

Once again, on behalf of my Board and fellow shareholders, I thank John Borshoff and the Paladin team around the world for their dedicated work during what has been a challenging period for them. I also extend a sincere thank you to shareholders for your support.

Yours faithfully



RICK CRABB
Chairman

INSIGHTS FROM THE MANAGING DIRECTOR/CEO

Lowy Institute, Sydney
John Borshoff
20 April 2011

.....I found it quite amazing that within the first week of the earthquake [in Japan], even though information was scarce, politicians were jumping to conclusions and backtracking on nuclear, antagonists were positioning and the frenzy fed by misinformation and fear started to roll out. The phobia that radioactivity, and generally all things nuclear, generates and has always been irrational and during this whole episode little attention was given to what could be considered low level or even moderate level radioactive releases of little danger to humans.

It is incredible for me that this nuclear power plant event took so much of the news traffic overshadowing the huge catastrophe that had happened and I think, much to the shame of the infotainment industries we call "news", marginalising the death and utter destruction this force of nature brought upon this region.

It is with this backdrop that we have watched the extraordinary high profile developments being played out at the Fukushima nuclear power plant where equally extraordinary efforts to stabilise these units are ongoing, it appears with some success. A sideshow has developed which, although understandable as this is the nature of nuclear, nevertheless had a highly distractive impact. The media frenzy and stakeholder positioning that has developed feeding on hyperbole and imagination, with very little leadership or cool heads, is apparent on a global scale and has not helped the situation. The Japanese on the one hand are being embraced by the world in dealing with the earthquake calamity and, on the other hand, are being isolated with the ignorance and fear that is being exhibited by many.

I must preface my remarks stating that I am not an expert in reactor technology and so my comments here will be at a high level. What I am able to say, however, is that the plant withstood forces way beyond its design specifications and its main failure was the inability to withstand massive water inundation, knocking out the auxiliary power generation needed for cooling purposes. Unlike 3 Mile Island and Chernobyl this was not operator error but a consequence of a force of nature.

The Japanese operators are doing a remarkable job and in all likelihood it appears that these units will be stabilised although damage could well be sustained to the fuel rods. The plant in question was one of the earliest built in Japan and even this has, as far as is known, withstood forces way beyond design specifications and containment of the main chamber appears to have withheld and maintained its integrity.

As this all settles down the big issue that will confront Japan and all other economies is to continue producing enough electricity which is the foundation of economic wellbeing. The energy strategists of Japan, many years ago, made the decision that nuclear is essential and it will remain so when considered in terms of environmental, technological, safety and economic grounds. Renewables are out of the question when it comes to baseload power and gas is already overloaded as the key offset to coal. It is my belief that Japan, as for all the nuclear industry, will learn from this, improve and move on. There are lessons to be learnt and this will further improve what is one of the safest industries in the world.

I come back to my airline industry analogy. With all the emotive fear about flying (which has some parallel to the phobia some have with nuclear) in the end, even if you have a serious airline crash or even several crashes at once, this will not stop the airline industry – it will learn, improve and move on – it will not go back to sailing ships for transport or dream of hot air balloons as being alternatives. The parallels in terms of managing risks are all there for us to see.

INSIGHTS FROM THE MANAGING DIRECTOR/CEO (continued)

This leads me to questions of the nuclear industry outlook. I firmly believe that the outlook remains positive. The 440 reactors that exist today will continue to deliver electricity at optimal levels, the 60 odd reactors under construction will be built and those on schedule for construction starts, particularly those in the emerging nuclear economies [such as China, India and the UAE] along with Russia and Korea, will remain.

The peripheral players in all this, particularly with regard to new builds, are the US and Europe. The UK will posture a bit, *Germany will posture but there is no alternative – nuclear is in effect one of the safest industries in the world and will remain so and it is much needed and essential to assist with the massive amounts of new electricity growth that will be required. In terms of environmental performance, technological capability in delivering electricity, safety records and on economic and strategic grounds it is a “must have” in the energy fuel mix required and there is no getting away from this fact. Nuclear has not got to the position that it has because it is loved, it has got there because of its enormous capability to deliver massive amounts of electricity in a carbon free and safe manner. There is no credible replacement for this.

Demand will not appreciably change and the uranium supply to fuel the current and new nuclear fleet becomes even more interesting in my opinion. Those of you who have heard me before know my position that uranium supply is in fundamental shortage. That the US may delay its build programmes (and there is clear evidence that some US utilities want to proceed and build new units) and that the late arrived Germans may hold off a little longer does not change this dynamic. China, Korea, Japan, Middle East and Russia have reaffirmed their commitment to nuclear. In a strange way the current events could well exacerbate this shortage as skittish financial markets retreat which will likely arise leaving a good many juniors unsupported.

In the 1960's and 70's nuclear development was spearheaded by only 5 countries - the USA, USSR, France, Britain and Japan who in the end built 250 reactors between them and were basically the reason the nuclear boom started in the 70's. Not all the 30 countries that would eventually have nuclear started together on day one.

This time we have China, India, the Middle East, Korea and Russia that will lead the charge with about 250 reactors planned by 2030 in addition to the 62 they already operate between them. You can bet, with this lot committed, the other countries will follow en masse as they did in the 70's and 80's. There may be a slight delay as these countries revisit and upgrade as a result of lessons learnt.

In the 70's when nuclear was regarded with great optimism, the projections were to build 1,000 reactors by the turn of the century. Supply from new mines increased rapidly in the 70's and utilities worldwide accumulated huge inventories in anticipation to support this predicted growth. Then 3 Mile Island – 1979 and Chernobyl – 1986 (in addition to economic factors) completely derailed this growth expectation causing the collapse of the uranium market. Suppliers went out of business, uranium miners merged and rationalised where possible in a bid to survive, others just abandoned their projects to welcome what was to become a truly bleak period for nuclear. Uranium prices collapsed and the outlook for the whole industry turned dismal leaving only a handful of players and, for 25 years, a hopelessness existed as the nuclear industry stagnated.

It is my strong opinion that this reaction will not be repeated as the industry has matured and has an excellent track record compared to other industries.

* The German government subsequently implemented a revised phase out plan shutting 8 reactors immediately and closing the remaining 9 plants by 2022.

NUCLEAR POWER – MEETING THE CHALLENGE

After the Japanese tsunami

In last year's Annual Report we emphasised the resilience of the nuclear electricity industry in the wake of the global financial crisis and noted the strong growth of nuclear power worldwide. This year we have to address the outlook for nuclear power after the tsunami in Japan damaged the Fukushima plant which has raised some questions about the safety of nuclear power and led to a reappraisal of nuclear power programmes in some countries.

What happened as a result of the tsunami?

On 11 March 2011 the eastern coast of Japan's Honshu Island was devastated by a magnitude 9.0 earthquake centred about 130km offshore from the city of Sendai in Miyagi Prefecture. The earthquake was very severe and caused Japan to move a few metres eastward and the local coastline subsided by half a metre. The subsequent tsunami, estimated to be 15 metres at the coastline, inundated about 560 square kilometres and caused the deaths of more than 20,000 people.

Eleven nuclear power reactors in the affected region were operating at the time of the earthquake and all shut down automatically at the time of the seismic shock. The reactors operated by Tohoku Electric Power Company and Japan Atomic Power Company were largely undamaged, but the four units at Tokyo Electric Power Company's (TEPCO) Fukushima Daiichi plant were seriously compromised by the tsunami floodwaters. Investigations have shown that units 1-3 escaped major earthquake damage but lost external power supply causing emergency generators in the basement of the turbine buildings to start and provide power to the vital cooling circuits. The primary tsunami wave hit the plants 41 minutes after the earthquake and drowned the emergency generators and swept away vital pumps and emergency systems. TEPCO engineers faced an unprecedented challenge to avoid excessive core temperatures causing possible ruptures to primary containment structures and also to manage degradation of on-site spent fuel storage ponds in an environment of destruction of vital infrastructure caused by the tsunami. Graphic television images of hydrogen explosions at three of the units flashed around the world adding to the sense of disaster which threatened to overshadow the human toll of the tsunami on local communities.

Now, more than five months after the tsunami, TEPCO, with the assistance of nuclear companies worldwide, is making significant progress towards achieving cold shutdown of units 1-3 by January 2012 and maintaining adequate cooling of spent fuel storage ponds. The evacuation area around the Fukushima plant is still in force, causing major disruption to tens of thousands of people, and radiation levels, while now low, are subject to strict monitoring.

Global impact

The immediate impact was an outpouring of dramatic and often hysterically exaggerated media coverage worldwide. The unique circumstances of the accident and the fact that "precautions" were often reported as "occurrences" led to comparisons with Chernobyl which were entirely unjustified. Data has subsequently shown that total radiation releases (calculated as "iodine-131 equivalent") were between 10-15% of Chernobyl releases. Public anxiety was fuelled by a lack of high quality information in the early days of the crisis and a general ignorance of radiation risks and exposure concepts amongst many in the media. In many countries anti-nuclear advocates used the accident as an opportunity to make their case against nuclear electricity without concerning themselves with many of the details. In this potent mix of perceived "nuclear disaster" there were immediate calls for the closure of nuclear plants regardless of their design or location and in some cases a demand for termination of national nuclear power programmes. The German government immediately re-instated its nuclear phase-out policy, shutting permanently 8 reactors and mandating the closure of the remaining 9 plants by 2022. The Japanese government has also announced a review of the country's long-term reliance on nuclear power. In other countries a more pragmatic response is emerging.

Nuclear power today

The public reaction has jolted the civil nuclear industry and governments of nuclear electricity dependent countries into recognising that more has to be done to explain the real risk versus reward proposition of nuclear power. In particular, the real off-site consequences of a major reactor accident have to be better understood and explained. After a flurry of post-accident announcements about reviewing reactor safety and operations, most nuclear power countries have renewed their support for

NUCLEAR POWER – MEETING THE CHALLENGE (continued)

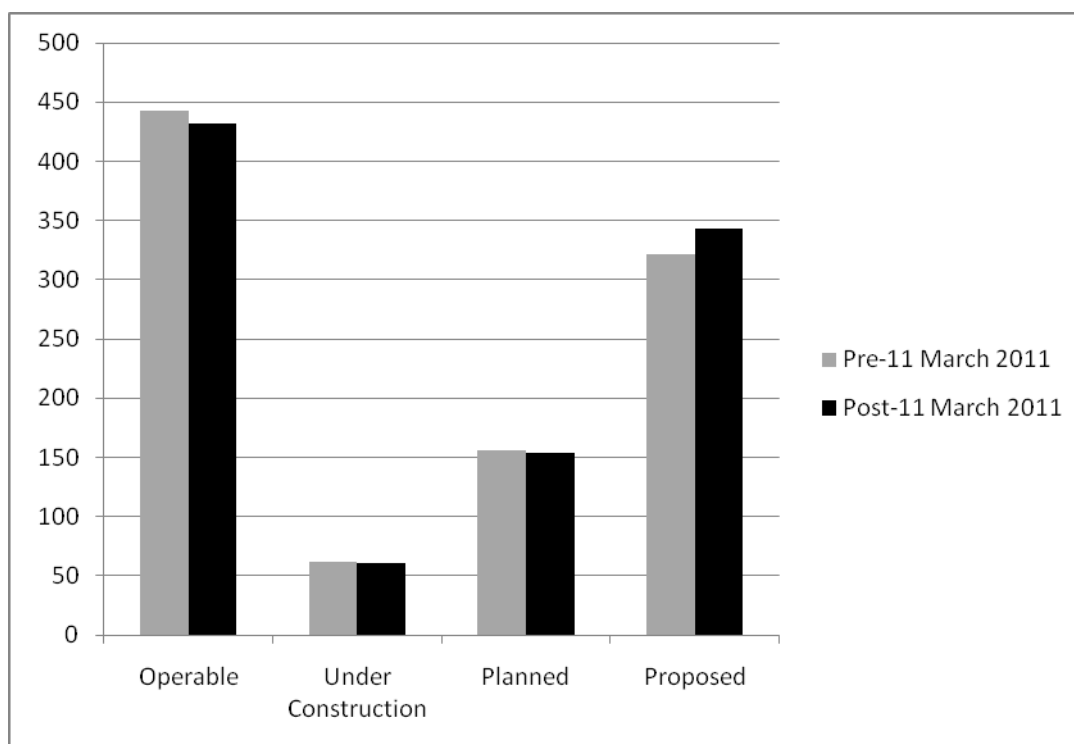
their own civil power programmes. This is because the case for nuclear power is still overwhelmingly compelling. The world's population is likely to exceed 9 billion people by 2050, entailing a tripling in demand for electricity. CO₂ and climate change policies will increasingly constrain the use of high-carbon release fuels and, despite recent events, nuclear power is and remains a safe and efficient source of large scale electricity production.

Status of nuclear power programmes post the events in Japan

We have updated the table we provided in last year's Annual Report to reflect the world, post the Japanese tsunami. This year there are 432 nuclear power plants in operation worldwide after Germany's permanent closure of 8 plants (last year, 440) providing 14% of the world's electricity in 2010 (last year, 14%). There are 61 new plants under construction (last year, 59), and 154 in the "planned" category (last year 149). The number of plants in the "proposed" category has fallen by 1 to 343. These numbers indicate that apart from the unique domestic issues affecting Japan and Germany, nuclear power will maintain its vital position as a major electricity source for today and well into the future.

[illegible]

NUCLEAR POWER – MEETING THE CHALLENGE (continued)



Current market and long-term uranium outlook

The growth in uranium production slowed in 2010 to 53,663 mtU/139,512,409lbs (up only 6% from 50,772 mtU/131,996,423lbs in 2009) as the continued rise in Kazakhstan output (17,803 mtU/46,284,021lbs in 2010, up 27% from 14,020 mtU/36,449,024lbs in 2009) and the increasing production from the Company's Kayelekera Mine Malawi (644 mtU/1,674,263lbs) was substantially offset by a significant production shortfall in Australia and smaller declines in Canada and Namibia.

We repeat our past assertions that pressures and constraints on the supply side of the industry are real and still unresolved. To the extent that investor appetite has been discouraged, we believe uranium supply will continue to be tight over the medium and longer term.

Uranium prices emerged from a depressed period during the year when the spot price moved from US\$41.75/lb U_3O_8 in July to a peak of US\$73.00/lb U_3O_8 in February 2011. The Japanese situation in March 2011 saw prices weaken, reaching a low of US\$54.25/lb U_3O_8 in June 2011. The term uranium price strengthened from US\$60/lb U_3O_8 to reach US\$73/lb U_3O_8 in February 2011 before easing off to US\$68/lb U_3O_8 in May 2011. The Company continues to expect prices for both spot and term supply to resume their upwards trend once the short-term negative impact of the Fukushima accident has been fully absorbed and understood by the market.

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) for Paladin Energy Ltd (Paladin or the Company) should be read in conjunction with the Directors' Report and the audited Financial Report for the year ended 30 June 2011. The effective date of this report is 31 August 2011.

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

In addition to these Australian requirements further information has been included in the Consolidated Financial Statements for the year ended 30 June 2011 in order to comply with applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

Additional information relating to the Company, including public announcements, is available at www.paladinenergy.com.au.

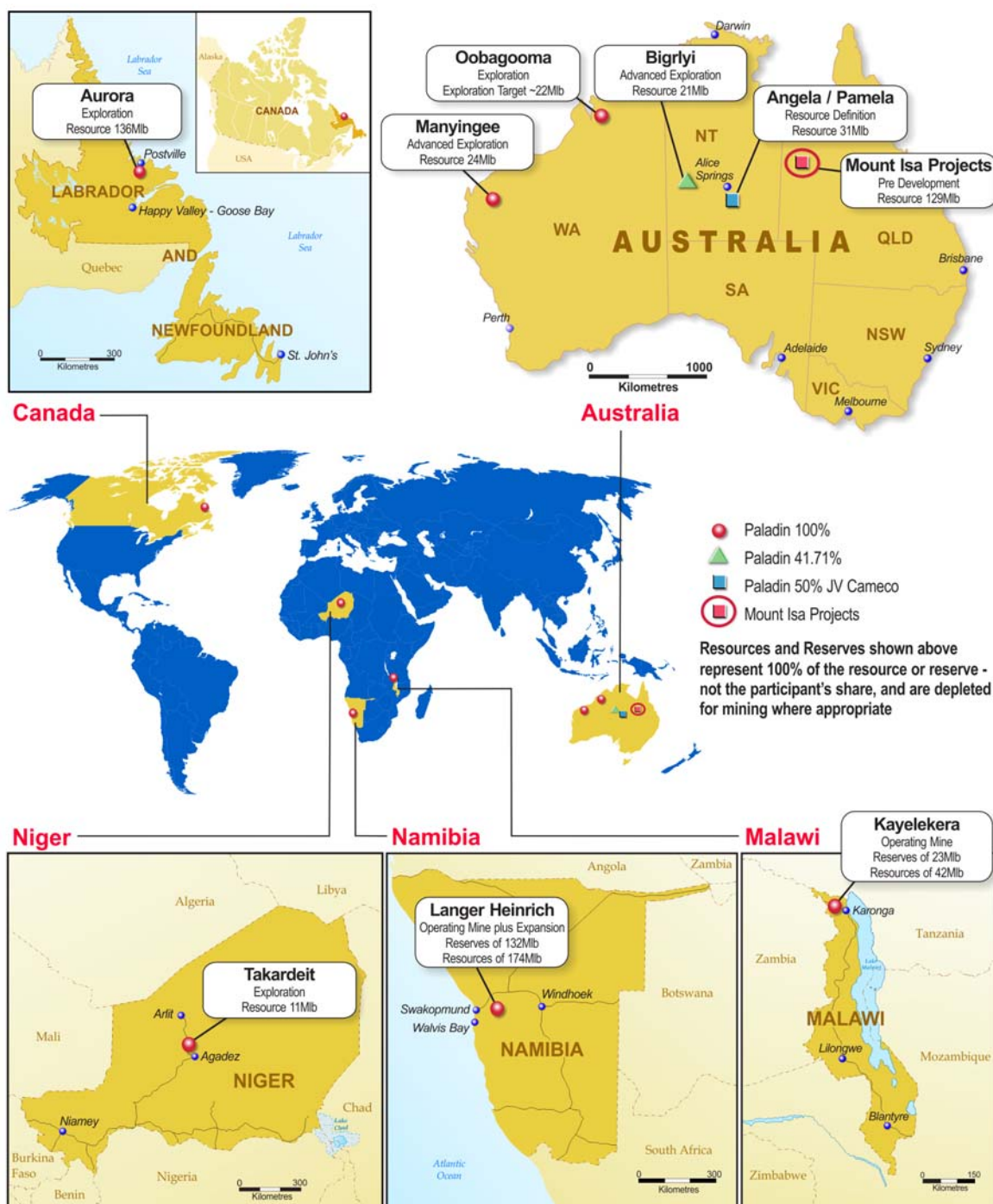
FORWARD LOOKING STATEMENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS



In addition to the resources illustrated above, the Company has a 19.98% interest in Deep Yellow Ltd (ASX: "DYL") which has projects located near Langer Heinrich in Namibia and Mount Isa in Australia.

Paladin's total Mineral Resource inventory includes 163,786t U_3O_8 (361.1Mlb of U_3O_8) at 0.070% U_3O_8 in the Indicated and Measured categories (including ROM stockpiles), an 85% increase from that reported in the previous year. Paladin also holds 75,857t of U_3O_8 (167.2Mlb of U_3O_8) at 0.06% U_3O_8 in the Inferred Resource category, a 12% increase from that reported for the previous year. A summary of the status of each of the advanced projects is detailed in the following table. This table does not include Mineral Resources from Bikini, Andersons and Watta deriving from Paladin's 82.08% ownership of Summit Resources Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

<u>Project</u>	<u>Overview</u>	<u>Mining Method/ Deposit Type</u>	<u>Outlook</u>	<u>Resources</u>	
<u>Uranium Production</u>					
* Langer Heinrich Mine - 100% (Namibia, Southern Africa)	The Company's cornerstone asset commenced production in 2007. The Stage 3 expansion is essentially complete with production expanding to 5.2Mlb pa commencing ramp-up in CY2011. To reach nameplate capacity in first quarter of 2012. Studies are underway for a further expansion to 10Mlb pa.	Conventional open pit; calcrete	Project life in excess of 20 years	M&I (inc stockpiles):	125.9Mt @0.054% (149.9Mlb U ₃ O ₈)
				Inferred:	18.6Mt @0.06% (24.2Mlb U ₃ O ₈)
*Kayelekera Mine – 100% (Malawi, Southern Africa)	Paladin's second operational uranium mine announced commercial production in July 2010. Ramp-up to 3.3Mlb pa is expected to be completed end CY2011. Optimisation of the plant is currently underway.	Conventional open pit; sandstone	10 year project life remaining	M&I (inc stockpiles):	19.1Mt @ 0.08% (34.2Mlb U ₃ O ₈)
				Inferred:	5.5Mt @ 0.06% (7.6Mlb U ₃ O ₈)
<u>Uranium Development</u>					
*Aurora Project – 100% (Labrador, Canada)	Paladin's first entry into Canada. Resource definition and additional exploration will be the next steps for this project.	Open pit - underground; metasomatic	Development dependent on regulatory policy implementation	M&I:	40.2Mt @ 0.09% (83.8Mlb U ₃ O ₈)
				Inferred:	29.1Mt @ 0.08% (53.0Mlb U ₃ O ₈)
**Manyingee Project – 100% (Western Pilbara, Western Australia)	Resource definition drilling is currently planned and expected to commence after access is achieved.	In-situ leach; sandstone	3 year staged feasibility study required	M&I:	7.9Mt @ 0.102% (17.8Mlb U ₃ O ₈)
				Inferred:	5.5Mt @ 0.05% (6.2Mlb U ₃ O ₈)
Oobagooma Project – 100% (West Kimberley, Western Australia)	A key pipeline asset for Paladin.	In-situ leach; sandstone	3 year reserve/resource drilling required	Exploration target:	8.0Mt @ 0.12%-0.14% U ₃ O ₈
*Valhalla & Skal Deposits – 91.04% (Queensland, Australia)	Paladin's primary Australian asset advancing towards future production. A large effort is being made to expand the current resource, continue environmental studies and move towards a Feasibility Study late 2012.	Open pit - underground; metasomatic	Development dependent on Queensland Government U Policy changes	M&I:	39.0Mt @ 0.08% (68.8Mlb U ₃ O ₈)
				Inferred:	17.5Mt @ 0.06% (21.9Mlb U ₃ O ₈)
*Bigrlyi Deposit – 41.71% (Northern Territory, Australia)	An expanded exploration budget for the year will target increasing the known resources and accessing untested regional targets with JV partner, Energy Metals.	Open pit - underground; sandstone	Prefeasibility Study if sufficient resources	M&I:	4.7Mt @ 0.14% (14.1Mlb U ₃ O ₈)
				Inferred:	2.8Mt @ 0.11% (7.1Mlb U ₃ O ₈)
*Angela Deposit – 50% (Northern Territory, Australia)	In conjunction with JV partner Cameco both resource definition and preliminary economic analysis of the asset is being advanced during 2011.	Open pit - underground; sandstone	Prefeasibility Study to follow resource validation	Inferred:	10.7Mt @ 0.13% (30.8Mlb U ₃ O ₈)

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

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

*Complies with JORC(2004) guidelines & is NI 43-101 Compliant.

**Complies with JORC(1999) guidelines.

For Valhalla and Skal, Paladin's interest is based on 50% deriving from the Isa Uranium Joint Venture and 41.04% via Paladin's 82.08% ownership of Summit Resources Ltd.

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

Langer Heinrich and Kayelekera Mineral Resources have been depleted for mining to the end of June 2011.

M&I = Measured and Indicated.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

NAMIBIA

LANGER HEINRICH MINE (LHM)

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

Langer Heinrich is a surficial, calcrete type uranium deposit containing a Mineral Resource of 74,415t U_3O_8 at a grade of 0.06% U_3O_8 (250ppm U_3O_8 cut-off grade) in seven mineralised zones designated Detail 1 to 7, within the 15km length of a contiguous paleodrainage system. The deposit is located in the Namib Desert, 80km from the major seaport of Walvis Bay. The Detail 1 to 7 figure shows the location of the uranium mineralisation along the length of the Langer Heinrich valley.

Operations

Production totalled 3.525Mlb, up 5% from 3.352Mlb the previous year. The project operated successfully at near Stage 2 nameplate rates of 3.7Mlb pa for most of the year and fell short only as a result of an unprecedented wet period between January and April 2011.

The 174Mlb deposit allows for a minimum 20 year project life based upon proposed Stage 3 production rates. During the year 5,812,821t of ore was mined at an average grade of 773ppm. Additional low-grade material totalling 1,745,172t at 308ppm was mined and stockpiled for future down-blending and potential heap-leach. The average strip ratio for the year was 0.57:1 with an overall recovery of 80% achieved.

Construction and commissioning of the Stage 3 expansion is well advanced which will bring the nameplate production design from the current 3.7Mlb to 5.2Mlb pa. Delays have been experienced in completing the expansion and conclusion of construction is expected in October 2011. Staged commissioning is underway. The second crushing system, with a much larger scrubbing unit, was operational and contributing to production at the end of the 2011 financial year with improved plant availability and increased scrubbing efficiencies already apparent.

The Stage 4 expansion feasibility study is progressing well in regards to process design and capability estimation. The current target is to produce 8.7Mlb pa by conventional ore processing and a further 1.3Mlb pa from the treatment of low grade material. Efforts to date have focused largely on the conventional ore treatment plant, plus optimisation of the mining sequence. The study completion is expected by the December quarter of 2011.

Following completion of drilling for the Stage 4 Mineral Resource update, a new Ore Reserve using Stage 4 processing parameters is expected during the second half of 2011. The Mineral Resource is detailed below at a cut-off grade of 250ppm U_3O_8 .

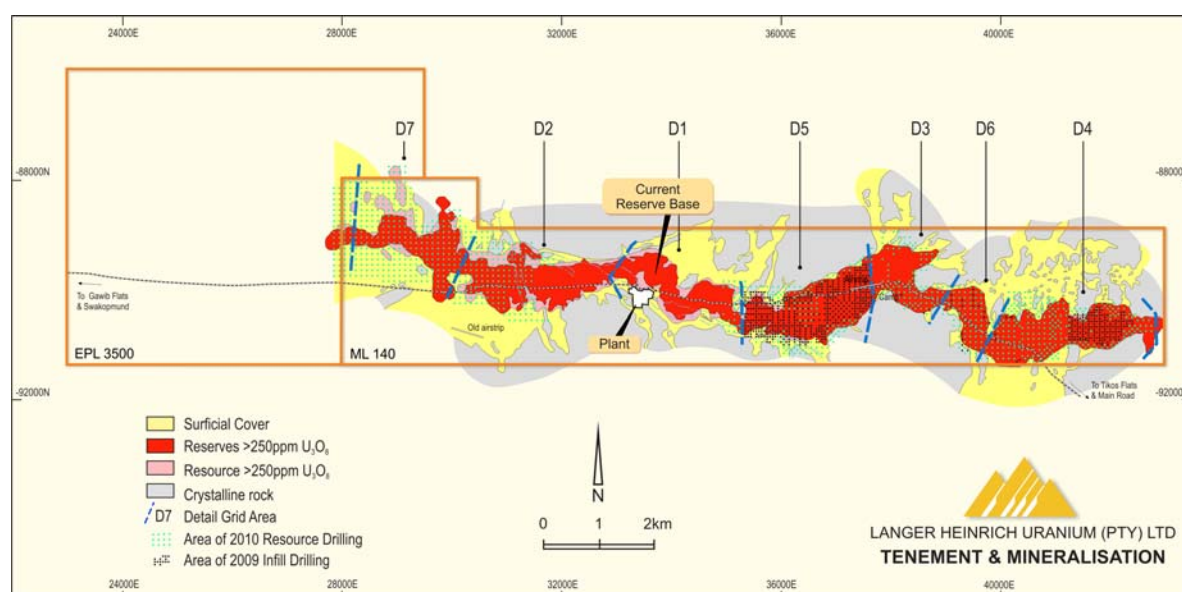
Mineral Resource estimate (depleted for mining at end of June 2011) for Details 1 to 7:-

250ppm Cut-off	Mt	Grade % U_3O_8	t U_3O_8	Mlb U_3O_8
Measured Resources	34.1	0.055	18,337	40.42
Indicated Resources	76.2	0.055	42,208	93.05
Measured + Indicated	110.3	0.055	60,545	133.48
Stockpiles	15.6	0.050	7,445	16.41
Inferred Resources	18.6	0.06	10,990	24.2

(Figures may not add due to rounding and are quoted inclusive of any Ore Reserves. Due to a software issue the previous resource was understated by 2.7Mlb)

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)



Ore Reserve

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

Ore Reserve Estimate (250ppm U₃O₈ cut-off)

250ppm Cut-off	Mt	Grade % U ₃ O ₈	t U ₃ O ₈	Mlb U ₃ O ₈
Proved Ore Reserve	28.5	0.055	15,431	34.02
Probable Ore Reserve	65.0	0.055	36,842	81.22
Stockpiles	15.6	0.050	7,445	16.41
Total Ore Reserve	109.2	0.055	59,718	131.7

Ore Reserve has been depleted for mining to the end of June 2011

Compared to the previous ore reserve of 65.8Mlb announced in 2008, the 2010 Ore Reserve estimate represented a 104% increase in contained U₃O₈ when announced. The Ore Reserve has been estimated from the Measured and Indicated Mineral Resource of 139.3Mt at a grade of 0.055% U₃O₈. The Mineral Resource estimate is based on Multi Indicator Kriging and incorporates a specific adjustment based on expected mining parameters. As a result additional dilution and mining recovery are not included in the Ore Reserve estimation.

The cost parameters used in the reserve estimation are now well established and as such their inclusion can reasonably be justified. The revenue rate used in the estimate was US\$60 per lb and is regarded as appropriate when compared to the blend of UxC spot price and existing term contracts.

These reserves form the basis of the detailed mine planning for the Project. The revised mine model will allow a project life in excess of 20 years, based on the expansion of processing capability to 5.2Mlb pa.

Exploration (EPL3500)

EPL3500 abuts the Langer Heinrich Mining Lease to the west and includes the sediment covered western extension of the mineralised Langer Heinrich palaeochannel.

Following on from initial exploration drilling and a follow-up airborne EM survey, a more extensive exploration and resource definition drilling programme was completed by mid 2010. All the data was validated and compiled into the Langer Heinrich resource dataset and was used as input into the current Mineral Resource estimation. Some areas close to the mining lease remain open and a drilling programme to test these areas was completed in August 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

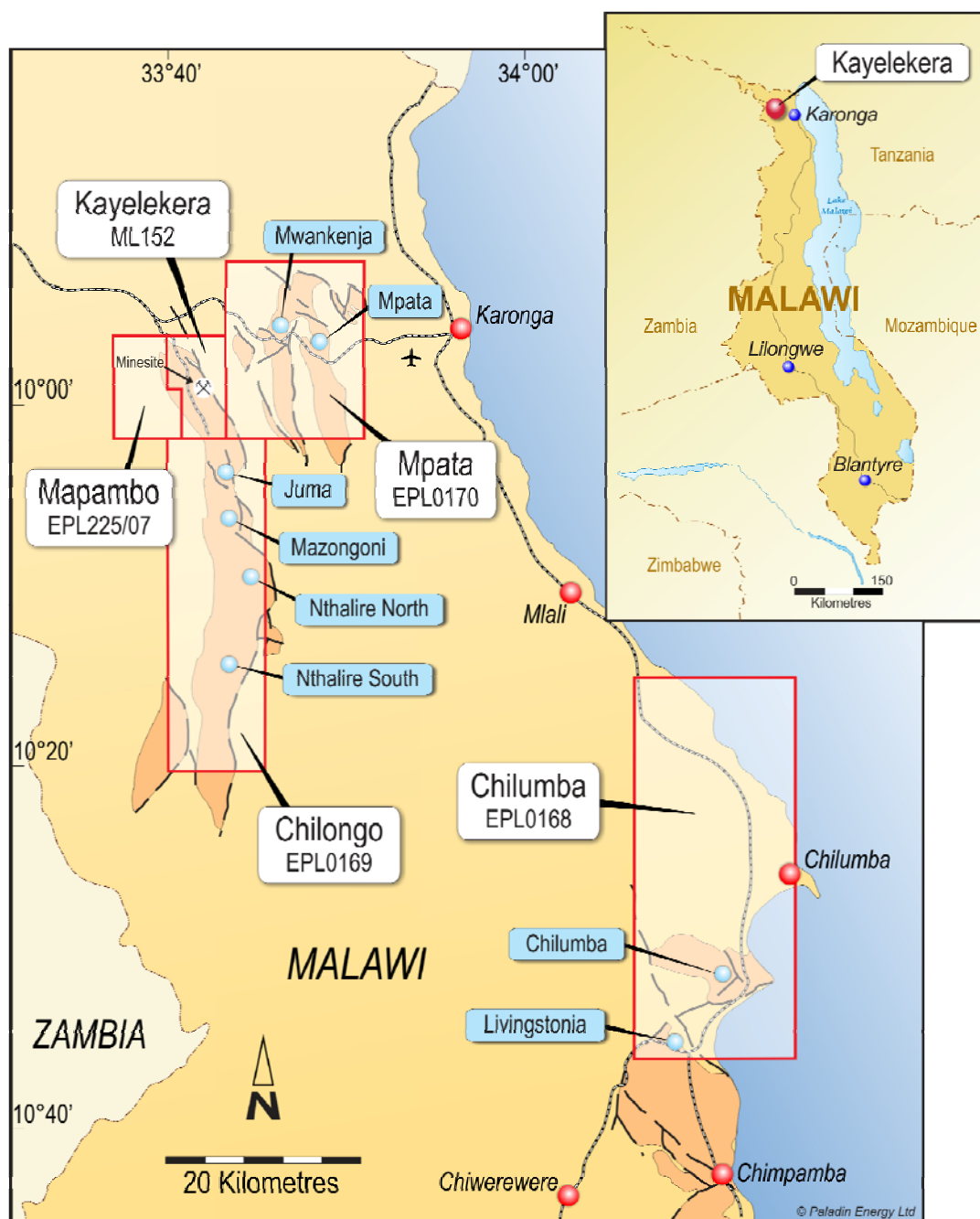
REVIEW OF OPERATIONS (continued)

MALAWI

KAYELEKERA MINE (KM)

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

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



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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

The Mining Licence, ML 152, covering 5,550 hectares was granted in April 2007 for a period of 15 years, following the completion of a Development Agreement with the Malawi Government. A Bankable Feasibility Study and Environmental Impact Assessment followed and construction started in June 2007 with completion in early 2009. The open pit mine continues to ramp up to full scale production with nameplate production expected early in the CY2012.

Operations

Operations at KM in FY2011 produced 2.169Mlbs, an increase of 125% from the 963,000lbs produced in FY2010. While the operation did not obtain steady nameplate during the financial year, it made substantial positive steps toward the operation's design of 3.3Mlb pa. The project is expected to achieve this capacity midway through the 2012 financial year as the technical challenges and bottlenecks for production have now been largely resolved.

The main reasons for not obtaining nameplate production within the specified period have centred around getting the first modern Resin in Pulp (RIP) treatment plant operational, and tackling plant availability and throughput restrictions. Heavy rains and some shortages of diesel in Malawi during mid year also contributed to the delay.

A key feature of the Kayelekera process plant is that it is the first RIP facility in the Western world for uranium production. While there have been challenges during the early days of the application of this new technology, Paladin is now the front runner on RIP application in the uranium recovery sector and will benefit from this position.

Processing of the various ore types involves the use of sulphuric acid, which is successfully produced at the site's acid plant. Sulphur, as well as other key reagents, is transported to site via truck from various points of entry.

During the year, 946,410t of ore was mined at an average grade of 1,448ppm. Additional low-grade material of 582,181t was mined at an average grade of 514ppm. The average strip ratio for the year was 1.6:1 with 1,022,843t of ore crushed.

Transport of uranium oxide operates successfully by convoy through Zambia to Walvis Bay, Namibia where it is shipped to converters in North America.

Electricity is produced by on-site diesel generation, which has shown to be very effective. Further improvements and cost savings are expected with the installation of a steam turbine to be driven off the acid plant in the new financial year. The steam turbine will deliver up to 2MW of electricity while at the same time helping to reduce site dependence on diesel fuel. Advancement of infrastructure, particularly roads in the areas, hospitals and vendor suppliers, continues in Northern Malawi.

Work has commenced on a combined programme of equipment maintenance and relocation resulting from localised earth movement due to a land slip to the west of the plant adjacent to the drying/packaging and acid plants. The rectification programme includes movement of a portion of the waste stockpile, continued instrument monitoring of affected areas, the installation of a borehole pumping system to reduce groundwater pressures, rehabilitation and where necessary, relocation of plant equipment out of the affected area. A claim for the cost has been lodged with the insurers.

Mineral Resources and Ore Reserves Estimation

An updated Joint Ore Reserves Committee (JORC) and Canadian National Instrument 43-101 (NI 43-101) Mineral Resource and Ore Reserve is currently being estimated for the Kayelekera ore body. The estimate will include all data from the 2010 and 2011 infill and extension drilling programme totalling 133 holes and 14,887m.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

Details for the current Mineral Resource are as follows:

Mineral Resource at 300ppm U₃O₈ Cut-off

	Mt	Grade ppm U ₃ O ₈	Tonnes U ₃ O ₈	Mlb U ₃ O ₈
Measured Resources	1.80	1,193	2,149	4.7
Indicated Resources	16.39	768	12,579	27.7
Total Measured & Indicated	18.19	810	14,728	32.5
Stockpiles	0.94	822	770	1.7
Inferred Resources	5.5	625	3,447	7.6

(Figures may not add due to rounding and are quoted inclusive of any Ore Reserves and are depleted for mining to end of June 2011)

The previously reported Mineral Resources (at 300ppm U₃O₈ cut-off) were 22.2Mt of Measured and Indicated Resources grading 800ppm U₃O₈ (17,757t or 39.1Mlb of contained U₃O₈) and 3.9Mt of Inferred Resources grading 552ppm (2,152t or 4.7Mlb of contained U₃O₈).

Ore Reserves

Economic analysis on this Resource has indicated a break-even cut-off grade of 400ppm.

Ore Reserve at 400ppm U₃O₈ Cut-off

	Mt	Grade ppm U ₃ O ₈	Tonnes U ₃ O ₈	Mlb U ₃ O ₈
Proved Reserve	1.18	1,333	1,578	3.5
Probable Reserve	8.73	948	8,282	18.3
Stockpiles	0.94	822	770	1.7
Total Ore Reserve	10.85	979	10,630	23.4

(Figures may not add due to rounding and are depleted for mining to end of June 2011)

The Ore Reserve is unchanged from the one announced in 2008 as there was no material change in the Measured and Indicated category Mineral Resources. The 2011 drilling programme, which is designed to infill a substantial portion of the Inferred resources, is expected to result in an updated Ore Reserve.

The cost parameters used in the reserve estimation are now well established and as such their inclusion can reasonably be justified. The revenue rate used in the estimate was US\$60 per lb and is regarded as appropriate when compared to the blend of UxC spot price and existing term contracts.

The 2008 Reserve suggests an increase in mine life of 1½ years to 9 years at the annual design production rate after year 1 of 3.3Mlb U₃O₈ when the Inferred material occurring within the pit design is included. Processing of marginal ores at the end of mine life is expected to add an additional 3 - 4 years to the mine life.

The 2010 drilling has also shown that the mineralisation is not yet fully delineated, particularly at depth with additional mineralisation identified below the current mine units. The 2011 drilling programme is continuing and is anticipated to be finalised by the end of September 2011. The programme is expected to better identify the mineralisation below the current pit design.

Exploration

Work early in the year concentrated on drilling existing targets on the exploration leases, particularly at Mpata, Juma and to the immediate south of KM. Geological mapping, prospecting and ground radiometric surveys were undertaken and this work identified new targets at Mazongoni and Nthalire to the south of the mine as well as targets at Mwankenja to the east. Radiometric anomalies located at Chilumba, south of Karonga, have also been planned for drill testing. Drilling continues on the targets that have been identified.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

NIGER (West Africa)

PROJECT AGADEZ

Project Agadez is located in northern Niger, north-west Africa, 30km west and north-west of the township of Agadez. It includes 3 exploration concessions, Tagait 4 (TAG4), Tolouk 1 (TOU1) and Terzemazour 1 (TER1), totalling 1,480km².

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

The tenements are located in the Tim Merso Basin and are prospective for sandstone type uranium mineralisation in Carboniferous, Permian and Jurassic sediments. The basin has historically produced in excess of 280Mlb U₃O₈ from two Areva mines (Somair and Cominak).

NGM had announced a low grade Inferred Mineral Resource of 11Mlb U₃O₈ at 210ppm at a cut-off grade of 120ppm U₃O₈ from its drilling in shallow Jurassic sediments. Paladin has developed an exploration programme to identify higher grade uranium mineralisation in the lower carboniferous stratigraphies of the area.

A drilling programme which started in March 2011 was completed in early July with a total of 11,813m in 51 drill holes drilled. Numerous downhole radiometric anomalies were encountered, mainly in the prospective carboniferous strata. This initial drilling programme was wide spaced with hole spacing of 400 to 800m along profiles up to 8km apart. Although the anomalism was generally narrow (less than 1m) counts were locally often high (up to 19,700cps = approximately 0.77% eU₃O₈) and anomalous strata could be correlated at distances of up to 8km resulting in substantial follow-up targets for the next drilling programme. The best intersection was encountered in hole TOCE18 at 230m showing 1.4m at 0.25% eU₃O₈.

Due to the security situation caused by Al-Qaeda activities, no experienced expatriate personnel from Paladin could visit the project site. On-ground exploration was carried out by local staff, with technical guidance from Perth head office.

CANADA

MICHELIN PROJECT

The Michelin Project is located 140km north of Goose Bay and 40km southeast of the community of Postville, Labrador, Canada.

On 1 February 2011 Paladin completed the acquisition of the uranium assets of Aurora Energy Resources Inc. (Aurora) from Fronteer Gold Inc. (TSX-FRG, AMEX-FRG). Paladin now holds title to significant uranium assets within the highly prospective Central Mineral Belt (CMB) of Eastern Canada.

The CMB is one of the few remaining, underexplored uranium districts globally and this acquisition not only provides a noteworthy mid-term development asset but also offers an excellent opportunity for new discoveries and expansions of the existing deposits. This highly strategic transaction fulfils Paladin's long held ambition to expand into Canada, a leading country in uranium mining, both in terms of resources and its stable political and business environment, providing the Company with an important new platform from which to plan its continued growth.

The resources are of a similar type to the Mount Isa deposits and the expertise gained in the Mount Isa region will enable Paladin to quickly develop targeting criteria and recognise new prospective trends for drill testing.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

NI 43-101 compliant U₃O₈ Mineral Resources are as follows:

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

The resources are reported at cut-off grades that contemplated underground (0.05% U₃O₈ cut-off) and open pit (0.02% U₃O₈ cut-off) mining, based on preliminary economic assumptions, and as such will be redefined utilising Paladin's expertise.

Much of the Michelin Project area is within Labrador Inuit Settlement Area (LISA) governed by the Inuit. In April 2008, the Nunatsiavut Government imposed a three-year moratorium on uranium mining on part of these lands, to be reviewed after 31 March 2011. The moratorium was put in place to give the government time to develop environmental legislation and finalise its land use plan.

Formulation of the land use plan is progressing which, together with environmental legislation, will allow evaluation and regulation of significant development projects. The Company is awaiting the lifting of the three year moratorium on uranium mining by the Nunatsiavut Government which is expected towards the end of 2011.

Aurora consults regularly with the Nunatsiavut Government, Inuit Community Governments, and community members on the Company's plans and activities in Labrador, as well as on the progress and the process involved to develop the Michelin Project. Community meetings have focused on uranium mining and how it can be carried out safely; training, employment and procurement opportunities; and environmental protection and tailings management.

Activities are being maintained at the minimum level possible and this status will not change until the moratorium is lifted. Currently the Aurora technical data is being integrated into the Paladin data system. Work has started on geological and geophysical interpretation of the regional data set to identify new prospective targets to guide future exploration and drilling.

Once the moratorium has been lifted an exploration programme will be targeted at expanding the known resource centres as well as new target development and testing.

QUEENSLAND

Summit Resources (Aust) Pty Ltd (SRA), a wholly owned subsidiary of Summit Resources Ltd (Summit), operates the Isa Uranium Joint Venture (IUJV) as well as the Mount Isa North Uranium Project. Paladin has a 82.08% majority shareholding in Summit. These areas cover approximately 1,459km² and host a number of uranium deposits and resources including the Valhalla and Skäl deposits.

In January 2009 Paladin completed the takeover of Fusion. This added Fusion's Valhalla North Project uranium resources, including Honey Pot and Duke Batman, on 457km² of prospective ground to the suite of Queensland uranium properties.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

ISA URANIUM JOINT VENTURE

Summit Resources (Aust) Pty Ltd 50% and Manager

Mount Isa Uranium Pty Ltd 50%

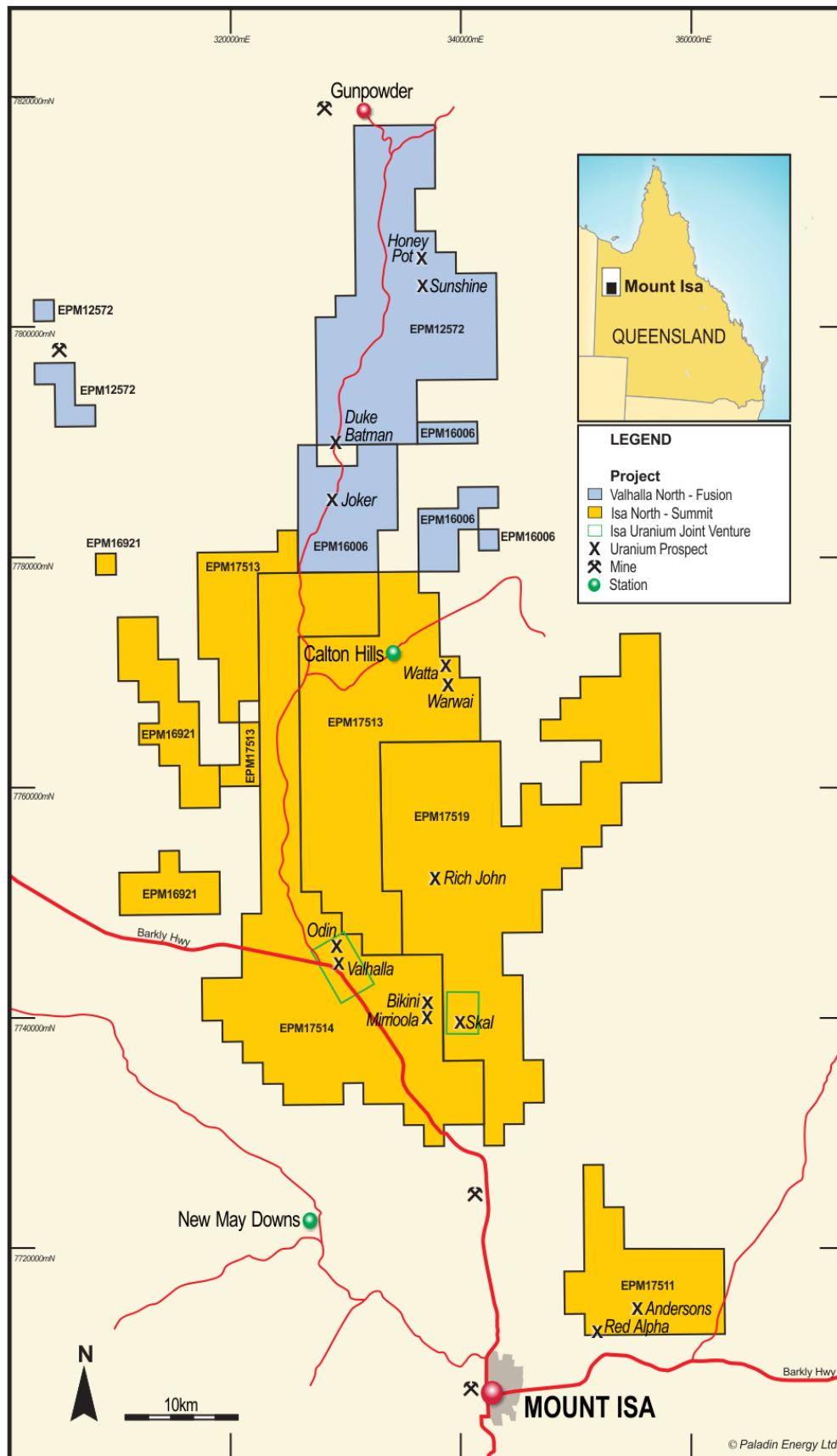
The IUJV covers ground containing the Valhalla and Skal uranium deposits 40km north of Mount Isa in Queensland. Participants in the Joint Venture are SRA and Mount Isa Uranium Pty Ltd (MIU), each holding a 50% interest with SRA as manager.

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

Ground subject to the IUJV covers 17km² at Valhalla and 10km² at Skal. These two areas lie within a much larger holding of contiguous tenements of 1,786km² held 100% and managed by SRA and Paladin.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)



MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

Preliminary Assessment

Mineralogical investigations and preliminary metallurgical testwork programmes have succeeded in developing a process flowsheet for the treatment of the Valhalla material which was used as the basis for determining resource requirements for a viable project and to provide some focus for exploration and further investigations.

The study identified a number of areas where project economics can be improved. Exploration efforts are now focused on increasing the mineable resource base, in close proximity to Valhalla aiming to develop a robust mining model.

Valhalla Uranium Deposit

The Valhalla uranium deposit is located 40km north-west of Mount Isa on Exploration Permit for Minerals (EPM) 17514. Previous drilling by Queensland Mines Ltd in the 1960's, and SRA in the 1990's and 2000's, established a combined Measured, Indicated and Inferred Mineral Resource of 56Mlb of U_3O_8 grading 0.14%. Substantial widths of high grade uranium mineralisation in albite-carbonate-hematite breccias and mylonites as well as altered mafic rocks have been intersected in the latest drilling at Valhalla. The deposit is hosted within basalts and basaltic sediments of the Eastern Creek Volcanics, trends north-south and is approximately 1,100m in strike length.

In the September 2010 quarter a Mineral Resource estimate conforming to both the JORC (2004) guidelines and the requirements of NI 43-101 was completed for the Valhalla uranium deposit following validation and compilation of data from drilling undertaken earlier in the year. The estimate covers the main Valhalla deposit as well as the south eastern extension, Valhalla South.

The updated Mineral Resource estimate for the Valhalla uranium deposit is quoted using a cut-off grade of 230ppm U_3O_8 .

Measured and Indicated Mineral Resources increased by 5.6% to 63.4Mlb U_3O_8 (28,778t U_3O_8). (see table at the end of this section for more detail).

Odin Uranium Deposit

The Odin uranium deposit is located (1km) north of Valhalla at EPL17514. A 99 hole resource definition drilling programme totalling 16,044m was completed at Odin by September 2010 with a maiden Mineral Resource completed in December 2010.

The Odin uranium deposit now has a strike length of 600m and contains two mineralised lenses. The main lens trends north-north-east and dips 50° – 60° to the east. The smaller southern lens strikes north-south and dips steeply to the east. The Mineral Resource is currently classified as Inferred, primarily due to drill spacing and the number of bulk density determinations within the dataset. Additional drilling is currently underway with an updated Mineral Resource estimate expected late in 2011.

The initial Inferred Mineral Resource estimate for the Odin uranium deposit is quoted using a cut-off grade of 250ppm U_3O_8 (see table at the end of this section for more detail).

Skal Uranium Deposit

At Skal a resource development drilling programme of 28 holes totalling 4,566m was halted in early December 2010 due to the wet season. Encouraging results so far include:

SD0129	from 50m to 91m down hole, totalling 41m at 838ppm U_3O_8
SR0138	from 165m to 215m downhole totalling 50m at 1,394ppm U_3O_8

A resource upgrade for Skal is expected late in the 2011 following completion of the drilling programme.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

MOUNT ISA NORTH URANIUM PROJECT

Summit Resources (Aust) Pty Ltd 100% and Operator

The project is located 10km to 70km north and east of Mount Isa and contains numerous uranium anomalies, most of which still have to be investigated thoroughly. Exploration continues on Summit's 100% owned Mount Isa North Project where Summit holds 1,356km² of granted tenements that are prospective for uranium, copper and base metals. The tenements are centred on the city of Mount Isa. The project includes the Bikini, Watta and Anderson uranium deposits as well as numerous other uranium prospects.

Bikini Uranium Deposit

Following completion of drilling at the Bikini uranium deposit in late 2010, an updated Mineral Resource estimate conforming to the JORC (2004) and NI 43-101 guidelines has been finalised. The resource dataset contains 180 drill holes for a total of 52,236m. Mineral Resources are quoted at a cut-off grade of 250ppm U₃O₈ and represent an 18% increase in contained metal over the previous Mineral Resource (see table at the end of this section for more detail).

VALHALLA NORTH PROJECT

The Valhalla North Project is located on two tenements totalling 457km², situated 40 to 75km north of the Valhalla deposit. The geological setting is similar to the Summit/Paladin projects to the south where albitised basalts with interbedded metasediments are mineralised along east-west and north-south structures in Eastern Creek Volcanics.

Ground work and drilling of the Duke-Batman prospect in 2010 did not extend the mineralisation; however, it did confirm and refine the geological model. After the compilation of all data a new Mineral Resource estimate was identified (see table at the end of this section for more detail).

RESOURCE STATUS MOUNT ISA REGION - ALL PROJECTS

The total JORC Resources under Summit and Paladin management in the Mount Isa region are now 76.8Mlb U₃O₈ Measured and Indicated Resources and 52.7Mlb U₃O₈ Inferred Resources. Of this 69.5Mlb U₃O₈ Measured and Indicated Resources as well as 47.0Mlb U₃O₈ Inferred Resources (which includes the Fusion Mineral Resources) are attributable to Paladin. 59% of the Mineral Resources are located at Valhalla; the rest are distributed over the Bikini, Skal, Andersons, Watta, Duke-Batman and Honey Pot ore bodies. Details are as follows:-

Deposit		Measured Resources			Indicated Resources			Inferred Resources			Paladin Attribution
Cut-off ppm		Mt	Grade ppm	t U ₃ O ₈	Mt	Grade ppm	t U ₃ O ₈	Mt	Grade ppm	t U ₃ O ₈	
Valhalla*	230	16.0	819	13,116	18.6	840	15,662	9.1	643	5,824	91%
Skal	250				4.3	575	2,458	8.4	491	4,130	91%
Odin*	250							8.2	573	4,685	91%
Bikini*	250				5.77	497	2,868	6.7	493	3,324	82.1%
Andersons	230							2.0	1,050	2,100	82.1%
Watta	230							4.2	410	1,720	82.1%
Duke-Batman*	250				0.5	1,370	728	0.3	1,100	325	100%
Honey Pot	250							2.6	700	1,800	100%
Total		16.0	819	13,116 (28.9Mlb)	29.2	744	21,716 (47.9Mlb)	41.5	576	23,908 (52.7Mlb)	

(Figures may not add due to rounding)

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

NORTHERN TERRITORY

BIGRLYI JOINT VENTURE

Energy Metals Limited 53.29% and Manager
Northern Territory Uranium Pty Ltd 41.71%
Southern Cross Exploration NL 5%

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

Bigrlyi is located on the northern margin of the Neoproterozoic to Paleozoic Ngalia Basin in central Australia. Uranium mineralisation at Bigrlyi is confined to a specific narrow horizon within the lower Mount Eclipse Sandstone for which a local stratigraphic succession has been defined. The principal 16 uranium occurrences at Bigrlyi were discovered in 1973 in the course of regional exploration managed by Central Pacific Minerals NL on behalf of various joint venture partners including Magellan Petroleum Australia Ltd, Agip Nucleare Pty Ltd, Urangesellschaft GmbH & Co. and the Atomic Energy Commission.

Energy Metals, as the Manager of the Bigrlyi Joint Venture, announced in June 2011 the completion of a Pre-Feasibility Study (PFS) for the Bigrlyi Project. The PFS showed that the project is technically feasible, however, the key finding was that a substantial increase in the resource base is required to improve the project economics. Based on this result, the JV partners will focus effort at increasing the resources of the project.

In late June 2011 Energy Metals Ltd released an updated Mineral Resource estimate based on all drilling to date. The revised geological model and estimation parameters based on the close spaced drilling completed previously has resulted in a slightly reduced total Mineral Resource than previously announced. The breakdown of Mineral Resource category is detailed below and is reported at a 500ppm U₃O₈ cut-off grade.

Mineral Resource Classification	Tonnes Mt	Grade ppm U₃O₈	Metal t U₃O₈	Metal Mlb U₃O₈
Indicated	4.7	1,366	6,400	14.0
Inferred	2.8	1,144	3,200	7.1

ANGELA JOINT VENTURE

Cameco Australia Pty Ltd 50% and Manager
Paladin 50%

In early 2008, the Northern Territory Government advised a 50:50 Joint Venture between Paladin and Cameco Australia Pty Ltd (manager) that it had been chosen as the successful applicant for an exploration licence covering the Angela and Pamela uranium deposits, located 25km south of Alice Springs in the Northern Territory. Historical work indicates a potential resource of between 26Mlb to 28Mlb of U₃O₈.

In October 2008, an Exploration Licence (EL 25758) was granted by the Department of Regional Development, Primary Industry, Fisheries and Resources the government department responsible for approving the Mining Management Plan in April 2009. All compliances necessary to begin exploration were obtained before drilling commenced on site early in May 2009. Furthermore, an exploration agreement covering arrangements with Native Title holders was executed with the Central Land Council in August 2009.

In 2009 and 2010 Cameco as the Project Manager conducted drilling programmes including 172 holes and totalling 3,281m. Extensive exploration work had been undertaken previously on the Angela and Pamela Deposits by Uranerz Australia Pty Ltd between 1972 and 1983.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

A Mineral Resource estimate conforming to the JORC (2004) and NI 43-101 guidelines has now been completed for the Angela-Pamela uranium deposits. This follows extensive compilation and validation of historic data and the drilling programme by the Cameco-Paladin JV.

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

The cut-off for the Mineral Resource is a combination of grade greater than or equal to 300ppm U₃O₈ and thickness greater than 0.5m. In addition, areas of low grade probability were removed from the model.

	Tonnes Mt	Grade ppm U₃O₈	Metal t U₃O₈	Metal Mlb U₃O₈
Inferred Mineral Resource	10.7	1,310	13,980	30.8

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

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

This updated Mineral Resource estimate improves on the historic resources previously announced providing a 10% increase in both grade and tonnage U₃O₈.

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

WESTERN AUSTRALIA

MANYINGEE URANIUM PROJECT (Manyingee)

Manyingee is located in the north-west of Western Australia, 1,100km north of Perth and 85km inland from the coastal township of Onslow. The property is comprised of three mining leases covering 1,307 hectares. Paladin also holds one granted Exploration Licence (EPL 08/1496) totalling 89km² at Spinifex Well, 25km north-east of Manyingee. Paladin purchased Manyingee in 1998 from Afmeco Mining and Exploration Pty Ltd (AFMEX), a subsidiary company of Cogema of France.

AFMEX (previously named Total Mining Australia Pty Ltd) discovered uranium mineralisation at Manyingee in 1973 during regional exploration. Between 1973 and 1984 some 400 holes were drilled and this established the extent and continuity of the sediment hosted uranium mineralisation in permeable sandstone in palaeochannels. Field trials by AFMEX demonstrated that the Manyingee sandstone hosted uranium deposit is amenable to extraction by in-situ recovery (ISR).

Manyingee contains JORC (1999) Code compliant Mineral Resources as shown below at a cut off grade of 300ppm U₃O₈:

Category	Resource Mt	Grade % U₃O₈	U₃O₈ t	U₃O₈ Mlb
Indicated Resources	7.9	0.10	8,080	17.8
Inferred Resources	5.5	0.05	2,810	6.2

(Figures may not add due to rounding)

The change of State Government in Western Australia in late 2008 resulted in the removal of uranium mining restrictions in Western Australia. Subsequently Paladin reactivated Manyingee and is planning to start field exploration when an exploration access agreement can be negotiated with the traditional owners and land access and work approvals have been received from the relevant authorities.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

At Spinifex Well, where previous explorers identified uranium mineralisation in the same strata which includes the Manyingee ore body. Drilling has identified 4 redox fronts between 85m and 120m depth. Uranium mineralisation greater than 250ppm U_3O_8 or 0.5m was intersected in 10 holes with the best intersection being 1.9m at 1,300ppm U_3O_8 . The results are being evaluated for further drilling in 2012.

OOBAGOOMA URANIUM PROJECT (Oobagooma)

Oobagooma is located in the West Kimberley region of Western Australia, 1,900km north-north-east of Perth and 75km north-east of the regional centre of Derby. The project comprises two long-standing applications for exploration licences covering 452km².

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

The Oobagooma project area was explored by AFMEX in the period from 1983 to 1986 during which time extensive zones of uranium mineralisation were discovered. Following detailed examination of the work done by AFMEX, the Company has formulated an exploration target for the prospect of approximately 8Mt at a grade of between 0.12% and 0.14% U_3O_8 .

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

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

AUSTRALIA'S URANIUM POLITICS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

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

At present, the state Labor Government of Queensland will not grant a licence to mine uranium. To progress the currently defined uranium resources in the Mount Isa region to reserve status will require a state government policy change in Queensland either by a change to state Labor's existing policy or a change in government. Through membership of industry bodies, such as the Australian Uranium Association and the Queensland Resources Council, Paladin is involved in debate and research to facilitate a change in government policy. The opposition Liberal-National Party supports development of the uranium industry. State elections in Queensland must be held before June 2012.

URANIUM DATABASE

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

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

The library also holds a large collection of topical industry reference material and country specific information such as mining laws or investment conditions comprising an estimated 60,000 individual monographs and conference papers, project evaluation and exploration reports, documents, reprints, maps and technical journals kept in hardcopy, microfiche and a rapidly increasing number of resources in electronic format, including networked or internet databases and full-text resources.

The library is managed through online information management and retrieval systems enabling the sharing of knowledge throughout the Company and to quickly research uranium prospects, deposits and mineralisation on a country by country basis.

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

INVESTMENTS

DEEP YELLOW LTD (DYL) **Paladin 19.98%**

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

DYL's primary focus is in Namibia where its wholly owned subsidiary, Reptile Uranium Namibia (Pty) Ltd, conducts exploration on its four 100% owned Exclusive Prospecting Licences (EPLs) covering 2,872km² and three joint venture EPLs covering 1,323km², (in which it has earned 65% from Nova Energy (Namibia) (Pty) Ltd). All seven tenements are situated in the Namib Naukluft Desert Park inland from Walvis Bay and south and west of Paladin's LHM. Its flagship is the Omahola Project currently under Pre-Feasibility Study with concurrent resource drill-outs along the mineralised Ongolo Alaskite – INCA trend.

In Australia the Company is focused on resource delineation of mid to high grade discoveries in the Mount Isa district in Queensland and also owns the Napperby Uranium Project and numerous exploration tenements in the Northern Territory.

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH & SAFETY

HEALTH AND SAFETY

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

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

During the year, Paladin undertook two external National Occupational Safety Association (NOSA) grading audits of its operations – Langer Heinrich Mine and Kayelekera Mine – and a safety audit of the LHM Stage 3 contractors. In addition, the Company used a local external health and safety auditor on its Mount Isa exploration office. The Company is pleased to report the following health and safety external audit results:

- LHM: the site maintained its 4 Star NOSA Platinum rating;
- KM: the site, undertaking its first grading audit, achieved a 4 Star NOSA Green rating;
- LHM Stage 3 contractors: all contractors were externally audited by a NOSA assessor (no grading audit undertaken) and a satisfactory result was achieved; and
- Mount Isa exploration: the office and its activities were audited by Krause Health & Safety in relation to compliance with AS/NZS4801 – 2001 and were found to be in compliance.

In addition, the Company's Lost Time Injury Frequency Rate (LTIFR) was reduced to 1.1 from 4.5 the previous year. This compares favourably with West Australian metalliferous surface mining LTIFR of 3.0.

	Langer Heinrich Mine			Kayelekera Mine			Perth	Exploration		Group	
Operational Area	Employees	Mine Contractors	Contractors incl construction	Employees	Mine Contractors	Contractors incl construction	Corporate Office	Employees	Contractors	Paladin Employees	All Contractors
Hours Worked	621,764	706,331	2,499,550	1,943,199	584,791	598,845	132,587	167,891	33,745	2,865,441	4,423,262
Lost Time Injuries	1	0	2	1	0	1	0	2	1	4	4
Fatalities	0	0	0	0	0	0	0	0	0	0	0
LTIFR	1.6	0	0.8	0.5	0	1.7	0	0	0	1.4	0.9
	Langer Heinrich Mine Total LTIFR = 0.8 Duration rate = 20.0			Kayelekera Mine Total LTIFR = 0.6 Duration rate = 18.0			Perth and Exploration LTIFR = 9.0 Duration rate: 3.3		Paladin Group + All Contractors LTIFR = 1.1		

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

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

Duration Rate: Average number of workdays lost per injury.

Langer Heinrich Mine

LHM continues to focus on safety, health, environmental and radiation (SHER) management. The second NOSA grading audit was conducted in November, 2010. The operation maintained its 4 Star Platinum (health, safety and environment) rating, however it was able to improve its score significantly from 77% to 90%. LHM is confident its grading will improve to a Platinum 5 Star rating during the next audit scheduled for November 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH & SAFETY (continued)

The site reported three LTIs for 2010/11 – two LTIs for Stage 3 contractors (a twisted ankle and hairline skull fracture after being hit by a loose pipe) and one for a Langer Heinrich employee (a severed thumb). The site annual LTIFR improved to 0.8 from 1.5. No LTIs were reported for the mining contractor Karibib Mining and Construction company (KMCC) which maintained its NOSA 5 Star rating for its Langer Heinrich operations and received the prestigious regional award for a 5 Star company with the best Occupational Health and Safety system.

The main safety focus continues to be on improving the NOSA rated safety system to further enhance the safety culture amongst all employees. During the year, Stage 3 contractors were audited to NOSA standards to identify areas of improvement in their respective management systems. Safety management training, ergonomics, planned job observations and internal auditing are the areas of focus which will promote the continuous improved performance.

In terms of occupational monitoring, the radiation programme continues to focus on monitoring long-lived radioactive dust, gamma, radon progeny and radon to ensure that all potential pathways are considered when calculating the total effective dose and also to ensure the principles of ALARA (as low as reasonably achievable) are being maintained. The results obtained continue to be very consistent and no employee's exposure exceeded 5.5 mSv (the annual regulatory limit is 20 mSv).

Langer Heinrich continued its involvement with the Uranium Institute in Namibia with the second module of the Radiation Protection Officer's course being completed. Two LHM employees attended module II in this past year.

Further initiatives in progress include a finger swipe time card and access control system, a newly designed final product ablation and office facility, and a remote access control point to ensure effective security measures for the increased mining and processing activities.

Kayelekera Mine

Like LHM, KM put a concentrated effort into its SHER management during the year via the implementation of the NOSA safety system. The first NOSA grading audit was conducted in June 2011 and the operation achieved a 4 Star Green (health and safety) rating with a preliminary score of 88%.

Implementation of the site safety system involved risk management, the drafting of safety standards, recording of all incidents and accidents, development of various key policies and the training and development of employees and general training of site contractors. A significant quantity of documentation was uploaded into the Miracle database which is a depository for all safety, health, radiation and environmental information.

The site reported two LTIs for 2010/11 – one to a consultant (a broken ankle) and the other to a Kayelekera employee (a fractured leg). No LTIs were reported for the mining contractor Mota-Engil. The site annual LTIFR dramatically improved to 0.6 from 6.8.

A radiation specialist, seconded to KM, established a radiation management system in a country with no previous uranium mining or processing history. All high level documentation has been completed including the development of Standard Operating Procedures for the newly acquired radiation monitoring equipment. Training of local employees on the new radiation equipment was a major focus during the year. In terms of occupational monitoring, no employee's exposure exceeded 5 mSv (the annual regulatory limit is 20 mSv).

Exploration

Paladin's exploration continued to be diverse during the year with programmes undertaken across Queensland, Western Australia, Northern Territory, Malawi and Niger. All exploration programmes involved drilling activities and work being undertaken in remote locations. During the year, exploration reported three LTIs – two to Paladin employees (both being back strain) and one to a drilling contractor employee (slight concussion from being hit by a loose hose). This necessitated a greater emphasis to be placed on its health and safety programme which was improved throughout the year in the areas of documentation, safety awareness and training.

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH & SAFETY (continued)

In February 2011, an external health and safety audit was undertaken on the Mount Isa office and all activities by Krause Health & Safety, a local consultant, to ensure compliance with AS/NZS4801 – 2001 Occupational Health & Safety Management Systems standards. In summary, they were found to be in compliance with a comprehensive and documented health & safety management system in place. Areas for improvement identified, included incorporating the Queensland work health & safety legislative requirements into the existing system, where applicable, greater management and control of contractors and improved hazardous substance and dangerous goods storage management. These aspects are currently being addressed.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

SUMMARISED INCOME STATEMENT

	YEAR ENDED 30 JUNE	
	2011 US\$M	2010 US\$M
Revenue	268.9	204.3
Gross profit	46.7	51.0
Exploration and evaluation expenses	(3.0)	(9.4)
Other expenses and income	(60.9)	(38.2)
Impairment of inventory	(26.4)	-
(Loss)/earnings before interest and tax	(43.6)	3.4
Finance costs	(61.5)	(21.4)
Income tax benefit/(expense)	16.6	(28.5)
Loss after tax	(88.5)	(46.5)
Loss after tax attributable to:		
Non-controlling interests	(6.2)	(0.9)
Members of the parent	(82.3)	(45.6)
	(88.5)	(46.5)
Loss per share – basic and diluted (US cents)	(11.1)	(6.5)

Operational overview

LHM commenced production in 2007 with a capacity of 2.7Mlb per annum. After operating at this level for a sustained period of time, construction of the Stage 2 expansion to 3.7Mlb per annum commenced in calendar year 2008. LHM reached the Stage 2 design capacity in December 2009. The plant has consistently operated at the 3.7Mlb per annum rate from the beginning of calendar year 2010. Construction of the Stage 3 expansion to 5.2Mlb started at the beginning of calendar year 2010 and is well advanced. Conclusion of construction and staged commissioning activities are expected to be completed late in CY2011.

Construction of KM, with a 3.3Mlb design capacity, commenced in 2007 and after a two year construction phase the mine entered its production ramp-up phase in calendar year 2009. KM continued to ramp-up its production volumes through to July 2010. Commercial production was declared from 1 July 2010. KM made its first delivery of uranium to customers in December 2009. The operation made substantial positive steps toward the design of 3.3Mlb pa which the project is expected to achieve early in the upcoming financial year after finalising current plant upgrade to address bottlenecks.

(References below to 2011 and 2010 refer to the equivalent twelve months ended 30 June 2011 and 2010 respectively.)

Analysis of Income Statement

Revenue increased from US\$204.3M to US\$268.9M in 2011 as a result of increased sales of uranium of US\$266.8M (2010: US\$202.0M). Total sales volume for the year was 4.812Mlb U₃O₈ (2010: 3.726Mlb). LHM sold 3.222Mlb U₃O₈, including 0.200Mlb of LHM material sold through Paladin Nuclear Ltd, and KM sold 1.590Mlb U₃O₈. Total production for the year was 5.694Mlb U₃O₈ (2010:

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

4.316Mlb). LHM produced 3.525Mlb U₃O₈ (2010: 3.352Mlb) and KM produced 2.169Mlb U₃O₈ (2010: 0.964Mlb). The average realised uranium sales price in 2011 was US\$55/lb U₃O₈ (2010: US\$54/lb). Delivery quantities under sales contracts are not evenly distributed from month to month, which results in fluctuations between production and sales between reporting periods.

Gross Profit in 2011 of US\$46.7M is lower than in 2010 (US\$51.0M) as a result of higher overall cost of sales offset by increased sales volumes. The cost of sales (C1) for LHM in 2011 remained relatively stable at US\$28/lb U₃O₈ (2010: US\$26/lb). The cost of sales (C1) for KM in 2011 was US\$50/lb U₃O₈ (2010: development phase). Overall cost of sales has been impacted by higher unit costs associated with lower production volumes during the ramp-up of production at KM. Inventory produced during production ramp-up has been recognised at the lower of cost and net realisable value. An explanation of how the higher costs during production ramp-up at KM have affected the C1 cost of sales for the year ended 30 June 2011 is provided in the last paragraph on page 37.

Exploration and Evaluation Expenditure of US\$3.0M in 2011 were related to early stage work and project generation activities in Australia and Malawi.

Other Expenses and Income has increased from US\$38.2M to US\$60.9M due to other income in 2010 of US\$9.5M relating predominantly to an insurance recovery and in 2011 higher corporate costs associated with expanded operations. The non-cash component related to share rights benefits increased from US\$10.3M in 2010 to US\$11.6M in 2011. A cost review has commenced to reduce the level of both operational and corporate costs.

Impairment of inventory of \$26.4M (2010: NIL) was required to reduce the cost of KM inventory to its realisable value because of the reduction in uranium spot prices and the higher cost of KM production during the ramp up phase when volumes were lower. A price of US\$52.75/lb, the year end spot price, was used as the net realisable value for finished goods inventory. The spot price is the appropriate measure as sales are made both into customer contracts and the spot market, with spot prices currently lower than contract prices. The net realisable value for stockpiles and work-in-progress is calculated at spot price less budgeted costs to complete. Production volumes have increased over the past year and are expected to increase further once the current phase of plant upgrades to eliminate bottlenecks is completed in the next few months.

Finance Costs have increased by US\$40.1M to US\$61.5M despite average borrowings year on year remaining fairly static due to a proportion of the interest payable in 2010 on the convertible bonds and project finance being capitalised as part of the construction of KM and in 2011 the loss on the US\$250M convertible bond buy back of US\$4.6M and related deferred borrowing costs amortisation of US\$1.7M. Finance costs related primarily to interest payable on the US\$250.0M convertible bonds issued 15 December 2006 and repaid at the end of CY2010, the US\$325.0M convertible bonds issued 11 March 2008, the US\$300.0M convertible bonds issued 5 November 2010, US\$127.9M project finance loan for KM and US\$24.8M project finance loan for LHM.

Income Tax Benefit of US\$16.6M is lower than would be expected from applying the tax rate to the loss before tax largely due to tax losses for the Australian tax group not being recognised, as at this point there is no certainty as to when it will be recovered against income. This is partially offset by the tax benefit arising in respect of the US\$300M convertible bonds. For 2010 a tax expense of US\$28.5M arose largely due to profits recorded in LHM and KM, a prior year adjustment and tax losses for the Australian tax group not being recognised, as at this point there is no certainty as to when it will be recovered against income.

Non-controlling Interest in net losses of US\$6.2M 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\$82.3M was higher than the loss after tax for 2010 of US\$45.6M predominantly as a result of higher finance costs in 2011 after cessation of capitalisation of KM, other income in 2010 relating predominantly to an insurance recovery, and the recognition of an impairment of inventory expense of US\$26.4M, which has partially been offset by the recognition in 2011 of an income tax benefit of US\$16.6M, a turnaround from the tax charge of US\$28.5M in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

The Loss 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.

Summary of Quarterly Financial Results

	2011 Jun Qtr US\$M	2011 Mar Qtr US\$M	2010 Dec Qtr US\$M	2010 Sep Qtr US\$M
Total revenues	60.2	92.9	66.7	49.1
(Loss)/profit after tax	(47.7)	(13.5)	(17.6)	(3.5)
Basic and diluted loss per share (US cents)	(6.3)	(1.8)	(2.5)	(0.5)
	2010 Jun Qtr US\$M	2010 Mar Qtr US\$M	2009 Dec Qtr US\$M	2009 Sep Qtr US\$M
Total revenues	49.8	53.3	62.6	38.6
(Loss)/profit after tax	(25.2)	(5.7)	2.4	(17.1)
Basic and diluted loss per share (US cents)	(3.5)	(0.8)	0.3	(2.5)

Total revenues for the quarters ended September 2010, December 2010, March 2011 and June 2011, have increased when compared to the equivalent comparative quarter as a result of higher sales volumes of uranium. Total revenues for all quarters ended December 2009 onwards include sales by KM.

All contracted sales are made in accordance with delivery schedules agreed with each customer from time to time and, as a result, delivery quantities and revenues are not evenly distributed between quarters.

Loss after tax for the quarter ended June 2011 of US\$47.7M is higher than the comparative quarter loss 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, which has increased the loss due to the recognition in 2011 of an income tax expense of US\$3.7M, a reduction from the tax charge of US\$10.5 in 2010.

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

Loss after tax for the quarter ended December 2010 of US\$17.6M is higher than the comparative quarter profit predominantly as a result of higher finance costs in 2010 after cessation of capitalisation of KM and other income in 2009 relating predominantly to an insurance recovery, which has been partially offset by the recognition in 2010 of an income tax benefit of US\$6.4M.

Loss after tax for the quarter ended September 2010 of US\$3.5M was lower than the loss after tax for 2009 of US\$17.1M predominantly as a result of the recognition in 2010 of an income tax benefit of US\$15.1M compared to an income tax expense in 2009 of US\$16.0M.

Segment Disclosure (refer to Note 4)

The profit before tax and finance costs of US\$44.9M in the Namibian segment of the Company remained relatively stable when compared to 2010 (US\$40M). In the Malawian segment the Company reflected a loss before tax and finance costs of US\$37.4M compared to a profit of US\$7.9M in 2010 reflecting loss on sale of inventory due to the higher cost of goods produced during ramp-up of production and the recognition of an impairment of inventory expense. An explanation of how the higher costs during production ramp-up at KM have affected the year ended 30 June 2011 C1 cost of sales is provided in the last paragraph on page 37. Exploration activities have remained relatively consistent from 2010 to 2011 however the amount expensed has fallen due to the voluntary change in

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

accounting policy (refer to Note 3). In the Unallocated portion the Company reflected the remaining Income Statement activities, which for 2011, comprises mainly marketing, corporate, finance and administration costs.

SEGMENT GROSS PROFIT

	YEAR ENDED 30 JUNE 2011			YEAR ENDED 30 JUNE 2010		
	LHM	KM	TOTAL	LHM	KM	TOTAL
Volume Sold (lb)	3,222,135 ⁽¹⁾	1,590,000	4,812,135	2,726,000	1,000,000	3,726,000
Average Sales Prices/lb			US\$55/lb			US\$54/lb
Revenue			US\$266.8M			US\$202.0M
Cost of Sales (C1)	US\$91.1M	US\$79.8M	US\$170.9M	US\$72.1M	US\$59.5M	US\$131.6M
Cost of Sales/lb (C1)	US\$28/lb	US\$50/lb	US\$35/lb	US\$26/lb	US\$59/lb	US\$35/lb
Profit after C1 costs			US\$95.9M			US\$70.4M
Other revenue and costs, mainly depreciation			US\$49.2M			US\$19.4M
GROSS PROFIT			US\$46.7M			US\$51.0M

(1) Includes 200,000lb of LHM produced U₃O₈ sold by Paladin Nuclear Ltd, Paladin Energy Ltd's marketing company.

Sales of 4,812,135lb U₃O₈ at an average of US\$55/lb generated revenue of US\$266.8M in the year ended 30 June 2011. Paladin Nuclear Ltd (PNL) sold part of its inventory holding previously purchased from LHM. This compares with sales of 3,726,000lb U₃O₈ at an average sales price of US\$54/lb for the year ended 30 June 2010.

Cost of Sales (C1) for LHM in the year ended 30 June 2011 increased to US\$28/lb U₃O₈ due to the 8% strengthening in the Namibian dollar from 7.38 at 1 July 2010 to 6.79 at 30 June 2011 which impacted Cost of Sales (C1) reported in US\$. Additionally abnormal rainfall during the March quarter, ten times greater than the annual average, impacted production due to restricted access to higher-grade mining areas and increased difficulty in treating wet ore.

C1 cost of sales for KM decreased from US\$59.50/lb in 2010 to US\$50/lb in 2011, which reflects a slower than anticipated ramp-up. This is as a result of stock being valued at average cost. The majority of KM's sales were made from the stock produced up to 31 December 2010. Consequently, the cost of sales for the year predominantly reflects the cost of production during the second half of CY2010 when costs were higher due to lower volumes during the production ramp up phase. Given the average cost approach, the timing of deliveries and assuming that approximately four months of production is held in stock from time to time, it is not unexpected for a delay of six months to occur before current production costs are reflected in the cost of sales. C1 cost of sales for the 350,000lb sold in the June 2011 quarter was US\$45/lb reflecting the higher volumes produced during the first half of CY2011. With the present plant upgrade being completed to remove bottlenecks, production volumes are expected to rise further with a proportionate reduction in costs.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME	YEAR ENDED 30 JUNE	
	2011 US\$M	2010 US\$M
Net loss after tax	(88.5)	(46.5)
Net gain/(loss) on available-for-sale financial assets	10.8	(37.0)
Transfer of available-for-sale reserve on acquisition	(3.2)	-
Foreign currency translation	141.1	31.7
Income tax on items of other comprehensive income	(3.7)	8.0
Total comprehensive income/(loss) for the year	56.5	(43.8)

Net Loss 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\$10.8M primarily relates to the fair value increment in Deep Yellow Limited (DYL) (net of tax) attributable to the increase in the DYL share price.

Transfer of Available-for-Sale Reserve on Acquisition relates to the transfer of US\$3.2M for the NGM takeover to the cost of the investment.

Foreign Currency Translation relates to the foreign currency translation reserve movement as a result of the translation of subsidiaries with Australian 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.

SUMMARISED STATEMENT OF FINANCIAL POSITION	AS AT 30 JUNE	
	2011 US\$M	2010 US\$M
Total current assets	329.4	515.9
Total non current assets	2,074.3	1,460.8
Total assets	2,403.7	1,976.7
Total current liabilities	118.9	121.4
Total non current liabilities	929.6	884.4
Total liabilities	1,048.5	1,005.8
Net Assets	1,355.2	970.9

Current Assets have decreased to US\$329.4M at 30 June 2011 due to a decrease in cash as well as trade and other receivables which have been partially offset by an increase in inventories.

Cash and cash equivalents have decreased to US\$117.4M at 30 June 2011 as a result of expenditure on the Stage 3 expansion at LHM, investment in working capital required as a result of the increase in production levels at KM, principal repayments for both the LHM and KM project finance facilities, exploration and evaluation project expenditure, finance costs and corporate costs for the year ended 30 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Inventories have increased from US\$109.3M to US\$177.7M at 30 June 2011 due to increased production volumes of 5.7Mlb U₃O₈ being larger than sales volume for the year of 4.8Mlb U₃O₈, reflecting the increase of stock in transit and converter stocks associated with increased production levels.

Finished goods, at cost and net realisable value, as at 30 June 2011, have increased by US\$51.6M to US\$129.9M mainly due to increased production at KM. The increase in finished goods is also as a result of higher than average customer sales of in excess of 1Mlbs that needed to be delivered in July 2011.

Non Current Assets have increased to US\$2,074.3M at 30 June 2011 primarily as a result of the increase in the exploration assets due to the foreign exchange movement on the Australian dollar denominated exploration assets, the acquisition of NGM and the Aurora uranium assets and the voluntary change in accounting policy to capitalise and carry forward exploration expenditure as an asset, (refer to Note 3). Exploration and evaluation assets were assessed for impairment at the date of the half year Financial Report and the Annual Financial Report. The Company continues to conduct exploration and evaluation activities on these projects and retains the right of tenure. In determining the fair value for the Queensland capitalised exploration and evaluation assets, management considered a range of valuation indicators including market yardsticks such as recent transactions and the share price of Summit Resources Limited. Property, Plant and Equipment has increased due to capital expenditure on the Stage 3 expansion at LHM and there was an increase in the fair value of other financial assets primarily attributable to the increase in the DYL share price. ROM stockpiles have increased as planned ahead of the Stage 3 production expansion.

As noted above the financial report has been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to exploration and evaluation expenditure. 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. Refer to Note 2(s) for the full detail of the new accounting policy. The previous accounting policy was to charge exploration and evaluation expenditure against profits as incurred; except for acquisition costs and for expenditure incurred after a decision to proceed to development was made, in which case the expenditure was capitalised as an asset.

The new accounting policy was adopted on 31 March 2011 and has been applied retrospectively. Management judges that the change in policy will result in the financial report providing more relevant and no less reliable information because it leads to a more transparent treatment of exploration and evaluation expenditure that meets the definition of an asset and is consistent with the treatment of other assets controlled by the Group when it is probable that future economic benefits will flow to the Group and the asset has a cost that can be measured reliably. AASB 6 Exploration for and Evaluation of Mineral Resources allows both the previous and new accounting policies of the Group. Given the significance of the exploration programmes that are being undertaken by the Company following the acquisition of Summit Resources Limited, the recent acquisition of the uranium assets of Aurora Energy Resources Inc. and the takeover of NGM Resources Ltd, it was considered necessary to change the accounting policy.

The impact of the change in accounting policy on the Consolidated Income Statement, Consolidated Statement of Financial Position and Consolidated Statements of Cash Flows is set out in Note 3.

Current Liabilities have decreased from US\$121.4M to US\$118.9M at 30 June 2011 primarily as a result of a decrease in interest bearing loans and borrowings as a result of principal repayments for both the LHM and KM project finance facilities and a decrease in provisions as a result of the settlement of the Areva litigation. This has been partially offset by an increase in trade and other payables.

Non Current Liabilities have increased from US\$884.4M to US\$929.6M at 30 June 2011 primarily as a result of an increase in deferred tax liabilities. The deferred tax liabilities have largely increased due to the foreign exchange movement on deferred tax liabilities recognised on the acquisition of the Summit Group in Australia, an increase in the fair value of other financial assets attributable to the increase in the DYL share price, initial recognition of the US\$300M convertible bond, capitalisation of exploration expenditure and an unrealised foreign exchange gain in Namibia.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Segment Disclosure (refer to Note 4)

In the Statement of Financial Position as at 30 June 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, an increase in assets occurred in the period predominantly as a result of an increase in working capital due to increased production levels. Exploration assets increased predominantly due to the increases in value of Australian dollar denominated exploration assets, the acquisition of NGM and the Aurora uranium assets and the voluntary change in accounting policy to capitalise and carry forward exploration expenditure as an asset, (refer to Note 3). The reduction in the Unallocated assets reflects the reduction in cash through investment in Stage 3 expansion, repayment of LHM and KM project finance facilities and exploration activities.

SUMMARISED STATEMENT OF CHANGES IN EQUITY	YEAR ENDED 30 JUNE	
	2011 US\$M	2010 US\$M
Total equity at the beginning of the financial year	970.9	638.6
Total comprehensive gain/(loss) for the year	56.5	(43.8)
Recognised value of unlisted employee options and performance share rights	14.6	12.0
Movement in other reserves	21.5	-
Contributions of equity, net of transaction costs	<u>291.7</u>	<u>364.1</u>
Total equity at the end of the financial year	<u>1,355.2</u>	<u>970.9</u>

Total Comprehensive Income for the Year Ended 30 June 2011 is discussed under the Statement of Comprehensive Income section.

Recognised Value of Unlisted Employee Options and Performance Rights in 2011 totals US\$14.6M. During the period, 960 employee options were exercised and 4,536,004 expired or were forfeited with an exercise price ranging from A\$2.07 to A\$8.77 per share. During the year 1,300,580 performance share rights vested and 4,292,117 performance share rights were granted with vesting dates ranging from 1 January 2011 to 5 November 2014. Of these 750,000 were issued as fully paid ordinary shares to be held in trust, vesting variously over time up to 1 January 2012 subject to conditions.

Movement in Other Reserves in 2011 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 to the convertible bond reserve as a result of the US\$250M convertible bond buyback.

Contributions of Equity in 2011 of US\$291.7M relates to the issue of 7,155,938 shares to acquire NGM, the non-controlling interest's participation in Summit's renounceable rights issue and the issue of 52,097,937 shares to acquire the uranium assets of Fronteer Gold Ltd. The number of fully paid ordinary shares on issue at 30 June 2011 is 777,698,217, an increase of 60,555,415 during the year. Share options of 8,231,791 and performance rights of 6,947,337 remain outstanding at 30 June 2011 to the employees and consultants directly engaged in corporate, mine construction, operations, exploration and evaluation work.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

SUMMARISED STATEMENT OF CASH FLOWS	YEAR ENDED 30 JUNE	
	2011 US\$M	2010 US\$M
Net cash outflow from operating activities	(102.0)	(34.5)
Net cash outflow from investing activities	(132.5)	(179.6)
Net cash inflow from financing activities	1.3	495.3
Net (decrease)/increase in cash and cash equivalents	(233.2)	281.2
Cash and cash equivalents at the beginning of financial year	347.9	65.3
Effects of exchange rate changes on cash and cash equivalents	2.7	1.4
Cash and cash equivalents at the end of the financial year	117.4	347.9

Net Cash Outflow from Operating Activities was US\$102.0M in 2011 primarily due to the investment in working capital associated with the increase in production levels. The LHM and KM operations generated US\$83.7M in cash in 2011 before investment in working capital of US\$108M mainly inventory to fill the stock pipeline to the converter needed to support higher production and sales levels. The remaining expenditure was for exploration, corporate, administration, marketing and interest paid.

Net Cash Outflow from Investing Activities was US\$132.5M in 2011 as a result primarily of Stage 3 expansion at LHM and capitalised exploration expenditure. The net cash outflow of US\$179.6M in 2010 was as a result of mine construction at KM, Stage 2 and 3 expansions at LHM and capitalised exploration expenditure.

Net Cash Inflow from Financing Activities of US\$1.3M in 2011 is attributable to the US\$300M convertible bond receipt partially offset by the full repayment of the US\$250M convertible bond, drawdown of project financing for KM and repayment of project financing for both LHM and KM. The net cash inflow of US\$495.3M in 2010 was attributable to the US\$363.0M net proceeds from the share placement and US\$145.0M net proceeds from the drawdown of KM project finance facilities which was partly offset by repayment of project finance facilities for LHM and KM project finance facility establishment costs.

Net Decrease in Cash and Cash Equivalents in 2011 was US\$233.2M, as compared to the net increase in cash over the previous corresponding period in 2010 of US\$281.2M. The change is predominantly the result of the US\$363.0M net proceeds from the share placement and US\$145.0M net proceeds from the drawdown of KM project finance facilities in 2010 and lower cash outflows from investing activities which has been partly offset by higher cash outflows from operating activities.

Effect of Exchange Rate Changes on cash balances is a gain of US\$2.7M for 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Group's principal source of liquidity as at 30 June 2011 is cash of US\$117.4M (30 June 2010: US\$347.9M). This includes US\$19.5M restricted for use in respect of the LHM and KM project finance facilities. Of this US\$93.5M is held in US dollars.

The Group's principal sources of cash for the year ended 30 June 2011 were uranium sales receipts, proceeds from the issue of convertible bonds and interest received from cash investments. On 26 August 2011, the Company announced that the detailed financing documentation required for the Stage 3 expansion had been finalised and executed. The initial development funding for the project has been via Paladin's existing cash reserves. Paladin and a syndicate of banks executed a US\$141M Project Financing Facility, consisting of a 6 year facility of US\$135M with a cost overrun facility of US\$6M. The loan is being provided without a parent company guarantee from Paladin with drawdown subject to conditions precedent usual for this type of facility. (Refer to Note 28)

The remaining amount outstanding on the LHM project finance facilities was US\$24.8M and the KM project finance facility was US\$127.9M.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

The following is a summary of the Group's outstanding commitments as at 30 June 2011:

	Total	Less than 1 yr	1 to 5yrs	5yrs+ or unknown
Payments due by period	US\$M	US\$M	US\$M	US\$M
Tenements	64.4	19.0	17.0	28.4
Mine construction	18.8	18.8	-	-
Operating leases	6.9	1.5	5.3	0.1
Manyingee acquisition costs	0.8	-	-	0.8
Total commitments	90.9	39.3	22.3	29.3

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

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

The Company has no other material off balance sheet arrangements.

OUTSTANDING SHARE INFORMATION

As at 31 August 2011 Paladin had 777,698,217 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:

As at 31 August 2011	Number
Outstanding shares	777,698,217
Issuable under Executive Share Option Plan	8,131,187
Issuable under Employee Performance Share Rights Plan	6,781,267
Issuable in relation to the US\$250M Convertible Bonds	49,317,147
Issuable in relation to the US\$325M Convertible Bonds	52,956,752
Total	894,884,570

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.

FINANCIAL INSTRUMENTS

At 30 June 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 debts 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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

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 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 significant.

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

TRANSACTIONS WITH RELATED PARTIES

During the year ended 30 June 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 year ended 30 June 2011, associated Management Discussion and Analysis and Report to Shareholders. An evaluation of the Company's disclosure controls and procedures used has been undertaken and concluded that the disclosure controls and procedures were effective.

INTERNAL CONTROLS

The Company has designed appropriate internal controls over financial reporting (ICFR) and ensured that these were in place for the year ended 30 June 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 30 June 2011.

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

SUBSEQUENT EVENTS

Since the end of the year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years with the

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

exception of the following, the financial effects of which have not been provided for in the 30 June 2011 Financial Report:

Uranium Sales Agreement Signed

On 22 August 2011, the Company announced the signing of a series of term uranium sales agreements for output from the Langer Heinrich Stage 3 expansion. The agreements have been signed with three new customers in the United States and further strengthens Paladin's already significant presence within the U.S. nuclear market. Production commitments from the new agreements total more than 2.8Mlb U_3O_8 with deliveries beginning in 2012 and extending through to 2016. Contractual pricing provisions incorporate both fixed and base (escalated) mechanisms ranging from the low- to -mid-\$60's per pound U_3O_8 .

Langer Heinrich Mine, Namibia

Execution of US\$141M Project Finance Facility for Stage 3 Expansion

On 26 August 2011, the Company announced that the financing documentation required for the Stage 3 expansion had been finalised and executed. The Stage 3 expansion of LHM in Namibia will increase production to 5.2Mlb pa from its current capacity of 3.7Mlb pa.

The initial development funding for the project has been via Paladin's existing cash reserves. The Langer Heinrich Stage 3 expansion is now fully financed and is on track to reach nameplate capacity in the 1st quarter of 2012.

Paladin and a syndicate of banks executed a US\$141M Project Financing Facility, consisting of a 6 year Project Finance Facility of US\$135M with a Costs Overrun Facility of US\$6M. The facility is being provided without a parent company guarantee from Paladin. The facilities are being 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 (RMB). Drawdown on the financing is subject to fulfilment of conditions precedent usual for this type of facility.

SUSTAINABLE DEVELOPMENT

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

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

Corporate Sustainability Reporting

Paladin is in the process of collecting data from LHM and KM for the reporting period for input into future corporate sustainability reporting. The basis for the data collected is meeting the reporting guidelines of the Global Reporting Initiative (GRI) Framework. The GRI indicator categories are the broad groups of Economic, Environment and Social with the Social sub categories of Human Rights, Labour Practices and Product Responsibility. Each of these categories and sub-categories have aspects and performance indicators on which to report.

The data collected will be assessed and used in Paladin’s future public sustainability reporting. The commitment has been given that a Sustainability Report to meet the GRI guidelines will be published for the FY2012 reporting period. This allows time for data collection, assessment and reporting for the financial year. As this data becomes available it will be provided on Paladin’s website throughout the year.

ENVIRONMENT

Our Commitment

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

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

In addition to Paladin’s Environment Policy, LHM and KM each have their own Environment Policies applied at the sites which includes consideration of the above points as a minimum.

Paladin has established Corporate Environmental Standards for all of its operational subsidiaries. Operational compliance with the Standards forms part of the Corporate Inspection and Audit Programme.

Environmental Management System

Within the Paladin Environmental Management System (EMS) Standard each operating site is required to develop and implement an EMS that is consistent with the requirements of ISO14001:2004. LHM has implemented an EMS which was certified to the ISO standard in 2009 with surveillance audits undertaken in September 2010 and February 2011. KM is in the process of continuing to develop an EMS for its operations. Once completed, the KM EMS and its individual components will be rolled out and implemented across the operation and certification sought.

Operational Environmental Management Plans (EMP) for both LHM and KM have been submitted to and reviewed by the Namibian and Malawian Governments respectively and other stakeholders and

SUSTAINABLE DEVELOPMENT (continued)

international financial lending institutions as part of the project financing processes. The Operational EMP's are regularly updated and revised as part of the sites' continual improvement process.

The LHM EMP is in the process of being updated as part of the Stage 4 Environmental Impact Assessment (EIA) process and is expected to be completed and re-submitted together with the Stage 4 EIA in third quarter of CY2011. In 2011, the 2008 KM Operational EMP was reviewed and revised to reflect current operations. The updated EMP will be resubmitted to the Government of Malawi Environmental Affairs Department once the review is completed.

Environmental Impact Assessment

The EIA process for the LHM Stage 4 expansion and the conversion of EPL3500 to a ML commenced in 2011 and progressed through the remainder of the reporting period. The EIA will be submitted to the Namibian Government and other stakeholders for review and approval in the third quarter of CY2011. Various environmental studies were conducted by specialist consultants for the EIA and extensive stakeholder consultation was undertaken to ensure that any issues and concerns were addressed in the EIA process.

Environment Regulatory Reporting

Both LHM and KM prepare various environmental reports for the Namibian and Malawi Governments respectively. These reports include monitoring data, specific topic reviews (such as water) and general environmental reports that summarise the environmental activities undertaken on the site, and provide analyses of the monitoring data collected and assess trends for the reporting period.

The frequency of regulatory environmental reporting for LHM is bi-annual and annual for topics such as water. The LHM Bi-Annual Report for the first six months of this reporting period was submitted to the Namibian Government in April 2011, and the second Bi-Annual Report for the period is currently in preparation. The LHM Annual Water Report is at present collated for the calendar year reporting period. The Annual Groundwater Monitoring Status Report for 2009 was submitted in August 2010 and the 2010 Groundwater Report is currently in preparation.

Regulatory environmental reporting at KM is conducted quarterly and annually. Three quarterly reports were submitted to the Government of Malawi during the reporting period that provided information on the licence conditions and status of compliance. In addition to the quarterly reports, environmental monitoring data were also provided to the Government on a quarterly basis. KM prepared and submitted its inaugural Annual Environmental Report for the 2009-2010 reporting period to the Government of Malawi. The Annual Environmental Report for the current reporting period is in preparation.

Inspection and Audit Programme

A Paladin Environmental Inspection and Audit Standard is in place that requires sites to establish and implement environmental inspection and audit programmes to ensure that the environmental performance of Paladin's operations is reviewed, audited and reported to the Board. These programmes include internal and external environmental audits to ensure that there is not only compliance with regulatory and Paladin requirements but also with the World Bank Equator Principles and other industry standards, in particular those standards specified for the uranium industry. Several inspections and audits were undertaken at both the LHM and KM sites during the reporting period with the findings documented, reported and actions noted to rectify and manage the issues identified.

Biodiversity

Biodiversity is defined by the International Union of Conservation and Nature (IUCN) as *"the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems, and the ecological complexes of which they are part; this includes diversity within species, between species, and of ecosystems."* The definition alone shows the complex nature of the term biodiversity and the different meaning it may have to individuals.

Paladin's objective is to conserve biodiversity by obtaining knowledge of the ecosystems within the regions in which it operates and to ensure that impacts on biodiversity are minimised and managed. In

SUSTAINABLE DEVELOPMENT (continued)

biodiversity studies and management, the key aspects considered for Paladin's operations are water, air, flora, fauna, land use and rehabilitation.

In particular, LHM is located in the Namib Naukluft National Park so extensive biodiversity studies have been conducted in the area to establish biodiversity composition, structure and processes. From the results a biodiversity sensitivity analysis was undertaken and management measures established to avoid areas ranked as high sensitivity and to minimise impacts on biodiversity in general.

Water

Water resource is a major issue that requires careful management at most mining operations. A Paladin Standard for Water Use and Water Quality is enforced to ensure that operations apply efficient, safe and sustainable use of water and protect the water resources and ecosystems around its sites. Paladin's operations have water management strategies, detailed water balances, flow models and have implemented water management measures to achieve water management objectives.

In recognition of the importance of water management to the business, Paladin has employed an experienced hydrogeologist to boost the in-house expertise in this important area. Paladin also contracts hydrological specialists to provide ongoing advice on the design, construction, operation and management of water and water infrastructure at the production sites. The design and water management strategies are subject to external technical peer review to ensure that the water management meets industry standards.

An Annual Water Report for the reporting period is currently in preparation that will consolidate and summarise the key water aspects across all Paladin's operations and exploration projects. This report for the 2010-2011 reporting period will be the first Paladin Annual Water Report and the contents will be used for internal and external sustainability reporting.

Air Emissions

Paladin has an Air Quality Standard in place with the intent to ensure that air pollutant emissions generated by any of Paladin's activities are identified, impacts assessed and management measures established. The common air pollutants that are generated by Paladin activities which have the potential to impact on human health or the environment include; particulate matter, sulphur oxides (SO_x); carbon oxides (CO and CO₂); and nitrogen oxides (NO_x).

Dust generation during exploration activities and at the mine sites is managed to enable a safe working environment and to minimise impacts on the environment and surrounding communities. Dust suppression units on drilling equipment, and water sprays at key material transfer points and on roads are the most common dust control methods together with progressive rehabilitation of disturbed areas. Dust monitoring and dust collection is undertaken at both LHM and KM with the dust samples analysed and the results collated in the Environmental Reports submitted to their respective Governments.

SO_x emissions from LHM are currently very low and occur from the diesel fuelled burners used for heating water for the heat exchangers. During the reporting period, baseline air emission and modelling studies for SO_x were undertaken for the Stage 4 expansion EIA process. SO_x emissions are generated at KM by the burning of diesel fuel for power generation, and also from the on-site acid plant. The emissions are monitored and the results reported in the Annual Environmental Report submitted to the Government of Malawi.

The principal greenhouse gas emissions from Paladin's operations report from power generation, boilers for heating and vehicle and equipment exhausts. Paladin is in the process of collecting data for greenhouse gas emissions from its operating sites calculated as Carbon Dioxide (CO₂) emissions as part of the sustainability reporting programme. Paladin's current Australian activities are confined to exploration and the corporate Perth office, so initial estimations of diesel consumption and purchased electricity indicate that Paladin will not meet threshold levels to require registration and reporting in Australia under the *National Greenhouse Emissions Reporting Act (NGER) 2007*.

SUSTAINABLE DEVELOPMENT (continued)

Mineral Waste

Waste Rock

Large quantities of waste rock are required to be moved and placed into dumps at both LHM and KM. The placement of waste rock is important in terms of cost and environmental considerations. The main objective is for the final landform of the dumps to blend in with the surrounding landscape, be stable and enable a self sustaining ecosystem to establish.

Studies have been conducted at both mine sites to determine the best location for the waste rock dumps taking haulage costs and environmental aspects into consideration. The design of the dumps and the placement of waste rock must also take into consideration other factors such as the physical and geochemical properties of the waste rock and low grade ore that may also be placed in dumps. Geochemical studies have been undertaken on the waste rock and mineralised waste at both LHM and KM, with the results applied in developing the design for the dumps and the operating procedures for waste rock management.

Tailings

Tailings are the mineral waste fraction from the processing of the uranium ore. Tailings management continues to be a high priority at Paladin's operational sites. Paladin applies measures to ensure that its tailings storage facilities (TSF) are appropriately designed, operated and managed according to acceptable standards.

Specialist TSF engineers have designed the TSFs at LHM and KM and defined the operational practice and management to ensure that the tailings are managed in an acceptable manner, and any potential environmental impacts from the tailings and TSF are minimised. Internationally recognised independent uranium tailings experts conduct peer reviews of the design, construction and operations of the TSF's and continue to provide an ongoing external review role. The appointment of tailings management specialists and the external technical review process ensures that tailings storage on site meets industry standards and those specific for uranium tailings.

Non-Mineral Waste

Non-mineral waste comprises the waste streams generated by the facilities and functions that support our mining and processing operations. The wastes include typical general wastes, sewage and also some that may be considered hazardous. The volumes of non-mineral wastes are significantly smaller than the mineralised wastes but still require appropriate management. LHM and KM both have waste management procedures that aim at applying the principles of reduce, reuse and recycle. The waste that must be disposed in a landfill or other designated location on site is managed according to the procedures for that particular material and location. Sewerage treatment plants are installed at both mine sites to treat sewage which is then disposed into the TSF.

Rehabilitation

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

Closure

Mine closure planning is a key component of Paladin's commitment to sustainable development. A Closure Standard is in place for all of Paladin's operational and developing sites. The intent of the Standard is to ensure that Paladin's sites are left in a safe and stable manner and that environmental and social impacts are minimised so that tenements can be relinquished without future liability to the Company, Government or the community. LHM has a Draft Mine Closure Plan in place which will be reviewed and updated on an ongoing basis. The closure planning process at KM progressed with the commencement of preparation of a Draft Mine Closure Plan.

SUSTAINABLE DEVELOPMENT (continued)

Capacity Building

Paladin is committed to offering support and assistance for capacity building of its local employees, specific members of the community and Government regulatory authorities. Capacity building, particularly in the areas of regulatory environmental and radiation management and monitoring, is an ongoing goal for Paladin. Capacity building programmes continued through the reporting period including the environmental monitoring training programme conducted for Government of Malawi regulatory officers. Officers from the Government of Malawi Departments of Environmental Affairs, National Parks, Fisheries, Water, Mines, Land Resources, Geology, Transport, Health and Labour were trained in their relevant regulatory aspects of environmental and radiation monitoring.

INDUSTRY BODIES

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

Paladin regards its membership of the AUA and observance of the AUA standards framework as part of its commitment to the safe and responsible conduct of its business and to ensure its long-term sustainability.

Further information on the AUA can be found on its website at aua.org.au.

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

Further information on the MCA can be found on its website at minerals.org.au.

Paladin is also a member of the Association of Mining and Exploration Companies (AMEC) and the local Chamber of Mines in Western Australia, Malawi and Namibia.

John Borshoff is on the Board of both the AUA and MCA. He chairs the Code of Practice and Stewardship Group for the AUA and is a member of its Executive Committee. James Eggins, General Manager - Sales and Contract Administration, is a member of the Non-Proliferation Working Group.

CORPORATE SOCIAL RESPONSIBILITY

In addition to creating shareholder wealth, Paladin's corporate core values address contributing to the growth and prosperity of host countries and responding positively to community needs and expectations. The Paladin Group of Companies seeks to meet its Corporate Social Responsibility (CSR) undertakings through the following actions across its operations:

- **Stakeholder Consultation:** Paladin understands the linkages and interdependence between the Company and its stakeholders and encourages communication with stakeholders at local, national and international levels.
- **Ethical Business Behaviour:** Internally and externally, ethical behaviour is reinforced through a formal ethical code and non-tolerance of corrupt and unethical behaviour or practices.
- **Social Accountability:** Paladin believes that the Company is accountable to stakeholders for its social impacts and to effectively monitor and report social performance.
- **Community Development:** Paladin actively supports a range of community social development and local business development initiatives in consultation with local communities.

SUSTAINABLE DEVELOPMENT (continued)

In framing its approach to managing Social Sustainability, including the processes of community engagement, community development, corporate social responsibility and cultural awareness, Paladin has adopted as its policy in accordance with our commitment to *Enduring Value – the Australian Minerals Industry Framework for Sustainable Development*. As a signatory to *Enduring Value*, Paladin is committed to continually improve its social, environmental and economic performance. This commitment is also aligned to the 10 Sustainable Development Principles of the International Council on Mining and Metals (ICMM).

INTERNATIONAL INITIATIVES

Malaria Control

Paladin has provided funding support to Eastland Medical Systems Limited for Eastland's development of ArTiMist™, a sub-lingual (under the tongue) spray for the treatment of severe and complicated malaria in children. After completion of a successful clinical trial involving 30 children that confirmed the effectiveness of the malaria treatment in young children, Eastland has moved on to a 150-patient multi centre superiority study in Africa. Trials have been progressing well with an initial 50 patients treated in Rwanda. The additional 100 patients are being recruited for treatment in the Burkina Faso, Ghana and Tanzanian arms of the trial.

Malawi

Paladin continues to fulfil its social development undertakings under the terms of the Kayelekera Development Agreement. The Company has developed a Social Sustainability Management Plan (SSMP) to ensure that social and cultural environmental aspects and impacts associated with the operation of KM are identified and appropriately managed. Additional information on the SSMP is available on the Company's website.

Paladin's social development initiatives in Malawi are based the principles set forth in the SSMP. Projects undertaken during the year included:

Community Liaison

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

- Government of Malawi/Paladin Liaison Committee (GLC), where Paladin reports to representatives of key Government Ministries on its activities for the quarter and provides an update on the operations of the KM; and
- Uranium Liaison Committee (ULICO) comprised of local stakeholders such as community leadership, civic societies, senior civil servants and Paladin representatives.

The Company also participates in the District Commissioner's quarterly stakeholder gatherings and meets formally with the traditional leaders, headed by the region's Paramount Chief. Regular meetings take place with the Karonga Natural Resource Development Association (KANREDA), which represents local communities, and the Kayelekera Village Authority, to discuss local matters such as medical care, education and road safety.

Community Development Programme

Paladin is renovating the former District Education Office in Karonga which has been allocated by Government to provide office accommodation for the Environmental Affairs Department (EAD) Environmental Officer for Karonga District. This project fulfils an Environmental Impact Assessment undertaking to renovate and equip an office for the EAD to facilitate its environmental oversight of the KM.

The programme also saw the Company collaborating on projects and events with Karonga Museum, Zodiac radio network and a variety of community organisations.

SUSTAINABLE DEVELOPMENT (continued)

Local Business Development Programme

A programme to promote local involvement, economic growth and capacity building in communities is in progress. Opportunities are being explored for skills transference and technical advising from Kayelekera's experienced workforce to area businesses and residents. Paladin is supporting the UK-based MicroLoan Foundation by funding an expansion of the Foundation's activities in the Karonga region to provide micro-loans to up to 300 local rural women for small scale co-operative business ventures in the Karonga-Kayelekera region which will boost farming family incomes.

Community Health Care

Following completion of the Karonga Water Supply Project, Karonga District Hospital (KDH) was identified as the local public service institution most in need of support under Paladin's Infrastructure Development Programme. The 187-bed hospital services a regional population of 250,775 and is the main referral hospital in the District. Paladin's funding support saw the completion of the hospital's unfinished maintenance workshop, providing a base for further renovations at KDH. A variety of renovations were also carried out, including refurbishment of the hospital's fire-damaged kitchen and repair of its roof, ceilings, windows and plumbing fixtures.

Keeping an eye to health needs at the local level, Paladin also supplied the Wiliro and Mpata regional health centres with solar panel sets to provide lighting, enabling better patient care during night hours. As well, the Company's community relations officers continued to deliver health-and-safety-themed messages to school-aged children between Kayelekera and Karonga. A series of school visits was carried out to students on the topics ranging from road safety to HIV prevention.

Agricultural Development Programme

Collaboration between Paladin and the Ministry of Irrigation and Water Development has yielded further improvement in community agricultural practises in Kayelekera village and the Karonga District this year. Further agricultural training was provided in local villages and to widow's groups in the region. The Kayelekera and Nkungwe irrigation schemes were extended and upgraded with provision of new piping, gate valves, a dam and water channels. The village's irrigated riverbank was extended and a water pipeline installed to provide permanent, year-round irrigation. Work is in progress to build a 100m lock-controlled irrigation channel and a reservoir is planned.

In cooperation with the Education Department, Paladin provided several primary schools in the area with seedlings to plant fruit orchards. Vegetable seed and propagation materials were also supplied to community groups and farmers, respectively. Training in proper use and care was provided along with these materials. A study into the feasibility of a fish-breeding project in Kayelekera is also underway.

Water and Sanitation

In 2011, Paladin assisted communities in the Karonga District to address water shortages, continuing to work with the Ministry of Irrigation and Water Management to repair inoperable water bores and to sink new ones. Training in borehole upkeep has also been provided so that villages can maintain their water sources. Surveys of locations for future boreholes and small dams/ catchments have been carried out.

Installation of rainwater tanks has also continued this year.

Educational Infrastructure

Paladin has taken steps to improve the quality of education available to children in Kayelekera and nearby villages through infrastructure, materials, and teaching initiatives. The Company has completed renovation of 12 dilapidated classrooms at the Bwiwa Primary School in Karonga, the construction of two new teachers' houses for the school and provision of new desks for the senior grades.

Two additional teachers' houses at Chilambilo Primary School near Karonga were also completed during the year.

SUSTAINABLE DEVELOPMENT (continued)

The community centre donated by the mine's construction contractor Group 5 to Kayelekera Village was completed and is being used to house junior classes of Kayuni Primary School. In addition, a new bore was drilled adjacent to the school itself to provide a water supply, as the building was not serviced by the existing village water distribution system.

Over the course of the year, Paladin also sponsored nine volunteer educators at Kayelekera and Juma primary schools. These non-government teachers supplement the regular teaching staff at schools in villages near Kayelekera Mine, where student numbers have more than doubled since inception of the Kayelekera Mine.

Employee Charitable Foundation, supported by Paladin

Friends and Employees of Paladin for African Children (FEPAC) is a charitable foundation established in 2008 by Paladin employees to fund smaller social projects in Malawi that are outside the scope of the Company's CSR programmes. To date FEPAC has raised A\$540,000 through various initiatives that have included an annual golf day and quiz night. The charity supports six projects that assist children with their everyday educational needs. For example two of the projects provide vocational training courses. During the year six of the courses have been paid for which include brick laying, carpentry and tailoring. Sixty teenagers have completed these courses and are given the tools to continue their trades so they can earn money to support their families.

FEPAC has also recently financed construction of two classrooms and an office at the School for Deaf Children in Karonga and is currently constructing a dormitory for the children to sleep in.

Paladin supports its employees' initiatives by providing FEPAC with administrative assistance, allowing time for employees to organise and participate in fundraising activities and by matching dollar-for-dollar all funds raised.

HIV/AIDS Awareness Campaign

Awareness programmes continued both on-site at KM and in local communities, employing traditional arts and culture as teaching tools wherever possible.

A series of 16 story booklets, written by one of Paladin's Social Development team, has been printed in three languages and distributed to both KM employees and the community at large. The books cover a variety of social topics including HIV/AIDS prevention; malaria and chest infection management; dealing with alcohol abuse; care of the new born; prevention of diarrhoea; combating deforestation; theft and corruption and wise use of wages. These booklets have proven hugely popular due to the highly relevant subject matter and the novelty of having reading material available in local languages. In the past 12 months, Paladin has distributed more than 38,000 copies to employees, students and local communities.

The Company continues to use drama – a traditional art and teaching form – to promote social messaging through its sponsorship of the Nyange Nyange Drama Group, which regularly perform HIV dramas at KM and in the community. During the past year, Paladin sponsored Nyange Nyange to perform for all 29 secondary school groups in the Karonga District, reaching more than 9,500 students. The Company also assisted Nyange Nyange by providing a video camera, enabling the group to film their most popular performances, which are now available on DVD, spreading the reach of the group's social messaging.

The Company's Social Development Team has established cooperative relationships with locally-active NGOs that have expertise in HIV/AIDS community engagement. Campaigns related to awareness, testing, counselling and care were carried out throughout the year in conjunction with Population Services International, the Foundation for Community Support Services, and the Malawi Aids Counseling and Resource Organisation.

SUSTAINABLE DEVELOPMENT (continued)

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

The National AIDS Council (NAC) had opportunity to assess Paladin's HIV/AIDS activities this year and provided positive feedback on the Company's commitment and level of activity in relation to HIV/AIDS awareness education.

Namibia

In line with the priorities expressed by Namibia's government and target communities that fall within LHM's sphere of influence, Paladin's social development plan for that area has continued to focus on development of education, site-specific ecological improvement, and regional economic development. The following provides a summary of key projects undertaken in Namibia this year.

Community Engagement

Paladin puts a high priority on meaningful engagement with local stakeholders. This means not only communicating with officials at the government level, but also reaching out to local and traditional authorities, as well as community members.

The Uranium Institute (UI), founded in 2007, continues to play an important role in community outreach by the Namibian uranium industry as a whole. The UI has set standards for safety, health, radiation and environmental protection, by providing training for member organisations and creating an information-sharing platform. All operating mines and advanced uranium exploration projects in Namibia have become members of UI and now comply with the standards it prescribes. Paladin was a founding member of UI and continues to collaborate with other members on the institute's activities. Most recently, UI worked with the Namibian tourism industry to identify six projects where the uranium industry could assist with the enhancement of tourist attractions in the region.

Mondesa Youth Opportunities Trust

2010-2011 marked Paladin's inaugural year as principle sponsor of the Mondesa Youth Opportunities Trust (MYO), although the Company has a long history of involvement with the Trust. MYO provides educational assistance to improve English, mathematics, and computer skills for students selected from primary schools in the impoverished Mondesa-DRC Townships in Swakopmund. Improving life skills is also part of MYO's focus and children who participate receive a daily lunch, music classes, sport training and access to a fully equipped library. Paladin's contributions this year enabled a number of improvements to the programme, including raising the number of enrolled students from 90 to 150, reinstating two class levels (previously dropped due to funding constraints), and recruiting two new staff teachers.

A Focus on Math and Science Education

Paladin has placed special emphasis on mathematics and sciences in its support of educational development. This year, the LHM Bursary Scheme saw the award of six full-time bursaries to post-secondary students, including the continuation of two existing mining engineering bursaries. Of the other four, two were granted to geological students and two to students of metallurgy. Three bursary students on full time study in 2010 successfully completed their course year, one a Chemical Engineering student who is now employed full-time with LHM.

For the third year in a row, Paladin was the principal sponsor of the National Mathematics Congress. The event began six years ago, with full support and cooperation of the Namibian Ministry of Education, when the need for improved mathematics teaching was identified. Over the course of three days, mathematics experts train 250 – 300 local educators on the latest developments in mathematics teaching. By providing this professional development opportunity, it is expected that many thousands of children actually benefit from this initiative. The event has garnered national news coverage in Namibia.

SUSTAINABLE DEVELOPMENT (continued)

Additionally, the Company has sponsored a mathematics enhancement programme for students in Grades 10-12 attending schools in the Namibian Coastal Region. Local educator Margaret Courtney-Clark - the founder of the National Mathematics Congress - and the Ministry of Education have worked closely with selected schools to develop a pilot project. Funded by Paladin, the pilot project was approved for schools in Swakopmund and commenced in March 2011. The initial results are encouraging and later in the year a decision will be made about the longer term future of the project.

Recognising that the educational needs of students cannot always be met by efforts at the macro-level, Paladin has revived the School Support Project, which sees the Company allocate small-scale project funding to state schools on the Namibian Central Coast. In discussions with the Ministry of Education, Paladin identified a shortage of text books as a major contributor to poor scholastic performance in schools in impoverished areas. Through the Project, the Company bought 1,000 books and distributed them to specific schools. The selection of text books ordered was determined through direct interaction with the schools in question.

Namibian Institute for Mining and Technology (NIMT)

The Namibian Institute of Mining Technology is one of the largest vocational training centres in Namibia servicing the mining sector. Paladin's support to NIMT is ongoing and includes accommodating students for job attachments at LHM. This year, 80 NIMT students received training at LHM, each under the mentorship of a qualified Paladin tradesperson. The Company also assisted NIMT by funding the cost of essential repairs to facilities that will augment the students' learning experiences, including a computer training centre.

Namib-Naukluft National Park Development

With funding from Paladin, the Ministry of Environment and Tourism has commenced installation of eco-toilets in Namib-Naukluft National Park (NNNP) and is advancing a waste recycling and collection project involving 52 camp sites located near LHM. The Company is progressively installing drums to separately collect glass, steel and other domestic waste and plans to assist in the first year of collection and recycling.

Paladin is also supporting two environmental projects in NNNP which are being carried out by the Namib Ecological Restoration and Monitoring Unit (**NERMU**) of the renowned Gobabeb Desert Training and Research Foundation. This involves a pilot study into the Hartmann's mountain zebra, the dominant large grazing animal of the Namib Desert. The study aims to establish the population and movement of Hartmann's mountain zebras in the NNNP adjacent to LHM and to map seasonal water & grazing resources. Local students are employed in fieldwork which is being supervised by Gobabeb staff.

The second NERMU project is a study of water absorption and retention by desert soils. The objective of the study is to develop an understanding of the capacity of the desert ecology to support local plant life. Understanding factors influencing water infiltration into desert soils is essential to successful post-mining rehabilitation.

C28 Highway Upgrade Programme

Some 18 km of the C28 leading to the LHM access road turn-off remained unsealed after last year's upgrades to this 55 km section of central Namibian highway in the Namib-Naukluft National Park. Paladin's ongoing participation in this project has seen an agreement between the Company and other road users, including exploration companies Deep Yellow, Extract, Bannerman and local transport companies, to jointly fund the sealing of an additional 9 km. The Namibian National Roads Authority has undertaken to improve the remaining 9 km section of the C28 by upgrading it to a salt road.

SUSTAINABLE DEVELOPMENT (continued)

Other Community Initiatives

Paladin continues to be an active corporate community member by supporting a variety of youth-related initiatives, food sharing programs, and industry and government events aimed at serving the wider public.

The Company continues its support of two feeding programmes for impoverished children in Walvis Bay and Swakopmund. Two local shelters supply meals to between 500 and 600 children per day. The schemes focus on impoverished children and ensures that they begin each school day with a healthy meal. The need is enduring and Paladin's commitment to this initiative is on-going.

Support for the Blue Waters Sport Club also continued. Based in the township of Kuisebmond (Walvis Bay), Blue Waters is involved in youth development through sport participation.

Australian Initiatives

Paladin makes significant contributions to regional and national initiatives in Australia that positively impact the mining industry and support its growth through technological advancement and skills development.

This year, Paladin made a five-year financial commitment to the Hammond-Nisbet Geoscience Fund administered by the University of Western Australia (UWA). The fund supports the creation of an endowed professorship within UWA's Centre for Exploration Targeting (CET). This research-intensive position will focus on mentoring new generations of geoscientists in interpretation of fieldwork and structural geophysics and in applying this understanding to mineral systems and exploration targeting. In response to the urgent need to secure the future of the Australian Prospectors and Miners Hall of Fame, the Company contributed to the organisation's capital refurbishment programme. The Hall of Fame showcases the history of mining in Australia, as well as the future potential of mining in both Western Australia and the country at large.

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

OUR PEOPLE

The Group's focus has been on identifying talent and creating programmes to enhance talent Group-wide. Going forward the focus will be on retaining and enriching its human capital.

Across the Group, difficulties are still being experienced in filling certain technical positions due to skills shortage. To retain talent, the Group will continue to review retention strategies and consider further strategies which take into account the unique challenges that each of the Group's sites face to retain and motivate employees. This will include ensuring the Group's sites are meeting market benchmarks for remuneration. Efforts will also focus on the ongoing localisation programmes at each site.

The Group continues to offer employees competitive remuneration by participating in annual salary surveys and industry benchmark studies relevant to each site. In addition, relationships are maintained with industry partners and other mining companies to enable information sharing in regard to market changes and mutual remuneration issues.

To enrich the Group's human capital, training and development initiatives will be a key plank of the strategy. On-the-job training, utilising competency based training, as well as Group-wide skill-transfer strategies will be employed. Skill transfer involves the movement of personnel between sites on transfer arrangements or short term assignments. This strategy enriches the experience and development of employees, as well as facilitating cross pollination of ideas and efficiencies. A flow-on effect of such a strategy will be the reinforcement of consistency of human resource processes and systems from site to site.

SUSTAINABLE DEVELOPMENT (continued)

While retention of staff will be the key, in the past year, the aim has been to bolster staff numbers. Staff numbers increased throughout the Group with permanent employee numbers increasing from 896 to 1185 at year end. This occurred predominately at Kayelekera Mine, with the transfer of temporary contractors to permanent staff members. Total number of personnel (permanent and temporary staff) was 1256 at year end. The acquisition of new businesses (e.g., Aurora Energy Ltd), represents a smaller increase in overall staff numbers globally.

Globally, females represent about 14% of the Group's population. Voluntary turnover for the Group is approximately 9.9%, which is pleasing as it sits well below the average annual rate for large companies of 12.6% as reported in the Australian Institute of Management National Salary Survey 2011.

Australia (Head Office & Mount Isa)

This year, Australian based employees total 100 with females representing 33%. The Australian voluntary turnover rate was 13%, an increase from last year's rate of 9%. This can be explained by a number of employees leaving to pursue an entirely different career choice, or moving industries. This reflects the ongoing pressure on our staff retention strategies as the booming economy presents many employment opportunities.

An ongoing effort to increase efficiencies and effectiveness at Head Office will be employed throughout this year. It is critical that the Head Office has the necessary structures and personnel to support the operational requirements of the business, as well as maintain the talent bandwidth in order to meet future strategic requirements of the business as and when they present themselves.

Canada (Aurora Energy Ltd)

The acquisition of the Aurora assets in February 2011 provides a talent pool of additional staff, capable of assisting the Group wherever required where critical skills shortages exist. Of the 16 original employees at the time of acquisition, all but one transferred to the Paladin Group. Females comprise 40% of the employee base in Canada and turnover has been nil since the acquisition.

Malawi (Kayelekera Mine)

Employees at KM totalled 766 at year end. The number of permanent, National employees increased from 529 the previous year to 648 at year end. Temporary contractors and casual employees reduced from 507 to 54 due to a large proportion being given permanent contracts. A few were discharged due to their contracts ending.

Expatriate employees numbered 118 at year end. The turnover rate was just under 5% amongst National employees during the year with the expatriate voluntary turnover rate around 25%. Whilst this turnover rate seems high, expatriate employment contracts are generally short and for a two year term. Also, fly-in/fly-out arrangements inherently increase turnover rates when compared to more sedentary work environments. Employees who were hired in 2009 have come to the end of their contracts in the first half of 2011, and thus have moved onto other expatriate employment. Among National employees, females represent close to 10% with females representing about 7% of the expatriate population.

In the course of the year KM initiated various interrelated people management projects aimed at enhancing the performance levels of the workforce through skills development and performance management processes. These projects will be continued in the course of next year when they are expected to start showing positive outcomes.

As part of a skills attraction and retention strategy, and in line with its commitment to responsible corporate citizenship, KM significantly increased the wages of its National employees in pursuit of its objective to remunerate within the upper quartile of the domestic labour market remuneration levels.

A peaceful and productive labour relations climate prevailed on the mine throughout the year mainly as a result of successful implementation of a labour relations management strategy that includes

SUSTAINABLE DEVELOPMENT (continued)

monthly joint consultative meetings between management and employee representatives to share information on matters of mutual interest and discuss employee concerns and grievances.

As part of cost management, safety and employee productivity improvements and in compliance with local labour legislation, KM continued to review and improve work shift rosters with a view to not only achieving lower overtime costs, but also to giving employees optimal rest breaks and work hours.

Although still in their infancy, localisation programmes aimed at identifying local employees with potential to take over some positions currently held by expatriates after receiving necessary training, coaching and mentoring gathered momentum in the course of the year and are planned to proceed at a faster pace in the course of next year.

Namibia (Langer Heinrich Mine)

The manpower requirements increased by 23% from 260 to 320 employees due to the impact of the Stage 3 expansion and the majority of vacancies were successfully filled.

The number of permanent employees increased by 11.4% from 272 to 303 since the last reporting period. The increase in the number of permanent employees was largely represented by Namibians, with only 4% of the total permanent workforce being non-Namibian. This confirms the Group's commitment towards recruitment and development of Namibians. Females represent 17% of the permanent workforce.

Voluntary labour turnover amounts to 6.3% against an overall turnover of 8.6%. Overall turnover has increased in part due to the transfer of individuals from Langer Heinrich to Kayelekera.

The Management Development Programme through the University of Stellenbosch is continuing on an annual basis with five employees registered for the period in question.

Business simulation training-sessions have been running since 2006 and the total number of trained employees has increased from 170 to 255 in line with the objective of having all employees participate in this programme. The training sessions assist employees in understanding the fundamentals of business in a practical context.

A fulltime bursary scheme was introduced in 2010 and 6 students are being sponsored to date in the fields of geology and engineering. Fulltime employees who wish to improve their educational qualifications continue to be assisted through the part-time study assistance scheme.

Approximately 80 artisan learners (apprentices) were provided with opportunities to gain practical experience during the year through the collaboration of the Namibian Institute of Mining and Technology. Promising apprentices are earmarked for future employment opportunities. In collaboration with the Ministries of Education, and Mines and Energy, Namibian students studying at the Zimbabwe School of Mines are given the opportunity to gain practical exposure which will enable them to complete their studies.

The above endeavours will assist Namibians in obtaining the necessary skills and knowledge in future and curb the shortage of skills currently being experienced in Namibia.

LHM commits to the achievement of equal opportunity in employment and continues to commit to its Affirmative Action report and plan, formal training and development programmes for Namibian understudies and giving preference to Namibian citizens and previously disadvantaged groups when making placements, with specific focus on women whenever possible.

The Langer Heinrich team continue to maintain a transparent culture in which employees have trust to approach management to discuss concerns. Management support and consultation results in maintenance of a positive working atmosphere and LHM is regarded by many as the Employer of Choice.

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE FRAMEWORK

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

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

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

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

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

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

RELATIONSHIP WITH SHAREHOLDERS

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

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

Information will be communicated to shareholders by:

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

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

Shareholders are encouraged to attend Annual General Meetings and ask questions of Directors and senior management and also the Company's external auditors, who are required to be in attendance.

CORPORATE GOVERNANCE STATEMENT (continued)

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

BOARD OF DIRECTORS

Role of the Board

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

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

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

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

Composition of the Board

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

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

In 2010, Mr Ian Noble advised he would be retiring at the 2010 AGM. The decision was made to appoint two new Non-executive independent directors, increasing the size of the Board by a further director. Given the extent of the Group's operations and its activity base this was felt necessary, particularly to facilitate the more effective use of Board committees across a broader group.

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

Director Independence

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

Meetings of the Board

The Board meets formally face to face at least four times a year (each over a three day period). Video conferencing facilities have been installed to provide greater ease of communications between face to face meetings and meetings are held at a six week intervals between face to face meetings, via this means. On the day preceding the Board meeting, members of senior management attend and make presentations to the Board covering all aspects of the Company's operations. This provides an excellent opportunity for dialogue and networking, with management from all operations present. Non-executive Directors meet together without the Managing Director/CEO and management being present, prior to each of the four principal Board meetings.

The entire Board is required (as stated in their Letters of Appointment) to attend the AGM of the Company and all attended the 2010 AGM.

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

Retirement and Re-election

The Constitution of the Company requires one third of the Directors, other than the Managing Director, to retire from office at each AGM. Directors who have been appointed by the Board are required to retire from office at the next AGM and are not taken into account in determining the number of Directors to retire by rotation at that AGM. Directors cannot hold office for a period in excess of three years or later than the third AGM following their appointment without submitting themselves for re-election. Retiring Directors are eligible for re-election by shareholders. Mr Sean Llewelyn will seek re-election at the 2011 AGM, following his retirement by rotation.

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

In reaching this conclusion, the Board has noted that each of R Crabb (the Chairman) and J Borshoff (the Managing Director/CEO) will have each served on the Board for 17 years. Notwithstanding their period of service, the Board concluded that both Directors retain independence of character and judgement and continue to make outstanding contributions at Board level. Both bring their unique skills to the Board and participate in robust constructive debate. The Board considers that Mr Borshoff's uranium experience and Mr Crabb's international resource law experience remains valuable at Board level. The Board further agrees that time in office should only be considered from 2004, as the period prior to 2004 the Company was a junior explorer. It is also noted that the Company did not enter the ASX/S&P 200 until June 2005.

Nomination and Appointment of New Directors

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

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

- Information on the financial, strategic and operational position of the Company;

CORPORATE GOVERNANCE STATEMENT (continued)

- A comprehensive letter of appointment which sets out the Company's expectations on acceptance of the position;
- A written statement which sets out the duties, rights and responsibilities they undertake on becoming a Director together with material detailing the operations, policies and practices of the Company; and
- Access to previous Board papers together with recent Annual Reports and interim financial statements.

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

Evaluation of Board Performance

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

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

Knowledge, Skills and Experience

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

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

Position Descriptions

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

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

Conflicts of Interest

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

CORPORATE GOVERNANCE STATEMENT (continued)

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

Remuneration

Details of the remuneration policies and practices of the Company and the remuneration paid to the Directors (Executive and Non-executive) and senior executives are set out in the Remuneration Report included in the Directors' Report. Shareholders will be invited to consider and to approve the Remuneration Report at the AGM in November 2011.

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

Independent Advice

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

BOARD COMMITTEES

The Board has established Audit, Nomination, Remuneration and Sustainability Committees which assist in the discharge of the Board's responsibilities. Each committee reviews its performance and Charter on an annual basis.

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

Audit Committee

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

The role of the Audit Committee is to:

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

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

- Peter Donkin
Non-executive Director, Independent Director

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

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

The Audit Committee carries out periodic self evaluation of its effectiveness and performance.

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

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

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

Nomination Committee

The responsibilities of the Nomination Committee include:-

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

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

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

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

Remuneration Committee

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

The ASX Listing Rules and the Constitution require that the maximum aggregate amount of remuneration to be allocated among the Non-executive Directors be approved by the shareholders in general meeting. In proposing the maximum amount for consideration by shareholders, and in determining the allocation, the Remuneration Committee will take into account the time demands made on Directors given the increasing complexity of the Paladin Group and such factors as fees paid to Non-executive Directors in comparable Australian companies.

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

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

The current members of the Remuneration Committee are:-

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

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

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

Sustainability Committee

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

The responsibilities of the Committee are to:-

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

CORPORATE GOVERNANCE STATEMENT (continued)

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

The current members of the Sustainability Committee are:-

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

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

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

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

FINANCIAL REPORTING

CEO and CFO Sign-offs

In accordance with the Corporations Act 2001, ASX Corporate Governance Principle 4 (Safeguard Integrity in Financial Reporting) and Canadian Securities Law, relevant declarations, statements and certifications have been provided by the Managing Director/CEO and the Chief Financial Officer in relation to the Company's 30 June 2011 Annual Report, including financial statements.

DISCLOSURE CONTROLS

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

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

RISK MANAGEMENT

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

The Company's Risk Management Policy is to identify, assess, evaluate, monitor and mitigate risks which are considered unacceptable to the Company. Operational business controls have been identified and are in place to ensure unwanted threats to the business are managed. Paladin has also

CORPORATE GOVERNANCE STATEMENT (continued)

developed the business environment for managers and senior personnel to assess risks and make sound business decisions. Whilst all personnel have a responsibility to identify and report to management risks which may materially affect the Company, the Managing Director/CEO has the overall responsibility for the management of risk in the Company. The Managing Director/CEO is assisted by the heads of operational business units who “champion” risks within the business unit. Paladin has adopted the Australian and New Zealand Standard ISO 31000:2009 - “Risk Management” in managing the risk management process.

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

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

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

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

ENVIRONMENT

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

HEALTH AND SAFETY

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

During the year external health and safety audits were carried out at LHM, KM and Mount Isa exploration.

SECURITIES OWNERSHIP AND DEALINGS

The Company has a Policy for Trading in Company Securities which is binding on all Directors and employees. The Policy was updated in August 2010. This was due to the Company’s largely expanded workforce and, rather than specific approvals to trade required from all employees, the amended policy restricts this requirement to a group of Restricted Employees. This group consists of all Directors and officers and other key personnel as nominated by the Chairman and Company

CORPORATE GOVERNANCE STATEMENT (continued)

Secretary. Prescribed 'blackout' periods are included, during which all Directors, officers and Restricted Employees will be prohibited from dealing in the Company's securities. This is in addition to the overriding prohibition against dealing in the Company's securities when a person is in possession of inside information. In addition, all Directors, officers and Restricted Employees are required to complete an application form to gain the written acknowledgement of either the Chairman, Managing Director/CEO or the Company Secretary before they deal in the Company's securities.

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

At the end of 2008 the Company introduced an online compliance training module to assist in monitoring understanding of this Policy. This was initially trialled with head office staff and, due to the positive results and increased awareness of the Policy, this has been rolled-out to key employees across the Group.

CODES OF CONDUCT

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

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

The principles outlined in this document are intended to:

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

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

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

HUMAN RIGHTS POLICY

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

The aim of the Human Rights Policy is to provide the overarching framework for the business in respecting human rights.

WHISTLEBLOWER POLICY

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

The purpose of the Whistleblower Policy is to:

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

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

PRIVACY POLICY

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

DIVERSITY POLICY

Following the ASX Corporate Governance Council's amendments to the ASX Principles released on 30 June 2010 which take effect for the first financial year beginning on or after January 2011 the Board has approved a Diversity Policy which documents the Company's commitment to workplace diversity and recognises the benefits arising from the recruitment, development and retention of a talented, diverse and motivated workforce.

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

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

The Company will include in next year's annual report the measurable objectives for achieving gender diversity set by the Board for the 2011/2012 financial year and the progress made towards achieving them.

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

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

DIRECTORS' REPORT

The Directors present their report on the Group consisting of Paladin Energy Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2011.

DIRECTORS

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

Mr Rick Wayne Crabb *B. Juris (Hons), LLB, MBA, FAICD*
(Non-executive Chairman) Age 54

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

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

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

Special Responsibilities
Chairman of the Board
Member of Remuneration Committee from 1 June 2005
Member of Nomination Committee from 1 June 2005
Member of Sustainability Committee from 25 November 2010

Mr John Borshoff *B.Sc., F.AusIMM, FAICD*
(Managing Director/Chief Executive Officer) Age 66

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

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

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

Special Responsibilities
Managing Director/Chief Executive Officer
Member of Nomination Committee from 1 June 2005
Member of Sustainability Committee from 25 November 2010

Mr Sean Reville Llewelyn *LL.B*
(Non-executive Director) Age 63

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

DIRECTORS' REPORT (continued)

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

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

Special Responsibilities

Member of Audit Committee from 12 April 2005

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

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

Mr Donald Shumka B.A., MBA

(Non-executive Director) Age 69

Mr Shumka has more than 40 years' experience in financial roles. From 2004 to 2011, he was President and Managing Director of Walden Management, a consulting firm specialising in natural resources. From 1989 to 2004, he was Managing Director, Investment Banking with CIBC World Markets and Raymond James Ltd. Prior to 1989, Mr Shumka was Vice President, Finance and Chief Financial Officer of West Fraser Timber Co. Ltd., one of Canada's largest forest products companies. He holds a Bachelor of Arts Degree in Economics from the University of British Columbia and a Master of Business Administration Degree from Harvard University.

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

Special Responsibilities

Chairman of Audit Committee from 9 July 2007

Member of Remuneration Committee from 10 August 2007

Member of Nomination Committee from 10 August 2007

Mr Peter Mark Donkin BEc, LLB

(Non-executive Director) Age 54

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

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

Special Responsibilities

Member of Audit Committee from 25 November 2010

Mr Philip Baily BSc, MSc

(Non-executive Director) Age 67

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

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

Special Responsibilities

Chairman of Sustainability Committee from 25 November 2010

DIRECTORS' REPORT (continued)

Mr Ian Urquhart Noble BSc (Metallurgy), F.AusIMM, ARCST
(Non-executive Director) Age 70 – Retired from the Board 25 November 2010 at the Annual General Meeting

Mr Noble has over 40 years' experience covering the mining, chemical and nuclear industries with a strong emphasis in the mining and mineral processing fields. He held senior management positions with both Wright Engineers Australia Ltd and Fluor Australia and took a lead role in the design of Australia's two major uranium processing plants.

Mr Noble was appointed to the Paladin Board on 29 June 2005 and retired from the Paladin Board with effect from the Annual General Meeting held on 25 November 2010.

Special Responsibilities

Member of Audit Committee from 29 June 2005

Member of Nomination Committee from 29 June 2005

COMPANY SECRETARY

Ms Gillian Swaby Age 51
B.Bus, FCIS, FAICD

Ms Swaby has been involved in financial and corporate administration for listed companies, as both Director and Company Secretary covering a broad range of industry sectors, for over 25 years. Ms Swaby has extensive experience in the area of secretarial practice, management accounting and corporate and financial management.

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

BOARD AND COMMITTEE MEETINGS

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

Name	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee		Sustainability Committee	
	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number Eligible to attend
Mr Rick Crabb	18	18	-	-	3	3	1	1	1	1
Mr John Borshoff	17	18	-	-	-	-	1	1	1	1
Mr Sean Llewelyn	18	18	4	4	3	3	1	1	-	-
Mr Donald Shumka	17	18	4	4	3	3	1	1	-	-
Mr Ian Noble	9	10	2	2	-	-	-	-	-	-
Mr Peter Donkin	16	18	1	2	-	-	1	1	-	-
Mr Philip Baily	13	13	-	-	-	-	1	1	1	1

Of the above Board meetings, only 4 were face to face with the remainder held via electronic means. The total number of meetings reflects additional activity with the takeover of NGM Resources Ltd, the issue and buy-back of convertible bonds and the acquisition of the Aurora assets.

DIRECTORS' REPORT (continued)

INTERESTS IN THE SECURITIES OF THE COMPANY

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

Director	Paladin Shares	Options (issued under the Paladin EXSOP)	Share Rights (issued under the Paladin Employee Plan)
Mr John Borshoff	21,877,394	*1,250,000	**300,000 ***500,000
Mr Rick Crabb	4,881,528	Nil	Nil
Mr Sean Llewelyn	100,000	Nil	Nil
Mr Donald Shumka	100,000	Nil	Nil
Mr Peter Donkin	15,000	Nil	Nil
Mr Philip Baily	12,000	Nil	Nil

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

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

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

RESIGNATION, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution of the Company, Mr Ian Noble retired by rotation at the Annual General Meeting on 25 November 2010 and did not seek re-election. Mr Peter Donkin and Mr Philip Baily were appointed as Non-executive Directors by the Board effective 1 July 2010 and 1 October 2010 respectively and were then elected by shareholders at the 2010 Annual General Meeting. Mr Sean Llewelyn will seek re-election at the 2011 Annual General Meeting, following his retirement by rotation.

PRINCIPAL ACTIVITY

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

REVIEW AND RESULTS OF OPERATIONS

A detailed operational and financial review of the Group is set out on pages 13 to 44 of this report under the section entitled Management Discussion and Analysis.

The Groups' loss after tax for the year is US\$82.3M (2010:US\$45.6M) representing an increase of 80% from the previous year.

DIVIDENDS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Since the end of the year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2011 Financial Report:

Uranium Sales Agreement Signed

On 22 August 2011, the Company announced the signing of a series of term uranium sales agreements for output from the Langer Heinrich Stage 3 expansion. The agreements have been signed with three new customers in the United States and further strengthens Paladin's already significant presence within the U.S. nuclear market. Production commitments from the new agreements total more than 2.8Mlb U₃O₈ with deliveries beginning in 2012 and extending through to 2016. Contractual pricing provisions

DIRECTORS' REPORT (continued)

incorporate both fixed and base (escalated) mechanisms ranging from the low- to -mid-\$60's per pound U_3O_8 .

Langer Heinrich Mine, Namibia

Execution of US\$141M Project Finance Facility for Stage 3 Expansion

On 26 August 2011, the Company announced that the financing documentation required for the Stage 3 expansion had been finalised and executed. The Stage 3 expansion of LHM in Namibia will increase production to 5.2Mlb pa from its current capacity of 3.7Mlb pa.

The initial development funding for the project has been via Paladin's existing cash reserves. The Langer Heinrich Stage 3 expansion is now fully financed and is on track to reach nameplate capacity in the 1st quarter of 2012.

Paladin and a syndicate of banks executed a US\$141M Project Financing Facility, consisting of a 6 year Project Finance Facility of US\$135M with a Costs Overrun Facility of US\$6M. The facility is being provided without a parent company guarantee from Paladin. The facilities are being 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 (RMB). Drawdown on the financing is subject to fulfilment of conditions precedent usual for this type of facility.

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATIONS

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

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

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

REMUNERATION FOR THE YEAR AT A GLANCE

As with last year, disclosure has taken a more holistic approach to give a greater insight into the remuneration landscape across the entire organisation and not simply focus on the Key Management Personnel. Each and every employee is important and to maintain a successful organisation, policies for the attraction, motivation and retention of all staff throughout the Group must be visible and consistent. This is particularly relevant given the industry in which Paladin operates which suffers globally from a lack of expertise.

- Managing Director/CEO received a 5% increase in fixed remuneration together with a short-term incentive cash bonus representing 12% of fixed remuneration.
- Salary increases across the Group were broadly based on Consumer Price Index (CPI) increases (3% for Australia, rounded up from 2.84%). Certain adjustments for parity were made to ensure individual market competitiveness was maintained. This philosophy extended throughout the Group worldwide, with CPI adjustments relative to the country of operations.
- The bonus pool available for distribution decreased this year as a result of poor uranium prices and delayed ramp-up of Kayelekera Mine.

DIRECTORS' REPORT (continued)

REMUNERATION FOR THE YEAR AT A GLANCE (continued)

- Short-term incentive cash bonuses were paid to non-site personnel and senior executives at an average of 6-10% of fixed remuneration. Superior performance and contribution was rewarded at a higher rate. Site based employees continued to operate on a quarterly cash bonus system linked to mine performance criteria.
- A further annual grant of share rights was made under the long-term incentive plan totalling 2,617,100 share rights (0.34% of issued capital).
- Employees saw the first tangible benefits of the change in long-term incentive plan from options to share rights with the vesting of the first tranche of time based share rights on 1 September 2010. This totalled 495,580 shares.
- Non-executive Directors' remuneration remained at the same level as for the past three years. It is expected that an increase will be presented for consideration at the 2011 AGM, particularly given the additional Non-executive Director appointed in October 2010.

Executive Remuneration

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

The tables below set out the cash value of earnings realised by the Managing Director/CEO and Key Management Personnel for 2010 and 2011 and the intrinsic value of share based payments that vested to the executives during the period. The intrinsic value of share based payments represents the difference between the exercise price of the award and the Company's share price at vesting date, and does not reflect the accounting value determined in accordance with the Company's accounting policies.

The cash value of earnings realised include cash salary and fees, superannuation, cash bonuses and other benefits received in cash during the year and the intrinsic value of long-term incentives vesting during the 2011 year. The tables do not include the accounting value for share rights or options granted in the current and prior years, as this value may or may not be realised as they are dependent on the achievement of certain performance hurdles. The accounting value of other long-term benefits which were not received in cash during the year have also been excluded.

All cash remuneration is paid in Australian dollars to those parties listed below (with the exception of D Garrow who is paid in US\$) therefore the tables are presented in both A\$ and US\$ being the functional and presentation currency. The detailed schedules of remuneration presented later in this report are presented in US\$. The table below details only Key Management Personnel and not other executives.

DIRECTORS' REPORT (continued)

REMUNERATION FOR THE YEAR AT A GLANCE (continued)

Executive Remuneration (continued)

Cash Value of earnings realised

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

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

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

2010 (A\$'000) / (US\$'000)

Name	Base Salary & Superannuation		Cash Bonus		Other		Total	
	A\$	US\$	A\$	US\$	A\$	US\$	A\$	US\$
Mr John Borshoff	1,910	1,681	-	-	-	-	1,910	1,681
Mr Dustin Garrow	690	607	66	58	-	-	756	665
Ms Gillian Swaby	432	380	44	39	-	-	476	419
Mr Garry Korte	275 ⁽¹⁾	242 ⁽¹⁾	-	-	-	-	275	242
Mr Wyatt Buck	549	483	-	-	6	5	555	488
Total	3,856	3,393	110	97	6	5	3,972	3,495

- (1) Employment commenced 2 November 2009.
- (2) Exchange rate used is average for year US\$1 = 1.13652.

There were no benefits received from vesting of any LTIP incentives during this year.

REMUNERATION REPORT (Audited)

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

DIRECTORS' REPORT **(continued)**

For the purposes of this report, the term 'Executive' encompasses the managing director, senior executives, managers and company secretary of the Parent and the Group.

REMUNERATION APPROVAL PROCESS

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

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

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

KEY ELEMENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION STRATEGY

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

- attract and retain talented, qualified and effective Executives;
- motivate short and long-term performance and reward past performance;
- provide competitive and fair reward;
- be flexible and responsive in line with market expectations;
- align Executive interests with those of the Company's shareholders; and
- comply with applicable legal requirements and appropriate standards of governance.

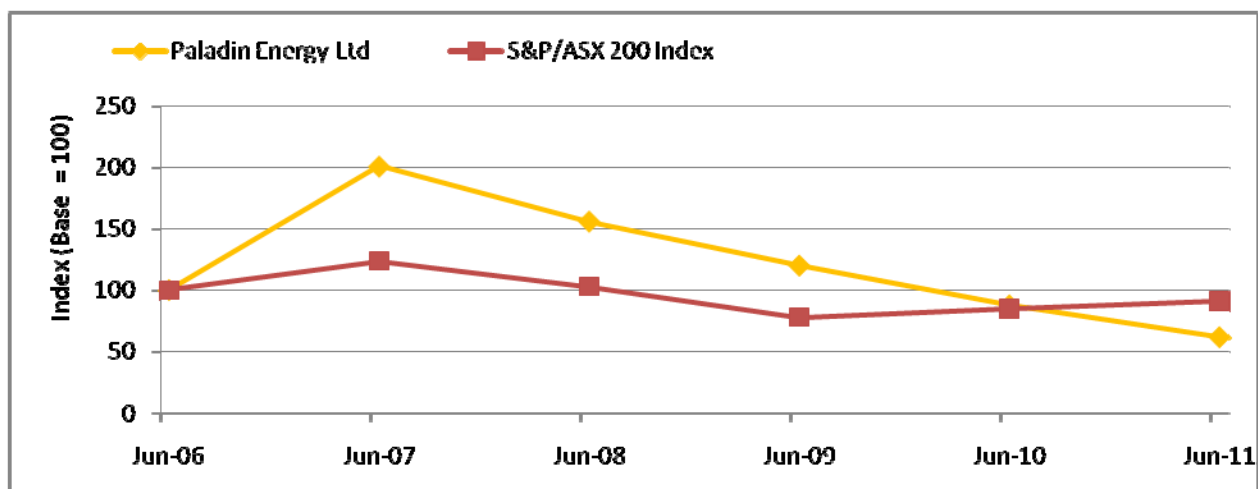
This strategy applies group wide for all employees.

The overall level of compensation takes into account the Company's earnings and growth in shareholder wealth of the Company together with the achievement of strategic goals. Consideration of the Company's earnings will be more relevant as the Company matures from its development and consolidation phase to profitability. The chart below compares, assuming an initial investment of A\$100, the yearly percentage change in the cumulative total shareholder return on the Company's Ordinary Shares against the cumulative total shareholder return of the S&P/ASX 200 Index for the Company's five most recently completed financial years.

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

DIRECTORS' REPORT (continued)

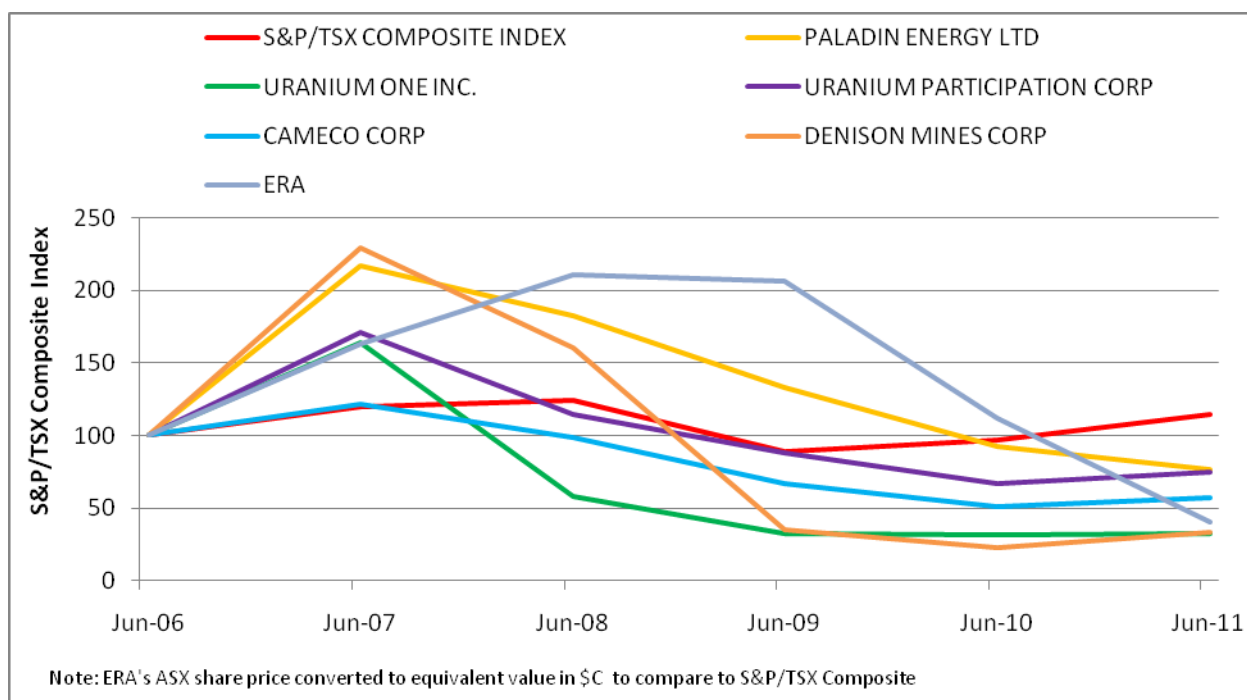
KEY ELEMENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION STRATEGY (continued)



	30 June 2007	30 June 2008	30 June 2009	30 June 2010	30 June 2011
The Company	A\$201	A\$156	A\$120	A\$87	A\$61
S&P/ASX 200 Index	A\$124	A\$103	A\$78	A\$85	A\$91
EPS*	US\$(0.07)	US\$(0.06)	US\$(0.78)	US\$(0.08)	US\$(0.11)

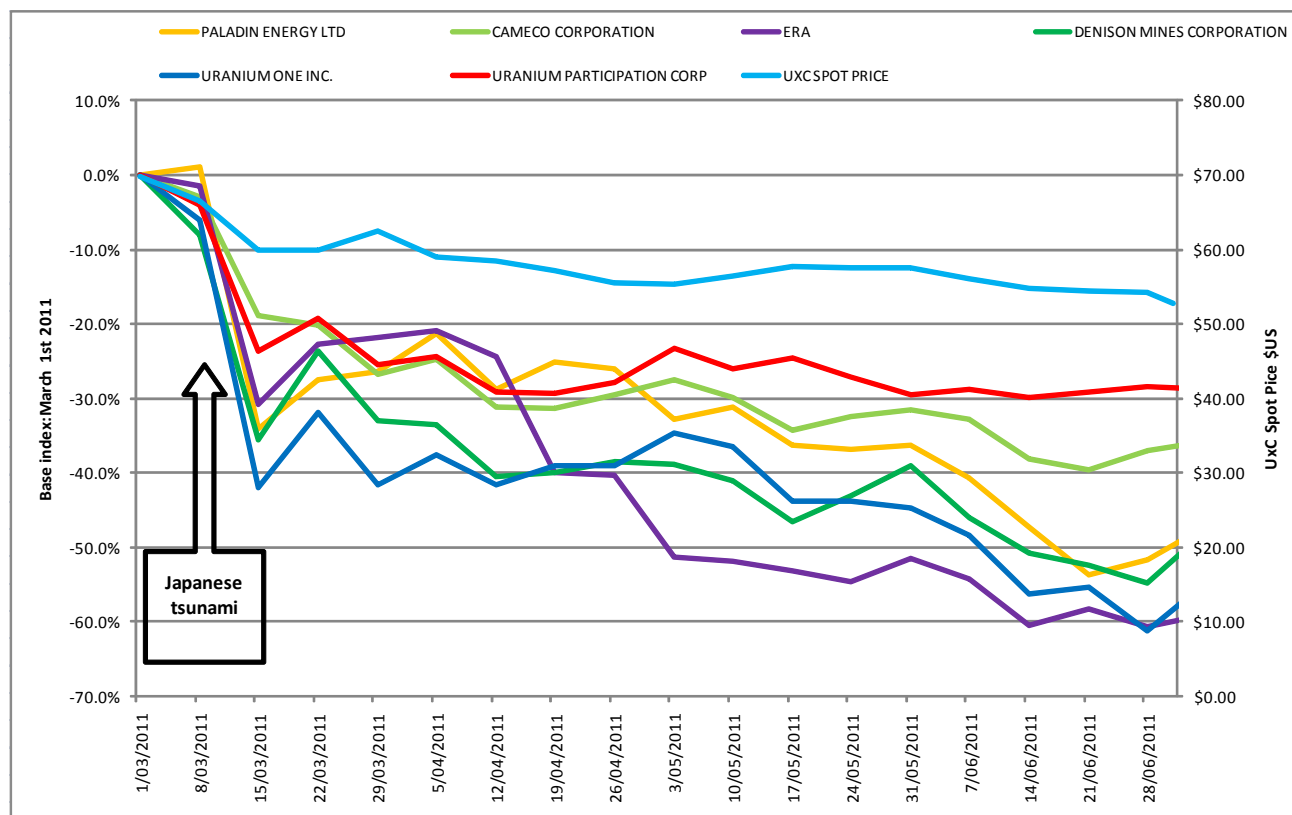
* Restated as a result of the voluntary change in accounting policy (refer to Note 3).

The following graph provides further clarity in respect of the Company's performance and, in particular, its peer group in the uranium sector against the S&P/TSX Composite Index, the second graph illustrates the performance of Paladin and its peer group against a base pre the Japanese tsunami through to year end.



DIRECTORS' REPORT (continued)

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



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

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

These are detailed as follows:

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

Fixed Remuneration

This is reviewed annually with consideration given to both the Company and the individual's performance and effectiveness. As competition in the global uranium mining industry continues to grow, a key to maintaining talent is to create relevant and globally competitive remuneration packages. Market data focused on the mining industry is analysed with a focus on maintaining parity or above with companies of similar complexity and size operating in the resources sector and becoming an employer of choice. The Company subscribes to a number of remuneration surveys and reports including Boardroom Remuneration Review (Connect 4), Resources Sector Remuneration Report (Godfrey Remuneration Group Pty Ltd), The Top 500 Report (CRA Plan Managers Pty Ltd) and the AIM National Salary Survey (Australian Institute of Management). The Company also takes into consideration the annual Executive and Board Remuneration Report produced by Ernst & Young.

During the past year, salaries, as a general rule, were increased in accordance with the movements of the CPI only, other than in cases where there was a role change or an anomalous situation relevant to labour market conditions. For Australian employees this amounted to 3%. For foreign operations, the CPI adjustment was relative to that country.

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

By way of comparison, salaries in the mining industry in Australia increased on average 4.34%. Whilst the level of increase was below the average, Paladin's long-term incentive scheme which operates through all levels provides a generous component of remuneration. Taking into account performance and industry parity, senior executives received an average increase of 6.7%.

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

Managing Director/CEO

Fixed remuneration (inclusive of superannuation) increased by 5% from A\$1,946,880 (US\$1,713,019) to A\$2,044,224 (US\$2,013,776), effective from 1 January 2011. This level of remuneration reflects the extensive knowledge and experience Mr John Borshoff has in the uranium sector gained over the past 40 years, as a recognised global authority. Expertise at this level is in extremely limited supply, particularly given the period of over 20 years of non activity in the uranium sector and the very small number of uranium producers worldwide. His knowledge and expertise of the sector has been key to the growth and acquisition strategy of the Company and integral to its development from a junior explorer to a uranium producer with two operating mines. In addition, his contract provides for payment of a benefit on retirement or early termination by the Company, other than for gross misconduct, equal to 2 times base salary for the two years immediately preceding the termination date. This benefit reflects approximately 18 years of service to the Company by John Borshoff, being the founder in 1993. As a comparison to retirement benefits generally seen in the North American markets (in which the Company is listed and a market from which executive staff are sourced), this benefit is not considered excessive by the Board. This benefit was approved by shareholders on 9 November 2005 at a time when retirement benefits generally were set at a much higher threshold.

Variable Remuneration

Short-term Incentives

The Company provides short-term incentives comprising a cash bonus to Executives of up to 30% of base salary. The bonus is entirely discretionary with the goal of focusing attention on short-term strategic and financial objectives. The amount is dependent on the Company's performance in its stated objectives and the individual's performance, together with the individual's position and level of responsibility. As for 2010, bonuses in 2011 were paid to modest levels averaging 6% across the group (2010: 10%) having regard to poor uranium prices and delays in the ramp-up of Kayelekera Mine. Senior executive bonuses averaged between 7% and 10%. All cash bonuses granted have been paid during the year.

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

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

Variable Remuneration (continued)

Managing Director/CEO

A bonus of up to 100% of base salary can be achieved, having consideration to outcomes achieved during the year, to be determined by the Remuneration Committee. For the calendar year 2010 a 12% bonus was awarded. Matters to be considered as key outcomes for the calendar year 2011 when considering payment of a bonus to J Borshoff fall within the following parameters which the Board considers best capture the essential elements for increasing shareholder returns:

	Factor	Indicative Weighting
1	Production and financial performance meeting or exceeding expectations.	45%
2	Sustainability matters achieving expectations.	20%
3	Organic and inorganic growth progressing in accordance with strategy.	15%
4	Organisational factors meeting expectations.	10%
5	Other factors at the discretion of the Remuneration Committee	10%

Long-term Incentives

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

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

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

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

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

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

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

Variable Remuneration (continued)

Long-term Incentives (continued)

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

Vesting and Performance Conditions

The Share Rights issued in November 2010 are subject to a range of vesting and performance conditions:

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

Managing Director/CEO

The Share Rights issued to the Managing Director/CEO have different vesting hurdles to reflect the “at risk” nature of 100% of this component of his remuneration and provide a direct link between Managing Director/CEO reward and shareholder return, and provide a clear line of sight between Managing Director/CEO performance and Company performance. In November 2010, 500,000 Share Rights were granted to Mr J Borshoff, as approved by shareholders at the 2009 AGM.

The performance conditions are:

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

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

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

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

Vesting and Performance Conditions (continued)

Managing Director/CEO (continued)

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

Why were these targets selected?

The Board considered the measures reflected an appropriate balance in terms of alignment between comparative shareholder return and individual reward, a market based performance measure and the encouragement of long-term retention.

Details of the various performance conditions follow:

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

Vesting and Performance Conditions (continued)

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

Shares Acquired Under the Rights Plan

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

Change of Control

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

Cessation of Employment

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

The outstanding balance of Share Rights at 30 June 2011 is represented by:

Date rights granted	Vesting date	Vesting performance conditions	Number
26 March 2010	26 March 2013	TSR	*150,000
26 March 2010	26 March 2013	EPS	*150,000
26 March 2010	1 September 2011	Time based	594,270
26 March 2010	1 September 2012	Time based	990,450
26 March 2010	1 September 2012	TSR	792,360
26 March 2010	1 September 2012	Market Price (base price A\$3.82)	1,188,540
5 November 2010	5 November 2013	TSR	*250,000
5 November 2010	5 November 2013	EPS	*250,000
5 November 2010	1 September 2011	Time based	202,170
5 November 2010	1 September 2012	Time based	303,255
5 November 2010	1 September 2013	Time based	505,425
5 November 2010	1 September 2013	TSR	404,340
5 November 2010	1 September 2013	Market price (base price A\$3.62)	606,510
15 February 2011	15 February 2012	Time based	155,336
15 February 2011	15 February 2013	Time based	178,838
15 February 2011	15 February 2014	Time based	225,843
Total			6,947,337

* Managing Director/CEO grant

Executive Share Option Plan (EXSOP)

Prior to the implementation of the Share Rights Plan, the EXSOP was the basis for the long-term incentive remuneration, approved by shareholders in November 2006.

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

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

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

Executive Share Option Plan (EXSOP) (continued)

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

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

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

Hedging of Incentive Grants Prohibited

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

Method of Valuation of Long-Term Incentives

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

A summary of the options remaining on issue under the EXSOP at 30 June 2011 is represented by:

Number of Options	Exercise Price A\$	Expiry Date	Vesting Date
6,706,791	4.50	29/01/2013	29/01/2011*
300,000	5.37	15/02/2013	15/02/2011**
475,000	4.59	18/04/2013	18/04/2011***
750,000	2.54	14/10/2013	14/10/2011

* Subject to retesting on 29 January 2012

** Subject to retesting on 15 February 2012

*** Subject to retesting on 18 October 2011

Retention Programme

As a component of the strategy for retention of key personnel, certain executives and staff participate in a retention bonus programme. Participation extends to a limited number of selected individuals that have been identified as possessing the requisite skills, expertise and experience in the uranium sector and those with specialist corporate and commercial skills that the Company requires to achieve its aggressive goals over coming years. This initiative is driven by a desire to retain the intellectual property pool considered necessary to ensure the continued success of the Company. The programme entitles the participants to receive a cash award at the end of the three year retention period ending on 1 July 2013. In the event employment is terminated for any of retirement, disablement, redundancy or death, after 1 July 2011 one third will be payable and after 1 July 2012, two thirds will be payable. The cash award varies between 50 and 100% of the average annual salary over the 3 year period.

In addition, from time to time, the Board will make specific grants of share rights subject only to time vesting as part of the Company's retention strategy for key individuals.

DIRECTORS' REPORT (continued)

COMPONENTS OF KEY MANAGEMENT PERSONNEL/EXECUTIVE REMUNERATION (continued)

KEY ELEMENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION STRATEGY

The focus of the remuneration strategy is to:

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

COMPONENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION

In accordance with corporate governance principles, Non-executive Directors are remunerated solely by way of fees and statutory superannuation. The aggregate annual remuneration permitted to be paid to Non-executive Directors is A\$1.2M (US\$1.2M) as approved by shareholders at the 2008 AGM. A number of independent surveys looking at companies both from a market capitalisation, (A\$1bn - \$3bn) and ASX Top 51-100 perspective give a range of Non-executive Director's fees from A\$110,000 (50th percentile) to A\$223,000 (90th percentile). In relation to Non-executive Chairman, the analysis ranges from A\$248,000 (50th percentile) to A\$480,000 (75th percentile). The fee level currently set is mid-range of these.

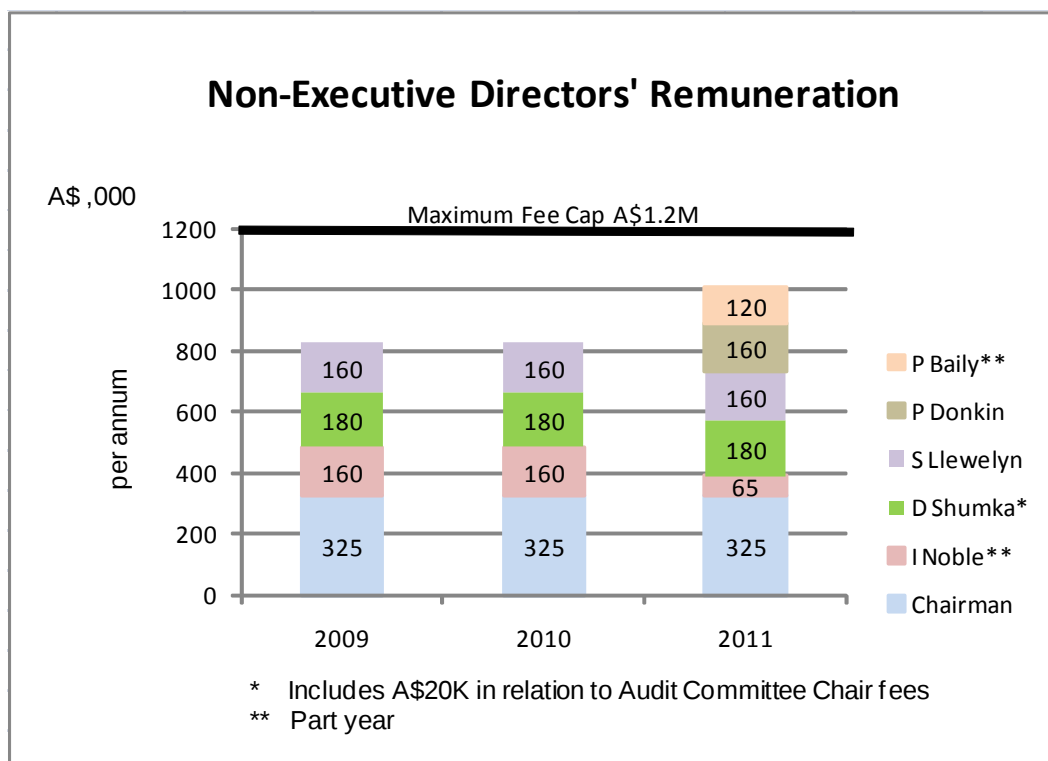
Remuneration Component	Elements	Details (per annum)
Base Fee	Must be contained within aggregate limit	Chairman A\$325,000 (US\$320,159) Non-executive Director A\$160,000 (US\$157,617)
Committee Fees*	Paid to the Chairman of the Audit Committee	A\$20,000 (US\$19,702)
Superannuation	Statutory contributions are included in the fees set out above	Statutory % of fees

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

DIRECTORS' REPORT (continued)

COMPONENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION (continued)

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



Other Fees/Benefits

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

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

Board Changes

Mr Peter Donkin and Mr Phil Bailly were appointed Non-executive Directors on 1 July and 1 October 2010 respectively. Both Director appointments were approved by shareholders on 25 November 2010 at the Annual General Meeting. Mr Ian Noble retired from the Board on 25 November 2010 at the Annual General Meeting.

Mr Sean Llewelyn will retire by rotation and seek re-election on 24 November 2011 at the Annual General Meeting.

REMUNERATION ACROSS THE GROUP

The strategies outlined for Executive remuneration apply across the Group. This extends to the provision of relevant short-term and long-term incentives. Site bonuses at Langer Heinrich are determined on a quarterly basis with reference to production, safety, environmental performance and attendance. The full bonus was only paid out in one quarter. At Kayelekera, the bonus scheme will not be fully established until consistent nameplate production is achieved, however, in recognition of a significant LTI free period of 180 days, a small bonus was paid in March 2011. Employees, regardless of their level or position in

DIRECTORS' REPORT

(continued)

the organisation, are paid the same bonus amount. This assists in aligning Paladin values with its employees on the remote operating sites.

REMUNERATION ACROSS THE GROUP (continued)

In addition, permanent employees at the Langer Heinrich Mine participated in the allocation of Share Rights during the year. The vesting of 10% of this allocation on 1 September 2010 was extremely well received and further cements the concept of broad employee share ownership, assisted by the Company's listing on the Namibian Stock Exchange. This is seen by employees as an extremely valuable benefit, particularly by the local national employees, and enables them to build up a shareholding in the Company over time. Whilst the workforce had previously participated in the EXSOP, the issues associated with the granting of options were exacerbated at the local level and were not perceived as a tangible benefit.

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

As discussed earlier, CPI increases were implemented at all Paladin operations and head office, the percentage varying based on the individual country index.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (audited) (continued)

Compensation of Key Management Personnel and the five highest paid executives for the year ended 30 June 2011 of the Group

	Short-Term Benefits				Post Employment		Long-Term Benefits		Share Based Payment*		Total ⁽²⁾	Total	Total Performance Related	Total Performance Related
	Salary & fees	Cash bonus	Other Company Benefits	Other	Super-annuation	Retirement Benefits	Long-Term Incentive Plan	Long Service Leave	Options	Share Rights				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	A\$'000	US\$'000	%
Directors														
Mr Rick Crabb	305	-	-	-	15	-	-	-	-	-	320	325	-	-
Mr John Borshoff	1,987	231	-	-	15	584 ⁽¹⁰⁾	-	99	688	655	4,259	4,324	1,574	37.0
Mr Sean Llewelyn	145	-	-	-	13	-	-	-	-	-	158	160	-	-
Mr Ian Noble ⁽³⁾	59	-	-	-	5	-	-	-	-	-	64	65	-	-
Mr Donald Shumka	177	-	-	-	-	-	-	-	-	-	177	180	-	-
Mr Philip Baily ⁽⁴⁾	108	-	-	-	10	-	-	-	-	-	118	120	-	-
Mr Peter Donkin ⁽⁵⁾	145	-	-	-	13	-	-	-	-	-	158	160	-	-
Subtotal	2,926	231	-	-	71	584	-	99	688	655	5,254	5,334	1,574	
Executives														
Ms Gillian Swaby	-	49	-	512 ⁽¹⁾	-	-	114	-	131	718	1,524	1,547	289	18.9
Mr Garry Korte	438	54	-	-	15	-	95	-	-	186	788	799	115	14.6
Mr Wyatt Buck ⁽⁶⁾	427	-	50	-	15	-	-	-	102	(35) ⁽¹¹⁾	559	567	80	14.3
Mr Dustin Garrow	651	71	-	-	-	-	146	-	134	376	1,378	1,399	330	23.9
Mr Mark Chalmers ⁽⁷⁾	83	-	-	-	4	-	-	-	-	-	87	88	-	-
Mr Mark Barnaba ⁽⁹⁾	478	-	296 ⁽⁸⁾	-	15	-	-	-	-	1,955	2,744	2,784	-	-
Mr Simon Solomons ⁽⁹⁾	455	30	-	-	15	-	-	-	303	204	1,007	1,022	402	39.9
Mr Jim Morgan ⁽⁹⁾	566	39	-	-	15	-	109	-	119	284	1,132	1,150	254	22.4
Subtotal	3,098	243	346	512	79	-	464	-	789	3,688	9,219	9,356	1,470	
Total	6,024	474	346	512	150	584	464	99	1,477	4,343	14,473	14,690	3,044	

Notes to the Compensation Table

Presentation Currency

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

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

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

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

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

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

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

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

(8) Commencement fee and deferred remuneration.

(9) Mr Simon Solomons, Mr Jim Morgan and Mr Mark Barnaba are included as they are among the five highest paid executives, but are not determined to be Key Management Personnel.

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

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

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

DIRECTORS' REPORT (continued)

Reconciliation of Share Based Payment Compensation of Key Management Personnel and the five highest paid executives for the year ended 30 June 2011 (Consolidated and Company).

	A\$4.50 Options (expiring 29/1/2013)		Share Rights granted 26 March 2010 (vesting 2010 to 2013)		Share Rights granted 8 July 2010 (vested August 2010)		Share Rights granted 5 November 2010 (vesting 2011 to 2013)		Share Rights granted 15 February 2011 (vesting 2012 to 2014)		Total Share Based Payment		% of Total Remuneration Consisting of Options
	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	
Directors													
Mr John Borshoff	698	688	292	287	-	-	374	368	-	-	1,364	1,343	16.2
Subtotal	698	688	292	287	-	-	374	368	-	-	1,364	1,343	16.2
Executives													
Ms Gillian Swaby	133	131	257	253	-	-	72	71	400 ⁽¹⁾	394 ⁽¹⁾	862	849	8.6
Mr Garry Korte	-	-	128	126	-	-	60	59	-	-	188	185	0
Mr Wyatt Buck	103	102	(35) ⁽³⁾	(35) ⁽³⁾	-	-	-	-	-	-	68	67	17.0
Mr Dustin Garrow	136	134	285	281	-	-	96	95	-	-	517	510	9.8
Mr Mark Barnaba	-	-	-	-	1,984 ⁽²⁾	1,955 ⁽²⁾	-	-	-	-	1,984	1,955	0
Mr Simon Solomons	307	303	171	168	-	-	36	36	-	-	514	507	30.1
Mr Jim Morgan	121	119	229	226	-	-	60	59	-	-	410	404	10.5
Subtotal	800	789	1,035	1,019	1,984	1,955	324	320	400	394	4,543	4,477	
TOTAL	1,498	1,477	1,327	1,306	1,984	1,955	698	688	400	394	5,907	5,820	

When a long-term incentive is granted to an employee, it is valued at the grant date and that value is allocated as an expense over the financial years up to the date of vesting. The A\$4.50 options were expensed up to 29/1/2011 and therefore no expense will be recognised for these in future years. All of the A\$8.77 options lapsed during the year as the vesting conditions were not met. At the date of lapse these options had an intrinsic value of A\$nil.

It should be noted that performance vesting conditions attach to all of the Options and Share Rights referred to above. These are detailed elsewhere in this report, however for Options, to the extent that maximum performance is not achieved under the performance condition, performance will be retested every six months following the first three years until the end of the fourth year. If performance conditions are still not met then the Options will lapse.

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

(2) Grant of 625,000 rights which vested into shares on 1 August 2010. Resulting shares then held in trust vesting January 2011 to January 2012. Once vested, the shares are then subject to a disposal restriction which expires on 1 January 2014. The services from M Barnaba are of a high level strategic nature and alleviates payment for such services from an investment bank or other advisor. The shares are both a sign-on bonus and part pre-payment for 3 years service.

(3) Includes a credit of A\$59,000 relating to Share Rights lapsing upon resignation.

(4) Exchange rate used as the average for year US\$1 = A\$1.01512

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (audited) (continued)

Compensation of Key Management Personnel and the five highest paid executives for the year ended 30 June 2010 of the Group

	Short-Term Benefits				Post Employment		Long-Term Benefits	Share Based Payment*		Total ⁽²⁾	Total	Total Performance Related	Total Performance Related
	Salary & fees	Cash bonus	Other Company Benefits	Other	Super-annuation	Retirement Benefits	Long Service Leave	Options	Share Rights	US\$'000	A\$'000	US\$'000	%
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	A\$'000	US\$'000	%
Directors													
Mr Rick Crabb	275	-	-	-	12	-	-	-	-	287	326	-	-
Mr John Borshoff	1,669	-	-	-	12	510 ⁽⁵⁾	476	2,416	74	5,157	5,861	2,490	48.3
Mr Sean Llewelyn	129	-	-	-	12	-	-	-	-	141	160	-	-
Mr Ian Noble	129	-	-	-	12	-	-	-	-	141	160	-	-
Mr Donald Shumka	158	-	-	-	-	-	-	-	-	158	180	-	-
Subtotal	2,360	-	-	-	48	510	476	2,416	74	5,884	6,687	2,490	
Executives													
Ms Gillian Swaby	-	39	-	380 ⁽¹⁾	-	-	-	270	99	788	896	333	42.3
Mr Garry Korte ⁽⁷⁾	232	-	-	-	10	-	-	-	49	291	331	12	4.2
Mr Wyatt Buck	445	-	5	-	38	-	-	276	88	852	968	298	34.9
Mr Dustin Garrow	607	58	-	-	-	-	-	270	110	1,045	1,188	355	34.0
Mr Simon Solomons	392	-	-	-	12	-	-	468	66	938	1,066	484	51.6
Mr Justin Reid ⁽⁶⁾	388	20	115 ⁽⁴⁾	-	12	-	-	353	44	932	1,059	384	41.2
Mr Jim Morgan ⁽⁶⁾	459	-	-	-	12	-	-	303	88	862	980	325	37.7
Mr Mark Bolton ⁽³⁾	132	22	-	-	6	-	-	-	-	160	182	22	13.8
Subtotal	2,655	139	120	380	90	-	-	1,940	544	5,868	6,670	2,213	
Total	5,015	139	120	380	138	510	476	4,356	618	11,752	13,357	4,703	

Notes to the Compensation Table

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

(2) Exchange rate used is average for year US\$ 1 = A\$ 1.13652.

(3) Acting Chief Financial Officer – resigned 13 November 2009.

(4) Relocation expenses.

(5) This is the present value of the amount required to be accrued in 2010 for the payment at a future date (as yet undetermined) of a retirement benefit to Mr Borshoff under the terms of his Services Contract.

(6) Mr Justin Reid and Mr Jim Morgan are included as they are among the five highest paid executives, but are not determined to be Key Management Personnel.

(7) Mr Garry Korte – appointed 2 November 2009.

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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (audited) (continued)

Reconciliation of Share-Based Payment Compensation of Key Management Personnel and the five highest paid executives for the year ended 30 June 2010
(Consolidated and Company)

	A\$8.77 Options (expiring 1/12/2012)		A\$4.50 Options (expiring 29/1/2013)		A\$4.48 Options (expiring 24/6/2014)		Share Rights (vesting 2010/2011/ 2012/2013)		Total Share Based Payment		% of Total Remuneration Consisting of Options
	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	A\$'000	US\$'000	
Directors											
Mr John Borshoff	1,537	1,352	1,208	1,063	-	-	84	74	2,829	2,489	48.6
Subtotal	1,537	1,352	1,208	1,063	-	-	84	74	2,829	2,489	
Executives											
Ms Gillian Swaby	77	68	229	201	-	-	112	99	418	368	34.2
Mr Garry Korte	-	-	-	-	-	-	56	49	56	49	-
Mr Wyatt Buck	136	120	179	157	-	-	100	88	415	365	32.4
Mr Dustin Garrow	71	62	236	208	-	-	125	110	432	380	25.8
Mr Simon Solomons	-	-	532	468	-	-	75	66	607	534	49.9
Mr Justin Reid	-	-	-	-	401	353	50	44	451	397	37.9
Mr Jim Morgan	136	120	209	184	-	-	100	88	445	392	35.1
Subtotal	420	370	1,385	1,218	401	353	618	544	2,824	2,485	
Total	1,957	1,722	2,593	2,281	401	353	702	618	5,653	4,974	

When a long-term incentive is granted to an employee, it is valued at the grant date and that value is allocated as an expense over the financial years up to the date of vesting. The A\$8.77 options were expensed up to 1/2/2010 and therefore no expense will be recognised for these in future years.

It should be noted that performance vesting conditions attach to all of the Options and Share Rights referred to above. These are detailed elsewhere in this report, however for Options, to the extent that maximum performance is not achieved under the performance condition, performance will be retested every six months following the first three years until the end of the fourth year. If performance conditions are still not met then the Options will lapse.

(1) Exchange rate used is the average for year US\$1 = A\$1.13652

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

CONTRACTS FOR SERVICES

Remuneration and other terms of employment for the Key Management Personnel are normally formalised in contracts for services.

All contracts with Key Management Personnel may be terminated early by either party providing between 3 to 6 months written notice or providing payments in lieu of the notice period (based on fixed component of remuneration). On termination notice by the Company, any options or rights that have vested, or that will vest during the notice period, will be released. Options or rights that have not yet vested will be forfeited.

Mr John Borshoff, *Managing Director/CEO*

Term of agreement – 4 years commencing 27 November 2009.

Base salary, inclusive of superannuation, A\$1,946,880 increased to A\$2,044,244 effective 1 January 2011. 3 months long service leave after 5 years continual service.

Payment of a benefit on retirement or early termination by the Company, other than for gross misconduct, equal to 2 times base salary for the two years immediately preceding the termination date. This benefit was approved by the Company shareholders on 9 November 2005.

Ms Gillian Swaby, *Company Secretary*

Fees are paid in the ordinary course of business for company secretarial services to a company of which Ms Gillian Swaby is a director and shareholder.

Consultancy agreement with no fixed term.

Annual fee A\$540,000.

Notice period 3 months.

No termination benefit is specified in the agreement.

Retention bonus – 100%.

Mr Dustin Garrow, *Executive General Manager - Marketing*

Term of agreement – no fixed term.

Base salary, of US\$632,500 increased to US\$664,125 effective 1 January 2011.

No termination benefit is specified in the agreement.

Notice period 6 months.

Retention bonus – 100%.

Mr Simon Solomons, *Executive General Manager - Operations Development*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation of A\$470,000, increased to A\$484,100 effective 1 January 2011.

No termination benefit is specified in the agreement.

Notice period 6 months.

Mr Garry Korte, *Chief Financial Officer*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation of A\$416,000, increased to A\$503,500 effective 1 January 2011.

No termination benefit is specified in the agreement.

Notice period 3 months.

Retention bonus – 100%.

Mr Mark Barnaba, *Strategic Advisor (Commenced 1 July 2010)*

Term of Agreement – 3 years.

Base salary, inclusive of superannuation A\$500,000.

Notice period – 3 months.

DIRECTORS' REPORT (continued)

CONTRACTS FOR SERVICES (continued)

Mr Jim Morgan, *Executive General Manager*

Term of Agreement – no fixed term.

Base salary, inclusive of superannuation of A\$480,000, increased to A\$504,000 effective 1 January 2011.

20% foreign assignment allowance.

No termination benefit is specified in the agreement.

Notice period 2 months.

Retention bonus – 100%

Mr Mark Chalmers, *Executive General Manager – Production (Commenced 27 April 2011)*

Term of Agreement – no fixed term.

Base salary, inclusive of superannuation of A\$490,000, together with relocation expenses to Perth from South Australia.

Notice period 3 months

No termination benefit is specified.

Mr Wyatt Buck, *Executive General Manager – Production (Resigned 6 May 2011)*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation A\$525,000.

No termination benefit is specified in the agreement.

Notice period 6 months.

Retention bonus – 100%.

Remuneration for all parties referred to above includes provision of an annual discretionary bonus and initial and ongoing discretionary participation in the Company's long-term incentive plans.

GRANTS AND VESTING OF LONG-TERM INCENTIVES

During the financial years ended 30 June 2011 and 2010, no options were granted as equity compensation benefits under the long-term incentive plan to Key Management Personnel. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at the exercise price. The contractual life of each option granted is five years. There are no cash settlement alternatives.

Options vested during the year ended 30 June 2011:

Name	Options @ A\$4.50 expiring 29 January 2013	
	Vested	Unvested
John Borshoff	657,000	593,000
Gillian Swaby	136,018	122,767
Wyatt Buck	105,926*	95,607**
Dustin Garrow	139,915	126,284
Jim Morgan	123,672	111,624
Simon Solomons	315,360	284,640

* forfeited on 6 June 2011.

** forfeited on 6 May 2011.

DIRECTORS' REPORT (continued)

GRANTS AND VESTING OF LONG-TERM INCENTIVES (continued)

Share Rights awarded to Key Management Personnel and the five highest paid executives during the year ended 30 June 2011 (Consolidated and Company) are set out below:

30 June 2011	Grant No.	Grant date	Fair value per share right at award date (A\$) (US\$)		Vesting date
Directors					
Mr John Borshoff	500,000	5 November 2010	3.82	3.85	5 November 2013
Executive					
Ms Gillian Swaby	60,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013
Ms Gillian Swaby	325,000	15 February 2011	5.41	5.43	15 Feb 2012 to 15 Feb 2014
Mr Garry Korte	50,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013
Mr Wyatt Buck	50,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013
Mr Dustin Garrow	80,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013
Mr Mark Barnaba	625,000	8 July 2010	3.56	3.04	1 Jan 2011 to 1 Jan 2012
Mr Jim Morgan	50,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013
Mr Simon Solomons	30,000	5 November 2010	3.73	3.76	1 Sept 2011 to 1 Sept 2013
Total	1,770,000				

Shares Rights vested to Key Management Personnel and the five highest paid executives during the year ended 30 June 2011 (Consolidated and Company) are set out below:

30 June 2011	Grant No.	Grant date	Fair value per share right at award date (A\$) (US\$)		Vesting date	Vested No.	Vested %
Directors							
Mr John Borshoff	300,000	26 March 2010	3.32	3.02	26 March 2013	-	-
Executives							
Ms Gillian Swaby	180,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	18,000	10%
Mr Garry Korte	90,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	9,000	10%
Mr Wyatt Buck	160,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	16,000	10%
Mr Dustin Garrow	200,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	20,000	10%
Mr Simon Solomons	120,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	12,000	10%
Mr Justin Reid	80,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	8,000	10%
Mr Jim Morgan	160,000	26 March 2010	3.16	2.88	1 Sept 2010 to 1 Sept 2012	16,000	10%
Mr Mark Barnaba ⁽¹⁾	625,000	8 July 2010	3.56	3.04	1 Jan 2011 to 1 Jan 2012	625,000	100%
Total	1,915,000					724,000	38%

(1) Grant of 625,000 rights which vested into shares on 1 August 2010. Resulting shares then held in trust vesting January 2011 to January 2012. Once vested, the shares are then subject to a disposal restriction which expires on 1 January 2014. 375,000 rights have vested to employee as at 30 June 2011.

End of audited Remuneration Report

960 shares were issued on the exercise of options. The fair value at exercise date was A\$518 and the amount paid was A\$4,320. 1,300,580 shares were issued on the vesting of Share Rights during the year ended 30 June 2011. 2,694,270 options at an exercise price of A\$8.77 lapsed. At the date of lapse, these options had zero value.

DIRECTORS' REPORT (continued)

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Date options granted	Date of Performance Condition Test	Expiry date	Exercise price of options(A\$)	Number under option
29 January 2008	29 January 2011	29 January 2013	4.50	6,606,187
15 February 2008	15 February 2011	15 February 2013	5.37	300,000
18 April 2008	18 April 2011	18 April 2013	4.59	475,000
14 October 2008	14 October 2011	14 October 2013	2.54	750,000
Total				8,131,187

Since the end of the financial year, 95,444 options were forfeited due to the cessation of employment.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

The outstanding balance of Performance Share Rights at the date of this report are as follows:

Date rights granted	Vesting date	Vesting performance conditions	Number
26 March 2010	26 March 2013	TSR	*150,000
26 March 2010	26 March 2013	EPS	*150,000
26 March 2010	1 September 2011	Time based	575,025
26 March 2010	1 September 2012	Time based	958,375
26 March 2010	1 September 2012	TSR	766,700
26 March 2010	1 September 2012	Market Price (base price A\$3.82)	1,150,050
5 November 2010	5 November 2013	TSR	*250,000
5 November 2010	5 November 2013	EPS	*250,000
5 November 2010	1 September 2011	Time based	197,110
5 November 2010	1 September 2012	Time based	295,665
5 November 2010	1 September 2013	Time based	492,775
5 November 2010	1 September 2013	TSR	394,220
5 November 2010	1 September 2013	Market price (base price A\$3.62)	591,330
15 February 2011	15 February 2012	Time based	155,336
15 February 2011	15 February 2013	Time based	178,838
15 February 2011	15 February 2014	Time based	225,843
Total			6,781,267

* Managing Director/CEO grant

DIRECTORS' INDEMNITIES

During the year the Company has incurred premiums to insure the Directors and/or officers for liabilities incurred as costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company and or its controlled entities. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

ROUNDING

The amounts contained in this report, the Financial Report and the Management, Discussion and Analysis have been rounded to the nearest US\$100,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

DIRECTORS' REPORT (continued)

AUDITOR

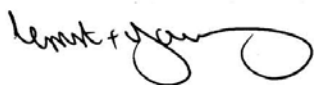
Ernst & Young were appointed auditors for the Company on 21 June 2005, which was approved by shareholders at the 2005 Annual General Meeting on 9 November 2005.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received the following declaration from the auditor of Paladin Energy Ltd.

Auditor's Independence Declaration to the Directors of Paladin Energy Ltd

In relation to our review of the financial report of Paladin Energy Ltd for the year ended 30 June 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.



Ernst & Young



G H Meyerowitz
Partner
Perth
31 August 2011

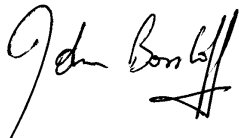
NON-AUDIT SERVICES

The following non-audit and assurance services were provided by the Company's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit and assurance services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit and assurance service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	US\$'000
Tax compliance services	101
International tax consulting	165
Tax advice on mergers and acquisitions	232
Other tax advice	<u>51</u>
Total	<u>549</u>

Signed in accordance with a resolution of the Directors.



Mr John Borshoff
Managing Director/CEO
Perth, Western Australia
31 August 2011

PALADIN ENERGY LTD AND CONTROLLED ENTITIES FINANCIAL REPORT

FOR THE YEAR ENDED 30 June 2011

CONTENTS OF THE FINANCIAL REPORT

Note	Title	Page Number
	CONSOLIDATED INCOME STATEMENT	101
	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	102
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	103
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	104
	CONSOLIDATED STATEMENT OF CASH FLOWS	105
NOTE 1.	CORPORATE INFORMATION	106
NOTE 2.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	106
NOTE 3.	VOLUNTARY CHANGE IN ACCOUNTING POLICY	122
NOTE 4.	SEGMENT INFORMATION	124
NOTE 5.	REVENUES AND EXPENSES	126
NOTE 6.	INCOME TAX	127
NOTE 7.	CASH AND CASH EQUIVALENTS	130
NOTE 8.	TRADE AND OTHER RECEIVABLES	131
NOTE 9.	INVENTORIES	132
NOTE 10.	OTHER FINANCIAL ASSETS	133
NOTE 11(a).	PROPERTY, PLANT AND EQUIPMENT	134
NOTE 11(b).	NON CURRENT ASSET HELD FOR SALE	135
NOTE 12.	MINE DEVELOPMENT	136
NOTE 13.	EXPLORATION AND EVALUATION EXPENDITURE	137
NOTE 14.	INTANGIBLE ASSETS	143
NOTE 15.	TRADE AND OTHER PAYABLES	144
NOTE 16.	INTEREST BEARING LOANS AND BORROWINGS	145
NOTE 17.	PROVISIONS	147
NOTE 18.	CONTRIBUTED EQUITY AND RESERVES	148
NOTE 19.	FINANCIAL INSTRUMENTS	152
NOTE 20.	KEY MANAGEMENT PERSONNEL	160
NOTE 21.	AUDITORS' REMUNERATION	163
NOTE 22.	COMMITMENTS AND CONTINGENCIES	164
NOTE 23.	EMPLOYEE BENEFITS	166
NOTE 24.	RELATED PARTIES	167
NOTE 25.	SHARE-BASED PAYMENT PLANS	167

**PALADIN ENERGY LTD AND CONTROLLED ENTITIES
FINANCIAL REPORT**

FOR THE YEAR ENDED 30 June 2011

NOTE 26.	INTERESTS IN JOINTLY CONTROLLED ASSETS	172
NOTE 27.	ASSET ACQUISITION	173
NOTE 28.	EVENTS AFTER THE BALANCE SHEET DATE	174
NOTE 29.	NON-CASH FINANCING AND INVESTMENT ACTIVITIES	174
NOTE 30.	EARNINGS PER SHARE.....	175
NOTE 31.	PARENT ENTITY INFORMATION	176

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

		CONSOLIDATED	
	Notes	2011 US\$M	2010 US\$M
Revenue			
Revenue	5(a)	268.9	204.3
Cost of sales		<u>(170.9)</u>	<u>(131.6)</u>
		98.0	72.7
Depreciation and amortisation		(36.1)	(14.3)
Product distribution costs		(9.2)	(3.4)
Royalties		<u>(6.0)</u>	<u>(4.0)</u>
Gross profit		46.7	51.0
Other income	5(b)	1.9	9.5
Exploration and evaluation expenses	13	(3.0)	(9.4)
Administration, marketing and non-production costs	5(c)	(54.0)	(38.6)
Other expenses	5(d)	<u>(35.2)</u>	<u>(9.1)</u>
(Loss)/earnings before interest and tax		(43.6)	3.4
Finance costs	5(e)	<u>(61.5)</u>	<u>(21.4)</u>
Net loss before income tax		(105.1)	(18.0)
Income tax benefit/(expense)	6(a)	<u>16.6</u>	<u>(28.5)</u>
Net loss after tax		<u>(88.5)</u>	<u>(46.5)</u>
Attributable to:			
Non-controlling interests		(6.2)	(0.9)
Members of the parent		<u>(82.3)</u>	<u>(45.6)</u>
Loss per share (US cents)			
Loss after tax from operations attributable to ordinary equity holders of the Company			
– basic and diluted (US cents)	30	(11.1)	(6.5)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Net loss after tax from operations	(88.5)	(46.5)
Other comprehensive income		
Net gain/(loss) on available-for-sale financial assets	10.8	(37.0)
Transfer of available-for-sale reserve on acquisition of entity	(3.2)	-
Foreign currency translation	141.1	31.7
Income tax on items of other comprehensive income	<u>(3.7)</u>	<u>8.0</u>
Other comprehensive income for the year, net of tax	<u>145.0</u>	<u>2.7</u>
Total comprehensive income/(loss) for the year	<u>56.5</u>	<u>(43.8)</u>
Total comprehensive income/(loss) attributable to:		
Non-controlling interests	9.2	3.1
Members of the parent	<u>47.3</u>	<u>(46.9)</u>
	<u>56.5</u>	<u>(43.8)</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

AS AT 30 JUNE 2011

		CONSOLIDATED		
	Notes	2011 US\$M	2010 US\$M	2009 US\$M
ASSETS				
Current assets				
Cash and cash equivalents	7	117.4	347.9	66.1
Trade and other receivables	8	20.5	33.2	26.4
Prepayments		13.8	13.5	2.7
Inventories	9	177.7	109.3	85.8
Financial assets held for trading		-	-	1.0
Non current assets held for sale	11(b)	-	12.0	-
TOTAL CURRENT ASSETS		329.4	515.9	182.0
Non current assets				
Trade and other receivables	8	1.5	0.3	2.2
Inventories	9	73.6	40.8	24.9
Other financial assets	10	41.8	35.7	69.2
Deferred borrowing costs		-	-	8.2
Property, plant and equipment	11(a)	630.1	541.1	457.8
Mine development	12	106.6	119.2	54.2
Exploration and evaluation expenditure	13	1,177.9	695.1	642.9
Deferred tax asset	6(d)	19.7	4.0	10.8
Intangible assets	14	23.1	24.6	25.6
TOTAL NON CURRENT ASSETS		2,074.3	1,460.8	1,295.8
TOTAL ASSETS		2,403.7	1,976.7	1,477.8
LIABILITIES				
Current liabilities				
Trade and other payables	15	69.7	63.4	67.1
Unearned revenue		-	-	0.2
Interest bearing loans and borrowings	16	43.9	47.9	14.2
Provisions	17	5.3	10.1	9.8
TOTAL CURRENT LIABILITIES		118.9	121.4	91.3
Non current liabilities				
Unearned revenue		-	-	0.2
Interest bearing loans and borrowings	16	675.8	682.2	572.0
Deferred tax liabilities	6(d)	217.5	168.7	143.4
Provisions	17	36.3	33.5	32.3
TOTAL NON CURRENT LIABILITIES		929.6	884.4	747.9
TOTAL LIABILITIES		1,048.5	1,005.8	839.2
NET ASSETS		1,355.2	970.9	638.6
EQUITY				
Contributed equity	18(a)	1,768.1	1,474.6	1,111.6
Reserves	18(c)	205.2	42.6	32.0
Accumulated losses		(701.8)	(619.5)	(573.9)
Parent interests		1,271.5	897.7	569.7
Non-controlling interests		83.7	73.2	68.9
TOTAL EQUITY		1,355.2	970.9	638.6

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes. The comparative statement for the year ended 30 June 2009 has been restated to show the effect of the voluntary change in accounting policy.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Contributed Equity US\$M	Available -for-Sale Reserve US\$M	Share- Based Payments Reserve US\$M	Convertible Bond Non- Distrib- utable Reserve US\$M	Foreign Currency Revaluation Reserve US\$M	Premium on Acquisition Reserve US\$M	Option Application Reserve US\$M	Consol- idated Reserve US\$M	Accumu- lated Losses US\$M	Attributable to Owners of the Parent US\$M	Non- Controlling Interests US\$M	Total US\$M
CONSOLIDATED													
Balance at 1 July 2009 as previously stated		1,111.6	32.5	26.0	38.9	(80.3)	14.9	0.1	(0.2)	(581.2)	562.3	68.9	631.2
Effect of accounting policy change	3	-	-	-	-	-	-	-	-	7.3	7.3	0.1	7.4
Balance at 1 July 2009 – restated		1,111.6	32.5	26.0	38.9	(80.3)	14.9	0.1	(0.2)	(573.9)	569.6	69.0	638.6
Total comprehensive income/(loss) for the year net tax		-	(24.8)	-	-	23.5	-	-	-	(45.6)	(46.9)	3.1	(43.8)
Share-based payment		-	-	12.0	-	-	-	-	-	-	12.0	-	12.0
Contributions of equity, net of transactions costs		363.0	-	-	-	-	-	-	-	-	363.0	1.1	364.1
Balance at 30 June 2010		1,474.6	7.7	38.0	38.9	(56.8)	14.9	0.1	(0.2)	(619.5)	897.7	73.2	970.9
Balance at 1 July 2010 as previously stated		1,474.6	7.7	38.0	38.9	(56.8)	14.9	0.1	(0.2)	(634.0)	883.2	73.2	956.4
Effect of accounting policy change	3	-	-	-	-	-	-	-	-	14.5	14.5	-	14.5
Balance at 1 July 2010 – restated		1,474.6	7.7	38.0	38.9	(56.8)	14.9	0.1	(0.2)	(619.5)	897.7	73.2	970.9
Total comprehensive income/(loss) for the year net tax		-	4.0	-	-	125.6	-	-	-	(82.3)	47.3	9.2	56.5
Share based payment		-	-	14.6	-	-	-	-	-	-	14.6	-	14.6
Vesting performance rights		3.1	-	(3.1)	-	-	-	-	-	-	-	-	-
Contributions of equity, net of transaction costs		290.4	-	-	-	-	-	-	-	-	290.4	1.3	291.7
Convertible bonds – equity component, net of tax and transaction costs		-	-	-	28.1	-	-	-	-	-	28.1	-	28.1
Convertible bonds – buyback		-	-	-	(6.6)	-	-	-	-	-	(6.6)	-	(6.6)
Balance at 30 June 2011		1,768.1	11.7	49.5	60.4	68.8	14.9	0.1	(0.2)	(701.8)	1,271.5	83.7	1,355.2

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

		CONSOLIDATED	
	Notes	2011 US\$M	2010 US\$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		281.0	201.0
Payments to suppliers and employees		(348.6)	(202.8)
Interest received		1.6	1.8
Interest paid		(33.2)	(33.0)
Exploration and evaluation expenditure		(3.0)	(9.2)
Other income		0.2	7.7
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	7(a)	(102.0)	(34.5)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalised exploration expenditure		(17.6)	(7.4)
Payments for property, plant and equipment		(129.4)	(170.4)
Payments for available-for-sale financial assets		-	(1.8)
Payments for controlled entities net of cash acquired	27	(3.5)	-
Proceeds from sale of property, plant & equipment		11.7	-
Proceeds from sale of tenements		3.0	-
Proceeds from sale of investments		3.3	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(132.5)	(179.6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible bonds		300.0	-
Repayment of convertible bonds		(253.3)	-
Share placement		-	374.2
Rights issue		1.3	1.1
Equity fundraising costs		(6.9)	(11.2)
Project finance facility establishment costs		-	(7.2)
Repayment of borrowings		(51.8)	(6.6)
Proceeds from borrowings		12.0	145.0
NET CASH INFLOW FROM FINANCING ACTIVITIES		1.3	495.3
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(233.2)	281.2
Cash and cash equivalents at the beginning of the financial year		347.9	65.3
Effects of exchange rate changes on cash and cash equivalents		2.7	1.4
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	117.4	347.9

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 YEAR ENDED 30 JUNE 2011

NOTE 1. CORPORATE INFORMATION

The Financial Report of Paladin for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 30 August 2011.

Paladin is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the ASX with additional listings on the Toronto Stock Exchange in Canada as well as Munich, Berlin, Stuttgart and Frankfurt Stock Exchanges in Europe; and the Namibian Stock Exchange in Africa.

The nature of the operations and principal activities of the Group are described in the Management Discussion and Analysis on pages 13 to 44.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation and Statement of Compliance

The Financial Report is a general purpose Financial Report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The Financial Report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Financial Report has also been prepared on a historical cost basis, except for available-for-sale investments and financial assets held for trading, which have been measured at fair value. Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

In addition to these Australian requirements further information has been included in the Consolidated Financial Statements for the year ended 30 June 2011 in order to comply with applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

The Financial Report is presented in US dollars and all values are rounded to the nearest hundred thousand dollars (US\$100,000) unless otherwise stated under the option available to the Company under Australian Securities and Investments Commission (ASIC) Class Order 98/100. The Company is an entity to which the class order applies.

Apart from changes in accounting policies noted below, the accounting policies adopted are consistent with those disclosed in the Financial Report for the year ended 30 June 2010. Certain comparative information has been reclassified to be presented on a consistent basis with the current year's presentation.

(b) New accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures

During the year the Group adopted a voluntary change in accounting policy (refer to Note 3).

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations effective from 1 July 2010 as follows:

Reference	Title
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project – The subject of amendments to the standards are set out below: • AASB 5 – Disclosures in relation to non-current assets (or disposal groups) classified as held for sale or discontinued operations. • AASB 8 – Disclosure of information about segment assets. • AASB 101 – Current/non-current classification of convertible instruments. • AASB 117 – Classification of leases of land. • AASB 118 – Determining whether an entity is acting as a principle or an agent. • AASB 136 – Clarifying the unit of account for goodwill impairment test is not larger than an operating segment before aggregation. • AASB 139 – Treating loan prepayment penalties as closely related embedded derivatives, and revising the scope exemption for forward contracts to enter into a business combination contract.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) New accounting Standards and Interpretations (continued)

(i) Changes in accounting policy and disclosures (continued)

Reference	Title
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2].
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132].
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139].
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments.

The new and amended Standards and Interpretations had no impact on the financial position or performance of the Group.

(ii) Accounting Standards and Interpretations issued but not yet effective

The following Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been applied by the Group for the annual reporting period ending 30 June 2011, outlined in the table below:

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 <i>Financial Instruments: Recognition and Measurement</i>).	1 January 2013	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards Arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12].	These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that sets out requirements for the classification and measurement of financial assets. This Standard shall be applied when AASB 9 is applied.	1 January 2013	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. A partial exemption is also provided from the disclosure requirements for government-related entities. Changes to the revised standard apply retrospectively.	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes made by the IASB and AASB to a range of Australian Accounting Standards and Interpretations.	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB, and relocates all Australian specific disclosures from other standards to one place and revises certain other disclosures.	1 July 2011	1 July 2011

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) New accounting Standards and Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13].	This standard makes amendments to several Australian Accounting Standards and Interpretations. These amendments are a consequence of the Annual Improvements Project.	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042].	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 2010-6	Amendments to Australian Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets.	1 July 2011	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	This standard makes amendments to several Australian Accounting Standards and Interpretations. These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> as issued in December 2009.	1 January 2013	1 July 2013
AASB 2011-1	Amendments to Australian Accounting Standards Arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	1 July 2011
**	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements.	1 January 2013	1 July 2013
**	Joint Arrangements	IFRS 11 replaces IAS 31 <i>Interests in Joint Ventures</i> and SIC-13 <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i> . IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change.	1 January 2013	1 July 2013
**	Disclosure of Interests In Other Entities.	New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) New accounting Standards and Interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Application Date for Group*
**	Fair Value Measurement	IFRS 13 provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value.	1 January 2013	1 July 2013

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

** The AASB has not issued this standard, which was finalised by the IASB in May 2011.

The potential effect of these Standards is yet to be fully determined. However, it is not expected that the new Standards will significantly affect the Group's financial position.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Paladin Energy Ltd and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (refer to Note 2(j)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of Consolidation (continued)

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss and;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(d) Significant Accounting Judgements, Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Net realisable Value of Inventories

The Group reviews the carrying value of inventories regularly to ensure that their cost does not exceed net realisable value. In determining net realisable value various factors are taken into account including sales prices and costs to complete inventories to their final form.

(ii) Impairment of Property, Plant and Equipment; Mine Development and Intangibles

Property, plant and equipment; mine development and intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. Factors, such as changes in uranium prices, production performance and mining and processing costs are monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(iii) Available-for-Sale Financial Assets and Financial Assets Held for Trading

The Group measures the fair value of available-for-sale financial assets by reference to the fair value of the equity instruments at the date at which they are valued. The fair value of the unlisted securities is determined using valuation techniques. Such techniques include using recent arm's length market transactions, net asset values and by an external valuer using the Black-Scholes model.

(iv) Carrying Value of Exploration and Evaluation Expenditure

The Group reviews the carrying value of exploration and evaluation expenditure at least on a quarterly basis. This requires judgement as to the status of the individual projects and their future economic value.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Significant Accounting Judgements, Estimates and Assumptions (continued)

(v) Deferred Tax Assets and Liabilities

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining deferred tax assets and liabilities. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(vi) Rehabilitation Provision

The value of this provision represents the discounted value of the present obligation to rehabilitate the mine and to restore, dismantle and close the mine. The discounted value reflects a combination of management's assessment of the cost of performing the work required, the timing of the cash flows and the discount rate. A change in any, or a combination, of the three key assumptions (estimated cash flows, discount rates or inflation rates), used to determine the provision could have a material impact to the carrying value of the provision.

(vii) Share-Based Payment Transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using either the Black-Scholes model, Monte-Carlo simulation model or Asset or Nothing Digital Option valuation model as appropriate, using assumptions detailed in Note 25.

(viii) Proved and Probable Reserves

The Group uses the concept of a life of mine as an accounting value to determine such things as depreciation rates and the appropriate period to discount mine closure provisions. In determining life of mine the proved and probable reserves measured in accordance with the 2004 edition of the JORC Code specific to a mine are taken into account which by their very nature require judgements, estimates and assumptions.

(ix) Production Start Date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine and the processing plant is substantially complete, ready for its intended use. At this time, any costs capitalised to 'construction work in progress' are reclassified to 'mine development' and 'property, plant and equipment'. Some of the criteria will include, but are not limited, to the following:

- availability of the plant
- completion of a reasonable period of testing of the mine plant and equipment
- ability to produce metal in saleable form (within specifications)
- ability to sustain ongoing production of metal at commercial rates of production

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs that qualify for capitalisation relating to mine asset additions or improvements, mine development or mineable reserve development. It is also at this point that depreciation / amortisation commences.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group's executive management team (the chief operating decision makers) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the executive management team.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Company has identified its operating segments to be Exploration, Namibia and Malawi on the basis of the nature of activity and geographical location and different regulatory environments.

(f) Foreign Currency Translation

(i) Functional and Presentation Currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in United States dollars (US dollars), which is the Company's functional and presentation currency.

(ii) Transactions and Balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Translation differences on available-for-sale financial assets are included in the available-for-sale reserve.

(iii) Group Companies

Some Group entities have a functional currency of US dollars which is consistent with the Group's presentational currency. For all other group entities the functional currency has been translated into US dollars for presentation purposes. Assets and liabilities are translated using exchange rates prevailing at the balance sheet date; revenues and expenses are translated using average exchange rates prevailing for the income statement year; and equity transactions are translated at exchange rates prevailing at the dates of transactions. The resulting difference from translation is recognised in a foreign currency translation reserve. Foreign currency translation reserves upon the sale of a subsidiary is recycled to the Income Statement.

The following material operating subsidiaries have a US dollar functional currency:

- Paladin Finance Pty Ltd
- Paladin (Africa) Ltd
- Langer Heinrich Uranium (Pty) Ltd
- Paladin Nuclear Ltd
- Indo Energy Ltd

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign Currency Translation (continued)

(iii) Group Companies (continued)

The following material operating subsidiaries have an Australian dollar functional currency:

- Northern Territory Uranium Pty Ltd
- Mount Isa Uranium Pty Ltd
- Paladin Energy Minerals NL
- Summit Resources (Aust) Pty Ltd
- Fusion Resources Pty Ltd

The following material operating subsidiaries have a Canadian dollar functional currency:

- Aurora Energy Ltd
- Michelin Uranium Ltd
- Paladin Canada Holdings (NL) Ltd
- Paladin Canada Investments (NL) Ltd

(g) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Sale of Uranium

Revenue from sale of uranium is recognised when risk and reward of ownership pass which is when title of the product passes from the Group pursuant to an enforceable contract, when selling prices are known or can be reasonably estimated and when the product is in a form that requires no further treatment by the Group.

(ii) Interest Revenue

Interest revenue from investments in cash is recognised in the Income Statement as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iii) Database Licence Revenue

Licence revenue generated from granting third parties access to proprietary database information on mineral property regions is recognised in the Income Statement on a straight line basis over the licence term.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Paladin and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian tax law.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the lease incentive liability on a straight line basis over the period of the lease.

(j) Business Combinations

Business combinations are accounted for using the acquisition method. Prior to 1 July 2009 the purchase method of accounting was used to account for business combinations. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Business Combinations (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(k) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(l) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(m) Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

(n) Inventories

Consumable stores inventory are valued at the lower of cost and net realisable value using the weighted average cost method, after appropriate allowances for redundant and slow moving items.

Finished goods and work in progress inventory are valued at the lower of cost and net realisable value using the weighted average cost method. Cost is derived on an absorption costing basis including both fixed and variable production costs and attributable overheads incurred up to the delivery point where legal title to the product passes. No accounting value is attributed to stockpiles containing ore at less than the cut-off grade.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Inventories (continued)

Any inventory produced during the development phase is initially recognised at its deemed cost, being net realisable value and deducted from capitalised development costs.

The costs of production include labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore (including any recognised expense of stripping costs); the depreciation of property, plant and equipment used in the extraction and processing of ore; and production overheads.

Inventory held for trading by Paladin Nuclear Ltd, the Group's marketing entity, is valued at the lower of actual cost and net realisable value, using a blend of spot and long-term prices.

(o) Investments and Other Financial Assets

The Group classifies its investments and other financial assets in the following categories: loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial assets held for trading. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

Classification

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the Balance Sheet. Loans and receivables are carried at amortised cost using the effective interest method.

(ii) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

(iii) Available-for-Sale Financial Assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-Sale financial assets are subsequently carried at fair value. Unrealised gains and losses which arise from changes in the fair value of non monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the Income Statement as gains and losses from investment securities.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Investments and Other Financial Assets (continued)

(iv) Financial Assets Held for Trading

Financial assets are classified as held for trading if they are derivative instruments or acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the Income Statement.

(v) Fair value of Financial Instruments

The fair values of quoted investments are based on current bid prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The nominal value less estimated adjustments of trade receivables and payables are assumed to approximate their fair values.

(vi) Impairment of Financial Instruments

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the Income Statement. Any subsequent increase in value is recognised in equity.

(p) Interests in Jointly Controlled Assets

The Group has interests in joint ventures that are jointly controlled assets. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled asset involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in jointly controlled assets by recognising its interest in the assets and the liabilities of the joint venture. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by jointly controlled assets.

(q) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Property, plant and equipment costs include both the costs associated with construction of equipment associated with establishment of an operating mine, and the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

Land is not depreciated. Depreciation on other assets is calculated using either the unit of production basis or the straight line method to allocate their cost amount, net of their residual values, over their estimated useful lives, as follows:

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, Plant and Equipment (continued)

- Buildings 20 years
- Databases 10 years
- Plant and equipment 2-6 years
- Leasehold improvements 7 years
- Mine plant and equipment lesser of life of asset and unit of production basis

During the year the depreciation basis for mine plant and equipment was changed from straight-line to a unit of production basis as management believe this better reflects the consumption of the economic benefits. The amount of the effect in future periods is not disclosed because estimating it is impracticable. The amount relating to the year ended 30 June 2011 is a reduction in depreciation expense of US\$1.1M.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Income Statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(r) Mine Development

Pre-production costs are deferred as development costs until such time as the asset is capable of being operated in a manner intended by management. Post-production costs are recognised as a cost of production.

Overburden cost is capitalised and depreciated on a units of production basis. Stripping costs are recognised as a production cost as incurred.

(s) Exploration and Evaluation Expenditure

The Company has made a voluntary change to its accounting policy for exploration and evaluation expenditure. Refer to Note 3 for disclosure regarding the change.

Exploration and evaluation expenditure related to areas of interest is capitalised and carried forward to the extent that:

- (i) rights to tenure of the area of interest are current; and
- (ii) costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale.

Exploration and evaluation expenditure is allocated separately to specific areas of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the area of interest.

Costs related to the acquisition of properties that contain Mineral Resources are allocated separately to specific areas of interest.

If costs are not expected to be recouped through successful development and exploitation of the area of interest or alternatively by sale, costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditure that is capitalised is included as part of cash flows from investing activities whereas exploration and evaluation expenditure that is expensed is included as part of cash flows from operating activities.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Exploration and Evaluation Expenditure (continued)

When a decision to proceed to development is made the exploration and evaluation capitalised to that area is transferred to mine development within property, plant and equipment. All costs subsequently incurred to develop a mine prior to the start of mining operations within the area of interest are capitalised and carried at cost. These costs include expenditure incurred to develop new ore bodies within the area of interest, to define further mineralisation in existing areas of interest, to expand the capacity of a mine and to maintain production.

Capitalised amounts for an area of interest may be written down to its recoverable amount if the area of interest's carrying amount is greater than its estimated recoverable amount.

(t) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on the intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

Right to use water and power supply

Useful lives	Life of mine
Amortisation method used	Amortised over the life of the mine on a unit of production basis
Impairment testing	Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

The rights to use water and power supply have been granted for a minimum of 17 years from April 2007 by the relevant utilities with the option of renewal without significant cost at the end of this period.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Intangibles (continued)

Kayelekera Mining Lease

Useful lives	Finite
Amortisation method used	Amortised over the life of the mine on a straight-line basis Impairment testing Annually and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

(u) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(v) Interest Bearing Loans and Borrowings

Bank loan borrowings are initially recognised at fair value, net of transaction costs incurred. Bank loan borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

The component of convertible bonds that exhibits characteristics of debt is recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity. The carrying amount of the equity component is not remeasured in subsequent years.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(w) Borrowing Costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed as incurred including the unwinding of discounts related to mine closure provisions. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(x) Employee Benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised as a current liability in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee Benefits (continued)

(ii) Long Service Leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Long-Term Incentive Plan

The liability for the retention programme is recognised in the provision for employee benefits as the present value of expected future payments to be made in respect of the retention bonus programme. Consideration is given to expected future salary levels and experience of employee departures. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future cash outflows. Projected unit credit method has been used to calculate the provision.

(iv) Share-Based Payments

Share-based compensation benefits were provided to employees via the Paladin Executive Share Option Plan (EXSOP). Following the implementation of the Employee Performance Share Rights Plan and the Contractor Performance Share Rights Plan (Rights Plans) detailed in Note 25, no further options will be granted pursuant to the EXSOP.

The fair value of options granted under both the EXSOP and rights under the Rights Plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights.

The fair value of options at grant date is independently determined using the Black-Scholes pricing model that takes into account the exercise price, the term of the option or right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option or right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The Monte-Carlo model is used to model the future value of the Company's shares and the movement of the comparator companies' Total Shareholder Return (TSR) on the various vesting dates associated with vesting requirements of the options.

The rights with a non-market based performance condition (time based and EPS) were valued using a Black-Scholes model. The rights that contained relative TSR performance condition are modelled using a Monte-Carlo simulation model. The rights subject to the market price condition were valued using an Asset or Nothing Digital Option valuation model.

Non-market vesting conditions are included in assumptions about the number of options or rights that are expected to become exercisable or granted. At each balance sheet date, the entity revises its estimate of the number of options and rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options or the grant of rights, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The Group measures the cost of equity-settled transactions with other parties by reference to the fair value of the goods or services received. Where the fair value of the goods or services cannot be reliably determined, or where the goods or services cannot be identified, the Group measures the cost of the transaction by reference to the fair value of the equity instruments granted.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Mine Closure and Rehabilitation

Mine closure and restoration costs include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the infrastructure. Mine closure costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

As the value of the provision for mine closure represents the discounted value of the present obligation to restore, dismantle and close the mine, the increase in this provision due to the passage of time is recognised as a borrowing cost. The discount rate used is a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

Provision is made for rehabilitation work when the obligation arises and this is recognised as a cost of production or development. The rehabilitation costs, provided for are the present value of the estimated costs to restore operating locations. The value of the provision represents the discounted value of the current estimate to restore and the discount rate used is the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

(z) Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

(aa) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ab) Earnings Per Share

(i) Basic Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

(ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NOTE 3. VOLUNTARY CHANGE IN ACCOUNTING POLICY

The financial report has been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to exploration and evaluation expenditure.

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. Refer to Note 2(s) for the full detail of the new accounting policy.

The previous accounting policy was to charge exploration and evaluation expenditure against profit and loss as incurred; except for acquisition costs and for expenditure incurred after a decision to proceed to development was made, in which case the expenditure was capitalised as an asset.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3. VOLUNTARY CHANGE IN ACCOUNTING POLICY (continued)

The new accounting policy was adopted on 31 March 2011 and has been applied retrospectively. Management judges that the change in policy will result in the financial report providing more relevant and no less reliable information because it leads to a more transparent treatment of exploration and evaluation expenditure that meets the definition of an asset and is consistent with the treatment of other assets controlled by the Group when it is probable that future economic benefits will flow to the Group and the asset has a cost that can be measured reliably. AASB 6 *Exploration for and Evaluation of Mineral Resources* allows both the previous and new accounting policies of the Group.

Given the significance of the exploration programmes that are being undertaken by the Company following the acquisition of Summit Resources Limited, the recent acquisition of the uranium assets of Aurora Energy Resources Inc. and the takeover of NGM Resources Ltd, it was considered appropriate to change the accounting policy.

The impact of the change in accounting policy on the Consolidated Income Statement, Consolidated Statement of Financial Position and Consolidated Statements of Cash Flows 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\$17.1M and a net decrease in non-controlling interests of US\$1.1M (2010: Nil) for the year to 30 June 2011.

Net loss before and after tax before non-controlling interests has decreased by US\$17.1M for the year to 30 June 2011 (2010: US\$7.3M).

Basic and diluted loss per share has also been restated. This has resulted in a reduction of 2.3 US cents in the loss per share for the year ended 30 June 2011 (2010: reduction of 1.1 US cents per share).

Consolidated Statement of Financial Position

The carried forward exploration and evaluation asset at 30 June 2011 has increased by US\$35.5M. This adjustment represents a decrease in accumulated losses of US\$32.5M, an increase in the Functional Currency Translation Reserve of US\$4.0M and a decrease in non-controlling interests of US\$1.0M.

The carried forward exploration and evaluation asset at 30 June 2010 has increased by US\$15.1M. This adjustment represents a decrease in accumulated losses of US\$14.5M and a net movement in deferred tax assets and liabilities of US\$0.6M.

Cumulative capitalised exploration and evaluation expenditure at 1 July 2009 has increased by US\$7.4M.

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\$17.6M for the year to 30 June 2011 (2010: US\$7.4M). 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 (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4. SEGMENT INFORMATION

Identification of Reportable Segments

The Company has identified its operating segments to be Exploration, Namibia and Malawi, on the basis of the nature of the activity and geographical location and different regulatory environments. The main segment activity in Namibia and Malawi is the production and sale of uranium from the mines located in these geographic regions. The Exploration segment is focused on developing exploration and evaluation projects in Australia, Niger and Canada. Previously exploration was disclosed within the Australia segment. Unallocated portion covers the Company's sales and marketing, treasury, corporate and administration. The prior year 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 those contained in note 2 to the accounts and in the prior period.

Inter-entity sales are priced with reference to the spot rate.

Corporate charges comprise non-segmental expenses such as corporate office expenses. A proportion of the corporate charges are allocated to Namibia and Malawi on the basis of timesheet allocations with the balance remaining in Unallocated.

The following items are not allocated to segments as they are not considered part of the core operations of any segment:

- Interest revenue
- Non project finance interest and borrowing expense
- Unallocated corporate and labour costs

The Group's customers are major utilities and other entities located mainly in USA, Australia, China, Taiwan and UK. These revenues are attributed to the geographic location of the mines being the reporting segments Namibia and Malawi.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4. SEGMENT INFORMATION (continued)

The following tables present revenue, expenditure and asset information regarding operating segments for the years ended 30 June 2011 and 30 June 2010.

Year ended 30 June 2011	Exploration US\$M	Namibia US\$M	Malawi US\$M	Unallocated US\$M	Consolidated US\$M	
Sales to external customers	-	166.5	100.3	-	266.8	
Other revenue	-	-	-	2.1	2.1	
Inter segment sales	-	26.9	-	-	26.9	
Total segment revenue	-	193.4	100.3	2.1	295.8	
Elimination of inter segment sales	-	(26.9)	-	-	(26.9)	
Total consolidated revenue	-	166.5	100.3	2.1	268.9	
Segment (loss)/profit before income tax and finance costs	(1.4)	44.9	(37.4)	(49.7)	(43.6)	
Finance costs	-	(3.6)	(8.8)	(49.1)	(61.5)	
Loss before income tax					(105.1)	
Income tax benefit/(expense)	0.5	(15.7)	22.3	9.5	16.6	
Loss after income tax					(88.5)	
Segment assets/total assets	1,184.0	498.4	576.7	144.6	2,403.7	
	Australia US\$M	Canada US\$M	Malawi US\$M	Namibia US\$M	Other US\$M	Consolidated US\$M
Non current assets by country*	891.4	270.2	427.9	385.7	36.1	2,011.3

In 2011, the three most significant customers equated on a proportionate basis to 14% (US\$37.4M Namibia and Malawi), 14% (US\$36.5M Malawi) and 9% of the Group's total sales revenue.

Year ended 30 June 2010	Exploration US\$M	Namibia US\$M	Malawi US\$M	Unallocated US\$M	Consolidated US\$M	
Sales to external customers	-	133.5	68.5	-	202.0	
Other revenue	-	-	-	2.3	2.3	
Inter segment sales	-	7.9	-	-	7.9	
Total segment revenue	-	141.4	68.5	2.3	212.2	
Elimination of inter segment sales	-	(7.9)	-	-	(7.9)	
Total consolidated revenue	-	133.5	68.5	2.3	204.3	
Segment (loss)/profit before income tax and finance costs	(8.3)	40.0	7.9	(36.2)	3.4	
Finance costs	-	(4.4)	-	(17.0)	(21.4)	
Loss before income tax					(18.0)	
Income tax benefit/(expense)	2.5	(24.0)	(2.6)	(4.4)	(28.5)	
Loss after income tax					(46.5)	
Segment assets/total assets	698.0	367.4	528.3	383.1	1,976.8	
	Australia US\$M	Canada US\$M	Malawi US\$M	Namibia US\$M	Other US\$M	Consolidated US\$M
Non current assets by country*	713.5	-	451.0	268.3	-	1,432.8

In 2010, the three most significant customers equated on a proportionate basis to 38% (US\$76.8M Namibia and Malawi), 13% (US\$26.7M Namibia) and 12% (US\$23.4M Namibia) of the Group's total sales revenue.

* Excluding deferred tax assets and financial instruments.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5. REVENUES AND EXPENSES

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
(a) Revenue		
Sale of uranium	266.8	202.0
Interest income from non-related parties	1.4	2.0
Database licence revenue	0.2	0.2
Other revenue	0.5	0.1
Total revenue	<u>268.9</u>	<u>204.3</u>
(b) Other Income		
Gain on disposal of investment	0.8	-
Insurance recovery relating to heat exchangers	-	7.7
Gain on disposal of available for sale investments	1.1	-
Gain on re-estimation of cash flows attributable to a financial liability	-	1.8
Total other income	<u>1.9</u>	<u>9.5</u>
(c) Administration, Marketing and Non-Production Costs		
Corporate and marketing	(26.5)	(23.5)
LHM and KM	(9.3)	(3.9)
Canada	(1.3)	-
Non-cash - share based payments	(11.6)	(10.3)
Non-cash - depreciation	(1.0)	(0.9)
Royalties	(2.2)	-
LHM Stage 4 expansion project	(2.1)	-
Total administration and marketing	<u>(54.0)</u>	<u>(38.6)</u>
(d) Other Expenses		
Loss on disposal of property, plant and equipment	(0.9)	-
Impairment of inventory	(26.4)	-
Foreign exchange loss (net)	(6.0)	(5.2)
Loss on disposal of financial assets held for trading	-	(0.8)
Movement in financial assets held for trading	-	(0.2)
Impairment of asset	-	(2.9)
Slope remediation	(1.9)	-
Total other expenses	<u>(35.2)</u>	<u>(9.1)</u>
(e) Finance Costs		
Interest expense	(36.4)	(4.0)
Accretion relating to convertible bonds (non-cash)	(11.9)	(11.1)
Loss on convertible bond buyback	(4.6)	-
Mine closure provision discount interest expense	(2.0)	(2.3)
Facility costs	(6.6)	(4.0)
Total finance costs	<u>(61.5)</u>	<u>(21.4)</u>

Total depreciation and amortisation expense for the year included in the Consolidated Income Statement is US\$37.1M (2010: US\$15.2M).

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6. INCOME TAX

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
(a) Income Tax Benefit		
<i>Current income tax</i>		
Current income tax expense/(credit)	0.1	(33.9)
<i>Deferred income tax</i>		
Related to the origination and reversal of temporary differences	20.3	32.6
Tax benefits not brought to account as future income tax benefits	-	22.6
Tax benefits previously not recognised, now recognised	(37.0)	-
Adjustments relating to prior period	-	7.2
Income tax (benefit)/expense reported in the Income Statement	<u>(16.6)</u>	<u>28.5</u>
(b) Amounts Charged or Credited Directly to Equity		
<i>Deferred income tax related to items charged or credited directly to equity:</i>		
Unrealised gain on available-for-sale investments	2.8	6.0
Convertible bonds	10.7	-
Changes in foreign currency rates	35.3	16.6
Other	<u>1.1</u>	<u>(3.1)</u>
Income tax expense reported in equity	<u>49.9</u>	<u>19.5</u>
(c) Numerical Reconciliation of Income Tax Benefit to Prima Facie Tax Payable		
Loss before income tax expense	<u>(105.1)</u>	<u>(18.0)</u>
Tax at the Australian tax rate of 30% (2010 – 30%)	(31.5)	(5.4)
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:		
Share-based payments	3.5	3.1
Convertible bonds	(1.0)	-
Permanent foreign exchange differences	4.6	-
Other expenditure not allowable	<u>1.1</u>	<u>0.2</u>
	(23.3)	(2.1)
Difference in overseas tax rates	3.8	2.1
Under/over prior year adjustment	-	7.2
Losses not recognised	14.4	22.6
Temporary foreign exchange differences	(5.2)	(1.7)
Other	<u>(6.3)</u>	<u>0.4</u>
Income tax (benefit)/expense reported in the Income Statement	<u>(16.6)</u>	<u>28.5</u>

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6. INCOME TAX (continued)

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
(d) Deferred Income Tax		
<i>Deferred tax liabilities</i>		
Accelerated prepayment deduction for tax purposes	(0.4)	(1.2)
Accelerated depreciation for tax purposes	(155.1)	(141.3)
Exploration expenditure	(21.2)	(12.5)
Recognition of acquired exploration expenditure	(180.8)	(145.5)
Foreign currency balances	(17.5)	1.8
Capitalised interest	(10.8)	(11.7)
Recognition of convertible bond for accounting purposes	(12.6)	(12.2)
Gross deferred tax liabilities	(398.4)	(322.6)
Set off of deferred tax assets	180.9	153.9
Net deferred tax liabilities	(217.5)	(168.7)
<i>Deferred tax assets</i>		
Revenue losses available for offset against future taxable income	167.1	151.0
Equity raising costs	2.7	3.5
Provisions for employee benefits	0.8	0.5
Inventory	10.1	(5.1)
Available for sale securities	1.4	4.4
Accruals	4.3	1.9
Foreign currency balances	8.2	-
Interest bearing liabilities	5.7	(0.6)
Other	0.3	2.3
Gross deferred tax assets	200.6	157.9
Set off against deferred tax liabilities	(180.9)	(153.9)
Net deferred tax assets recognised	19.7	4.0

The net deferred tax assets recognised are in respect of revenue losses expected to be offset against future taxable income.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6. INCOME TAX (continued)

(e) Tax Losses

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Australian unused tax losses for which no deferred tax asset has been recognised	206.5	124.7
Other unused tax losses for which no deferred tax asset has been recognised	4.6	-
Total unused tax losses for which no deferred tax asset has been recognised	211.1	124.7
Potential tax benefit at the Australian tax rate of 30%	63.3	37.4

This benefit for tax losses will only be obtained if:

- (i) the Consolidated Entities derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the Consolidated Entities continue to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entities in realising the benefit from the deductions for the losses.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Cash at bank and in hand	27.6	13.5
Short-term bank deposits	89.8	334.4
Total cash and cash equivalents	<u>117.4</u>	<u>347.9</u>

Total cash and cash equivalents includes US\$19.5M restricted for use in respect of the LHM and KM project finance facilities (refer to Note 16).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(a) Reconciliation of Net Loss After Tax to Net Cash Flows Used in Operating Activities

Net loss	<u>(88.5)</u>	<u>(46.5)</u>
<i>Adjustments for</i>		
Depreciation and amortisation	37.1	20.9
Loss recognised on re-measurement to fair value	4.6	0.2
(Gain)/Loss on disposal of investments	(1.8)	0.8
Database licence revenue	(0.2)	(0.2)
Net exchange differences	6.0	5.2
Share-based payments	11.6	10.3
Non-cash financing costs	20.2	15.7
Inventory impairment	26.4	-
Asset impairment	-	2.9
Interest capitalised as property, plant and equipment	-	(29.4)
Loss on disposal of property, plant and equipment	0.9	-
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in prepayments	0.2	(2.0)
Decrease/(increase) in trade and other receivables	9.5	(4.0)
Decrease in trade and other payables	(11.3)	(32.7)
Increase in provisions	0.5	3.4
Increase in inventories	(106.9)	(11.4)
Increase in deferred tax liabilities	5.3	32.5
Increase in deferred tax assets	<u>(15.6)</u>	<u>(0.2)</u>
Net cash flows used in operating activities	<u>(102.0)</u>	<u>(34.5)</u>

(b) Disclosure of Financing Facilities - Refer to Note 16.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 8. TRADE AND OTHER RECEIVABLES

		CONSOLIDATED	
	Note	2011 US\$M	2010 US\$M
Current			
Trade receivables	(a)	-	14.2
Less provision for doubtful debts		-	-
Net trade receivables		-	14.2
Interest receivable		-	0.2
GST and VAT	(b)	11.9	11.1
Sundry debtors		8.6	7.7
Total current receivables		20.5	33.2

(a) Trade receivables are non-interest bearing and are generally on 30 day terms. Carrying value approximates fair value due to the short-term nature of the receivables. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No expense has been recognised for the current year or the previous year.

(b) GST and VAT debtor relates to Australia, Namibia, Malawi and Canada.

Non Current

Sundry debtors	1.5	0.3
Total non current receivables	1.5	0.3

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9. INVENTORIES

		CONSOLIDATED	
	Note	2011 US\$M	2010 US\$M
Current			
Stores and spares (at cost)		30.3	17.9
Stockpiles (at cost)		2.5	8.4
Stockpiles (at net realisable value)		7.3	-
Work-in-progress (at cost)		3.1	4.7
Work-in-progress (at net realisable value)		4.6	-
Finished goods (at cost)		78.5	58.4
Finished goods (at net realisable value)		51.4	19.9*
Total current inventories at the lower of cost and net realisable value		<u>177.7</u>	<u>109.3</u>

* Inventory transferred out of mine development at net realisable value

(a) Inventory Expense

Inventories sold recognised as an expense for the year ended 30 June 2011 totalled US\$222.2M (2010: US\$153.3M) for the Group as part of cost of goods sold.

(b) Impairment of Inventory Expense

During 2011 inventory held at the Kayelekera Mine was reduced to net realisable value resulting in an impairment loss of US\$26.4M for the year, recognised in other expenses (refer to Note 5(d)).

Non Current

Stockpiles (at cost)	71.2	40.8
Stockpiles (at net realisable value)	<u>2.4</u>	<u>-</u>
Total non current inventories at the lower of cost and net realisable value	<u>73.6</u>	<u>40.8</u>

Stockpiles at LHM and KM that are unlikely to be processed within 12 months of the Balance date.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 10. OTHER FINANCIAL ASSETS

		CONSOLIDATED	
Non Current	Note	2011 US\$M	2010 US\$M
Available-for-sale financial assets		41.8	35.7
Total non current other financial assets		41.8	35.7

Available-for-Sale Financial Assets

The Group has an investment in DYL and at 30 June 2011 held 224,934,461 (2010: 220,258,461) fully paid ordinary shares.

The holding of these fully paid ordinary shares represents a 19.9% interest at 30 June 2011 (2010: 19.56%) of the ordinary shares of DYL, a uranium explorer listed on ASX. The market value of the shares in DYL at 30 June 2011 is A\$33.7M (US\$35.7M) (2010: A\$28.6M / US\$24.5M) based on a share price of 15.0 Australian cents per share (2010: 13.0 Australian cents).

The Group had an investment in NGM at 30 June 2010 of 40,373,574 fully paid ordinary shares. The takeover was completed on 10 December 2010 with the acquisition of 100% of the issued share capital (refer to Note 27).

The Group also holds minor investments in other companies.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11(a). PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Plant and equipment – at cost	566.6	535.4
Less accumulated depreciation	<u>(80.6)</u>	<u>(39.6)</u>
Total plant and equipment	<u>486.0</u>	<u>495.8</u>
Land and buildings - at cost	11.4	9.7
Less accumulated depreciation	<u>(1.5)</u>	<u>(1.0)</u>
Total land and buildings	<u>9.9</u>	<u>8.7</u>
Construction work in progress – at cost	<u>134.2</u>	<u>36.6</u>
Total property, plant and equipment	<u>630.1</u>	<u>541.1</u>

Property, plant and equipment pledged as security for liabilities

Refer to Note 16 for information on property, plant and equipment pledged as security.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11(a). PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the year are set out below:

	Total US\$M	Plant and Equipment US\$M	Land and Building US\$M	Construction Work in Progress US\$M
Consolidated – 2011				
Carrying amount at start of year	541.1	495.8	8.7	36.6
Additions	132.6	25.0	-	107.6
Depreciation and amortisation expense	(44.4)	(43.9)	(0.5)	-
Reclassification of assets	-	9.0	0.8	(9.8)
Reclassification to mine development	(0.2)	-	-	(0.2)
Foreign currency translation	1.0	0.1	0.9	-
Carrying amount at end of year	630.1	486.0	9.9	134.2
Consolidated – 2010				
Carrying amount at start of year	457.8	147.0	5.8	305.0
Additions ⁽¹⁾	184.5	47.1	0.2	137.2
Transfers to assets held for sale	(12.0)	(12.0)	-	-
Depreciation and amortisation expense	(19.2)	(18.8)	(0.4)	-
Impairment of assets ⁽²⁾	(2.9)	(2.9)	-	-
Reclassification of assets	-	335.3	2.9	(338.2)
Reclassification to mine development	(67.4)	-	-	(67.4)
Foreign currency translation	0.3	0.1	0.2	-
Carrying amount at end of year	541.1	495.8	8.7	36.6

⁽¹⁾ Includes US\$29.4M of capitalised interest (effective weighted interest rate 8.52% for general borrowings and LIBOR + 3.5% for specific borrowings).

⁽²⁾ Impairment of assets. Refer to Note 11(b).

NOTE 11(b). NON CURRENT ASSET HELD FOR SALE

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Current		
At net realisable value		
Plant and equipment	-	12.0

Plant and equipment no longer suitable which will be sold within the next twelve months and replaced.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 12. MINE DEVELOPMENT

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Mine development	122.4	124.8
Less accumulated depreciation	(15.8)	(5.6)
Total mine development	106.6	119.2
Carrying amount at start of year	119.2	54.2
Additions	1.4	-
Depreciation and amortisation expense	(10.2)	(2.4)
Effects of changes in discount rates	(5.5)	-
Reclassification from exploration	1.5	-
Reclassification from property, plant and equipment	0.2	67.4
Carrying amount at end of year	106.6	119.2

Canadian securities law requires the following description of the Group's interests in mineral property tenements:

Langer Heinrich Mine (Namibia) - Paladin 100%

LHM consists of one mining licence – ML 140 - covering 4,375 hectares in the Namib Naukluft Desert 180km west of Windhoek, the capital of Namibia, and 80km east of the major seaport of Walvis Bay. The licence was granted on 26 July 2005 for a 25 year term expiring on 25 August 2030. Rights conferred by the licence include the right to mine and sell base and rare metals and nuclear fuel groups of minerals and to carry out prospecting operations. The project was purchased from Acclaim Uranium NL (now Mount Gibson Iron Limited) in August 2002. LHM is owned through a wholly owned Namibian entity, LHUPL.

Construction of the processing plant was commenced in late 2005 with staged commissioning being completed in December 2006. Following an extended ramp-up phase the plant and mine achieved nameplate production in 2007. Work has now been completed on the Stage 2 plant upgrade and a further Stage 3 upgrade is nearing completion with construction expected to be completed in the September 2011 quarter with ramp-up to nameplate late 2011/early 2012. Planning for the Stage 4 upgrade is in progress and an updated mineral resource estimation prior to ore reserve estimation for Stage 4 has been completed. It is expected that the update to the ore reserve will be undertaken once all cost and recovery parameter have been finalised for Stage 4.

LHUPL also holds an exclusive prospecting licence, EPL 3500, covering 30km² to the west of the mining licence.

Kayelekera Mine (Malawi) - Paladin 85%

KM consists of one mining licence - ML 152 - covering 5,550 hectares in northern Malawi 650km north of Lilongwe, the capital of Malawi, and 52km west of the provincial town of Karonga on the shore of Lake Malawi. The licence was granted on 2 April 2007 for a 15 year term expiring on 1 April 2022. Rights conferred by the licence include the exclusive right to mine and sell uranium and associated minerals. The Group acquired its interest in the Kayelekera project in February 1998 when it entered into a joint venture with Balmain Resources Pty Ltd, a private company based in Perth, Western Australia. In 2000 the Group increased its interest in the Kayelekera project to 90% and in July 2005 acquired the remaining 10% interest held by Balmain Resources Pty Ltd. Paladin's interest in KM is held through a Malawian entity, PAL, in which the Government of Malawi has a 15% interest.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 12. MINE DEVELOPMENT (continued)

A Development Agreement has been entered into between the Government of Malawi and PAL in which the Government of Malawi received a 15% interest in PAL. Subsequent to the Development Agreement and the acceptance of the project's Environmental Impact Assessment the Government of Malawi granted the mining licence covering the project area to PAL. Construction of the plant was commenced in 2007 and the mine was officially opened in April 2009. The processing facility achieved commercial production at the end of June 2010. Additional resource definition drilling has been carried out to the west of the current pit design to confirm the final pit limits with an updated mineral resource and ore reserve expected during the second half of 2011.

PAL also holds four exclusive prospecting licences in northern Malawi covering 1,298km² surrounding and to the south of the KM mining licence and these are being actively explored.

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE

Canadian securities law requires the following description of the Group's interests in mineral property tenements:

Labrador Project (Canada) - Paladin 100%

On 1 February 2011 the Company completed the acquisition of the uranium assets of Aurora Energy Resources Inc. (Aurora) from Fronteer Gold Inc. The project covers approximately 81,200ha. Included in the total are 28 map staked licences and 6 quarry licences. An additional 4 map staked licences were staked along a proposed infrastructure corridor from the settlement of North West River. All licences are held in the name of Aurora. All licences are in good standing.

The Labrador Inuit Land Claims agreement was ratified by the Inuit in May 2004 leading to the formation of the Inuit Government on 1 December 2005. The agreement created two categories of land: the Labrador Inuit Settlement Area (LISA) and Labrador Inuit Lands (LIL). A significant portion of the project area is covered by LISA lands. During 2008 the Nunatsiavut government imposed a 3 year moratorium on mining uranium on properties located within the LISA, effective initially until the 31st March 2011. The Nunatsiavut government is currently working towards a mechanism to address the moratorium.

The project area has a 2% net sales royalty from uranium production and a 2% net smelter return (NSR) on base and precious metals payable to Altius Resources Inc.

Exploration commenced in the project area in the mid 1950's. By 1980, British Newfoundland Exploration Limited (Brinex) had completed geological mapping, 290 core holes at the Michelin deposit, a decline of approximately 580m in length and a mineral resource estimation. Brinex ceded its exploration concession in 1980 but held mining leases over a number of deposits in the area until 1994. Work undertaken in 2003-2005 by the Fronteer – Altius Alliance commenced with a re-evaluation of the area for Cu-Au-U targets. The Alliance subsequently acquired a number of mineral licences. The uranium interests in the licences were transferred to Aurora in 2005. Fronteer completed a number of exploration programmes between 2005 and 2008 which culminated with mineral resource estimations in 2007 with an update in 2008.

Niger Project (Niger) - Paladin 100%

Following the completion of the takeover of NGM Resources Ltd (NGM) in December 2010 the Company took possession of the wholly owned British Virgin Islands company, Indo Energy Ltd. Indo Energy Ltd holds 3 exploration concessions in the Tim Mersoï basin, Tagait 4 (TAG4), Tolouk 1 (TOU1) and Terzemazour 1 (TER1), covering an area of 1,480km². The concessions are located approximately 30km to the north and north west of the township of Agadez in northern Niger. Prior to acquisition, NGM had completed a mineral resource estimation conforming to the JORC (2004) guidelines for the Takardit deposit in the central portion of concession TER1. The concessions were originally granted on the 21st May 2007 for a period of 3 years, however in view of the political and security situation then prevailing in the country, in June 2010 the concessions were given a 27 month extension of the permits until December 2012.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

The concessions are located in the Tim Mersoi Basin and are prospective for sandstone type uranium mineralisation in Carboniferous, Permian and Jurassic sediments. The basin has historically produced in excess of 280Mlb U₃O₈ from two Areva mines (Somair and Cominak) and a third mine Imouraren is under construction.

Due to the security situation caused by Al-Qaeda activities, especially in the northern desert region where the project is located, no experienced expatriate personnel from the company are able to visit the project site or directly supervise the exploration effort. On-ground exploration was carried out during 2011, with guidance from Perth head office, by local personnel.

Manyingee Uranium Project (Australia) - Paladin 100%

The Manyingee Uranium Project consists of three granted mining leases – M08/86, M08/87 and M08/88 - covering 1,307 hectares in the north-west of Western Australia, 1,100km north of Perth, the State capital and 90km south of the township of Onslow on the north-west coast. The Group purchased the Manyingee Uranium Project in 1998 from Afmeco Mining and Exploration Pty Ltd (AFMEX), a subsidiary company of Cogema of France. Under the terms (as amended) of the purchase agreement a final payment of A\$0.75M is payable to AFMEX when all development approvals have been obtained. Royalties of 2.5% for the first 2,000t of uranium oxide and 1.5% for the following 2,000t of uranium oxide are also payable to AFMEX and associated companies which formerly held interests in the project. The three mining leases were granted on 18 May 1989 for a 21-year term to 17 May 2010. The leases have now been renewed for a further 21-year term to 17 May 2031. Rights conferred by the three mining leases include the exclusive right to explore and mine minerals, subject to environmental and other approvals. The interest in Manyingee is held through the wholly owned entity, Paladin Energy Minerals NL. Following the lifting of the ban on uranium mining in Western Australia in late 2008 exploration planning has been undertaken with the intention of undertaking a drilling programme. Ground access difficulties have so far precluded the commencement of drilling and it is hoped this issue will be dealt with in the near future.

Oobagooma Uranium Project (Australia) - Paladin 100%

The Oobagooma Uranium Project consists of four applications for exploration licences covering 452km² in the West Kimberley region of northern Western Australia, 1,900km north-north-east of Perth, the State capital and 70km north-east of the regional town of Derby. The four applications for exploration licences are 04/145 and 04/146 lodged on 28 December 1983 and 04/776 and 04/777 lodged on 28 November 1991 which largely overlie the earlier applications. The Group purchased the Oobagooma Project in 1998 from AFMEX. Under the terms of the purchase agreement a final payment of A\$0.75M is payable to AFMEX when the tenements are granted. A gross royalty of 1.0% on production is also payable to AFMEX. The applications for exploration licences remain in the name of Afmeco Pty Ltd (a company associated with AFMEX) until the date that they are granted after which title will be transferred. The interest in Oobagooma is held through the wholly owned entity, Paladin Energy Minerals NL. Following the change of government in Western Australia in late 2008 the granting of the lease applications are being actively pursued with both the Federal and State governments.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

Valhalla North Uranium Project (Australia) - Paladin 100%

The Valhalla North Uranium Project consists of two granted exploration permits – Exploration Permit for Minerals 12572 (EPM 12572) and EPM 16006 - covering 457km² to the north of Mount Isa in north-western Queensland. The Group acquired the Valhalla North Uranium Project following the successful takeover of Fusion in February 2009. EPM 12572 was granted on 11 January 2006 and EPM 16006 was granted on 26 March 2008, each for a period of five years with the potential to be renewed for further five year periods. The renewal of EPM 12572 for a further period of five years has been lodged and is awaiting grant. The area was investigated during the 1950's and resulted in the discovery of the Duke and Batman deposits, with limited mining of surface high grade mineralisation being undertaken with subsequent treatment at the Mary Kathleen mine. During the 1970's the area was explored by both Queensland Mines Limited and Agip Australia Pty Ltd. Prior to the completion of the takeover, Fusion announced Mineral Resources conforming to the JORC guidelines on two deposits, Duke Batman and Honeypot. Drilling at the Duke Batman deposit did not extend the mineralisation but identified a high grade core to the mineralisation and significantly added to the geological understanding of the deposit.

Bigirlyi Uranium Project (Australia) - Paladin 41.71%

The Bigirlyi Uranium Project lies in the Northern Territory of Australia approximately 320km north-west of Alice Springs and is comprised of ten exploration retention licences (ERLs 46-55) covering 1,214 hectares. These tenements were originally granted in 1983 and have been subject to five yearly renewals since 1988. The project is now a joint venture between Energy Metals Limited 53.29%, Southern Cross Exploration NL 5.00% and Northern Territory Uranium Pty Ltd 41.71% (100% owned by Paladin) with Energy Metals Limited being operator and manager.

The Bigirlyi uranium deposit was originally discovered by Agip Australia Pty Ltd in the mid 1970's before being transferred to Central Pacific Minerals NL in the early 1980's. The deposit was subject to extensive drilling between 1974 and 1982 with Ore Reserve studies carried out during the 1980's and 1990's. During 2005/2006 a drilling campaign was undertaken by the Joint Venture partners which resulted in an initial JORC Resource. Resource definition drilling is ongoing at the project and an Initial Scoping Study was released in November 2007 and an Updated Scoping Study released in July 2008. Resource updates were released in April and July 2009 with additional drilling completed in late 2009 and 2010. In June 2011 an increased Indicated and Inferred Mineral Resource totalling 21.1Mlb U₃O₈ at a cut-off grade of 500ppm was announced.

Isa Uranium Joint Venture (Australia) - Paladin 91.03%

The IUJV in Northern Queensland is a 50:50 joint venture between Summit Resources (Aust) Pty Ltd (SRA) (Paladin 82.05% effective ownership) and Mt Isa Uranium Pty Ltd (MIU) (Paladin 100% ownership) with SRA being the operator and manager. The IUJV covers two defined blocks of land totalling 27km² containing the Valhalla and Skall uranium deposits. Paladin's effective equity in the IUJV was increased from 50% to 91.03% following the acquisition of 82.05% of Summit in 2007.

Valhalla Uranium Deposit (Australia) - Paladin 91.03%

The Valhalla Uranium Deposit is situated on EPM 17514 granted in January 2010 for a five year term to 5 January 2015. The Valhalla Uranium Deposit is located approximately 40km north of Mount Isa and straddles the Barkly Highway. The ground was previously worked on by Mount Isa Mines Limited and Queensland Mines Limited from the mid 1950's to the early 1970's. Queensland Mines Limited, in particular, conducted extensive exploration over the Valhalla ground between 1968 and 1972 including the estimation of resources and reserves. Queensland Mines Limited allowed the tenement to lapse in 1991 and the ground was subsequently acquired by SRA in 1992, with EPM 9221 being granted in 1993. During 2008 resource definition drilling was commenced to enable completion of a detailed scoping study. As a result of the scoping study additional resource drilling was undertaken with the updating of the Mineral Resource being announced in October 2010. Geotechnical and metallurgical studies are ongoing.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

Skal Uranium Deposit (Australia) - Paladin 91.03%

The Skal Uranium Deposit is situated on EPM 17519, granted in January 2010 for a five year term to 5 January 2015. The Skal Uranium Deposit is located approximately 8km south-east of the Valhalla Uranium Deposit and 32km north of Mount Isa. The ground was previously held by SRA as EPM 14048 granted in 2005. Skal was originally discovered by Mount Isa Mines Limited in the mid 1950's and was subject to mapping and drilling at that time. Queensland Mines Limited acquired the project in the 1960's and conducted further drilling resulting in an estimation of a resource for the project. The deposit is situated on EPM 14048 and the IUJV re-commenced drilling in 2005. An initial JORC compliant resource estimate was completed in mid 2008, with an updated resource reported in early 2009. Additional resource definition drilling was undertaken in 2009 and followed up with a resource update in October 2009. Resource definition and metallurgical drilling commenced in 2010 and delayed due to the extended wet season has been planned for completion in late 2011.

Summit Resources Ltd (Australia) - Paladin 82.05%

Paladin acquired an 81.9% interest in Summit as a result of a takeover bid which closed on 1 June 2007. SRA, which is a wholly owned subsidiary of Summit, holds a large number of exploration tenements surrounding and to the north of Mount Isa in Northern Queensland. Other than the Andersons, Bikini and Watta Projects, for which JORC Inferred Mineral Resource estimates have been completed, limited exploration activities have taken place on these tenements in recent years and as such they are not considered material to Paladin at this point in time. Additional drilling was undertaken at Bikini in late 2010 with the Mineral Resource being updated in April 2011.

Angela and Pamela Projects (Australia) - Paladin 50%

In early 2008, the Northern Territory Government advised that the Angela Project Joint Venture (Paladin 50% and Cameco Australia Pty Ltd 50%) had been selected to explore the Angela and Pamela uranium deposits located near Alice Springs in the Northern Territory. Exploration Licence 25758 covering 3,767 hectares was granted on 3 October 2008 for a six year term with the potential for further renewal. Exploration and resource definition drilling was planned. Drilling programmes were completed in 2009 and 2010 and these are being evaluated to determine the future direction of the project. A successful mud rotary drilling trial was undertaken in early 2011 which is now expected to reduce overall drilling costs and improve drilling rates. An initial Mineral Resource estimate has now been completed and reported.

Other Mineral Property Interests

The Group holds various other mineral property interests, however, these are not considered material and as a result no further disclosure of mineral property tenement information has been included in the consolidated financial statements.

Environmental Contingency

The Group's exploration, evaluation, development and operation activities are subject to various national, federal, provincial and local laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Group has made, and expects to make in the future, expenditures to comply with such laws and regulations. The impact, if any, of future legislative or regulatory changes cannot be determined.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011
EXPRESSED IN US DOLLARS

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

The following table details the expenditures on interests in mineral properties by area of interest for the year ended 30 June 2011:

Areas of interest	Valhalla /Skal ⁽¹⁾	Isa North	Fusion	Angela Pamela	Bigirlyi	NGM	KM	LHM	Canada	Other Uranium Projects	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Balance 30 June 2010 as previously stated	529.1	126.0	8.5	-	15.2	-	-	-	-	1.2	680.0
Effect of accounting policy change (note 3)	-	-	1.0	4.5	6.3	-	-	1.5	-	1.8	15.1
Balance 30 June 2010 - restated	529.1	126.0	9.5	4.5	21.5	-	-	1.5	-	3.0	695.1
Acquisition property payments	-	-	-	-	-	34.0	-	-	261.8	-	295.8
Project exploration and evaluation expenditure											
Labour	0.9	1.2	0.2	0.2	0.4	0.2	0.2	-	0.5	1.7	5.5
Outside services	2.5	1.7	0.2	0.7	1.4	1.4	0.3	0.2	-	0.3	8.7
Other expenses	2.0	0.8	0.2	0.4	0.7	0.4	0.4	-	0.3	0.7	5.9
Total expenditure	5.4	3.7	0.6	1.3	2.5	2.0	0.9	0.2	0.8	2.7	20.1
Expenditure expensed	-	-	(0.1)	-	-	-	(0.9)	-	-	(2.0)	(3.0)
Expenditure capitalised	5.4	3.7	0.5	1.3	2.5	2.0	-	0.2	0.8	0.7	17.1
Foreign exchange differences	128.6	26.8	2.3	1.1	5.4	-	-	-	6.5	0.9	171.6
Transferred to Mine Development	-	-	-	-	-	-	-	(1.7)	-	-	(1.7)
Balance 30 June 2011	663.1	156.5	12.3	6.9	29.4	36.0	-	-	269.1	4.6	1,177.9

⁽¹⁾ Summit has a 50% interest in the Valhalla/Skal Projects with the other 50% interest held by the Paladin Group. As a consequence of the takeover of the Summit Group, the above table now reflects 100% of the Valhalla/Skal Projects with the non-controlling interest reflected on the face of the Balance Sheet.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011
EXPRESSED IN US DOLLARS

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

The following table details the expenditures on interests in mineral properties by area of interest for the year ended 30 June 2010:

Areas of interest	Valhalla /Skal ⁽¹⁾	Isa North	Fusion	Angela/ Pamela	Bigirlyi	KM	LHM	Other Uranium Projects	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Balance 30 June 2009 as previously stated	494.4	117.7	8.0	-	14.3	-	-	1.1	635.5
Effect of accounting policy change (note 3)	-	-	-	1.1	5.2	-	0.2	0.9	7.4
Balance 30 June 2009 - restated	494.4	117.7	8.0	1.1	19.5	-	0.2	2.0	642.9
Acquisition property payments	2.9	0.7	-	-	-	-	-	-	3.6
Project exploration and evaluation expenditure									
Labour	1.1	1.0	0.3	0.8	0.2	0.2	-	0.7	4.3
Outside services	1.0	2.0	0.6	1.9	0.4	0.6	1.3	0.3	8.1
Other expenses	1.6	0.8	0.2	0.7	0.5	0.3	-	0.6	4.7
Total expenditure	3.7	3.8	1.1	3.4	1.1	1.1	1.3	1.6	17.1
Expenditure expensed	(3.7)	(3.8)	(0.1)	-	-	(1.1)	-	(0.7)	(9.4)
Expenditure capitalised	-	-	1.0	3.4	1.1	-	1.3	0.9	7.7
Foreign exchange differences	31.8	7.6	0.5	-	0.9	-	-	0.1	40.9
Balance 30 June 2010	529.1	126.0	9.5	4.5	21.5	-	1.5	3.0	695.1

⁽¹⁾ Summit has a 50% interest in the Valhalla/Skal Projects with the other 50% interest held by the Paladin Group. As a consequence of the takeover of the Summit Group, the above table now reflects 100% of the Valhalla/Skal Projects with the non-controlling interest reflected on the face of the Balance Sheet.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14. INTANGIBLE ASSETS

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
(a) Reconciliation of Carrying Amount at the Beginning and End of the Period		
Beginning of year - Net of accumulated amortisation	24.6	25.6
Amortisation	<u>(1.5)</u>	<u>(1.0)</u>
End of year - Net of accumulated amortisation	<u>23.1</u>	<u>24.6</u>
At 30 June		
Cost	27.8	27.8
Accumulated amortisation	<u>(4.7)</u>	<u>(3.2)</u>
Net carrying amount of non current intangible assets	<u>23.1</u>	<u>24.6</u>

Amortisation of US\$1.5M (2010: US\$1.0M) is included in costs of sales in the Income Statement.

(b) Movements in Intangible Assets

Movements in each group of intangible asset during the financial year are set out below:

	Right to Supply of Power US\$M	Right to Supply of Water US\$M	Kayelekera Mining Lease US\$M	Total US\$M
Consolidated - 2011				
Carrying amount at 1 July 2010	4.3	10.3	10.0	24.6
Amortisation expense	<u>(0.2)</u>	<u>(0.5)</u>	<u>(0.8)</u>	<u>(1.5)</u>
Carrying amount at 30 June 2011	<u>4.1</u>	<u>9.8</u>	<u>9.2</u>	<u>23.1</u>
Consolidated - 2010				
Carrying amount at 1 July 2009	4.5	11.1	10.0	25.6
Amortisation expense	<u>(0.2)</u>	<u>(0.8)</u>	<u>-</u>	<u>(1.0)</u>
Carrying amount at 30 June 2010	<u>4.3</u>	<u>10.3</u>	<u>10.0</u>	<u>24.6</u>

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14. INTANGIBLE ASSETS (continued)

(c) Description of the Group's Intangible Assets

(i) Right to supply of power

LHUPL has entered into a contract with NamPower in Namibia for the right to access power at LHM. In order to obtain this right, the power line connection to the mine was funded by LHM. However, ownership of the power line rests with NamPower. The amount funded is being amortised on a unit of production basis.

(ii) Right to supply of water

LHUPL has entered into a contract with NamWater in Namibia for the right to access water at LHM. In order to obtain this right, the water pipeline connection to the mine was funded by LHM. However, ownership of the pipeline rests with NamWater. The amount funded is being amortised on a unit of production basis.

(iii) Kayelekera Mining Lease

In exchange for the Mining Lease, Paladin Energy Minerals NL and PAL have entered into a Development Agreement with the Government of Malawi for the development of the Garnet Halliday Karonga Water Supply Project and other social development projects. In terms of the Development Agreement PAL has spent US\$10M on agreed community infrastructure projects. This amount has been recognised as an intangible asset and is being amortised over the life of the mine estimated to be 9 years on a straight-line basis (refer to Note 17(b)(iv)).

NOTE 15. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Current		
Trade and other payables	69.7	63.4
Total current payables	69.7	63.4

Trade payables are non-interest bearing and are normally settled on 30 day terms.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS

		CONSOLIDATED	
	Maturity	2011 US\$M	2010 US\$M
Current			
Secured bank loans		43.9	47.9
Non Current			
Unsecured convertible bonds ⁽¹⁾	2011	-	236.7
Unsecured convertible bonds ⁽²⁾	2013	315.6	310.1
Unsecured convertible bonds ⁽³⁾	2015	258.6	-
Secured bank loan	2012	8.1	24.0
Secured bank loan	2015	93.5	111.4
Total non current interest bearing loans and borrowings		675.8	682.2

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

Fair value disclosures

Details of the fair value of the Group's interest bearing liabilities are set out in Note 19(g).

Unsecured convertible bonds

- ⁽¹⁾ On the 17 December 2010, the Company announced that pursuant to its tender offer for the repurchase of the US\$250M December 2011 unsecured convertible bonds it had repurchased and cancelled US\$229.6M bonds. The remaining US\$20.4M bonds were redeemed on 18 January 2011.
- ⁽²⁾ 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\$6.59 for Company shares.
- ⁽³⁾ 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\$5.67, for Company shares.

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).

Secured bank loans

On 26th May 2006 the Company entered into a project financing facility amounting to US\$71M for the construction of the Langer Heinrich Mine. The financing is provided by Société Générale Australia Branch (as lead arranger), Nedbank Capital and Standard Bank Limited and consists of a seven year Project Finance Facility of US\$65M and a Standby Cost Overrun Facility of US\$6M. The Project Finance Facility bears interest at a margin over the London Interbank Offered Rate (LIBOR) and is 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 LHUPL and its immediate holding companies. Paladin had provided a project completion guarantee as part of the facilities. The guarantee has since been released when the project satisfied the Completion Tests mid 2009.

At 30 June 2011 US\$24.8M (2010: US\$47.5M) was outstanding under the LHM project finance facilities.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS (continued)

On 30th March 2009, the Company entered into a project financing facility amounting to US\$167M for the construction of the Kayelekera Mine. The project finance consists of a six year Project Finance Facility of US\$145M, a Standby Cost Overrun Facility of US\$12M and a Performance Bond Facility of US\$10M. The facilities are being provided by Société Générale Corporate and Investment Banking (as inter-creditor agent and commercial lender), Nedbank Capital a division of Nedbank Limited (ECIC lender) and Standard Bank Limited (as ECIC facility agent and lender). The facilities are secured over the assets of PAL. The Project Finance Facility bears interest at a margin over the London Interbank Offered Rate (LIBOR) and is repayable on a four monthly basis over the term of the loan. Paladin has provided a project completion guarantee as part of the facilities.

At 30 June 2011 US\$127.9M (2010: US\$145M) was outstanding under the KM project finance facilities.

Deferred Borrowing costs relating to the establishment of the facilities have been included as part of interest bearing loans and borrowings.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED	
	2011	2010
	US\$M	US\$M
Total facilities:		
Unsecured convertible bonds	625.0	575.0
Secured bank loans	152.7	204.5
	<u>777.7</u>	<u>779.5</u>
Facilities used at reporting date:		
Unsecured convertible bonds	625.0	575.0
Secured bank loans	152.7	192.5
	<u>777.7</u>	<u>767.5</u>
Facilities unused at reporting date:		
Unsecured convertible bonds	-	-
Secured bank loans	-	12.0
	<u>-</u>	<u>12.0</u>

Assets pledged as security

The carrying amounts of assets pledged as security for current and non current interest bearing liabilities (secured bank loans) are:

Current

Floating charge

Cash and cash equivalents	65.3	47.3
Trade and other receivables	31.4	41.5
Inventories	149.8	102.5
Total current assets pledged as security	<u>246.5</u>	<u>191.3</u>

Non Current

Inventories	73.6	40.8
Property, plant and equipment	573.5	533.2
Mine development	106.6	119.2
Deferred tax asset	19.7	-
Intangible assets	23.1	24.6
Total non current assets pledged as security	<u>796.5</u>	<u>717.8</u>
Total assets pledged as security	<u>1,043.0</u>	<u>909.1</u>

Assets pledged include both LHM and KM.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 17. PROVISIONS

		CONSOLIDATED	
	Note	2011 US\$M	2010 US\$M
Current			
Social responsibility		-	1.3
Other provision		-	5.9
Employee benefits	23	5.3	2.9
Total current provisions		5.3	10.1
Non Current			
Social responsibility		-	0.2
Employee benefits	23	3.3	0.1
Rehabilitation provision		30.6	31.3
Demobilisation provision		2.4	1.9
Total non current provisions		36.3	33.5

For a description of the nature and timing of cash flows associated with the above provisions, refer to section (b) of this note.

(a) Movements in Provisions

Movements in each class of provision during the financial year, excluding provisions relating to employee benefits, are set out below:

	Other US\$M	Demob- ilisation US\$M	Social Responsibility US\$M	Rehab- ilitation US\$M	Total US\$M
Consolidated					
At 1 July 2010	5.9	1.9	1.5	31.3	40.6
Arising during the year	-	0.5	-	1.7	2.2
Utilised	(6.9)	-	(1.5)	-	(8.4)
Effects of changes in discount rates	-	-	-	(5.5)	(5.5)
Foreign currency movements	1.0	-	-	3.1	4.1
At 30 June 2011	-	2.4	-	30.6	33.0
2011					
Current	-	-	-	-	-
Non current	-	2.4	-	30.6	33.0
	-	2.4	-	30.6	33.0
2010					
Current	5.9	-	1.3	-	7.2
Non current	-	1.9	0.2	31.3	33.4
	5.9	1.9	1.5	31.3	40.6

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 17. PROVISIONS (continued)

(b) Nature and Timing of Provisions

(i) Rehabilitation

A provision for rehabilitation and mine closure has been recorded in relation to LHM and KM. A provision is made for rehabilitation work when the obligation arises and this is recognised as a cost of production or development as appropriate. Additionally the provision includes the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the infrastructure to a state acceptable to various authorities. The provision is estimated using the assumption that remediation will not take place until 10 to 20 years' time.

(ii) Employee benefits

Refer to Note 23.

(iii) Demobilisation

A provision for demobilisation has been recorded in relation to LHM for the costs of demobilising the mining contractor.

(iv) Social responsibility

In 2010 a provision for social responsibility was recorded in relation to KM for the costs of social responsibility projects to be incurred under the Development Agreement (refer to Note 14(c)(iii)). During 2011 the whole of this provision was utilised.

(v) Other

In 2010 a provision for an expected litigation settlement amount was recorded (refer to Note 22(f)). During 2011 the whole of this provision was settled.

NOTE 18. CONTRIBUTED EQUITY AND RESERVES

(a) Issued and Paid Up Capital

	Number of Shares		CONSOLIDATED	
	2011	2010	2011	2010
Ordinary shares			US\$M	US\$M
Issued and fully paid	777,698,217	717,142,802	1,768.1	1,474.6

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(b) Movements in Ordinary Shares On Issue

Date		Number of Shares	Issue Price US\$: A\$	Exchange Rate US\$M	Total
	A\$				
	Balance 30 June 2009	623,692,802			1,111.6
September 2009	Share placement	93,450,000	4.60	1.14890	374.2
	Transaction costs				(11.2)
	Balance 30 June 2010	717,142,802			1,474.6
August 2010	Rights vested	750,000 ⁽¹⁾	-	-	-
September 2010	Rights vested	530,580	-	-	-
November 2010	NGM acquisition	7,155,938	4.28	1.01557	30.1
January 2011	Option conversions	960	4.50	1.00415	-
February 2011	Aurora acquisition	52,097,937	5.04	1.00670	260.6
February 2011	Rights vested	20,000	-	-	-
	Transfer from reserves				3.1
	Transaction costs				(0.3)
	Balance 30 June 2011	777,698,217			1,768.1
	Shares held in trust	375,000 ⁽¹⁾			-
	Adjusted Balance 30 June 2011	777,323,217			1,768.1

⁽¹⁾ 250,000 shares held in trust, vesting variously over time up to 1 January 2012 subject to conditions;
125,000 shares held by Paladin Employee Plan Pty Ltd.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 June 2010

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Reserves

	Consolidation reserve	Listed option application reserve	Share- based payments reserve	Available -for-sale reserve	Foreign currency translation reserve	Convertible bond non- distributable reserve	Premium on acquisition reserve	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
CONSOLIDATED								
At 1 July 2009	(0.2)	0.1	26.0	32.5	(80.3)	38.9	14.9	31.9
Net unrealised movement on available-for-sale investments	-	-	-	(37.0)	-	-	-	(37.0)
Share-based payments	-	-	12.0	-	-	-	-	12.0
Foreign currency translation	-	-	-	4.2	23.5	-	-	27.7
Income tax	-	-	-	8.0	-	-	-	8.0
At 30 June 2010	(0.2)	0.1	38.0	7.7	(56.8)	38.9	14.9	42.6
At 1 July 2010	(0.2)	0.1	38.0	7.7	(56.8)	38.9	14.9	42.6
Net unrealised movement on available-for-sale investments	-	-	-	10.9	-	-	-	10.9
Share-based payments	-	-	11.5	-	-	-	-	11.5
Foreign currency translation	-	-	-	-	125.6	-	-	125.6
Income tax	-	-	-	(3.7)	-	-	-	(3.7)
Transfer to statement of financial position	-	-	-	(3.2)	-	-	-	(3.2)
Convertible bonds, equity component net of tax and transaction costs	-	-	-	-	-	28.1	-	28.1
Convertible bonds, buy back	-	-	-	-	-	(6.6)	-	(6.6)
At 30 June 2011	(0.2)	0.1	49.5	11.7	68.8	60.4	14.9	205.2

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

Nature and Purpose of Reserves

Listed option application reserve

This reserve consists of proceeds from the issue of listed options, net of expenses of issue. These listed options expired unexercised and no restriction exists for the distribution of this reserve.

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to Directors, employees and consultants as part of their remuneration. Refer to Note 25 for further details on share-based payments.

Available-for-sale reserve

This reserve records the fair value changes on the available-for-sale financial assets as set out in Note 10.

Foreign currency translation reserve

This reserve is used to record exchange differences arising on translation of the group entities that do not have a functional currency of US dollars and have been translated into US dollars for presentation purposes, as described in Note 2(f).

Convertible bond non-distributable reserve

This reserve records the equity portion of the convertible bonds issued on 15 December 2006 and on 11 March 2008, as described in Note 16.

Acquisition reserve

This reserve represents the premium paid on the acquisition of a non-controlling interest in Summit.

Consolidation reserve

This reserve recognises the difference between the fair value of the 15% interest in PAL allotted to the Government of Malawi, at the net present value of the Kayelekera Project on the date the Development Agreement was signed (22 February 2007), and the non-controlling interest share of the net assets of PAL.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to:

- meet all its financial commitments; and
- maintain the capacity to fund corporate growth activities

The Group monitors its forecast financial position on a regular basis.

Market, liquidity and credit risk (including foreign exchange, commodity price and interest rate risk) arise in the normal course of the Group's business. These risks are managed under Board approved directives which underpin treasury practices and processes. The Group's principal financial instruments comprise interest bearing debt, cash and short-term deposits and available for sale financial assets. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

The Group's forecast financial risk position with respect to key financial objectives and compliance with treasury practice is regularly reported to the Board.

(b) Market Risk

(i) Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not the functional currency of the relevant Group company.

The Group's borrowings and deposits are largely denominated in US dollars. Currently there are no foreign exchange hedge programmes in place. However, the Group treasury function manages the purchase of foreign currency to meet operational requirements.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

(b) Market Risk (continued)

(i) Foreign Exchange Risk (continued)

The financial instruments exposed to movements in the Australian dollar are as follows:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Financial assets		
Cash and cash equivalents	3.8	0.6
Trade and other receivables	3.2	2.0
Available-for-sale financial assets	26.0	20.7
	<u>33.0</u>	<u>23.3</u>
Financial liabilities		
Trade and other payables	(9.3)	(9.0)
Net exposure	<u>23.7</u>	<u>14.3</u>

The financial instruments exposed to movements in the Namibian dollar are as follows:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Financial assets		
Cash and cash equivalents	6.1	6.2
Trade and other receivables	17.2	13.2
	<u>23.3</u>	<u>19.4</u>
Financial liabilities		
Trade and other payables	(31.8)	(27.9)
Net exposure	<u>(8.5)</u>	<u>(8.5)</u>

The following table summarises the sensitivity of financial instruments held at balance date to movements in the exchange rate of the Australian dollar to the US dollar and the Namibian dollar to the US dollar, with all other variables held constant. The 5% sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding five year period.

	IMPACT ON PROFIT/LOSS		IMPACT ON EQUITY	
	Consolidated		Consolidated	
	2011 US\$M	2010 US\$M	2011 US\$M	2010 US\$M
Post-Tax Gain/(Loss)				
AUD/USD +5% (2010: +5%)	(0.1)	(0.2)	0.9	0.7
AUD/USD -5% (2010: -5%)	0.1	0.2	(1.0)	(0.8)
NAD/USD +5% (2010: +5%)	(0.3)	(0.3)	-	-
NAD/USD -5% (2010: -5%)	0.3	0.3	-	-

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

(b) Market Risk (continued)

(ii) Interest Rate Risk

Interest rate risk is the risk that the Group's financial position will be adversely affected by movements in interest rates that will increase the cost of floating rate debt or opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. Interest rate risk on cash and short-term deposits is not considered to be a material risk due to the short-term nature of these financial instruments.

The Group's main interest rate risk arises from long-term debt. Floating rate debt exposes the Group to cash flow interest rate risk and fixed rate debt exposes the Group to fair value interest rate risk. All other financial assets and liabilities in the form of receivables, investments in shares, payables and provisions, are non interest bearing.

The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

The floating rate financial instruments exposed to interest rates movements are as follows:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Financial assets		
Cash and cash equivalents	117.4	347.9
	<u>117.4</u>	<u>347.9</u>
Financial liabilities		
Interest-bearing liabilities	(152.7)	(192.5)
Net exposure	<u>(35.3)</u>	<u>155.4</u>

The following table summarises the cash flow sensitivity of cash and cash equivalent financial instruments held at balance sheet date following a movement in LIBOR, with all other variables held constant. The sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period. The sensitivity analysis below excludes impact on borrowing costs arising from interest bearing liabilities as these are capitalised as part of long-term qualifying development projects.

	IMPACT ON PROFIT/LOSS	
	CONSOLIDATED	
	2011 US\$M	2010 US\$
Post-Tax Gain/(Loss)		
LIBOR +1% (2010: +1%)	(0.2)	1.0
LIBOR -0.1% (2010: -0.3%)	-	(0.3)

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

(b) Market Risk (continued)

(iii) Market Price Risk

Price risk is the risk that the Group's financial position will be adversely affected by movements in the market value of its available-for-sale financial assets.

The financial instruments exposed to movements in market value are as follows:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Financial assets		
Other financial assets	41.8	35.7

The following table summarises the sensitivity of financial instruments held at balance date to movements in the market price of available-for-sale financial instruments, with all other variables held constant. The 25% sensitivity is based on reasonable possible changes, over a financial year, using the observed range of actual historical prices for 2011 and 2010.

	IMPACT ON EQUITY	
	CONSOLIDATED	
	2011 US\$M	2010 US\$
Post-tax impact on reserve		
Market price +25% (2010: +25%)	7.3	6.2
Market price -25% (2010: -25%)	(7.3)	(6.2)

(c) Liquidity Risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group treasury function continually reviews the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Sensitivity analysis is conducted on a range of pricing and market assumptions to ensure the Group has the ability to meet repayment commitments. This enables the Group to manage cash flows on a long-term basis and provides the flexibility to pursue a range of funding alternatives if necessary. Note 16 details the repayment obligations in respect of the amount of the facilities.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

The maturity analysis of payables at the reporting date was as follows:

Payables maturity analysis					
	Total	<1 year	1-2 years	2-3 years	>3 years
2011	US\$M	US\$M	US\$M	US\$M	US\$M
Consolidated					
Trade and other payables	69.7	69.7	-	-	-
Loans and borrowings	777.7	46.1	363.5	29.9	338.2
Interest payable	85.5	31.4	25.5	12.9	15.7
Total payables	932.9	147.2	389.0	42.8	353.9
2010					
Consolidated					
Trade and other payables	63.4	63.4	-	-	-
Loans and borrowings	759.9	15.2	320.9	360.9	62.9
Interest payable	84.6	34.9	26.9	19.6	3.2
Total payables	907.9	113.5	347.8	380.5	66.1

(d) Credit Risk

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

The maximum exposure to credit risk at the reporting date was as follows:

		CONSOLIDATED	
		2011	2010
		US\$M	US\$M
Current			
Cash and cash equivalents*		117.4	347.9
Trade receivables		-	14.2
Other receivables – other entities		20.5	19.0
		137.9	381.1
Non Current			
Other receivables – other entities		1.5	0.3
Total		139.4	381.4

* The Group's maximum deposit with a single financial institution represents 25% of cash and cash equivalents.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

The ageing of receivables at the reporting date was as follows:

	Receivables ageing analysis				
	Total	Current	<1 year	1-2 years	>2 years
	US\$M	US\$M	US\$M	US\$M	US\$M
2011					
Consolidated					
Trade receivables	-	-	-	-	-
Other receivables	22.0	20.5	1.5	-	-
Total receivables	22.0	20.5	1.5	-	-

2010

Consolidated					
Trade receivables	14.2	14.2	-	-	-
Other receivables	19.3	19.0	0.3	-	-
Total receivables	33.5	33.2	0.3	-	-

No receivables are past due or impaired.

(e) Financial Instruments Measured at Fair Value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

	Year ended 30 June 2011				Year ended 30 June 2010			
	Quoted market price (Level 1)	Valuation technique-market observable inputs (Level 2)	Valuation technique-non market observable inputs (Level 3)	Total	Quoted market price (Level 1)	Valuation technique-market observable inputs (Level 2)	Valuation technique-non market observable inputs (Level 3)	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Consolidated								
Financial assets								
Available-for-sale investments								
Listed investments	40.8	-	-	40.8	32.2	-	-	32.2
Unlisted investments	-	-	1.0	1.0	-	-	3.5	3.5
	40.8	-	1.0	41.8	32.2	-	3.5	35.7

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

(e) Fair Value of Financial Instruments Measured at Fair Value (continued)

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

The fair value of unlisted debt and equity securities, as well as other investments that do not have an active market, are based on latest private share placement price before 30 June 2011.

Reconciliation for Level 3 Fair Value Movements

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Opening balance	3.5	3.9
Other comprehensive income/(loss)	-	0.4
Additions	0.5	-
Disposals	(3.0)	(0.8)
Closing balance	<u>1.0</u>	<u>3.5</u>
Total gain or loss stated in the table above for assets held at the end of the period	-	-

(f) Capital Management

When managing capital, management's objective is to ensure adequate cash resources to meet the Company's commitments are maintained, as well as to maintain optimal returns to shareholders through ensuring the lowest cost of capital available to the entity.

The Company utilises a combination of debt, equity and convertible bonds to provide the cash resources required. Management review the capital structure from time to time as appropriate.

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

Group treasury monitors gearing and compliances with various contractual financial covenants. The Company's project finance facility is subject to various financial undertakings including a negative pledge, debt service coverage ratio, loan life coverage ratio and project life coverage ratio. At the time of reporting, the Company was in compliance with all of the facility's financial undertakings.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. FINANCIAL INSTRUMENTS (continued)

(f) Capital Management (continued)

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Total borrowings	719.7	730.1
Less cash and cash equivalents	(117.4)	(347.9)
Net debt	602.3	382.2
Total equity	1,768.1	1,474.6
Total Capital	2,370.4	1,856.8
Gearing Ratio	25%	21%

(g) Fair Value of Financial Assets and Financial Liabilities Carried at Amortised Cost

The fair value representing the mark to market of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate to their carrying values, as a result of their short maturity or because they carry floating rates of interest.

The fair value of the debt component of the convertible bonds has been determined using a valuation technique based on the quoted market price of the convertible bonds.

All financial assets and liabilities where the fair value does not approximate to the carrying value are as follows:

	CONSOLIDATED			
	2011 US\$M		2010 US\$M	
	Carrying amount	Fair value	Carrying amount	Fair value
Convertible bonds – debt component	583.1	566.1	554.3	538.7

(h) Commodity Price Risk

Uranium is not traded in any significant volume on global commodity exchanges. The Group has customer sales contracts in place for delivery over the period 2011 to 2020.

The contracted selling price is determined by a formula which references common industry published prices for spot and term contracts and is subject to an escalating floor price and also escalating ceiling prices.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

(i) Directors

Mr Rick Crabb	Chairman (Non-executive)
Mr John Borshoff	Managing Director/CEO
Mr Sean Llewelyn	Director (Non-executive)
Mr Donald Shumka	Director (Non-executive)
Mr Peter Donkin	Director (Non-executive) (appointed 1 July 2010)
Mr Philip Baily	Director (Non-executive) (appointed 1 October 2010)
Mr Ian Noble	Director (Non-executive) (retired 25 November 2010)

(ii) Executives

Ms Gillian Swaby	Company Secretary
Mr Garry Korte	Chief Financial Officer
Mr Wyatt Buck	Executive General Manager – Production (resigned 6 May 2011)
Mr Dustin Garrow	Executive General Manager – Marketing
Mr Mark Chalmers	Executive General manager – Production (appointed 28 April 2011)

(b) Compensation of Key Management Personnel: Compensation by Category

	CONSOLIDATED	
	2011	2010
	US\$'000	US\$'000
Short-term employee benefits	5,492	4,672
Post employment benefits	689	624
Long-term benefits	454	476
Share-based payment	<u>2,955</u>	<u>4,186</u>
	<u>9,590</u>	<u>9,958</u>

Average exchange rate used for year to 30 June 2011, US\$1 = A\$1.01512 (2010 US\$1 = A\$1.13652).

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20. KEY MANAGEMENT PERSONNEL (continued)

(c) Option Holdings of Key Management Personnel (Consolidated and Parent Entity)

30 June 2011	01 Jul 10	Granted as remuneration	Options exercised	Net change other	30 Jun 11	Vested/ exercisable	Not vested/ not exercisable
Directors							
Mr John Borshoff	2,750,000	-	-	(1,500,000) ⁽²⁾	1,250,000	657,000	593,000
Executives							
Ms Gillian Swaby	333,785	-	-	(75,000) ⁽²⁾	258,785	136,018	122,767
Mr Wyatt Buck	351,533	-	-	(351,533) ⁽¹⁾	-	-	-
Mr Dustin Garrow	344,769	-	-	(78,570) ⁽²⁾	266,199	139,915	126,284
Total	3,780,087	-	-	(2,005,103)	1,774,984	932,933	842,051

No other Key Management Personnel held options during the year ended 30 June 2011.

(1) Mr Wyatt Buck resigned on 6 May 2011. 105,926 options lapsed on 6 June 2011 and 95,607 were forfeited on 6 May 2011. 150,000 lapsed during the year as the vesting conditions were not met.

(2) Lapsed during the year as the vesting conditions were not met.

30 June 2010	01 Jul 09	Granted as Remuneration	Options exercised	Net change other	30 Jun 10	Vested/ exercisable	Not vested/ not exercisable
Directors							
Mr John Borshoff	2,750,000	-	-	-	2,750,000	-	2,750,000
Executives							
Ms Gillian Swaby	333,785	-	-	-	333,785	-	333,785
Mr Wyatt Buck	351,533	-	-	-	351,533	-	351,533
Mr Dustin Garrow	344,769	-	-	-	344,769	-	344,769
Mr Simon Solomons	600,000	-	-	-	600,000	-	600,000
Total	4,380,087	-	-	-	4,380,087	-	4,380,087

No other Key Management Personnel held options during the year ended 30 June 2010.

(d) Share Rights Holdings of Key Management Personnel (Consolidated and Parent Entity)

30 June 2011	01 Jul 10	Granted as remuneration	Vested as shares	Forfeited	30 Jun 11
Directors					
Mr John Borshoff	300,000	500,000	-	-	800,000
Executives					
Ms Gillian Swaby	180,000	385,000	(18,000)	-	547,000
Mr Garry Korte	90,000	50,000	(9,000)	-	131,000
Mr Dustin Garrow	200,000	80,000	(20,000)	-	260,000
Mr Wyatt Buck	160,000	50,000	(16,000)	(194,000) ⁽¹⁾	-
Total	930,000	1,065,000	(63,000)	(194,000)	1,738,000

No other Key Management Personnel held share rights during the year ended 30 June 2011.

(1) Mr Wyatt Buck resigned on 6 May 2011 and his outstanding share rights were forfeited.

30 June 2010	01 Jul 09	Granted as remuneration	Vested as shares	Forfeited	30 Jun 10
Directors					
Mr John Borshoff	-	300,000	-	-	300,000
Executives					
Ms Gillian Swaby	-	180,000	-	-	180,000
Mr Garry Korte	-	90,000	-	-	90,000
Mr Dustin Garrow	-	200,000	-	-	200,000
Mr Wyatt Buck	-	160,000	-	-	160,000
Mr Simon Solomons	-	120,000	-	-	120,000
Total	-	1,050,000	-	-	1,050,000

No other Key Management Personnel held share rights during the year ended 30 June 2010.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20. KEY MANAGEMENT PERSONNEL (continued)

(e) Shareholdings of Key Management Personnel (Consolidated and Parent Entity)

Shares held in Paladin Energy Ltd (number)

30 June 2011	Balance 01 Jul 10	On Exercise of Options	On Vesting of Rights	Net Change Other	Balance 30 June 11
Directors					
Mr Rick Crabb	4,881,528	-	-	-	4,881,528
Mr John Borshoff	21,877,394	-	-	-	21,877,394
Mr Ian Noble ⁽¹⁾	21,000	-	-	(21,000)	-
Mr Sean Llewelyn	100,000	-	-	-	100,000
Mr Donald Shumka	50,000	-	-	50,000	100,000
Mr Peter Donkin	-	-	-	15,000	15,000
Mr Philip Baily	-	-	-	12,000	12,000
Executives					
Ms Gillian Swaby	5,036,655	-	18,000	(1,468,000)	3,586,655
Mr Wyatt Buck ⁽²⁾	110,000	-	16,000	(126,000)	-
Mr Garry Korte	-	-	9,000	-	9,000
Mr Dustin Garrow	-	-	20,000	(20,000)	-
Mr Mark Chalmers	-	-	-	-	-
Total	32,076,577	-	63,000	(1,558,000)	30,581,577

No other Key Management Personnel held shares during the year ended 30 June 2011.

(1) Mr Ian Noble retired on 25 November 2010. No longer required to disclose shareholdings.

(2) Mr Wyatt Buck resigned on 6 May 2011. No longer required to disclosure shareholdings.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20. KEY MANAGEMENT PERSONNEL (continued)

(e) Shareholdings of Key Management Personnel (Consolidated and Parent Entity) (continued)

30 June 2010	Balance 01 Jul 09	On Exercise of Options	Net Change Other	Balance 30 June 10
Directors				
Mr Rick Crabb	4,581,528	-	300,000	4,881,528
Mr John Borshoff	21,591,394	-	286,000	21,877,394
Mr Ian Noble	21,000	-	-	21,000
Mr Sean Llewelyn	100,000	-	-	100,000
Mr Donald Shumka	50,000	-	-	50,000
Executives				
Ms Gillian Swaby	5,036,655	-	-	5,036,655
Mr Wyatt Buck	96,350	-	13,650	110,000
Mr Simon Solomons	3,000	-	-	3,000
Total	31,479,927	-	599,650	32,079,577

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(f) Other Transactions and Balances with Key Management Personnel

Fees paid in the normal course of business in 2011 for company secretarial services totalling US\$561,000 (2010: US\$419,000) were paid/payable (balance outstanding at 30 June 2011 and included in trade creditors US\$Nil (2010: US\$Nil)) to a company of which Ms Gillian Swaby is a director and shareholder. All amounts are excluding GST.

NOTE 21. AUDITORS' REMUNERATION

The auditor of the Paladin Energy Ltd Group is Ernst & Young.

	CONSOLIDATED	
	2011	2010
	US\$'000	US\$'000
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
• Audit or review of the financial report of the consolidated Group and audit related services	1,068 ⁽¹⁾	776
• Taxation services:		
Tax compliance services	97	97
International tax consulting	165	205
Tax advice on mergers and acquisitions	232	2
Other tax advice	51	58
Sub-total	<u>1,613</u>	<u>1,138</u>

(1) \$97,794 relates to services performed in relation to the issue of Convertible Bonds.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21. AUDITORS' REMUNERATION (continued)

Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:

• Audit or review of the financial report of subsidiaries	389	209
• Other assurance services: Malawi Development Agreement	-	58
• Taxation services: Tax compliance services	4	5
Sub-total	<u>393</u>	<u>272</u>

The level of non-audit related fees that the Company paid to its independent auditor, Ernst & Young relative to the audit /audit related fees reduced from 2010 to 2011, with non-audit fees reasonably lower than the audit/audited related fees.

The level of non-audit related fees was driven by the tax compliance requirements of multiple jurisdictions, establishing new operations and by the specialist advice requirements of potential acquisitions.

Whilst always striving to meet the highest corporate governance standards, Paladin is also cognisant of the need to retain the value of the best available specialist advice. The establishment of the Kayelekera mining operation in Malawi necessitated setting up robust internal controls and processes and systems. After a thorough search Paladin engaged Ernst & Young because of their specialised experience in both Africa and the mining sector and Ernst & Young's detailed understanding of the Paladin Group. These costs included under other assurance services in 2010 are considered to be set up costs and are not anticipated to be incurred in future periods.

In terms of the Company's Corporate Governance Policy all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor and that the nature of the services provided does not compromise the Code of Ethics for Professional Accountants APES 110 issued by the Accounting Professional and Ethical Standards Board.

All non-audit services provided by Ernst & Young were allowable services that received the sign off of the audit partner confirming that, in his professional opinion, they do not in any way impair the independence of the firm. Where any service might be perceived to be subjective, Ernst & Young policy requires approval by the Oceania Independence and Conflicts Leader.

NOTE 22. COMMITMENTS AND CONTINGENCIES

There were no outstanding commitments or contingencies, which are not disclosed in the Financial Report of the Group as at 30 June 2011 other than:

	CONSOLIDATED	
	2011	2010
(a) Tenements	US\$M	US\$M
Commitments for tenements contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	19.0	2.1
Later than one year but not later than 5 years	17.0	20.4
More than 5 years	<u>28.4</u>	<u>0.1</u>
Total tenements commitment	<u>64.4</u>	<u>22.6</u>

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22. COMMITMENTS AND CONTINGENCIES (continued)

(a) Tenements (continued)

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.

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
(b) Mine Construction Commitments		
Commitments for mine construction contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	18.8	35.7
Later than one year but not later than 5 years	-	-
More than 5 years	-	-
Total mine construction	18.8	35.7

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

(c) Operating Lease Commitments

The Group has entered into various property leases relating to rental of offices and residential accommodation.

These non-cancellable leases have remaining terms of between 1 month and 10 years. All leases include a clause to enable upward revision of rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Within one year	1.5	1.3
Later than one year but not later than 5 years	5.3	4.5
More than 5 years	0.1	0.9
Total operating lease commitment	6.9	6.7

(d) Acquisition Costs

The Group acquired a call option on 19 June 1998 in relation to the purchase of the Oobagooma Uranium Project and, in turn, granted a put option to the original holder of the project. Both the call and put options have an exercise price of A\$0.75M (US\$0.8M) (2010:A\$0.75M (US\$0.6M)) and are subject to the Department of Minerals & Energy granting tenements comprising two exploration licence applications. The A\$0.75M is payable by the Group within 10 business days of the later of the grant of the tenements or the exercise of either the call or put option. The options will expire three months after the date the tenements are granted.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22. COMMITMENTS AND CONTINGENCIES (continued)

(d) Acquisition Costs (continued)

In relation to the Manyingee Uranium Project, the re-negotiated acquisition terms provide for a payment of A\$0.75M (US\$0.8M) (2010: A\$0.75M (US\$0.6M)) by the Group to the vendors when all project development approvals are obtained.

(e) Bank Guarantees

As at 30 June 2011 the Group has outstanding US\$911,837 (A\$860,619) (2010: US\$731,144 / A\$853,801) as a current guarantee provided by a bank for the corporate office lease and a US\$289,700 (A\$273,428) (2010: US\$30,828 / A\$36,000) guarantee for tenements.

(f) 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 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 82.1% 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.

SRA has now 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. That application is ongoing.

NOTE 23. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2011	2010
	US\$M	US\$M
Provision for annual leave and long service leave aggregate employment benefit liabilities	8.6	3.0
Employee Benefits Expense		
Wages and salaries	62.7	25.5
Defined contribution superannuation	3.9	2.6
Share-based payments	14.3	11.3
Other employee benefits	5.1	1.9
Total employee benefits expense	86.0	41.3

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 23. EMPLOYEE BENEFITS (continued)

Superannuation

The Company contributes to employees' superannuation plans in accordance with the requirements of Occupational Superannuation Legislation. Contributions by the Company represent a defined percentage of each employee's salary. Employee contributions are voluntary.

Employee Share Incentive Option Plan

Details of the Employee Share Incentive Option Plan for the Company are disclosed in Note 25.

NOTE 24. RELATED PARTIES

Key Management Personnel

Details relating to Key Management Personnel can be found at Note 20.

NOTE 25. SHARE-BASED PAYMENT PLANS

	2011 US\$M	2010 US\$M
Share based payment expense	<u>11.9</u>	<u>10.4</u>

The share-based payment plans are described below.

(a) Types of Share-Based Payment Plans

Executive Share Option Plan (EXSOP)

On 21 November 2006, the EXSOP was approved by shareholders at the Company's Annual General Meeting. The number of shares that may be issued under the EXSOP must not exceed 5% of the total number of shares on issue.

Share options are granted to employees under the EXSOP which is designed to create a stronger link between increasing shareholder value and employee reward. Under the EXSOP, the exercise price of the options is set at the market price of the shares on the date of grant and performance is measured by comparing the Company's Total Shareholder Return ('TSR') (share price appreciation plus dividends reinvested) with a group of peer companies. The Company's performance will be measured over three years from the date of grant. To the extent that maximum performance is not achieved under the performance condition, performance will be retested every six months following the first three years until the end of the fourth year.

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

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

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

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

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25. SHARE-BASED PAYMENT PLANS (continued)

(b) Types of Share-Based Payment Plans (continued)

Executive Share Option Plan (EXSOP) (continued)

The contractual life of each option granted is five years. There are no cash settlement alternatives.

Following the adoption of the Rights Plan referred to below, no further grants will be made under the EXSOP. The last grant under this Plan was made on 24 June 2009.

Employee Performance Share Rights Plan

The Employee Performance Share Rights Plan (Rights Plan) was approved by shareholders on 25 November 2009. The Rights Plan replaces the EXSOP and no further options will be granted under the EXSOP.

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

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

The Board is cognisant of general shareholder concern that long-term equity based reward for staff should be linked to the achievement by the Company of a performance condition. Share Rights granted under the Rights Plan are subject to performance conditions as determined by the Board from time to time.

The Share Rights issued are subject to a combination of Performance Conditions:-

- **Time-based Performance** conditions which prescribe a period of time that the employee must stay employed by the Company prior to automatic vesting.
- **The Total Shareholder Return (TSR)** measure which represents the change in the Company's Share price over the relevant period, plus dividends (if any) notionally reinvested in the Company's Shares, expressed as a percentage of the opening value.

The TSR of the Company from the date of the offer to the measurement date will be compared with the TSR of all mining companies in the ASX S&P 200 Index for the same period excluding, for such time as Paladin does not pay a dividend, all companies that paid a dividend during any year of the measurement period.

The number of Share Rights that vest depends on the TSR percentile ranking of the Company, as set out below:

Relative TSR Percentile Ranking	Percentage of share rights that may vest if the relative TSR performance condition is met
Less than 50 th percentile	0% of the Share Rights subject to the TSR condition
at 50 th percentile	50% of the Share Rights subject to the TSR condition
Greater than the 50th percentile but less than the 75 th percentile	Pro-rated vesting between 51% and 99% of the Share Rights subject to the TSR condition
At 75 th percentile or greater	100% of the Share Rights subject to the TSR condition

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25. SHARE-BASED PAYMENT PLANS (continued)

(b) Types of Share-Based Payment Plans (continued)

Employee Performance Share Rights Plan (continued)

- **The Market Price Performance condition** measures the increase in share price of the Company. Share Rights subject to the Market Price Performance Condition will vest if, at the end of the measurement period, the Share price of the Company is 25% above the market price as at the date of the offer.
- **The Earnings Per Share (EPS) Performance condition**, which is determined by dividing the operating profit attributable to members of the Paladin Group by the weighted average number of Ordinary Shares outstanding during the financial year. Growth in EPS will be measured by comparing the EPS in the base year and the measurement year.

Vesting will only occur if the Company achieves average compound growth in EPS of at least 10% per annum over the three year performance period, calculated from the date of the grant of the Share Rights.

The vesting schedule of the Share Rights subject to the EPS conditions is as follows:

Average compound growth EPS over the performance period	Percentage of share rights that may vest if the EPS condition is met
Less than 10% pa	0% of the Share Rights subject to the EPS condition
At 10% pa	50% of the Share Rights subject to the EPS condition
More than 10% pa but less than 20% pa	Pro-rated vesting between 51% and 99% of the Share Rights subject to the EPS condition
At 20% pa or greater	100% of the Share Rights subject to the EPS condition

When a participant ceases employment prior to the vesting of their Share Rights, the Share Rights lapse unless cessation of employment is due to retirement, total and permanent disablement, redundancy or death. In the event of a change of control all the Share Rights will vest.

Contractor Performance Share Rights Plan

The Company has also implemented a plan to reward a small number of key individual contractors, who provide similar services to employees. This plan and the Rights Plan applicable to employees, as detailed above, differ only in respect of the class of individuals who are eligible for participation. This Plan was approved by shareholders on 25 November 2009.

(c) Summaries of Options Granted Under EXSOP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2011 No.	2011 WAEP A\$	2010 No.	2010 WAEP A\$
Outstanding at the beginning of the year	12,768,755	5.26	15,227,455	5.25
Granted during the year	-	-	-	-
Forfeited during the year	(1,841,734)	4.13	(1,458,700)	5.02
Exercised during the year ⁽¹⁾	(960)	4.50	-	-
Expired during the year	(2,694,270)	8.77	(1,000,000)	5.50
Outstanding at the end of the year	8,231,791	4.36	12,768,755	5.26
Exercisable at the end of the year	4,032,078	4.55	-	-

⁽¹⁾ The weighted average share price at the date of exercise is A\$5.35 (2010: N/A).

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25. SHARE-BASED PAYMENT PLANS (continued)

(c) Summaries of Options Granted Under EXSOP (continued)

The outstanding balance as at 30 June 2011 is represented by:

Date options granted	Exercisable	Expiry date	Exercise price of options	Number under option
29 January 2008	29 January 2011	29 January 2013	4.50	6,706,791
15 February 2008	15 February 2011	15 February 2013	5.37	300,000
18 April 2008	18 April 2011	18 April 2013	4.59	475,000
14 October 2008	14 October 2011	14 October 2013	2.54	750,000
Total				8,231,791

Please refer to Outstanding Share Information table in the Management Discussion & Analysis for movements since the year end.

(d) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 1.7 years (2010: 2.5 years).

(e) Range of Exercise Price

The range of exercise prices for options outstanding at the end of the year was A\$2.54 – A\$5.37 (2010: A\$2.07 – A\$8.77).

(f) Weighted Average Fair Value

There were no options granted during 2010 or 2011.

(g) Option Pricing Model: EXSOP

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. There were no options granted during 2010 or 2011.

(h) Summaries of Performance Share Rights Granted Under the Rights Plans

The following table illustrates the number (No.) of and movements in share rights issued during the year:

	2011 No.	2010 No.
Outstanding at the beginning of the year	5,014,500	-
Granted during the year *	4,292,117	5,026,900
Forfeited during the year	(1,058,700)	(12,400)
Vested during the year ⁽¹⁾	(1,300,580)	-
Outstanding at the end of the year	<u>6,947,337</u>	<u>5,014,500</u>

* Includes 490,000 rights granted under the Contractor Performance Share Rights Plan (2010: 520,000).

⁽¹⁾ The weighted average share price at the vesting date is A\$3.80 (2010: N/A).

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25. SHARE-BASED PAYMENT PLANS (continued)

(h) Summaries of Performance Share Rights Granted Under the Rights Plans (continued)

The outstanding balance as at 30 June 2011 is represented by:

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 2011	Time based	594,270
26 March 2010	1 September 2012	Time based	990,450
26 March 2010	1 September 2012	Relative total shareholder return	792,360
26 March 2010	1 September 2012	Market price	1,188,540
5 November 2010	5 November 2013	Earnings per share	250,000
5 November 2010	5 November 2013	Relative total shareholder return	250,000
5 November 2010	1 September 2011	Time based	202,170
5 November 2010	1 September 2012	Time based	303,255
5 November 2010	1 September 2013	Time based	505,425
5 November 2010	1 September 2013	Relative total shareholder return	404,340
5 November 2010	1 September 2013	Market price	606,510
15 February 2011	15 February 2012	Time based	155,336
15 February 2011	15 February 2013	Time based	178,838
15 February 2011	15 February 2014	Time based	225,843
Total			6,947,337

Please refer to Outstanding Share Information table in the Management Discussion & Analysis for movements since the year end.

(i) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for the share rights outstanding as at 30 June 2011 is 1.5 years (2010: 1.9 years).

(j) Weighted Average Fair Value

The weighted average fair value of share rights granted during the year was A\$3.86 (2010: A\$3.17).

(k) Rights Pricing Model

The fair value of the equity-settled share rights granted under the plan is estimated as at the date of grant using either the Black-Scholes model for rights with non-market based performance conditions (time based and EPS), the Monte-Carlo simulation model for rights that contained a relative TSR performance condition or an Asset or Nothing Digital Option valuation model for rights subject to the market price condition.

The following table lists the inputs to the model used for the years ended 30 June 2011 and 30 June 2010.

	2011	2010
Dividend yield (%)	Nil	Nil
Expected volatility (%)	39%	49%
Risk-free interest rate (%)	4.77% - 5.03%	4.55% - 5.42%
Expected life of right (years)	0.8 - 4 years	0.5 - 4 years
Closing share price at grant date (A\$)	A\$4.48	A\$3.88

The expected volatility was determined using an historical sample of 1 years historic data.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26. INTERESTS IN JOINTLY CONTROLLED ASSETS

(a) Joint Venture Details

Bigrlyi Joint Venture

The Bigrlyi Joint Venture is involved in the identification of and exploration for uranium resources in the Northern Territory, Australia. The joint venture is between Energy Metals Ltd 53.29%, Southern Cross Exploration NL 5.0% and Northern Territory Uranium Pty Ltd (NTU) 41.71% (NTU is 100% owned by Paladin) with Energy Metals Ltd as manager and operator of the joint venture.

Angela Joint Venture

The Angela Joint Venture is involved in the identification of and exploration for uranium resources on tenements to the south of Alice Springs in the Northern Territory, Australia. The joint venture is between Cameco Australia Pty Ltd (Cameco) 50% and Paladin NT Pty Ltd (PNT) 50% (PNT is 100% owned by Paladin) with Cameco as manager and operator of the joint venture.

Other Joint Ventures

The Group also has a number of other interests in joint ventures to explore for uranium and other minerals. The Group's share of expenditure in respect of these exploration activities is expensed in accordance with the accounting policy stated in Note 2(s) and no revenue is generated. The Group's share of the assets and liabilities in respect of these joint ventures is not material.

(b) Assets Utilised in the Bigrlyi and Angela Joint Ventures

The Group's share of the assets utilised in these jointly controlled assets, which are included in the Consolidated Financial Statements, is as follows:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Non Current Assets		
Exploration and evaluation expenditure	36.3	26.0
Total assets	36.3	26.0

The interest of NTU in the Bigrlyi Joint Venture was acquired on 7 September 2006 and includes the allocation of the acquisition value.

The interest of PNT in the Angela Project joint venture was acquired on 20 February 2008.

(c) Commitments Relating to the Joint Venture

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Share of tenement commitments (Note 22)	2.7	2.6

(d) Impairment

No assets employed in the jointly controlled assets were impaired during the year (2010: US\$Nil).

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 27. ASSET ACQUISITION

Acquisition of NGM Resources Limited

Paladin Energy Ltd acquired a controlling interest on 25 October 2010 of the voting shares of NGM, a public company based in Australia involved in the exploration for uranium resources in Niger. The takeover was completed on 10 December 2010 with the acquisition of 100% of the issued share capital for the issue of 7,155,938 Paladin shares for a cost of US\$30.1M and direct cost of US\$1.8M. In addition the existing available for sale investment and investment revaluation reserve of US\$2.4M was transferred to form part of the investment.

The acquisition was treated as an acquisition of an asset as the transaction involved the acquisition of exploration licences, the intellectual property surrounding these licences and research performed to date only.

<u>The cash outflow on acquisition is as follows</u>	US\$M
Net cash acquired with the subsidiary	0.6
Direct cost relating to acquisition	<u>(1.8)</u>
Net consolidated cash outflow	<u>(1.2)</u>
<u>Assets acquired</u>	
Cash and cash equivalents	0.6
Other assets	0.2
Exploration and evaluation expenditure	34.0
Other liabilities	<u>(0.5)</u>
Net assets	<u>34.3</u>

Acquisition of Aurora Uranium Assets

On 1 February 2011, Paladin Energy Ltd acquired the uranium assets of Aurora Energy Resources Inc. ("Aurora") from Fronteer Gold Inc. ("Fronteer").

The transaction was completed for a total consideration of US\$260.6M via the issuance of 52,097,937 ordinary shares in Paladin at A\$5.04 and direct cost of US\$2.3M.

With completion of this transaction, Fronteer held approximately 6.7% of Paladin's ordinary shares, subject to a four-month hold period under Canadian securities laws. Fronteer also entered into an agreement that set out procedures designed to ensure that any disposition of shares by Fronteer will occur in an orderly fashion. Following the announcement of the takeover of Fronteer by Newmont Mining Corporation (Newmont) this shareholding transferred to Newmont, which will assume all obligations under the agreements.

The acquisition was treated as an acquisition of an asset as the transaction involved the acquisition of exploration licences, the intellectual property surrounding these licences and evaluation performed to date only.

<u>The cash outflow on acquisition is as follows</u>	US\$M
Net cash acquired	-
Direct cost relating to acquisition	<u>(2.3)</u>
Net consolidated cash outflow	<u>(2.3)</u>
<u>Assets acquired</u>	
Other assets	1.5
Exploration and evaluation expenditure	261.8
Other liabilities	<u>(0.4)</u>
Net assets	<u>262.9</u>

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE

Since the end of the financial year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report 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 years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2011 Financial Report:

Uranium Sales Agreement Signed

On 22 August 2011, the Company announced the signing of a series of term uranium sales agreements for output from the Langer Heinrich Stage 3 expansion. The agreements have been signed with three new customers in the United States and further strengthens Paladin's already significant presence within the U.S. nuclear market. Production commitments from the new agreements total more than 2.8Mlb U₃O₈ with deliveries beginning in 2012 and extending through to 2016. Contractual pricing provisions incorporate both fixed and base (escalated) mechanisms ranging from the low- to -mid-\$60's per pound U₃O₈.

Langer Heinrich Mine, Namibia

Execution of US\$141M Project Finance Facility for Stage 3 Expansion

On 26 August 2011, the Company announced that the financing documentation required for the Stage 3 expansion had been finalised and executed. The Stage 3 expansion of LHM in Namibia will increase production to 5.2Mlb pa from its current capacity of 3.7Mlb pa.

The initial development funding for the project has been via Paladin's existing cash reserves. The Langer Heinrich Stage 3 expansion is now fully financed and is on track to reach nameplate capacity in the 1st quarter of 2012.

Paladin and a syndicate of banks executed a US\$141M Project Financing Facility, consisting of a 6 year Project Finance Facility of US\$135M with a Costs Overrun Facility of US\$6M. The facility is being provided without a parent company guarantee from Paladin. The facilities are being 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 (RMB). Drawdown on the financing is subject to fulfilment of conditions precedent usual for this type of facility.

NOTE 29. NON-CASH FINANCING AND INVESTMENT ACTIVITIES

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Issue of shares to acquire 100% of NGM Resources Ltd	30.1	-
Issue of shares to acquire the Aurora uranium assets	260.6	-

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 30. EARNINGS PER SHARE

(i) Basic Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

(ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Diluted earnings per share is the same as basic earnings per share in 2011 and 2010 as the Group is in a loss position.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	CONSOLIDATED	
	2011 US\$M	2010 US\$M
Net loss attributable to ordinary equity holders of the Parent from continuing operations	(82.3)	(45.6)
	2011 Number of Shares	2010 Number of Shares
Weighted average number of ordinary shares for basic and diluted earnings per share	744,054,692	697,428,692
(ii) Diluted Earnings Per Share (continued)		
Weighted average number of securities issuable under the Company's option and rights plans that could be potentially dilutive	4,124,583	1,766,058
Total number of securities not included in weighted average calculation due to non-dilutive nature	113,145,440	96,054,056

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 31. PARENT ENTITY INFORMATION

	2011	2010
	US\$M	US\$M
(a) Information Relating to Paladin Energy Ltd		
Current assets	146.2	341.3
Total assets	<u>1,768.6</u>	<u>1,455.4</u>
Current liabilities	12.7	14.0
Total liabilities	<u>613.9</u>	<u>582.2</u>
Issued capital	1,768.1	1,474.6
Retained earnings	(734.3)	(683.9)
Option application reserve	0.1	0.1
Share based payments reserve	49.5	38.0
Available-for-sale investment revaluation reserve	10.9	5.5
Convertible bond non distributable reserve	<u>60.4</u>	<u>38.9</u>
Total shareholders' equity	<u>1,154.7</u>	<u>873.2</u>
Net loss after tax from operations	(50.4)	(88.5)
Total comprehensive loss	<u>(45.0)</u>	<u>(107.3)</u>

(b) Details of Any Guarantees Entered Into by the Parent in Relation to the Debts of its Subsidiaries

As part of the Project Finance Facility for the construction of the Kayelekera Mine, Paladin Energy Ltd has provided a guarantee for the loan outstanding to the lenders until satisfaction of the Bankers Completion Test.

(c) Details of Any Contingent Liabilities of the Parent Entity

There are no contingent liabilities of the parent entity as at reporting date.

(d) Details of Any Contractual Commitments by the Parent Entity for the Acquisition of Property, Plant and Equipment

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

(e) Tax Consolidation

Paladin and its 100% owned Australian resident subsidiaries formed a tax consolidated group (the Group) with effect from 1 July 2003. Paladin is the head entity of the Group. Members of the Group have entered into a tax sharing agreement that provides that the head entity will be liable for all taxes payable by the Group from the consolidation date. The parties have agreed to apportion the head entity's taxation liability within the Group based on each contributing member's share of the Group's taxable income and losses.

PALADIN ENERGY LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 31. PARENT ENTITY INFORMATION (continued)

(f) Investments in Material Controlled Entities

NAME	COUNTRY OF INCORPORATION INVESTMENT	PERCENTAGE INTEREST HELD	
		2011 %	2010 %
Paladin Finance Pty Ltd	Australia	100	100
Paladin Energy Minerals NL	Australia	100	100
Eden Creek Pty Ltd	Australia	100	100
Paladin (Africa) Ltd	Malawi	85	85
Kayelekera Holdings SA	Switzerland	100	100
Kayelekera Finance BV	Netherlands	100	100
Paladin Netherlands Co-Op Holdings	Netherlands	100	-
Langer Heinrich Mauritius Holdings Ltd	Mauritius	100	100
Langer Heinrich Uranium (Pty) Ltd	Namibia	100	100
Valhalla Uranium Pty Ltd	Australia	100	100
Northern Territory Uranium Pty Ltd	Australia	100	100
Mount Isa Uranium Pty Ltd	Australia	100	100
Paladin Nuclear Ltd	Australia	100	100
Summit Resources Ltd	Australia	82	82
Summit Resources (Aust) Pty Ltd	Australia	82	82
Pacific Mines Pty Ltd	Australia	82	82
Paladin NT Pty Ltd	Australia	100	100
Fusion Resources Pty Ltd	Australia	100	100
NGM Resources Pty Ltd	Australia	100	-
Indo Energy Ltd	Australia	100	-
Paladin Energy Canada Ltd	Canada	100	-
Michelin Uranium Ltd	Canada	100	-
Paladin Canada Investment (NL) Ltd	Canada	100	-
Paladin Canada Holdings (NL) Ltd	Canada	100	-
Aurora Energy Ltd	Canada	100	-

All investments comprise ordinary shares and all shares held are unquoted, with the exception of Summit's shares which are quoted on the ASX and Paladin Netherlands Co-Op Holdings which issues membership equity.

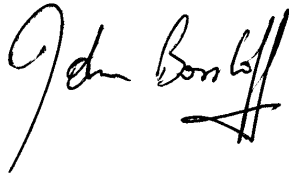
DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Paladin Energy Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2011.

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
31 August 2011

Independent auditor's report to the members of Paladin Energy Ltd

Report on the financial report

We have audited the accompanying financial report of Paladin Energy Ltd, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

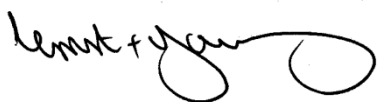
- a. the financial report of Paladin Energy Ltd is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

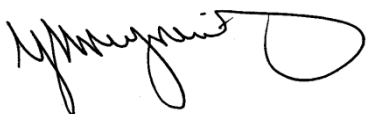
We have audited the Remuneration Report included in pages 75 to 96 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Paladin Energy Ltd for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

A stylized signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature of Greg Meyerowitz, written in black ink.

Greg Meyerowitz
Partner
Perth
31 August 2011

Independent auditor's report to the members of Paladin Energy Ltd

We have audited the accompanying financial report of Paladin Energy Ltd, prepared for the purposes of complying with Canadian securities regulatory requirements, which comprises the statement of financial position as at 30 June 2011 and 30 June 2010 and the consolidated income statement and statement of comprehensive income, statement of changes in equity and cash flow statement for the years ended 30 June 2011 and 30 June 2010, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the International Accounting Standards (including the Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

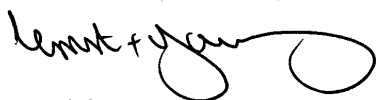
Independence

In conducting our audit we have met the independence requirements of the Australian professional accounting bodies. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Paladin Energy Ltd, prepared for the purposes of complying with Canadian securities regulatory requirements, presents fairly, in all material respects, the financial position of the consolidated entity at 30 June 2011 and 30 June 2010 and of their performance for the years ended 30 June 2011 and 30 June 2010; and
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

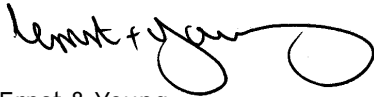
A handwritten signature in black ink, appearing to read 'Ernst & Young', with a large, stylized flourish at the end.

Ernst & Young
Perth
31 August 2011

Paladin Energy Ltd

Comments by auditor for Canadian readers

Reporting standards under Canadian generally accepted auditing standards may differ from those under International Standards on Auditing in the form and content of the auditor's report, depending on the circumstances.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

Perth

31 August 2011

ADDITIONAL INFORMATION

Tenements held

URANIUM PROJECTS

NAMIBIA – AFRICA

Project	Tenements	Interest %	JV Partner/s	Operator	Note
Langer Heinrich	1 MLI	100.00%	-	LHU	
Gawib	1 EPL	100.00%	-	LHU	

NIGER – AFRICA

Tagait 4	1 EPL	100.00%	-	IEL	
Terzemazour 1	1 EPL	100.00%	-	IEL	
Toulouk 1	1 EPL	100.00%	-	IEL	

MALAWI – AFRICA

Kayelekera	1 MLI	100.00%	-	PAL	1
Chilumba	1 EPL	100.00%	-	PAL	1
Chilongo	1 EPL	100.00%	-	PAL	1
Mpata	1 EPL	100.00%	-	PAL	1
Mapambo	1 EPL	100.00%	-	PAL	1
Chitsu	1 EPL (A)	100.00%	-	PAL	1

LABRADOR/NEWFOUNDLAND – CANADA

Central Mineral Belt	33 MLC	100.00%	-	AUR	
----------------------	--------	---------	---	-----	--

QUEENSLAND

Isa North	5 EPMs	82.05%	(see Note 3)	SRA	2,3
	3 MDLs (A)	82.05%	(see Note 3)	SRA	2,3
Valhalla North	2 EPMs	100.00%	-	FSN	

NORTHERN TERRITORY

Angela and Pamela	1 EL	50.00%	Cameco Australia Pty Ltd	Cameco	
	1 EL (A)	50.00%	Cameco Australia Pty Ltd	Cameco	
Bigrlyi	10 ERLs	41.71%	) Energy Metals Limited	EME	
	20 MCs (A)	41.71%	) Southern Cross Exploration NL	EME	
	2 MLs (A)	41.71%	)	EME	
Walbiri	1 ERL (A)	58.13%	Energy Metals Limited	EME	
Malawiri	1 ERL (A)	47.96%	Energy Metals Limited	EME	
Minerva	12 ERLs (A)	100.00%		NTU	
Beatrice South	1 EL (A)	33.33%	Afmeco Mining and Exploration Pty Ltd	Afmeco	
Mount Gilruth	1 EL (A)	33.33%	Afmeco Mining and Exploration Pty Ltd	Afmeco	

ADDITIONAL INFORMATION (continued)

Tenements held (continued)

WESTERN AUSTRALIA

Manyingee	3 MLs	100.00%	-	PEM
Spinifex Well	1 EL	100.00%	-	PEM
Oobagooma	4 ELs (A)	100.00%	-	PEM

SOUTH AUSTRALIA

Project	Tenements	Interest %	JV Partner/s	Operator	Note
Petermorra	1 EL	20.00%	Quasar Resources Pty Ltd	Quasar	
Mt Yerila	1 EL	15.00%	Quasar Resources Pty Ltd J E Risinger	Quasar	

NON-URANIUM PROJECTS

QUEENSLAND

Western Isa Joint Venture (See Note 4)
(Summit Resources (Aust) Pty Ltd, Pacific Mines Pty Ltd)

Isa South	4 EPMs	20.00%	MM Mining (Qld) Limited	MMM	4
	4 EPMs (A)	20.00%	MM Mining (Qld) Limited	MMM	4
	1 EPM	18.00%	MM Mining (Qld) Limited	MMM	4
			Centaurus Metals Limited		
May Downs	3 EPMs	20.00%	MM Mining (Qld) Limited	MMM	4
Mount Kelly	1 EPM	20.00%	MM Mining (Qld) Limited	MMM	4
Constance Range	5 EPMs	20.00%	MM Mining (Qld) Limited	MMM	4

SOUTH AUSTRALIA

Reaphook JV	1 EL	7.50%	Perilya Limited Signature Resources NL	Perilya	
-------------	------	-------	---	---------	--

ADDITIONAL INFORMATION (continued)

Tenements held (continued)

Operators		Paladin Equity (direct and indirect)	Note
EME	Energy Metals Limited	0%	
FSN	Fusion Resources Pty Ltd	100%	
LHU	Langer Heinrich Uranium (Pty) Limited	100%	
MIU	Mount Isa Uranium Pty Ltd	100%	
MMM	MM Mining (Qld) Limited	0%	
NTU	Northern Territory Uranium Pty Ltd	100%	
PAC	Pacific Mines Pty Ltd	100%	
PAL	Paladin (Africa) Ltd	100%	1
PEM	Paladin Energy Minerals NL	100%	
SRA	Summit Resources (Aust) Pty Ltd	82.05%	2
AUR	Aurora Energy Ltd	100%	
IEL	Indo Energy Ltd	100%	

Notes

1. Paladin holds 85% equity in Paladin (Africa) Limited ("PAL") with 15% equity having been issued to the Government of Malawi pursuant to the terms of the Development Agreement for KM between the Government of Malawi, PAL and Paladin Energy Minerals NL.
2. Paladin's interest in these tenements is held by virtue of Paladin's 82.05% equity holding in Summit Resources Limited which in turn holds 100% equity interest in Summit Resources (Aust) Pty Ltd ("SRA") and Pacific Mines Pty Ltd.
3. The Vallhalla and Skal uranium deposits lie within the Isa North tenement block within defined blocks of land (17 km² and 10 km² respectively) subject to the Isa Uranium Joint Venture between SRA (50% and Operator) and Mount Isa Uranium Pty Ltd (50%).
4. The Western Isa Joint Venture tenements are held by SRA/Pacific Mines Pty Ltd. MM Mining (Qld) Limited earned 80% equity in the Western Isa Joint Venture tenements through expenditure of A\$8M within three years of commencement (10 December 2007). Transfer documents have been lodged with the Department of Employment, Economic Development and Innovation, which assigns 80% of SRA's interest to MMM.

Tenement Types

EL	Exploration Licence (Australia)
EPL	Exclusive Prospecting Licence (Africa)
EPM	Exploration Permit for Minerals (Australia)
ERL	Exploration Retention Licence (Australia)
MC	Mineral Claim (Australia)
ML	Mining Lease (Australia)
MLI	Mining Licence (Africa)
MLC	Mineral Licence (Newfoundland/Labrador)
(A)	Pending Application

ADDITIONAL INFORMATION (continued)

LIST OF ABBREVIATIONS

A\$	Australian dollars	M	million
bcm	bank cubic metres	MLb	million pounds
BFS	Bankable Feasibility Study	m	metres
CCD	Counter Current Decantation	Ma	million years
DFS	Definitive Feasibility Study	MIK	Multiple Indicator Kriging
DIFR	disabling incident frequency rate	mm	millimetres
ft	feet	MMI	Mobile Metal Ion
g	gram	mSv	millisiverts
g/m ³	grams per cubic metre	Mtpa	million tonnes per annum
g/t	grams per tonne	NOSA	National Occupational Safety Association
hr	hours	NPV	net present value
ISO	International Organisation for Standardisation	pa	per annum
ISR	in situ recovery	PAL	Paladin (Africa) Limited
JORC	Joint Ore Reserves Committee	ppb	parts per billion
K	thousand	ppm	parts per million
kg	kilogram	QC	quality control
kg/t	kilogram per tonne	RC	reverse circulation
km	kilometres	RIP	resin-in-pulp
KM	Kayelekera Mine	t	tonnes
km ²	square kilometres	t/m ³	tonnes per cubic metre
kW	kilowatts	tpa	tonnes per annum
lb	pounds	tph	tonnes per hour
LHM	Langer Heinrich Mine	U	uranium
LHUPL	Langer Heinrich Uranium (Pty) Ltd	U ₃ O ₈	Uranium Oxide
LTi	lost time injury	US\$	US dollars
LTIFR	lost time injury frequency rate	w:o	waste to ore ratio

ADDITIONAL INFORMATION (continued)

SHAREHOLDER REPORTING TIMETABLE

**Please note the above lodgement dates are deadlines
and reports may be released early.**

Important Dates

28 October 2011	September Quarterly Activities Report (ASX)
14 November 2011	September Quarterly Financial Statements including MD&A (TSX)
15 November 2011	Conference Call and Investor Update
24 November 2011	Annual General Meeting to be held in Perth, Western Australia
31 January 2012	December Quarterly Activities Report (ASX)
14 February 2012	Half Yearly Financial Statements incorporating December Quarter and MD&A (Appendix 4D – ASX)
16 February 2012	Conference Call and Investor Update (proposed date)
30 April 2012	March Quarterly Activities Report (ASX)
15 May 2012	March Quarterly Financial Statements including MD&A (TSX)
17 May 2012	Conference Call and Investor Update (proposed date)
31 July 2012	June Quarterly Activities Report (ASX)
31 August 2012	Preliminary Final Report on year end 30 June 2011 results (Appendix 4E – ASX)
4 September 2012	Conference Call and Investor Update (proposed date)
28 September 2012	Annual Information Form (TSX)
30 September 2012	Audited Annual Financial Statements for the year ended 30 June 2011 including MD&A (ASX/TSX)
31 October 2012	September Quarterly Activities Report (ASX)
14 November 2012	September Quarterly Financial Statements including MD&A (TSX)
15 November 2012	Conference Call and Investor Update (proposed date)
22 November 2012	Annual General Meeting to be held in Perth, Western Australia

CORPORATE DIRECTORY

Directors

Non-executive Chairman

Mr Rick Crabb

Managing Director/CEO

Mr John Borshoff

Non-executive Directors

Mr Sean Llewelyn

Mr Donald Shumka

Mr Peter Donkin

Mr Philip Bailly

Registered Office

Level 4, 502 Hay Street
Subiaco Western Australia 6008
Telephone: (+61 8) 9381 4366
Facsimile: (+61 8) 9381 4978
Email: paladin@paladinenergy.com.au
Web: www.paladinenergy.com.au

Share Registries

Australia

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth Western Australia 6000
Telephone: (+61 8) 9323 2000
Facsimile: (+61 8) 9323 2033

Canada

Computershare Investor Services Pty Ltd
100 University Avenue, 11th Floor
Toronto Ontario M5J 2Y1
Telephone: (+1) 416 263 9200
Facsimile: (+1) 416 263 9261

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

Paladin Energy Ltd
Level 4, 502 Hay Street
SUBIACO WA 6008

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

Investor Relations

Australia – Corporate Office

Ms Gillian Swaby

Level 4, 502 Hay Street
Subiaco Western Australia 6008
(PO Box 201, Subiaco, 6904)
Telephone: (+61 8) 9381 4366
Facsimile: (+61 8) 9381 4978
Email: gillian.swaby@paladinenergy.com.au

North America

Mr Greg Taylor

Oakville, ON Canada
Telephone: (+1) 905 337 7673
Mobile: (+1) 416 605 5120
Facsimile: (+1) 905 844 6532
Email: greg.taylor@paladinenergy.com.au

Auditors

Ernst & Young
11 Mounts Bay Road
Perth Western Australia 6000

Stock Exchange Listings

Australian Securities Exchange
and Toronto Stock Exchange

Code: PDN

Munich, Berlin, Stuttgart
and Frankfurt Stock Exchanges

Code: PUR

Namibian Stock Exchange

Code: NM-PDN