



# PALADIN RESOURCES LTD

A.C.N. 061 681 098

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31 January 2007

The Company Announcements Officer  
Australian Stock Exchange Limited  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

## QUARTERLY REPORT FOR PERIOD ENDING – 31 December 2006

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### HIGHLIGHTS

- *Langer Heinrich commissioned and yellowcake produced within the original scheduled milestones and CAPEX budget.*
- *Kayelekera Uranium Project nearing decision to go ahead.*
- *US\$250 Million convertible bonds offering successfully completed.*
- *Paladin Resources enters the "S&PIASX 100 Index".*
- *Uranium spot price continues to rise, reaching US\$72.00/lb U<sub>3</sub>O<sub>8</sub> in December (up US\$11.25 for the quarter).*

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### REPORTS ENDORSE NUCLEAR POWER AS CLIMATE CHANGE STRATEGY

The importance of nuclear power's role as a carbon-free electricity source has been under examination by influential authorities around the world during 2006.

In the UK, both the *Energy Review Report*, released in July 2006, and the *Stern Report*, released in October, highlighted the importance of nuclear power in a carbon-constrained energy future.

In November the OECD published the 2006 edition of *World Energy Outlook* from the International Energy Agency which also emphasised the increasing importance of nuclear power worldwide in meeting energy needs while achieving security of supply and minimising carbon dioxide emissions.

The European Commission's *Strategic Energy Review* prepared for the spring 2007 European Council proposed a cut of 20% in greenhouse gas emissions by 2020 (relative to 1990 levels). In particular, the *Review* identifies the significant challenge involved in reducing CO<sub>2</sub> emissions in the EU, and the virtual impossibility of meeting those targets unless nuclear power is maintained and expanded. **It is the strong belief of Paladin that it is highly unlikely that Germany (the last bastion of anti nuclear sentiment) will be able to maintain its nuclear phase out policy and expectations are strong that these policies will have to be reversed by that country within the next 12 to 18 months to be able to maintain its mid to long term emission targets and electricity production requirements.**

It is now inevitable that nuclear power will resume its logical role as a key component of baseload electricity supply worldwide. As the industry's growth rate increases, the demand for uranium and nuclear fuel will also rise significantly. Paladin maintains its strategy to increase production of uranium to meet this ever-increasing demand.

The uranium market continued to strengthen through the quarter as utility buyers competed for the very limited supplies of uranium on offer. At the end of the year, the uranium spot price was US\$72.00/lb  $U_3O_8$ , and the long term price was US\$74.00/lb  $U_3O_8$ , up \$11.25/lb  $U_3O_8$  and \$20/lb  $U_3O_8$  respectively, on the September quarter. During 2006, the spot price doubled reflecting the increasing tightness of the uranium market.

## **LANGER HEINRICH URANIUM PROJECT (100%)**

### Project Construction and Commissioning

The Langer Heinrich Uranium Project (LHUP) is the 1<sup>st</sup> complete conventional mining and processing operation to be brought into production in over a decade. Paladin was able to deliver the projects as committed, achieving each of the project scheduled key milestones while holding the April 2005 CAPEX budget which was not escalated despite the mining industry experiencing significant construction cost increases during the 20 month construction term of the project.

As reported the construction and staged commissioning of LHUP was successfully achieved on 28 December 2006, within the original key timetable milestones. GRD Minproc, the Project Manager, has demobilized the primary construction workforce, keeping a select team of 50 on site to complete outstanding minor construction and rectification work identified as the project moves to ramp up phase.

The real success of the project has been in the proving of the metallurgical flowsheet including the unique Alkaline leach, ion exchange and direct precipitation chemistry to produce uranium oxide product (yellowcake). The yellowcake was tested at the site laboratory which confirmed that the product was well within the product specifications of the converter and aligned with the sample quality that had previously been tested at the converters.

Although the BFS was completed and signed off in April 2005 a range of ongoing test work was identified to further improve the process. This work led to a range of process enhancements coming reasonably late in the design process. The design improvements were predominately made in the precipitation area with the addition of a second precipitation stage. This step was considered necessary to better ensure the quality of the product.

The design changes late in the overall schedule were able to be accommodated into the project by implementing a staged commissioning of the circuit. This allowed time to complete the construction of the upgrades to the plant back-end while commissioning the front end which included the early commissioning of the crusher followed by leach then CCD.

As mentioned in the 28 December 2006 announcement the plant circuits have not yet been optimised and a number of commissioning problems have surfaced which are considered normal at this stage. The most significant of these problems include intermittent jamming of the apron feeder, under performance to design parameters of the attritioner circuit and minor leakage of leach tank seals; current work is under way to rectify these issues. The processing circuits including leach, CCD, precipitation to packaging are, operating and performing well, with only minor modifications to address.

LHU operations team assisted by GRD-Minproc is methodically mitigating the range of handover list items. Paladin is confident it will achieve design production rate of 2.6Mlb  $U_3O_8$  by the end of the ramp up period in June 2007. Production to the end of the ramp up period is difficult to estimate although expected to be in the range or 900,000Mlbs to 1,000,000Mlbs (previously forecast 1,000,000Mlbs to 1,150,000Mlbs).

The first commercial shipment of uranium is scheduled for March 2007.

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#### New Royalty

In November the Namibian Government announced a new royalty regime for mining operations including uranium. The government has applied a 3% ad valorem rate to uranium after initially indicating the rate would be set at 5%. The lower rate has a positive effect on LHUP economics which had been modelled on the higher rate.

#### New Exclusive Prospecting Licence Granted to Langer Heinrich

The Minister for Mines and Energy has granted an Exclusive Prospecting Licence for an initial three year term to Langer Heinrich Uranium (Pty) Ltd. The new licence, EPL 3500, covers 30 km<sup>2</sup> to the west of adjoining the Langer Heinrich Mining Licence (ML 140). The new licence was applied for to secure the interpreted westward extension of the Langer Heinrich palaeochannel and offers approximately 5km of exploration target containing strong potential for increasing the mineral resource base of the Langer Heinrich Uranium ore body.

#### Langer Heinrich Mineral Resource Upgrade (250ppm cutoff)

Resource drilling work at Langer Heinrich resulted in a significant increase in the mineral resources of the Langer Heinrich deposit, increasing the resource to over 105M lbs U<sub>3</sub>O<sub>8</sub> including the Inferred Resources. Hellman and Schofield have completed a JORC(2004) compliant resource estimate for Langer Heinrich which is tabulated below:-

#### Mineral Resource estimation by H&S for Details 1 to 7:-

<b>250ppm Cut-off</b>	<b>M Tonnes</b>	<b>Grade % U<sub>3</sub>O<sub>8</sub></b>	<b>Tonnes U<sub>3</sub>O<sub>8</sub></b>	<b>Million lbs U<sub>3</sub>O<sub>8</sub></b>
Measured Resources	22.7	0.06	14,614	32.21
Indicated Resources	14.4	0.05	7,934	17.47
Inferred Resources	43.4	0.06	25,308	55.78

Compared to the previous Mineral Resources announced in 2005 (also reported at a 250ppm cut off) the new 2006 resource estimates outlined herein comprises.

- A 12% increase in the Measured and Indicated Resources (from 20,200t to 22,548t U<sub>3</sub>O<sub>8</sub>).
- A 6% increase in the Inferred Resources (from 23,800t to 25,308t contained U<sub>3</sub>O<sub>8</sub>).

A substantial portion of the resources are in the Measured and Indicated Resources categories.

There is a strong expectation that the new resource estimate and the potential to identify additional resources in ML 140 and the newly granted EPL 3500 will contribute significantly to extending both the mine life of the project and the subsequent upgrade in production.

Resource specialists Hellman and Schofield have produced a report in accordance with the Canadian NI 43-101 requirements which contains the same information and has been submitted to the Canadian authorities.

### **KAYELEKERA URANIUM PROJECT (100%)**

#### Development Stability Agreement

Negotiations on the Development Agreement to provide a 10 year fiscal and operational stability period for the Kayelekera Project have been finalised with Malawi Government officials. The Development Agreement has now been recommended for approval by the Cabinet. This is expected to be approved by the Malawi Government in the very near future.

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**Bankable Feasibility Study (BFS)**

The Draft Environmental Impact Assessment (EIA) for the Kayelekera Uranium Project in Malawi was formally lodged with the Malawi authorities and is now in final consideration, following response by Paladin on some late questions received from the Government.

Work on the BFS is continuing to plan under the management of GRD Minproc, the BFS Manager. The BFS is now in final stage and once the Development Agreement is approved the fiscal package can be formally incorporated into the financial modelling and documentation will be ready for Board approval. It is expected the BFS will then be submitted to the Commissioner of Mines in mid February 2007 for approval of the Mining Licence.

The overall schedule is still being maintained for commissioning of the Kayelekera Uranium Project by September 2008.

**ISA URANIUM JOINT VENTURE (50%)**

Valhalla and Skäl projects (North Queensland; 50% joint venture with Summit Resources who are also manager), activities during the quarter were extensive infill and extensional drilling following the release of an initial JORC(2004) compliant resource mid 2006. To date at Valhalla over 3000m of additional drilling has been completed both beneath the existing resources to confirm the continuity of the identified mineralised shoots as well as along strike to target potential repetitions of those shoots. Because of the increased activity at Valhalla, the planned infill drilling at the Skäl project has been delayed but is now underway. This drilling is aimed at extending the Skäl South deposit and infilling the adjacent Skäl North deposit to enable the estimation of a JORC(2004) compliant resource. Confirmation of previous XRF assays for Skäl South are ongoing and are expected to be completed in the near future which will enable the reporting of a JORC compliant resource estimate.

**BIGRLYI URANIUM JOINT VENTURE (41.7%)**

At Bigrlyi (Northern Territory), 41.7% Paladin joint venture with Energy Metals (manager), the work undertaken during the quarter was targeted at extending the current resources with the intention of completing a revised resource estimate when all assay results have been received. A total of 43 RC and diamond holes were drilled into the various anomalies within the Bigrlyi project area. Assay results from 27 of these holes have been received and in general these compare well with those from down hole radiometric logging. Follow up drilling will be targeted at infilling the areas between the current resources with the aim of defining more continuous zones of mineralisation.

For further information refer to quarterly report submitted by Summit Resources (SMM) and Energy Metals (EME) for details of significant intercepts from drilling completed within the quarter.

In January Paladin submitted its report prepared by resource specialists Hellman and Schofield to the Canadian authorities detailing the Valhalla, Skäl and Bigrlyi Deposits (which were acquired through the acquisition of Valhalla Uranium Limited) in accordance with the Canadian NI 43-101 compliance requirements.

**CORPORATE**

**Convertible Bond Issued**

On 30 November Paladin issued US\$250 million of convertible bonds due in 2011. The Convertible Bonds are unsubordinated, unsecured obligations and carry a coupon rate of 4.50% per annum, payable semi-annually, and are convertible into Paladin shares at US\$7.685 per share (representing a conversion premium of approximately 38% above the price of the Paladin shares at the time of pricing (A\$7.090 on 30 November 2006, or US\$5.569 at the current exchange rate).

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Proceeds from the offering will be used to further advance the development of the Kayelekera Uranium project in Malawi, establish a uranium marketing subsidiary, fund opportunities as they arise for acquisitions and corporate growth, and for general corporate activities.

S&P/ASX 100 Index

On December 18 Paladin Resources Limited entered the S&P/ASX 100 Index, a movement up from the S&P/ASX 200 which Paladin entered in June 2005.

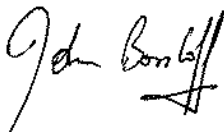
Change in Functional and Presentation Currency to USD

The recent issue of the US\$250 million Convertible Bonds has significantly contributed to a change in the functional currency for the Company from Australian dollars to US dollars. The transition to operations at Langer Heinrich has also resulted in a change in functional currency for Langer Heinrich Uranium (Pty) Ltd from Australian dollars to US dollars. As a consequence of these changes management has reviewed the functional currency of all group entities in December 2006 and concluded that the majority have a US functional currency.

In order to more appropriately reflect the financial performance and position of the Company management has changed the presentation currency for the 31 December 2006 Interim Consolidated Financial Statements and Management Discussion and Analysis into US dollars. It is intended to maintain this currency presentation in the future.

The comparative information for the 31 December 2006 Interim Consolidated Financial Statements and Management Discussion and Analysis has been retranslated into US dollars.

Yours faithfully  
Paladin Resources Ltd



**JOHN BORSHOFF**  
Managing Director

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**PALADIN RESOURCES LIMITED**

**Note – First report in US dollars following the change in functional and presentation currency to US dollars in December 2006**

ABN

47 061 681 098

Quarter ended ("current quarter")

**31 December 2006**

### Consolidated statement of cash flows

	Current quarter US\$'000	Year to date ( 6 months) US\$'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(2,796)	(4,163)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	490	859
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material) Sundry income	8	12
<b>Net Operating Cash Flows</b>	<b>(6,026)</b>	<b>(7,977)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	(4,456) (18,505)	(4,456) (47,806)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material) Cash acquired on acquisition of controlled entities net of payments made for acquisition	(1,347)	1,880
<b>Net Investing Cash Flows</b>	<b>(24,308)</b>	<b>(50,382)</b>
1.13 Total operating and investing cash flows (carried forward)	(30,334)	(58,359)

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	US\$'000 (30,334)	US\$'000 (58,359)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	5,583	6,897
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	268,607	283,985
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)	(7,502)	(7,502)
	Debt facility establishment and share issue costs		
	<b>Net Financing Cash Flows</b>	<b>266,688</b>	<b>283,380</b>
	<b>Net increase (decrease) in cash held</b>	<b>236,354</b>	<b>225,021</b>
1.20	Cash at beginning of quarter/year to date	32,460	43,644
1.21	Exchange rate adjustments to item 1.20	1,353	1,502
1.22	<b>Cash at end of quarter</b>	<b>270,167</b>	<b>270,167</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter US\$'000
1.23	Aggregate amount of payments to the parties included in item 1.2	185
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	N/A	

**Non-cash financing and investing activities**

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

On the 27 October 2006 822,426 shares were issued completing the compulsory purchase of Valhalla Uranium Limited.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available US\$'000	Amount used US\$'000
3.1 Loan facilities	71,000	50,954
3.2 Credit standby arrangements	-	-

US\$250m convertible bonds issued on 15 December 2006 with a cash interest rate of 4.5% maturing 15 December 2001 at a conversion price of US\$7.685 per share

### Estimated cash outflows for next quarter

	US\$'000
4.1 Exploration and evaluation	1,500
4.2 Development	21,000
<b>Total</b>	<b>22,500</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter US\$'000	Previous quarter US\$'000
5.1 Cash on hand and at bank	3,900	7,241
5.2 Deposits at call	21,174	3,040
5.3 Bank overdraft	-	-
5.4 Other (provide details) Short Term Bank Bills and Deposits	245,093	22,179
<b>Total: cash at end of quarter (item 1.22)</b>	<b>270,167</b>	<b>32,460</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	<b>South Australia</b> Houghton EL2863	(Tenement expired 21 October 2006 – ground has been reapplied for)	100%	Nil
6.2 Interests in mining tenements acquired or increased	<b>Namibia</b> Gawib EPL 3500	(Tenement granted 23 October 2006)	Nil	100%



**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	500,949,969	500,949,969		
7.4 Changes during quarter				
(a) Increases through issues	2,830,000	2,830,000	A\$1.00	A\$1.00
	1,000,000	1,000,000	A\$1.25	A\$1.25
	4,000	4,000	A\$1.50	A\$1.50
	822,426	822,426	A\$5.09	A\$5.09
	3,250,000	3,250,000	A\$1.00	A\$1.00
(b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	3,870,000		<i>Exercise price</i> A\$1.00	<i>Expiry date</i> 30.11.07
	7,000,000		A\$1.00	20.12.07
	190,000		A\$1.50	15.07.08
	2,850,000		A\$2.80	13.01.09
	1,565,000		A\$5.50	28.04.09
	1,400,000		A\$5.50	05.07.09
7.8 Issued during quarter				
7.9 Exercised during quarter	2,830,000		A\$1.00	30.11.07
	1,000,000		A\$1.25	30.11.07
	3,250,000		A\$1.00	20.12.07
	4,000		A\$1.50	15.07.08

**Appendix 5B**  
**Mining exploration entity quarterly report**

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7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 31 January 2006

Print name:

Gill Swaby

**Notes**

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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