



# **PALADIN RESOURCES LTD**

A.C.N.061 681 098

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Ref: 47298

8 November 2006

Company Announcements Office  
Australian Stock Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

## **September 2006 Quarterly Financial Report and MD&A**

Attached please find Quarterly Report for the three months ended 30 September 2006 including Report to Shareholders, Management Discussion and Analysis, Interim Financial Statements and CEO/CFO Certification as required in accordance with Canadian reporting requirements.

Yours faithfully  
Paladin Resources Ltd

**GILLIAN SWABY**  
Company Secretary



**RESOURCES LTD**

A.C.N. 061 681 098

## **QUARTERLY REPORT**

**For the**

**Three Months Ended 30 September 2006**

# **PALADIN RESOURCES LTD**

## **Table of Contents - Quarterly Report - September 2006**

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	<b>Page</b>
Report to Shareholders.....	3
Management Discussion and Analysis.....	9
Condensed Consolidated Income Statements.....	18
Condensed Consolidated Balance Sheets.....	19
Condensed Consolidated Statements of Changes in Equity.....	20
Condensed Consolidated Cash Flow Statements.....	21
Notes to Consolidated Interim Financial Statements.....	22

## PALADIN RESOURCES LTD

### Report to Shareholders

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

The highlights of uranium market developments and Company activities during the September 2006 quarter are as follows:-

- *Langer Heinrich commissioning commenced one month early. Project Completion expected on schedule late December 2006 within the stated CAPEX budget*
- *Kayelekera EIA completed and submitted to Government for final review - BFS near completion*
  - *application will be submitted to Commissioner of Mines during December 2006 to consider mining approval for the Project.*
- *Valhalla Uranium Limited takeover completed. Exploration work ongoing by JV managers on respective projects*
- *Uranium spot price continues to rise reaching US\$60.25/lb U<sub>3</sub>O<sub>8</sub> end October on TradeTech's Uranium Price Indicator (up US\$14.75 since 1<sup>st</sup> July 2006)*

### WORLD URANIUM SUPPLY UNDER STRAIN

The announcement by Cameco Corporation of the serious flooding of their flagship new uranium project, Cigar Lake, in Saskatchewan, will re-focus attention on the medium term fragility of supply of uranium at a time when the world is inevitably re-committing to nuclear power as an efficient, economic low carbon source for base load electricity production.

Paladin's Langer Heinrich uranium project will be first new conventional uranium mine and processing plant to come on-stream in a timely reminder to the world market that to ensure long term stable supply of uranium, long term commitments to new production sources at prices which reflect true market conditions are indispensable.

Paladin has noted in its 2006 Annual Report that despite the significant increase in reported spot and long term uranium prices over the last two years, world uranium production has so-far failed to increase. In fact, in the first six months of 2006, uranium production actually declined in the two dominant production centres, Australia and Canada.

The uranium market continued to strengthen through the quarter as new investor buying continued to compete with utility buyers to absorb the very limited supplies of uranium on offer. At the beginning of October, the UxC uranium spot price was US\$55.75/lb U<sub>3</sub>O<sub>8</sub>, and the long term price was US\$54.00/lb U<sub>3</sub>O<sub>8</sub>, (up US\$10.25 and US\$7.50 respectively). The market remains strong and is further exacerbated by production shortfalls for the mid and long term. As an example of the strong upward pressure on price on 27 October the

## **PALADIN RESOURCES LTD**

### **Report to Shareholders**

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

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TradeTech Uranium Spot Price Indicator rose sharply to US\$60.25 the reflecting concern about Cigar Lake flooding and general supply shortage.

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

#### Project Construction and Commissioning

As announced, commencement of commissioning of the Langer Heinrich plant began in August 2006, one month earlier than originally planned, with the successful commissioning of the crusher and associated conveyors to produce a crushed ore stockpile. The original construction schedule, announced in May 2005, stated that commissioning would commence during September 2006 (internally 22 September 2006), and project completion handover from GRD Minproc, the EPCM contractors, was planned to occur in late December 2006.

Staged commissioning is now continuing progressively with the scrubber and attrition sections run and pre-leach, leach tanks and CCD circuits water filled, uranium precipitation and reagent areas in final stages of construction.

The on-site high voltage substation and transformers were commissioned and energized in early August, and the 85km pipeline feeding the on-site reservoirs is in final commissioning stage. The contract miner is established on-site and has begun mining the initial pit, building the temporary tailings dam and preparing the ore stockpiles in readiness for production start up.

Continual optimisation of the BFS alkaline leach process and subsequent positive confirmatory work by the Australian Nuclear Science and Technology Organisation (ANSTO) metallurgical laboratories has resulted in several upgrades in the uranium precipitation and reagent areas giving high confidence in the metallurgical process and flowsheet design for the Project. The enhancements have impacted the construction schedule but they are not expected, at this stage, to affect the staged commissioning process or the Project Completion date.

The operational team under the leadership of Wyatt Buck (ex Cameco production chief) is fully recruited and trained (112 in total with only 3 non Namibians) and is working with GRD Minproc through the commissioning process to ensure a seamless transfer of responsibility at the operational handover in late December 2006.

Ramp up to initial annualised design output of 2.6Mlb U<sub>3</sub>O<sub>8</sub> remains as planned for 3<sup>rd</sup> quarter 2007. The first contracted shipment of uranium oxide concentrates is planned for late 1<sup>st</sup> quarter 2007.

The Project remains within the stated US\$92M 2005 BFS CAPEX budget.

## **PALADIN RESOURCES LTD**

### **Report to Shareholders**

*For the Three Months Ended 30 September 2006  
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#### Resource Drilling

The RC drilling programme over Details 3, 4, 5 and 6 located to the east of the BFS Mine Plan Area involving 6,355m (231 holes) was completed. The JORC and NI 43-101 compliant resource estimate incorporating the results of this drilling is expected to be completed by mid November 2006.

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

#### Bankable Feasibility Study Progress

The Draft Environmental Impact Assessment (EIA) for the Kayelekera Uranium Project in Malawi was formally lodged with the Malawi Environmental Affairs Department in mid October for their review and final comment. The extensive document remains open for formal review and public comment for 50 days. The full EIA may be viewed on the Paladin website and on our environmental consultant's website ([www.knightpiesold.com/Kayelekera.cfm](http://www.knightpiesold.com/Kayelekera.cfm)).

Work on the BFS is continuing on schedule under the management of Minproc, the BFS Manager. All mining and metallurgical studies are now completed and mining schedules and process flowsheet are near finalised. The BFS is expected to be submitted to Paladin for its review early December 2006.

The terms of the Development Agreement are now finalised and the Mines and Energy Ministry will formally present the project to the Cabinet with approval expected in November 2006.

### **TAKEOVER OF VALHALLA URANIUM LIMITED**

On 10 July, Paladin announced a takeover offer for all of the shares in Valhalla Uranium Limited in consideration for 1 Paladin share for each 3.16 Valhalla share offered. The takeover was completed successfully on 15 September 2006 and Paladin has now proceeded to compulsory acquisition of the remaining shares.

Paladin has noted the commencement of legal proceedings in Supreme Court by Summit Resources Limited regarding certain alleged breaches of the Mt Isa Uranium Joint Venture Agreement by Resolute Limited, a wholly-owned subsidiary of Resolute Mining Limited, and Mt Isa Uranium Pty Ltd, which following the successful takeover of Valhalla Uranium Limited, is a subsidiary of Paladin.

Paladin noted Resolute Mining Limited's announcement on the same subject, which referred to the indemnity provided by it to Paladin in connection with the proceedings. At this stage, based on the allegations in the plaintiff's statement of claim, and having regard

## PALADIN RESOURCES LTD

### Report to Shareholders

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

to the indemnity from Resolute Mining Limited, Paladin does not believe the proceedings are material to Paladin, however, we will continue to manage our involvement in the proceedings in the ordinary course.

Principal assets involved in this takeover include a 50% interest in the Valhalla/Skal Uranium Deposits located in Queensland and a 41.7% interest in the Bigirlyi Uranium Deposit in Northern Territory Stated.

#### Valhalla/Skal Uranium Joint Venture Project (50%) - Queensland, Australia

The Valhalla and Skal uranium deposits are within the Isa Uranium Joint Venture Agreement ("IUJV") area where Summit is manager and holds a 50% interest. Paladin Resources Ltd's ("Paladin") wholly owned subsidiary, Mt Isa Uranium Pty Ltd ("Mt Isa Uranium") is a 50% contributing participant to the IUJV.

The **Valhalla Uranium Deposit** is located 40km northwest of Mount Isa city on EPM9221. In the September quarter a revised and independently validated JORC compliant resource estimate has been modelled, calculated and reported for the Valhalla uranium deposit as follows and as previously announced.

#### **VALHALLA DEPOSIT MINERAL RESOURCES (0.023% U<sub>3</sub>O<sub>8</sub> cut off) - JORC Compliant**

JORC Category	Mt	Grade % U <sub>3</sub> O <sub>8</sub>	Tonnes U <sub>3</sub> O <sub>8</sub>	VUL share
Indicated Resources	21.3	0.08	16,900t or 37.4Mlb	50%
Inferred Resources	12	0.075	9,000t or 19.6Mlb	50%

The modelled resource at Valhalla remains open to the north and south along strike, and down plunge. In the September quarter near surface metallurgical diamond drilling and resource drilling targeted at extending the resource along strike and down plunge commenced. Four metallurgical diamond holes into the top of Valhalla (VDDH63 - 66 totalling of 567m of drilling) were completed in the quarter. This month a further three metallurgical diamond holes into the top of Valhalla (VDDH67 - 69 totalling of 397m drilling) and three exploration diamond holes (VDDH70, 71 and 73 totalling 807m drilling) have been completed. Holes VDDH72 and 74 are in progress. A total of 2,000m of drilling has been completed at Valhalla in this phase. Core and metallurgical samples have been dispatched to laboratories in Perth and Sydney.

The **Skal Uranium Deposit** is located 32km north of Mount Isa on EPM14048. Historic resources as previously announced at Skal are reported as follows:

## PALADIN RESOURCES LTD

### Report to Shareholders

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

#### SKAL DEPOSIT– Historic Resource

	Mt	Grade % U <sub>3</sub> O <sub>8</sub>	Tonnes U <sub>3</sub> O <sub>8</sub>	VUL share
Historic resources of approximately 4.2Mt @ 0.1% to 0.13% containing			5,000t or 11Mlb	50%

Two mineralised shoots have now been defined at Skat. The uranium mineralisation in both the northern and southern shoots at Skat is yet to be closed off by drilling either along strike or at depth. Sufficient holes have now been drilled into the southern shoot to commence modelling and calculation of a revised resource estimate. Further drilling on the northern mineralised shoot at Skat is required to model this area of the deposit.

Database validation for the southern shoot at Skat has been completed and new sections plotted. New geological interpretations and resource estimates are now being calculated and subjected to an independent resource consultant's audit. Reassaying and validation of the assay database has also commenced and further resource estimates will be calculated when the assay data base is validated.

#### Bigirlyi Joint Venture Project (41.7%) – Northern Territory, Australia

The Bigirlyi Project comprises 10 granted exploration retention licences located approximately 390km northwest of Alice Spring. The project, is a joint venture with Energy Metals Ltd (53.3% and project manager) and Southern Cross Exploration (5%) was subject to significant exploration activity in the period 1974 to 1982.

The current uranium mineral resources for the Bigirlyi project as announced to ASX on 25 July 2006 by the Energy Metals Limited are summarized below.

#### **BIGIRLYI DEPOSIT MINERAL RESOURCES (0.1% U<sub>3</sub>O<sub>8</sub> cut off) - JORC Compliant**

JORC Category	Mt	Grade % U <sub>3</sub> O <sub>8</sub>	Tonnes U <sub>3</sub> O <sub>8</sub>	VUL share
Indicated	1.054	0.23	2,450t or 5.4Mlb	41.7%
Inferred	0.781	0.17	1,340t or 2.9Mlb	41.7%

Drilling has commenced at Bigirlyi with one RC rig and one diamond rig on site late October, and a third rig due to commence diamond drilling early November 2006. The drilling will focus on extending the resource status both along strike and down plunge of the known deposits.

The proposed drilling program will comprise some 50 holes (approximately 6,250m of RC and 3,250m of diamond core) with holes drilled to a maximum vertical depth of 350m. It is



# PALADIN RESOURCES LTD

## Report to Shareholders

*For the Three Months Ended 30 September 2006*  
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expected that once all assays from the program have been returned the current resource model will be updated.

Paladin is currently preparing a NI 43-101 resource report for the Valhalla/Skal and Bigryi Deposits and expects this to be completed latter part of November 2006.

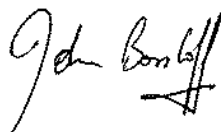
## CORPORATE

### Resolute Shareholding in Paladin

Resolute, as the 83% equity holder in Valhalla Uranium Ltd, acquired Paladin shares as part of takeover offer by Paladin. Resolute has now disposed of all these shares in 2 tranches and these have been taken up mainly by North American institutions.

### Deep Yellow Limited

Since the end of the quarter, Paladin increased its holding in Deep Yellow Limited (DYL) acquiring a further 17,000,000 shares in the company at 16.5 cents per share. It also converted 25,000,000 of the unlisted options held in DYL giving Paladin an 11.11% holding in this uranium exploration company which has extensive properties both in Australia and Namibia.



**JOHN BORSHOFF**  
Managing Director

8 November 2006

### Additional Notes:

The information in this announcement that relates to mineral resources is based on information compiled by Ed Becker BSc (hons), MAusIMM and mineral resource estimation by David Princep BSc MAusIMM, each of whom have more than five years experience in estimation of mineral resources and ore reserves. Mr Becker and Mr Princep are full-time employees of Paladin Resources Ltd. Each of the above named are "qualified persons" as defined under National Instrument 43-101 and consents to the inclusion of the information in this announcement in the form and context in which it appears.

**Caution Regarding Forward Looking Statements:** Statements regarding Paladin's plans to develop the Langer Heinrich Project are forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied by such statements. There can be no guarantee such statements will be realized. In particular, there can be no assurance that Paladin will be able to successfully build, develop and operate a uranium mine or that it will be able to raise the funds necessary to complete such tasks. Furthermore, there can be no assurance that if completed, any mine will be profitably operated.

## **PALADIN RESOURCES LTD**

### **Management Discussion and Analysis** *For the Three Months Ended 30 September 2006* *(All figures are in Australian dollars unless otherwise indicated)*

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The following Management Discussion and Analysis ("MD&A") for Paladin Resources Limited ("Company") should be read in conjunction with the Report to Shareholders and the Interim Consolidated Financial Statements for the three months ended 30 September 2006 which are unaudited. The effective date of this report is 8 November 2006.

The financial information presented in this MD&A has been prepared in accordance with Australian equivalents to International Financial Reporting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

In addition to these Australian requirements further information has been included in the Interim Consolidated Financial Statements for the three months ended 30 September 2006 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 the Company's most recent Annual Report for the year ended 30 June 2006 and other public announcements is available at [www.paladinresources.com.au](http://www.paladinresources.com.au).

## **OVERVIEW**

The Company operates in the resource industry with a principal business of evaluation and development of uranium projects in Africa and Australia. The Company is incorporated under the laws of Western Australia with a primary share market listing on the Australian Stock Exchange and additional listings on the Toronto Stock Exchange in Canada; and Munich, Berlin, Stuttgart and Frankfurt Stock Exchanges in Europe.

The main activities undertaken during the three months ended 30 September 2006 were:

- Langer Heinrich Uranium Project - continuation of construction activities and commencement of commissioning one month early funded by drawdown of US\$15.5 million project finance facility (US\$38.5 million facility still available at 30 September 2006)
- Langer Heinrich Uranium Project – completion of resource drilling programme over Details 3, 4, 5 and 6 located to the east of the BFS Mine Plan Area involving 6,355m (231 holes) with resource estimate expected in November 2006
- Kayelekera Uranium Project - continuation of Bankable Feasibility Study, including completion and submission of Environmental Impact Assessment, with Development Agreement anticipated to be approved by the Malawi Government in early November 2006 and the BFS expected to be submitted by GRD Minproc to Paladin for review in December 2006
- Valhalla Uranium Ltd - takeover bid announced on 10 July 2006 and subsequently declared unconditional on 7 September 2006 after receiving deed of indemnity from Resolute Mining Ltd pertaining to the legal actions of Summit Resources Ltd on the Isa Uranium Joint Venture Agreement, and acceptances from 94.27% of Valhalla's shareholders. Compulsory acquisition of remaining shareholders under Australian corporations law was completed on 27 October 2006

## PALADIN RESOURCES LTD

### **Management Discussion and Analysis**

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

### **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.

### **INCOME STATEMENTS**

	Three Months Ended 30 September	
	2006 A\$000	2005 A\$000
Revenue	619	571
Other Income	-	647
Share Based Payments Expense	(1,635)	(1,522)
Exploration and Evaluation Expenditure	(1,109)	(650)
Foreign Exchange Loss	(1,258)	-
Other Expenses	(1,774)	(1,018)
<b>Loss Before and After Income Tax</b>	<b>(5,157)</b>	<b>(1,972)</b>
Loss per Share – basic & diluted (Australian cents)	(1.00)	(0.49)

## **PALADIN RESOURCES LTD**

### **Management Discussion and Analysis** *For the Three Months Ended 30 September 2006* *(All figures are in Australian dollars unless otherwise indicated)*

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*Revenue* has increased to A\$618,550 in 2006 as a result of higher interest revenue derived from increased cash holdings in 2006 when compared to 2005.

*Other Income* in 2005 relates to a A\$441,117 profit on sale of non-core uranium exploration property to Deep Yellow and a A\$205,678 foreign exchange gain mainly attributable to cash holdings in South African rand for the funding of construction activities of the Langer Heinrich Uranium Project.

*Share Based Payments Expense* relates to the requirement to recognise the cost of granting options to Directors, employees and consultants under AIFRS over the option vesting period. The expense in 2006 is similar to 2005; as the expense relating to granting 1,400,000 options during the quarter ended 30 September 2006, replaces the expense relating to options granted before 30 June 2006 where vesting periods have now been completed.

*Exploration and Evaluation Expenditure* increased in 2006 to A\$1,107,817 as a result of the continuation of the Bankable Feasibility Study for the Kayelekera Uranium Project. The comparative for 2005 has been adjusted to reflect the retrospective application of a new accounting policy for exploration and evaluation expenditure. The new policy is to charge exploration and evaluation expenditure against earnings as incurred; except for acquisition costs and for expenditure incurred after a decision to proceed to development is made, in which case the expenditure is capitalised as an asset.

*Foreign Exchange Loss* in 2006 of A\$1,258,061 is attributable to net monetary assets in Namibia dollars and net monetary liabilities in United States dollars for the Langer Heinrich project finance facility. Since 30 June 2006 the Namibia dollar has devalued against the Australian dollar and the United States dollar has strengthened against the Australian dollar, which has resulted in the foreign exchange loss.

*Other Expenses* have increased in 2006 as a result of the expanded corporate capability of the Company in the last year to enable future growth.

The *Loss* for the three months ended 30 September 2006 of A\$5,157,848 is higher than the loss for the three months ended 30 September 2005 of A\$1,971,879 as a result of the one off other income items in 2005, the foreign exchange loss in 2006, an increased investment in exploration and evaluation expenditure and higher other expenses as a result of the expanded corporate capability.

#### Earnings Per Share

The *Loss per Share* noted on the Income Statements reflected the loss for the specific reported periods and the additional shares issued in 2006 compared to 2005.

#### Segment Disclosure

In the Namibia geographical segment the Company reflected a foreign exchange loss on net monetary assets in Namibia dollars. The Malawi geographical segment primarily reflected the exploration and evaluation expenditure for the Kayelekera Uranium Project. In the Australian geographical segment the Company reflected the remaining Income Statement activities.

# PALADIN RESOURCES LTD

## Management Discussion and Analysis

For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)

### BALANCE SHEETS

	30 Sept 2006 unaudited A\$000	30 June 2006 audited A\$000
Total Current Assets	48,790	63,473
Total Non Current Assets	323,867	96,835
Total Assets	372,657	160,308
Total Current Liabilities	11,884	11,644
Total Non Current Liabilities	44,239	23,939
Total Liabilities	56,123	35,583
<b>Net Assets</b>	<b>316,534</b>	<b>124,725</b>

*Current Assets* have decreased to A\$48,789,690 at 30 September 2006 as a result of the cash spend on construction and commissioning activities for the Langer Heinrich Uranium Project, continuation of bankable feasibility study expenditure for the Kayelekera Uranium Project and corporate costs for three months ended 30 September 2006, despite A\$4,611,496 cash acquired from the Valhalla acquisition. Of the A\$43,464,832 held in cash as at 30 September 2006, A\$33,768,540 has been invested in short term commercial bank bills and term deposits.

*Non Current Assets* have increased to A\$323,867,093 during the three months attributable to the acquisition of Valhalla Uranium Ltd and mine construction and commissioning activities for the Langer Heinrich Uranium Project. The Valhalla acquisition has resulted in the recognition of A\$191,245,250 additional exploration and evaluation expenditure assets as part of the allocation of the consideration paid, which consisted of 37,974,256 shares valued at A\$5.09/share plus A\$2,132,879 in acquisition costs.

*Current Liabilities* increased slightly to A\$11,884,281 at 30 September 2006 as a result of a full three months of interest payable on the Langer Heinrich project finance facility, despite a decrease in creditors and accruals relating to construction nearing completion at the Langer Heinrich Uranium Project.

*Non Current Liabilities* of A\$44,239,119 exist as at 30 September 2006 predominantly in relation to A\$43,513,579 (US\$32,497,246) drawn on the Langer Heinrich project finance facility, which for disclosure purposes is reduced by deferred borrowing costs of A\$3,653,133.

## PALADIN RESOURCES LTD

### **Management Discussion and Analysis** *For the Three Months Ended 30 September 2006* *(All figures are in Australian dollars unless otherwise indicated)*

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#### Segment Disclosure

In the Balance Sheet at 30 September 2006 the Company reflected a significant increase in the Australian geographical segment assets as a result of acquisition of Valhalla Uranium Ltd, and an increase in the Namibia geographical segment assets attributable to the continuing construction and commissioning activities for the Langer Heinrich Uranium Project.

#### **STATEMENTS OF CHANGES IN EQUITY**

	Three Months Ended 30 September	
	2006	2005
	A\$000	A\$000
Total Equity at the Beginning of the Financial Period	124,725	44,116
Loss for the Three Months Ended 30 September	(5,157)	(1,972)
Movement in Reserves	1,543	7,360
Movement in Equity	195,423	5,882
<b>Total Equity at the End of the Financial Period</b>	<b>316,534</b>	<b>55,386</b>

*Loss for the Three Months Ended 30 September* increased in 2006 and this is discussed under the Income Statements section.

*Movement in Reserves* in 2006 of A\$1,542,398 relates to the recognised value of unlisted employee options and is a similar value to 2005. The greater movement in reserves in 2005 relates to the large revaluation increment attributable to the increase in Deep Yellow share price in the prior period. Unlisted employee options exercised during the quarter amounted to 1,656,000 with an exercise price between A\$1.00 and A\$1.50; and 1,400,000 unlisted employee options were granted during the quarter with an exercise price of A\$5.50.

*Movement in Equity* increased to A\$195,422,808 in 2006 as a consequence of the issue of 37,974,256 shares to acquire Valhalla Uranium Ltd which were valued at A\$193,288,963, and the exercise of unlisted employee options. The number of fully paid ordinary shares on issue at 30 September 2006 is 493,865,969, an increase of 39,630,256 during the three months. Share options of 23,959,000 remain outstanding at 30 September 2006 to Directors, employees, and consultants directly engaged in corporate, mine construction, exploration and evaluation work for the Company.

## PALADIN RESOURCES LTD

### **Management Discussion and Analysis**

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

### **CASH FLOW STATEMENTS**

	Three Months Ended 30 September	
	2006 A\$000	2005 A\$000
Net Cash Outflow from Operating Activities	(772)	(119)
Net Cash Outflow from Investing Activities	(36,245)	(4,184)
Net Cash Inflow/(Outflow) from Financing Activities	22,046	(483)
Net (Decrease) in Cash Held	(14,971)	(4,786)
Cash at the Beginning of the Financial Period	59,778	39,489
Effects of Exchange Rate Changes	(1,342)	206
<b>Cash at the End of the Financial Period</b>	<b>43,465</b>	<b>34,909</b>

*Net Cash Outflow from Operating Activities* increased to A\$772,461 in the quarter ended 30 September 2006 primarily from lower interest receipts as a consequence of different maturity periods for cash investments, and higher payments to suppliers and employees relating to the expanded corporate capability of the Company.

*Net Cash Outflow from Investing Activities* increased to A\$36,244,983 as a result of the construction and commissioning activities for the Langer Heinrich Uranium Project and the continuation of the bankable feasibility study for the Kayelekera Uranium Project, despite A\$4,611,496 cash acquired as part of the Valhalla Uranium Ltd acquisition.

*Net Cash Inflow from Financing Activities* of A\$22,046,008 is attributable to US\$15.2 million (A\$20.3 million) drawn under the project finance facility for the Langer Heinrich Uranium and proceeds from the exercise of 1,656,000 unlisted employee options.

*Net Decrease in Cash* in 2006 was A\$14,971,436, which is higher than the net decrease in cash in 2005 of A\$4,786,151, as a result of increased cash outflows from investing activities despite higher cash inflows from financing activities.

*Effects of Exchange Rate Changes* reflects a loss for 2006 and a gain for 2005 as discussed under the Income Statement section.

The *Cash* at 30 September 2006 of A\$43,464,832 represents an increase in cash to the comparative period of 2005.

## PALADIN RESOURCES LTD

### **Management Discussion and Analysis**

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's principal source of liquidity as at 30 September 2006 is cash of A\$43,464,832 (30 June 2006 – A\$59,777,956). Of this amount A\$33,768,540 has been invested in short term commercial bank bills and term deposits.

The Company's principal sources of cash for the three months ended 30 September 2006 were project finance facility drawdown, interest received from cash investments and proceeds from exercise of unlisted employee options.

The Company has in place a Langer Heinrich project finance facility of US\$71 million of which a total of US\$32.5 million had been drawn by 30 September 2006, leaving available facilities of US\$38.5 million.

The following is a summary of the Company's outstanding commitments as at 30 September 2006:

<i><b>Payments due by period</b></i>	<i><b>Total A\$</b></i>	<i><b>Less than 1 yr A\$</b></i>	<i><b>1 to 5 yrs A\$</b></i>	<i><b>Unknown A\$</b></i>
Mine construction	17,807,369	17,807,369	-	-
Mineral properties	522,800	522,800	-	-
Operating leases	676,685	219,065	457,620	-
Manyingee acquisition	750,000	-	-	750,000
<b>Total commitments</b>	<b>19,756,854</b>	<b>18,549,234</b>	<b>457,620</b>	<b>750,000</b>

In relation to the Manyingee Uranium Project, the acquisition terms provide for a payment of A\$750,000 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\$750,000 and are subject to the Western Australian Department of Minerals & Energy granting tenements comprising 2 exploration licence applications. The A\$750,000 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 3 months after the date the tenements are granted.

The Company has no other off balance sheet arrangements.



## **PALADIN RESOURCES LTD**

### **Management Discussion and Analysis**

*For the Three Months Ended 30 September 2006  
(All figures are in Australian dollars unless otherwise indicated)*

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### **OUTSTANDING SHARE INFORMATION**

As at 8 November 2006 the Company had 497,269,969 fully paid ordinary shares issued and outstanding. The following table sets out the fully paid ordinary shares issuable under the Company Employee Share Incentive Option Plan:

<b><i>As at 8 November 2005</i></b>	<b><i>Number</i></b>
Outstanding shares	497,269,969
Issuable under Employee Share Incentive Option Plan	20,555,000
<b><i>Total</i></b>	<b><i>517,824,969</i></b>

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles 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 carrying value or impairment of interests in mineral properties and financial investments, and mine closure restoration provisions for the Langer Heinrich Uranium Project.

### **FINANCIAL INSTRUMENTS**

At 30 September 2006 the Company has exposure to interest rate risk which is limited to the floating market rate for cash and project finance facility.

The Company does not have foreign currency risk for non-monetary assets and liabilities of the Namibia and Malawi operations as these are deemed to have a functional currency of Australian dollars. The Company has no significant monetary foreign currency assets and liabilities apart from Namibia dollar cash term deposits and United States dollar project finance facility held for the purposes of funding a portion of the mine construction for the Langer Heinrich Uranium Project.

The Company currently does not engage in any hedging or derivative transactions to manage interest rate or foreign currency risks.

### **TRANSACTIONS WITH RELATED PARTIES**

During the three months ended 30 September 2006 no payments were made to Director related entities as all Directors are employees of the Company and received standard employee based compensation.

## **PALADIN RESOURCES LTD**

### **Management Discussion and Analysis** *For the Three Months Ended 30 September 2006* *(All figures are in Australian dollars unless otherwise indicated)*

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#### **INTERNAL CONTROLS**

The Company has made no changes to its internal controls over financial reporting since 30 June 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **DISCLOSURE CONTROLS**

The Company has applied its Disclosure Control Policy to the preparation of the Interim Consolidated Financial Statements for the three months ended 30 September 2006 and associated Management Discussion and Analysis. An evaluation of the Company's disclosure controls and procedures used has been undertaken and concluded that the disclosure controls and procedures were effective.

#### **SUBSEQUENT EVENTS**

##### Allotment of Shares

On 13 October 2006, the Company announced the allotment of 3,250,000 fully paid ordinary shares after exercise of employee options. On 17 October 2006, 133,777 fully paid ordinary shares were allotted as part of the acquisition of Valhalla Uranium Ltd. On 27 October 2006, 688,649 fully paid ordinary shares were allotted completing the compulsory acquisition of Valhalla Uranium Ltd. On 31 October 2006, the Company announced the allotment of 150,000 fully paid ordinary shares after exercise of employee options. On 7 November 2006, the Company announced the allotment of 4,000 fully paid ordinary shares after exercise of employee options.

##### Increased Holding in Deep Yellow Ltd

On 24 October 2006, the Company acquired 17,000,000 shares in Deep Yellow Ltd at 16.5 cents Australian per share. On 26 October 2006, the Company acquired 25,000,000 shares in Deep Yellow after conversion of unlisted options at 0.5 cents Australian per share. After both of these transactions the Company holds 11.11% of Deep Yellow.

*The accompanying Interim Consolidated Financial Statements for the three months ended 30 September 2006 and 30 September 2005 have been prepared in accordance with Australian Equivalents to International Financial Reporting Standards and has not been audited by the Company's Auditors. The effective date of these Interim Consolidated Financial Statements is 8 November 2006.*

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED INCOME STATEMENTS**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

	<b>Three Months Ended 30 September</b>	
	<b>2006 A\$000</b>	<b>2005 A\$000</b>
<b>REVENUE</b> (Note 3(a))	<b>619</b>	<b>571</b>
Other income (Note 3(b))	-	647
Share based payments expense	(1,635)	(1,522)
Interest expense	-	(12)
Exploration and evaluation expenditure (Note 4)	(1,109)	(650)
Foreign exchange loss	(1,258)	-
Depreciation and amortisation	(66)	(40)
Employee benefits expense	(406)	(225)
Operating lease expense	(50)	(51)
Other expenses	(1,252)	(690)
<b>LOSS BEFORE INCOME TAX</b>	<b>(5,157)</b>	<b>(1,972)</b>
Income tax expense	-	-
<b>LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LIMITED</b>	<b>(5,157)</b>	<b>(1,972)</b>
	<b>Cents</b>	<b>Cents</b>
Loss per share – basic and diluted	(1.00)	(0.49)

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
**UNAUDITED – PREPARED BY MANAGEMENT**  
**EXPRESSED IN AUSTRALIAN DOLLARS**

	30 September 2006 unaudited A\$000	30 June 2006 audited A\$000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	43,465	59,778
Trade and other receivables	5,325	3,695
<b>TOTAL CURRENT ASSETS</b>	<b>48,790</b>	<b>63,473</b>
<b>Non current assets</b>		
Other financial assets	8,011	7,703
Property, plant and equipment	115,498	80,442
Exploration and evaluation expenditure (Note 4)	200,358	8,690
<b>TOTAL NON CURRENT ASSETS</b>	<b>323,867</b>	<b>96,835</b>
<b>TOTAL ASSETS</b>	<b>372,657</b>	<b>160,308</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	11,231	11,074
Unearned revenue	242	242
Provisions	411	328
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,884</b>	<b>11,644</b>
<b>Non current liabilities</b>		
Trade and other payables	37	41
Unearned revenue	918	979
Interest bearing loans and borrowings	39,860	19,334
Provisions	3,424	3,585
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>44,239</b>	<b>23,939</b>
<b>TOTAL LIABILITIES</b>	<b>56,123</b>	<b>35,583</b>
<b>NET ASSETS</b>	<b>316,534</b>	<b>124,725</b>
<b>EQUITY</b>		
Contributed equity (Note 5(a))	343,605	148,182
Reserves	12,854	11,311
Accumulated losses	(39,925)	(34,768)
<b>TOTAL EQUITY</b>	<b>316,534</b>	<b>124,725</b>

The above Interim Consolidated Balance Sheets should be read in conjunction with the accompanying notes.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

	Contributed Equity A\$000	Reserves A\$000	Accumulated Losses A\$000	Total A\$000
<b>At 1 July 2005</b>	<b>65,992</b>	<b>5,406</b>	<b>(27,282)</b>	<b>44,116</b>
Change in fair value of available for sale financial assets	-	5,882	-	5,882
(Loss) for the quarter	-	-	(1,972)	(1,972)
Recognised value of unlisted employee options that have vested	-	1,522	-	1,522
Exercise of unlisted employee options (Note 5(b))	44	(44)	-	-
Contributions of equity, net of transaction costs (Note 5(b))	5,838	-	-	5,838
<b>At 30 September 2005</b>	<b>71,874</b>	<b>12,766</b>	<b>(29,254)</b>	<b>55,386</b>
<b>At 1 July 2006</b>	<b>148,182</b>	<b>11,311</b>	<b>(34,768)</b>	<b>124,725</b>
Changes in fair value of available for sale financial assets	-	308	-	308
(Loss) for the quarter	-	-	(5,157)	(5,157)
Recognised value of unlisted employee options that have vested	-	1,635	-	1,635
Exercise of unlisted employee options (Note 5(b))	400	(400)	-	-
Contributions of equity, net of transactions costs (Note 5(b))	195,023	-	-	195,023
<b>At 30 September 2006</b>	<b>343,605</b>	<b>12,854</b>	<b>(39,925)</b>	<b>316,534</b>

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED CASH FLOW STATEMENTS**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

	Three Months Ended 30 September	
	2006 A\$000	2005 A\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(1,265)	(862)
Interest received	487	739
Other receipts	6	4
<b>NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES</b>	(772)	(119)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation expenditure	(1,805)	(1,528)
Payments for property, plant and equipment	(38,702)	(2,656)
Payments for controlled entities net of cash acquired (Note 4(a))	4,262	-
<b>NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES</b>	(36,245)	(4,184)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of share options	1,734	231
Equity fundraising costs	-	(5)
Project finance facility establishment costs	-	(709)
Proceeds from borrowings	20,312	-
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	22,046	(483)
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(14,971)	(4,786)
Cash and cash equivalents at the beginning of the financial period	59,778	39,489
Effects of exchange rate changes on cash and cash equivalents	(1,342)	206
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	43,465	34,909

The above Interim Consolidated Cash Flow Statements should be read in conjunction with the accompanying notes.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
UNAUDITED – PREPARED BY MANAGEMENT  
EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This general purpose financial report for the three months ended 30 September 2006 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting (Australian equivalents to International Financial Reporting Standards - AIFRS, and the Corporations Act 2001.

In addition to these Australian requirements further information has been included in the Interim Consolidated Financial Statements for the three months ended 30 September 2006 in order to comply with applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2006 and any public announcements made by Paladin Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**  
**EXPRESSED IN AUSTRALIAN DOLLARS**

**NOTE 2. SEGMENT INFORMATION**

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominately by differences in the particular economic environments in which it operates.

**Geographical segments - primary reporting**

The Company operates in Australia, Namibia and Malawi. The principal activity in these locations is the evaluation and development of uranium projects.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the three months ended 30 September 2006 and 30 September 2005.

<b>Three Months Ended 30 September 2006</b>	<b>Australia A\$000</b>	<b>Namibia A\$000</b>	<b>Malawi A\$000</b>	<b>Consolidated A\$000</b>
Other revenue	506	112	1	619
<b>Total segment revenue</b>	<b>506</b>	<b>112</b>	<b>1</b>	<b>619</b>
Loss from ordinary activities before income tax expense	(3,526)	(612)	(1,019)	(5,157)
Income tax expense	-	-	-	-
<b>Loss from ordinary activities after income tax expense/ segment result</b>	<b>(3,526)</b>	<b>(612)</b>	<b>(1,019)</b>	<b>(5,157)</b>
<b>Total assets/segment assets</b>	<b>227,352</b>	<b>139,174</b>	<b>6,131</b>	<b>372,657</b>
Segment liabilities	44,934	10,542	647	56,123
<b>Acquisitions of non current assets</b>	<b>191,255</b>	<b>35,464</b>	<b>70</b>	<b>226,789</b>
<b>Cash flow information</b>				
Net cash inflow/(outflow) from operating activities	(873)	102	(1)	(772)
Net cash inflow/(outflow) from investing activities	4,052	(38,991)	(1,306)	(36,245)
Net cash inflow from financing activities	22,046	-	-	22,046
<b>Non cash expenses:</b>				
Depreciation and amortisation	43	12	11	66



**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 2. SEGMENT INFORMATION (continued)**

**Geographical segments – primary reporting (continued)**

<b>Three Months Ended 30 September 2005</b>	<b>Australia A\$000</b>	<b>Namibia A\$000</b>	<b>Malawi A\$000</b>	<b>Consolidated A\$000</b>
Other revenue	569	2	-	571
<b>Total segment revenue</b>	<b>569</b>	<b>2</b>	<b>-</b>	<b>571</b>
Loss from ordinary activities before income tax expense	(1,403)	11	(580)	(1,972)
Income tax expense	-	-	-	-
<b>Loss from ordinary activities after income tax expense/ segment result</b>	<b>(1,403)</b>	<b>11</b>	<b>(580)</b>	<b>(1,972)</b>
<b>Total assets/segment assets</b>	<b>46,698</b>	<b>8,075</b>	<b>6,230</b>	<b>61,003</b>
Segment liabilities	2,742	2,739	137	5,618
<b>Acquisitions of non current Assets</b>	<b>54</b>	<b>6,786</b>	<b>5,636</b>	<b>12,476</b>
<b>Cash flow information</b>				
Net cash (outflow) from operating activities	(110)	(5)	(4)	(119)
Net cash (outflow) from investing activities	(11)	(3,726)	(447)	(4,184)
Net cash (outflow) from financing activities	(483)	-	-	(483)
<b>Non cash expenses:</b>				
Depreciation and amortisation	40	-	-	40

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 3. REVENUE AND EXPENSES**

	30 Sept 2006 A\$000	30 Sept 2005 A\$000
<b>(a) Revenue</b>		
Interest income from non related parties	552	507
Database licence revenue	61	61
Other revenue	6	3
	<hr/>	<hr/>
<b>Total revenue</b>	<b>619</b>	<b>571</b>
	<hr/>	<hr/>
<b>(b) Other income</b>		
Other income includes the following specific income:		
Profit on sale from tenements	-	441
Foreign exchange gains (net)	-	206
	<hr/>	<hr/>
<b>Total other income</b>	<b>-</b>	<b>647</b>
	<hr/>	<hr/>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 4. EXPLORATION AND EVALUATION EXPENDITURE**

The following table details the exploration and evaluation expenditures on interests in mineral properties by area of interest for the three months ended **30 September 2006**:

Areas of interest	Langer Heinrich Project A\$000	Kayelekera Project A\$000	Manyingee Project A\$000	Oobagooma Project A\$000	Valhalla Group Projects A\$000	Other Projects A\$000	Total A\$000
<b>Balance 30 June 2006 (audited)</b>	<b>1,574</b>	<b>5,785</b>	<b>1,157</b>	<b>174</b>	<b>-</b>	<b>-</b>	<b>8,690</b>
<b>Acquisition</b>							
<b>Valhalla acquisition (a)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>191,245</b>	<b>-</b>	<b>191,245</b>
<b>Project exploration and evaluation expenditure</b>							
Tenement costs	1	-	17	-	53	3	74
Labour	37	126	-	-	-	18	181
Consultants and contractors	1	55	4	1	-	3	64
Materials and utilities	2	24	-	-	-	2	28
Transportation and communications	13	78	-	-	-	2	93
Outside services	363	606	-	-	-	-	969
Legal and accounting	-	6	2	-	-	1	9
Camp expenses	2	16	-	-	-	1	19
Overheads	-	15	-	-	-	-	15
Other	4	60	-	-	-	16	80
<b>Total expenditure</b>	<b>423</b>	<b>986</b>	<b>23</b>	<b>1</b>	<b>53</b>	<b>46</b>	<b>1,532</b>
<b>Exploration expenditure expensed</b>	<b>-</b>	<b>(986)</b>	<b>(23)</b>	<b>(1)</b>	<b>(53)</b>	<b>(46)</b>	<b>(1,109)</b>
<b>Exploration expenditure capitalised</b>	<b>423</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>423</b>
<b>Balance 30 September 2006 (unaudited)</b>	<b>1,997</b>	<b>5,785</b>	<b>1,157</b>	<b>174</b>	<b>191,245</b>	<b>-</b>	<b>200,358</b>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 4. EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)**

**(a) Acquisition of Valhalla Uranium Ltd**

The addition of the Valhalla Group Projects during the 3 months ended 30 September 2006 related to the acquisition of Valhalla Uranium Ltd which was satisfied for a total consideration of A\$195.4 million including the issuance of 37,974,256 fully paid ordinary shares and A\$2.1 million for transaction costs. The cash acquired from Valhalla of A\$4.6 million exceeds the cash transaction costs paid up to 30 September 2006 by A\$4.3 million.

**NOTE 5. CONTRIBUTED EQUITY**

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

	30 Sept 2006	30 Sept 2005	30 Sept 2006 A\$'000	30 Sept 2005 A\$'000
	Number of shares			
Ordinary shares - fully paid	<b>493,865,969</b>	406,285,713	<b>343,605</b>	71,874

**(b) Movements in ordinary share capital**

		Number of shares	Issue price A\$	Total A\$'000
Date	Balance 30 June 05	400,885,713		65,992
July 2005	Option conversions	150,000	0.22	33
August 2005	Option conversions	350,000	0.22	77
September 2005	Option conversions	550,000	0.22	121
September 2005	Placement	4,350,000	1.29	5,612
	Transfer from reserves			44
	Less: Share issue costs			(5)
	<b>Balance 30 Sept 05</b>	<b>406,285,713</b>		<b>71,874</b>

		Number of shares	Issue price A\$	Total A\$'000
Date	Balance 30 June 06	454,235,713		148,182
July 2006	Option conversions	350,000	1.00	350
July 2006	Option conversions	300,000	1.25	375
August 2006	Option conversions	400,000	1.00	400
September 2006	Option conversions	600,000	1.00	600
September 2006	Option conversions	6,000	1.50	9
September 2006	Shares issued - Valhalla	37,151,830	5.09	189,103
	Shares to be issued as part of the compulsory acquisition of Valhalla Uranium Ltd	822,426	5.09	4,186
	Transfer from reserves			400
	<b>Balance 30 Sept 06</b>	<b>493,865,969</b>		<b>343,605</b>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
 UNAUDITED – PREPARED BY MANAGEMENT  
 EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 5. CONTRIBUTED EQUITY (CONTINUED)**

**(c) Options**

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

	<b>30 Sept 2006 Number</b>
Number of unlisted employee options	<b>23,959,000</b>

Consisting of the following:

Date options granted	Expiry date	Exercise price	
30 November 2004	30 November 2007	A\$1.00	6,700,000
30 November 2004	30 November 2007	A\$1.25	1,000,000
20 December 2004	20 December 2007	A\$1.00	10,250,000
15 July 2005	15 July 2008	A\$1.50	194,000
13 January 2006	13 January 2009	A\$2.80	1,050,000
19 January 2006	13 January 2009	A\$2.80	600,000
16 February 2006	13 January 2009	A\$2.80	1,200,000
27 April 2006	28 April 2009	A\$5.50	1,565,000
5 July 2006	5 July 2009	A\$5.50	1,000,000
20 July 2006	5 July 2009	A\$5.50	400,000

**NOTE 6. CONTINGENT LIABILITIES**

There has been no material changes in the contingent liabilities for the Company from those reported in the Annual Report for the year ended 30 June 2006.

**NOTE 7. EVENTS AFTER THE BALANCE SHEET DATE**

Allotment of Shares

On 13 October 2006, the Company announced the allotment of 3,250,000 fully paid ordinary shares after exercise of employee options. On 17 October 2006, 133,777 fully paid ordinary shares were allotted as part of the acquisition of Valhalla Uranium Ltd. On 27 October 2006, 688,649 fully paid ordinary shares were allotted completing the compulsory acquisition of Valhalla Uranium Ltd. On 31 October 2006, the Company announced the allotment of 150,000 fully paid ordinary shares after exercise of employee options. On 7 November 2006, the Company announced the allotment of 4,000 fully paid ordinary shares after exercise of employee options.

Increased Holding in Deep Yellow Ltd

On 24 October 2006, the Company acquired 17,000,000 shares in Deep Yellow Ltd at 16.5 cents Australian per share. On 26 October 2006, the Company acquired 25,000,000 shares in Deep Yellow after conversion of unlisted options at 0.5 cents Australian per share. After both of these transactions the Company holds 11.11% of Deep Yellow.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS (FIRST QUARTER) ENDED 30 SEPTEMBER 2006**  
UNAUDITED – PREPARED BY MANAGEMENT  
EXPRESSED IN AUSTRALIAN DOLLARS

**NOTE 8. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF DISCLOSURE ERROR**

*(a) Voluntary change of exploration and evaluation expenditure accounting policy*

The Group has changed its accounting policy in relation to the treatment of exploration and evaluation expenditure effective 31 December 2005.

The new exploration and evaluation expenditure accounting policy is to charge exploration and evaluation expenditure against earnings as incurred; except for acquisition costs and for expenditure incurred after a decision to proceed to development is made, in which case the expenditure is capitalised as an asset.

The previous exploration and evaluation expenditure accounting policy was to carry forward exploration and evaluation expenditure as an asset; subject to ongoing review of the potential for development and that rights to tenure were current.

This voluntary change in accounting policy has been made as the Group is undergoing a transition from explorer to producer. The Langer Heinrich Uranium Project in Namibia is currently under construction and commissioning of the mine commenced in August 2006.

The previous accounting policy of the Group is common for exploration companies as a result of this expenditure representing the main asset. The new accounting policy of the Group is common for large mining companies as this expenditure does not represent the main activities and is viewed as an expense of discovery.

The comparatives have been adjusted to reflect the change in exploration and evaluation expenditure accounting policy. The effect of the change in accounting policy is:

At 30 June 2005

For the Group there has been an increase in accumulated losses of A\$7,315,411 and a decrease in exploration and evaluation expenditure asset of A\$7,315,411.

For the Three Months Ended 30 September 2005

For the Group there has been an increase in exploration and evaluation expenditure of A\$589,808 and a decrease in exploration and evaluation expenditure asset of A\$589,808.

Basic and diluted earnings per share have also been restated.

*(b) Correction of balance sheet disclosure error*

The 30 September 2005 interim consolidated financial statements had previously included A\$520,213 as deferred share based payments expenditure, with a corresponding amount recognised in reserves, in relation to the value of the future vesting periods for granted options.

Under AIFRS this future value is not recognised in the balance sheet, recognition occurs only for the vesting period expired. As a result current receivables and reserves have been reduced by A\$520,213.

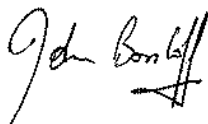
## APPENDIX A

### Form 52-109F2 – Certification of Interim Filings

I, John Borshoff, Managing Director of Paladin Resources Ltd, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Paladin Resources Ltd (the issuer) for the interim period ending 30 September 2006;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared;
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Dated: 8 November 2006



**John Borshoff**  
Managing Director

## APPENDIX A

### Form 52-109F2 – Certification of Interim Filings

I, Ron Chamberlain, Chief Financial Officer of Paladin Resources Ltd, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Paladin Resources Ltd (the issuer) for the interim period ending 30 September 2006;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared;
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Dated: 8 November 2006



**Ron Chamberlain**  
Chief Financial Officer